United States Government Accountability Office

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Report to the Committee on Homeland Security and Governmental Affairs, U.S. Senate

March 2006

STATE'S CENTRALLY BILLED FOREIGN AFFAIRS TRAVEL

Internal Control Breakdowns and Ineffective Oversight Lost Taxpayers Tens of Millions of Dollars

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Highlights

Highlights of GAO-06-298, a report to the Committee on Homeland Security and Governmental Affairs, U.S. Senate

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Why GAO Did This Study

The relative size of the Department of State's (State) travel program and continuing concerns about fraud, waste, and abuse in government travel card programs led to this request to audit State's centrally billed travel accounts. GAO was asked to evaluate the effectiveness of internal controls over (1) the authorization and justification of premium-class tickets charged to the centrally billed account and (2) monitoring of unused tickets, reconciling monthly statements, and maximizing performance rebates.

What GAO Recommends

To improve controls over premium-class travel, systematically monitor unused airline tickets, and provide assurance of accurate and timely payment of the centrally billed accounts to maximize rebates, GAO is making 18 recommendations to State, including that it

- develop a management plan requiring audits of State's premium–class travel,
- modify international travel management center contracts to require identification and processing of unused electronic tickets,
- establish procedures to either pay or dispute transactions on the Citibank invoice, and
- urge other users of State's centrally billed travel accounts to comply with existing travel requirements.

State concurred with all 18 recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-06-298.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gregory Kutz at (202) 512-7455 or kutzg@gao.gov.

What GAO Found

Breakdowns in key internal controls, a weak control environment, and ineffective oversight of State's centrally billed travel accounts resulted in taxpayers paying tens of millions of dollars for unauthorized and improper premium-class travel and unused airline tickets. State's over 260 centrally billed accounts are used by State and other foreign affairs agencies to purchase transportation services, such as airline and train tickets. GAO found that between April 2003 and September 2004 State's centrally billed accounts were used to purchase over 32,000 premium-class tickets costing almost $140 million. Premium-class travel—primarily business-class airline tickets—represented about 19 percent of the tickets issued but about 49 percent of the $286 million spent on airline tickets with State's centrally billed account travel cards. GAO determined that this trend continued for fiscal year 2005. GAO found that 67 percent of this premium-class travel was not properly authorized, justified, or both. Because premium-class tickets typically cost substantially more than coach tickets, improper premium-class travel represents a waste of tax dollars. The examples below illustrate premium-class travel by senior State executives that was improperly authorized by annual blanket authorizations. Most of these blanket premium-class travel authorizations were signed by subordinates who told us they couldn't challenge the use of premium-class travel by senior executives.

Examples of Improper Authorization by Subordinates of Executive Premium-Class Travel

Traveler	Grade	Number of premium-class tickets	Cost of premium-class-tickets
1	Presidential appointee	45	$213,000
2	Senior Executive Service	26	$104,000
3	Presidential appointee	24	$93,600

Source: GAO.

Ineffective oversight and control breakdowns also contributed to problems with monitoring unused tickets, reconciling monthly statements, and maximizing performance rebates. Although federal agencies are authorized to recover payments made to airlines for tickets that they ordered but did not use, State failed to do so and paid for about $6 million for airline tickets that were not used or processed for refund. State was unaware of this problem before our review because it neither monitored travelers' adherence to travel regulations nor systematically identified and processed all unused tickets. State also failed to reconcile or dispute over $420,000 of unauthorized charges before paying its monthly bank invoice and instead deducted the amounts from its bill. Because these amounts were not properly disputed under the contract terms, State underpaid its monthly bills and was thus frequently delinquent. Handling questionable charges in this ad hoc manner sharply reduced State's eligible rebates. Overall, State earned only $700,000 out of a possible $2.8 million in rebates that could have been earned if it had properly disputed unauthorized charges and paid the bill in accordance with the contract.

Contents

Letter

Letter		1
	Results in Brief	3
	Background	8
	Ineffective Controls over Authorization and Justification of Premium-Class Travel Led to Wasted Taxpayer Dollars	11
	Lack of Oversight and Controls Led to Other Breakdowns	22
	Conclusion	28
	Recommendations for Executive Action	28
	Agency Comments and Our Evaluation	31

Appendixes

Appendix I:	**Objectives, Scope, and Methodology**	34
	Evaluating the Effectiveness of Controls over Premium-Class Travel	34
	Data Reliability Assessment	41
Appendix II:	**Comments from the Department of State**	43
Appendix III:	**GAO Contacts and Staff Acknowledgments**	53

Tables

Table 1:	Examples of Premium-Class Travel Not Authorized or Properly Justified	16
Table 2:	Examples of Waste Related to Unused Tickets	26
Table 3:	State and Other Foreign Affairs Agencies' Premium-Class Travel Populations Subjected to Sampling	36
Table 4:	Premium-Class Statistical Sample Results	38

Figures

Figure 1:	Flowchart of the Centrally Billed Account Travel Card Process	10
Figure 2:	Premium-Class Tickets Purchased for State and Other Foreign Affairs Personnel Charged to State's Centrally Billed Accounts, April 2003 through September 2004	13
Figure 3:	Examples of Premium-Class Travel by State and Other Foreign Affairs Executives from Washington, D.C.	19
Figure 4:	Flowchart of Control Breakdowns in the Unused Ticket Process	24

United States Government Accountability Office
Washington, D.C. 20548

March 10, 2006

The Honorable Susan M. Collins
Chairman
The Honorable Joseph I. Lieberman
Ranking Member
Committee on Homeland Security and
Governmental Affairs
United States Senate

This report responds to your request that we audit controls over the travel paid for with the Department of State's (State) over 260 centrally billed travel accounts, which includes travel related to a number of foreign affairs agencies (e.g., State and other federal agencies located at United States' diplomatic missions abroad). State's centrally billed travel process is used predominantly by State employees; however, other government travelers who also use State's centrally billed accounts reimburse State for their travel expenses. While State uses purchase orders and Government Travel Requests (GTR) to pay for some airline tickets at overseas posts, as requested, our analysis excluded all travel transactions that were not procured through State's over 260 centrally billed travel accounts.[1]

State leads our government in conducting American diplomacy; its mission is based on the Secretary of State's role as the President's principal foreign policy adviser. State's mission is to create a more secure, democratic, and prosperous world for the benefit of the American people and the international community. This mission is carried out through six regional bureaus, each of which is responsible for a specific geographic region of the world. State operates more than 260 embassies, consulates, and other posts worldwide and has over 57,000 employees — including Foreign Service, civil service, and Foreign Service nationals. Additionally, State's posts support other U.S. government agencies, such as the Departments of Commerce, Defense (DOD), and Homeland Security, which also use State's centrally billed accounts when overseas. In general, other agencies overseas authorize their own travel and State processes the payments based on their authorizations. In carrying out this mission, State manages the second largest centrally billed travel card program in the federal

[1] State issues individually billed travel card accounts (IBA) to its civil service and foreign service employees. These accounts are primarily intended to pay for other travel-related expenses, such as lodging and rental cars.

government, after DOD. About 70 percent of State's and other foreign affairs agencies' travel is international or at least one flight segment in a trip had an origin or destination outside the continental United States. Comparatively, State and other foreign affairs agencies spent more on premium-class travel than did DOD, both in terms of total dollars spent and as a percentage of total airline travel.[2] In light of the relative size of State's program, and the concerns about fraud, waste, and abuse in government travel card programs, you requested that we audit premium-class travel and other centrally billed travel account activities. Federal travel regulations define premium-class travel as any class of accommodation above coach class, that is, first or business class.

The centrally billed travel accounts are used by State bureaus, overseas posts, and other foreign affairs agencies to purchase transportation services such as airline and train tickets, while the individually billed accounts are used by individual travelers for lodging, rental cars, and other travel expenses. For fiscal years 2003 and 2004, State incurred over $400 million in expenses on its centrally billed and individually billed travel accounts, with over $360 million charged to its centrally billed accounts.

Because State disburses funds directly to Citibank under a governmentwide travel card contract for charges made to the centrally billed accounts, the use of these accounts for improper[3] transportation, especially the use of the more expensive premium-class travel, results in direct increased cost to the government. Governmentwide, General Services Administration's (GSA) *Federal Travel Regulation*, and sections of the U.S. Department of State's *Foreign Affairs Handbook* (FAH) and the U.S. Department of State's *Foreign Affairs Manual* (FAM), require that travelers use coach-class accommodations for official domestic and international air travel, except when a traveler is specifically authorized to

[2] Recognizing that DOD and State have different missions, DOD's premium-class travel represented 1 percent of total DOD airline transactions and 5 percent of total dollars spent on airline travel charged to the centrally billed accounts for fiscal years 2001 and 2002.

[3] For this report, we define improper premium-class transactions as those for which travelers did not have specific authorization to use premium-class accommodations or those transactions that were properly authorized but did not provide specific justification for premium-class travel that was consistent with State regulation or policy. We also considered transactions improper if premium-class travel was authorized under State policies or procedures that were inconsistent with the *Federal Travel Regulation* or the guidance provided in our *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1) and our *Guide for Evaluating and Testing Controls Over Sensitive Payments* (GAO/AFMD-8.1.2).

use premium class. The travel regulations also state that travelers on official government travel must exercise the same standard of care in incurring expenses that a prudent person would exercise when traveling on personal business.

As you requested, the objective of our audit was to determine the effectiveness of State's internal controls over its centrally billed travel card program and determine whether fraudulent, improper, and abusive travel expenses exist. Specifically, we evaluated the effectiveness of internal controls over (1) the authorization and justification process for premium-class tickets charged to State's centrally billed travel accounts and (2) State's monitoring of unused tickets, reconciling monthly statements, and maximizing performance rebates.

To meet our objectives, we (1) reviewed applicable laws, regulations, and practices governing travel, including the use of centrally billed travel accounts; (2) interviewed State officials on its travel policy and procedures, including the use of centrally billed travel and under what circumstances premium-class travel is authorized; (3) extracted premium-class and other transactions from Citibank databases of charges made to State's centrally billed accounts for fiscal years 2003 and 2004; (4) tested a statistical sample of premium-class transactions, 5) used data mining to identify additional instances of improper premium-class travel based on the frequency and dollar amount of premium-class travel, including premium-class travel by senior executives; (6) compared data on unused tickets provided by airlines to data provided by Citibank; and (7) conducted other audit work, including visits to two overseas locations to evaluate the design and implementation of key control procedures and activities. We performed our audit work from September 2004 through November 2005 in accordance with U.S. generally accepted government auditing standards. We performed our investigative work in accordance with standards prescribed by the President's Council on Integrity and Efficiency. A detailed discussion of our scope and methodology is presented in appendix I.

Results in Brief

Breakdowns in key internal controls, a weak control environment, and ineffective oversight of State's centrally billed travel accounts resulted in taxpayers paying tens of millions of dollars annually for unauthorized and improper premium-class travel and unused airline tickets.[4] Additionally, State failed to properly reconcile or dispute over $420,000 in unauthorized charges, which in addition to raising concerns about potential fraud, resulted in State failing to earn over $2 million in rebates intended to reduce the cost of government travel. These problems occurred because State (1) did not have management controls in place to effectively oversee and monitor its centrally billed accounts and the extent of premium-class travel and (2) treats premium-class travel accommodations as a benefit for working for the department.

We determined that breakdowns in key controls led to an estimated 67 percent[5] of premium-class travel by State and other foreign affairs personnel during most of fiscal years 2003 and 2004 not being properly authorized or justified. Because a premium-class ticket frequently costs two to three times the amount of a coach ticket, taxpayers paid tens of millions of dollars for premium-class tickets that were not properly authorized or justified. For example, our statistical sample included a family of four that flew from Washington, D.C., to Moscow for post-assignment travel. The business-class tickets cost $6,712 ($1,678 each) and the flight lasted about 12 hours, which does not meet the requirements of the premium-class flight duration. The cost of coach-class tickets—the form of travel required by travel regulations—would have been $1,784 ($446 each), or $4,928 less than the amount actually spent. Further, State did not have complete and accurate data on the extent of premium-class travel and performed little or no monitoring of this travel.

State also made management decisions on premium-class travel that contributed to increased costs to taxpayers without performing a cost-benefit analysis. For example, we found that some of State's top executives, including some under secretaries and assistant secretaries, often used premium-class travel regardless of the length of the flight. We found that State spent over $1 million dollars on premium-class flights for 17 senior executives during most of fiscal years 2003 and 2004. Our analysis

[4] Our audit did not specifically question whether travel charged to State's centrally billed travel accounts was necessary; however, where State failed to produce evidence supporting the authorization or justification for the travel, we accurately refer to those travel instances as potentially fraudulent. Without evidence to the contrary, potential for fraud exists.

[5] All percentage estimates from this sample of premium-class transactions have 95 percent confidence intervals of within plus or minus 10 percentage points of the estimate itself, unless otherwise noted.

indicated that most of these flights were domestic or to destinations in Western Europe or South America and did not last more than the 14 hours required by federal and state regulations to justify use of premium-class travel. Further, many of the executives used blanket travel orders signed by subordinates to justify purchasing premium-class travel. A blanket authorization is effective for all travel during a certain time period. For some executives, annual blanket premium-class authorizations were completed at the beginning of the fiscal year and covered any travel during that fiscal year. A blanket authorization is not an appropriate vehicle for authorizing premium-class travel because federal and state travel regulations require that all premium-class travel be authorized on a trip-by-trip basis. Also, we continue to consider authorization of premium-class travel by employees subordinate to the traveler to be a weak internal control due to both the additional cost and the potential for abuse associated with premium-class travel. As we have reported in the past, travel authorized by subordinates is in effect self authorization, which constitutes a lack of controls over executive premium-class travel.

Senior State officials also told us that the department offered premium-class travel as a benefit to its other employees for flights lasting over 14 hours, including permanent change of station travel. According to these officials, this decision was made to improve morale and was arrived at without performing a cost and benefit analysis. Although federal and State regulations allow premium-class travel if the flight is over 14 hours without a rest stop, agencies—such as DOD—attempt to avoid the significant additional cost associated with these flights by encouraging employees to take a rest stop en route to their final destination, generally saving thousands of dollars per trip. As a result of State's policy, we found numerous examples in our statistical sample in which State and other foreign affairs agencies authorized premium-class travel but did not take into consideration less expensive forms of travel as an alternative.

In addition, we found examples where State's diplomatic courier service used premium-class travel under a blanket authorization without specific justification. Because we did not have authority to open and inspect diplomatic pouches, we were unable to validate the classification designations on the packages. Thus, we did not evaluate whether couriers were necessary or appropriate or if there were any security issues associated with courier service procedures. However, we believe the department could potentially save considerable taxpayer dollars if it better managed courier use of premium travel. By regulation,[6] State is required to ensure the secure movement of classified U.S. government documents and material across international borders.[7] State's regulations call for diplomatic couriers to personally accompany classified diplomatic pouches. State's practice is to have couriers use premium-class accommodations to personally escort cargo carried in diplomatic pouches. Some courier transactions appeared in our statistical sample of premium travel and data mining of fiscal years 2003 and 2004 transactions and we found instances among these of premium-class travel that were not properly authorized, justified, or both. While the courier service used agency mission requirements to justify premium-class travel by the couriers, we found courier transactions where premium-class accommodations were used even when the courier was not escorting diplomatic pouches and when no other justification for premium-class accommodations were specified. When couriers are not escorting diplomatic pouches, they must follow the same travel regulations as all other State and other foreign affairs employees. We also found that State's Courier Service has begun to institute cost-saving measures for couriers that, if expanded, could save substantial taxpayer dollars. These measures include the expanded use of cargo carriers (e.g., FedEx), which do not require the couriers to purchase passenger tickets when they accompany packages in the cargo area and therefore reduce freight costs.

Ineffective oversight and breakdowns in controls also led to problems with State's other centrally billed travel activities. For example, although federal agencies are entitled to recover payments made to airlines for tickets that they ordered but did not use, State and other foreign affairs agencies paid for about $6 million in airline tickets that were not used and not processed for refund. State officials were unaware of this problem before our audit because State did not monitor employees' adherence to travel regulations and did not have a systematic process in place for travel management centers to identify and process unused tickets. For example, we found that State purchased two identical tickets costing over $16,000 for the same business and first-class travel between Addis Ababa, Ethiopia, and Albuquerque, New Mexico, and one set of tickets valued at over $8,000 was wasted and never used. State also failed to reconcile or dispute over

[6] U.S. Department of State *Foreign Affairs Manual* (FAM),Vol. 5 and Vol. 12, implementation of the *Omnibus Diplomatic Security and Antiterrorism Act of 1986*.

[7] This report does not focus on the need for couriers or security issues surrounding their use.

$420,000 of unauthorized and potentially fraudulent charges before paying its travel card account. Instead of disputing these charges with Citibank, State simply deducted the amounts from its credit card bill. However, because these amounts were not properly disputed, State underpaid its monthly bills and was thus frequently delinquent under contract terms. The unanticipated consequence of these delinquencies was a substantial reduction in the amount of rebates that State would have been eligible to receive. Overall, State earned $700,000 out of a possible $2.8 million in rebates that could have been earned if it had properly disputed unauthorized charges and paid its bills in accordance with the terms of the contract.

This report contains 18 recommendations to the Secretary of State aimed at reducing improper premium-class travel and travel costs related to State's centrally billed travel accounts. Our recommendations seek to improve the internal controls over airline tickets purchased with centrally billed accounts so that State has reasonable assurance that premium-class travel is authorized, properly justified, and that because of the additional cost, minimized to the extent possible. We also recommend that State take a series of immediate steps to identify and recover all unused and unrefunded tickets. Further, we recommend that State properly dispute invalid transactions and pay its centrally billed account on time. Finally, we recommend that State take actions to achieve efficiencies in the courier service.

In written comments on a draft of this report, State concurred with all 18 of our recommendations and stated that it had taken actions or will take actions to address them. However, in its comments, State said that our report overstated the amount wasted on premium class travel, and that we incorrectly implied that State carelessly implemented business class regulations without adequately considering the increased cost of premium class travel. We disagree. Our statistical sample clearly demonstrated that a majority of State's premium class travel was neither authorized nor justified. Because premium-class travel is frequently two to three times more expensive than coach travel, this improper travel resulted in tens of millions of dollars of wasted taxpayer resources. Further, State could not provide any evidence that it ever collected or analyzed information about the costs associated with its premium-class travel practices. In addition, the travel practices exemplified in this report clearly demonstrate that the tone set by top State Department executives indicate that it treats premium-class as an employee benefit regardless of cost and federal law and regulation.

Background

State derives its authority to grant leave and travel reimbursements to its foreign service employees from the Foreign Service Act of 1980. To implement provisions of the act, the department issued the FAM and the FAH. Travel by State's civil service employees is generally governed by the General Services Administration's (GSA) *Federal Travel Regulation* (FTR), but in some cases is also governed by the FAM. State's general policy is for its foreign and civil service employees to travel using coach-class accommodations provided by common carriers. However, regulations governing foreign service and civil service travel authorize the use of premium-class travel under specific circumstances. Both foreign service and civil service travel regulations require the agency head or his or her designee to authorize first-class travel in advance. These regulations also require the authorizing official at a post abroad or the executive director of the funding bureau or office domestically to authorize premium-class travel other than first class. Further, in September 2004, the Assistant Secretary of State for Administration sent a memorandum to all State executive directors emphasizing "that it is wrong to authorize premium-class travel on a blanket basis" and "that a separate justification for premium-class travel is required for each trip." Federal and State travel regulations authorize premium-class accommodation when at least one of the following conditions exists:

- no space is available in coach-class accommodations,
- regularly scheduled flights provide only premium-class accommodations,
- an employee with a disability or special need requires premium-class accommodations,
- security issues or exceptional circumstances,
- travel lasts in excess of 14 hours without a rest stop,
- foreign-carrier coach-class air accommodations are inadequate,
- overall cost savings, such as when a premium-class ticket is less expensive than a coach-class ticket or in consideration of other economic factors,

- transportation costs are paid in full through agency acceptance of payment from a nonfederal source, or
- required because of agency mission (e.g., courier).

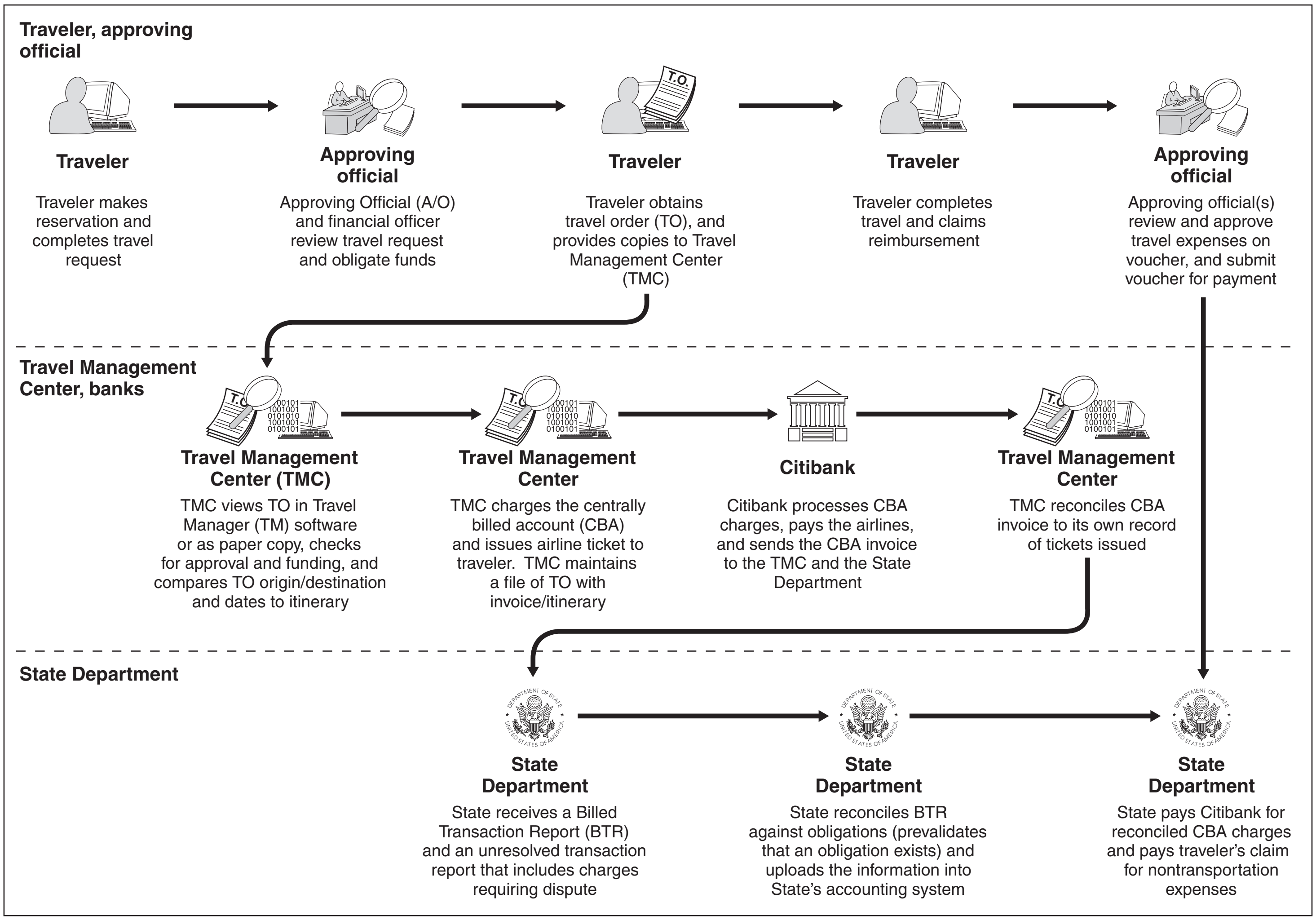
The regulations also allow for the traveler to upgrade to premium-class accommodations, at the traveler's expense or by using frequent traveler benefits, but the upgrade cannot be charged to the centrally billed account.

State has the second largest centrally billed travel card program in the federal government. During fiscal years 2003 and 2004, State used 155 different centrally billed accounts[8]—143 international and 12 domestic—to purchase more than $360 million in transportation services, such as airline tickets, train tickets, and bus tickets, for State and other foreign affairs agencies. Each bureau has its own travel budget and is responsible for obligating its travel expenses. The local travel-authorizing official or the executive director of the funding office is responsible for determining the necessity of travel, issuing the travel order, certifying the availability of funds, and recording an obligation against a unit's appropriated funds.

State's travel management centers (TMC) make airline reservations, issue airline tickets charged to the centrally billed account upon receipt of a signed travel order, and perform a reconciliation between the tickets it issued and tickets charged on the Citibank invoice. To complete this reconciliation process, TMCs are responsible for associating each charge with a specific travel order. The financial management officer (FMO) at overseas posts and resource management's Global Financial Operations in Charleston, South Carolina, for domestic activity, are generally responsible for reviewing a TMC's monthly reconciliation, making appropriate changes, and certifying or authorizing Citibank's invoice for payment. Upon receipt of the TMC's reconciliation, billed transaction report (BTR), and supporting files, State pays Citibank for the tickets purchased on the centrally billed account. State also pays travelers for nontransportation costs claimed on their individual travel voucher. Figure 1 shows the design of the processes used to issue an airline ticket on centrally billed accounts and reimburse travelers for travel expenses. It also explains the roles of different offices in providing reasonable assurance that airline tickets charged to these cards are appropriate and meet a valid government need.

[8] Although State had over 260 centrally billed accounts during fiscal years 2003 and 2004, State actively used 155 of the accounts during this same period.

Figure 1: Flowchart of the Centrally Billed Account Travel Card Process



Source: GAO.

Ineffective Controls over Authorization and Justification of Premium-Class Travel Led to Wasted Taxpayer Dollars

Premium-class travel accounted for almost half of travel expenditures charged to State's over 260 centrally billed accounts during most of fiscal years 2003 and 2004, including domestic and overseas operations, and this trend continued for fiscal year 2005. On the basis of our statistical sample, we estimate that 67 percent of premium-class travel during April 2003 through September 2004 for State and other foreign affairs personnel was improper--either not properly authorized or properly justified because of breakdowns in key internal controls. Examples of breakdowns in key controls include travelers flying premium-class travel when the travel orders did not authorize premium-class travel; subordinates authorizing their supervisors to take premium-class flights; and travel orders authorizing premium-class travel using criteria of a total flight time of more than 14 hours, even though the actual flight time, including layovers, was less than 14 hours. Also, State's diplomatic couriers used premium-class travel even when it was not justified. In addition, we found that State's top executives, including under secretaries and assistant secretaries, often used premium-class travel regardless of the length of the flight. Further, senior State officials told us that the department offered premium-class travel as a benefit to its employees, as part of their human capital initiative, for all flights lasting over 14 hours, which is allowed by federal and State regulations but is costly to taxpayers. However, State did not perform a cost-benefit analysis before offering this benefit. In comparison, agencies—such as DOD—attempt to avoid the significant additional cost associated with premium-class travel on flights lasting more than 14 hours by encouraging employees to take a rest stop en route to their final destination, saving hundreds, sometimes thousands, of tax dollars per trip. Prior to 2002, State policy prohibited the use of premium-class accommodations for permanent change of station travel even when the duration of the travel exceeded 14 hours—a prohibition established by many other agencies with staff stationed overseas. However in 2002, State eliminated that prohibition.

Extent of Premium-Class Travel Is Significant

Between April 2003 and September 2004,[9] State and other foreign affairs agencies purchased over 32,000 airline tickets costing about $140 million that contained at least one leg of premium-class travel for State and other foreign affairs personnel using State's centrally billed account travel cards.

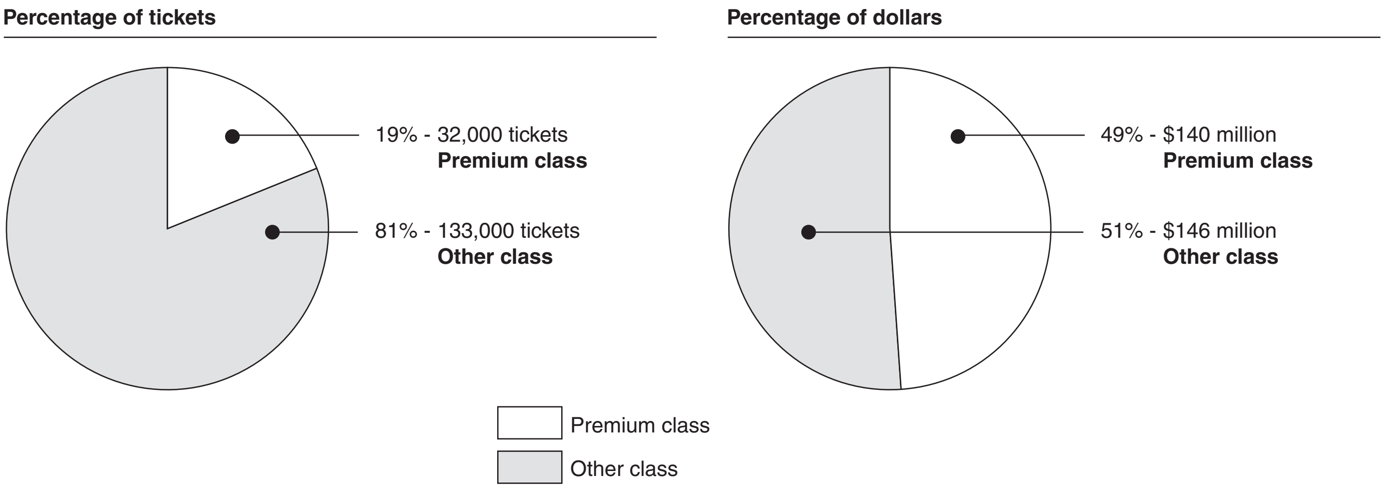
[9] State's credit card vendor, Citibank, could not provide the first 6 months of fiscal year 2003 (October 2002–March 2003) data due to limitations in its archiving capabilities.

In addition, we determined that premium-class travel continues to be significant for fiscal year 2005.[10] As discussed later in this report, because State does not obtain or maintain any information on premium-class travel, it cannot monitor its proper use, identify trends, or determine alternate, less expensive means of transportation. As shown in figure 2, premium-class travel represents about 19 percent of the tickets issued, and State's and other foreign affairs agencies' spending on premium-class travel represented about 49 percent of the $286 million spent on airfare charged to the centrally billed accounts during the period April 2003 through September 2004.[11] Our analysis excluded all travel transactions at overseas posts that were not procured through the centrally billed travel accounts because it was outside the scope of our request. State told us that at some overseas posts travelers purchase airline tickets using Government Travel Requests (GTR) and purchase orders. Further, the information State provided for some tickets purchased with GTRs did not distinguish between premium- and coach-class tickets.

[10] For fiscal year 2005, on the basis of our analysis of the information available, we determined that over 17 percent of the tickets issued (17,000 out of 95,000 tickets,) and over 40 percent of the dollars expended ($80 million out of $196 million) were premium-class tickets.

[11] Figure 2 includes travel related to State, other U.S. government agencies principally engaged in activities abroad, and other domestic departments and agencies with international operations. State uses the other foreign affairs agency funds to pay for travel paid for using State's centrally billed accounts.

Figure 2: Premium-Class Tickets Purchased for State and Other Foreign Affairs Personnel Charged to State's Centrally Billed Accounts, April 2003 through September 2004



Source: GAO analysis of Citibank data.

Key Internal Controls over Premium Travel Were Ineffective

Breakdowns in key internal control activities led to significant numbers of transactions lacking proper authorization and justification for premium-class travel. On the basis of our sample of premium transactions,[12] an estimated 67 percent of premium-class travel was not properly authorized, justified, or both. Specifically, 39 percent of the premium-class airline tickets charged to State's centrally billed account from April 2003 through September 2004 were not properly authorized. In addition, 28 percent of premium-class transactions that were authorized were not justified in accordance with either federal or State regulations. (See app. I for further details of our statistical sampling test results.) Further, State did not maintain accurate and complete data on the extent of premium-class travel and thus had a lack of controls in place to oversee and manage this travel. Each fiscal year State is required to report to GSA on first-class travel taken by all State and other foreign affairs personnel. However, we found 23 roundtrip first-class tickets valued at more than $85,000, obtained for State or other foreign affairs agencies, that were not reported by State to

[12]Our testing excluded all premium-class transactions costing less than $750 because certain intra-European flights only offer business-class tickets and therefore are an acceptable means of airline travel; however, both federal and State regulations require the traveler to certify this fact on their voucher.

GSA as required in fiscal years 2003 and 2004. Further, we saw no evidence of external or internal audits of State's centrally billed travel program.[13]

Proper Authorization Did Not Exist

Requiring premium-class travel to be properly authorized is the first step in preventing improper premium-class travel. Federal and State regulations require premium-class travel to be specifically authorized. State travel regulations specify that premium-class travel must be authorized in advance of travel, unless extenuating circumstances or emergencies make prior authorization impossible, in which case the traveler is required to request written approval from the appropriate authority as soon as possible after the travel. Using these regulations, we found that transactions failed the authorization test in the following two categories: (1) the documentation did not specifically authorize premium-class travel or a blanket travel authorization was used to authorize premium-class travel and (2) the travel order authorizing premium-class travel was not signed.

Premium-class travel was not specifically authorized. On the basis of our statistical sample, we estimated that the travel orders and other supporting documentation for 13 percent of the premium-class transactions did not specifically authorize the traveler to fly premium class, and thus the travel management center should not have issued the premium-class ticket. We estimated that an additional 17 percent of the transactions were authorized by a blanket authorization, including all diplomatic courier travel. A blanket authorization is not an appropriate vehicle for authorizing premium-class travel because federal and State travel regulations require that all premium-class travel be authorized on a trip-by-trip basis. In September 2004, State issued a memorandum to all executive directors reminding them about the use of blanket orders, emphasizing that it is wrong to authorize business-class travel on a blanket basis and also reminding the executive directors that a trip-specific justification must be provided for each business-class authorization.

Travel order was not signed. We estimated that 5 percent of premium-class transactions did not have signed travel authorizations. Ensuring that travel orders are signed, and signed by an appropriate official, is a key

[13] We asked State management if there had been any audits or reviews of the centrally billed account program, whether internal or external. State officials told us that they did not see the centrally billed account program as risky and therefore did not conduct reviews of the program. Further, according to the Assistant Special Agent-In-Charge at State's Office of Inspector General (OIG), there had been no travel card investigations during fiscal years 2002, 2003, and 2004.

control for preventing improper premium-class travel. If the travel order is not signed, or not signed by the individual designated to do so, State cannot guarantee that the substantially higher cost of the premium-class tickets was properly reviewed to ensure it represented an efficient use of government resources.

Documentation of Valid Justification for Premium-Class Travel Often Did Not Exist

Another internal control weakness identified in the statistical sample was that the justification used for premium-class travel was not provided, not accurate, or not complete enough to warrant the additional cost to the government. To determine whether premium-class travel was justified, we looked at whether there was documented authorization and, if there was, whether the authorization for premium-class travel was supported by a valid reason. Thirty-nine percent of premium-class transactions were not authorized and, therefore, could not have been justified. State asserts that even if business-class authorization for some trips was not properly documented, the premium travel was nevertheless justified so long as the trips were in excess of 14 hours. However, without properly documented authorization, we cannot assess the propriety of such travel notwithstanding the 14-hour travel rule and therefore must conclude that it was unjustified premium-class travel. In addition, 28 percent of premium-class transactions were authorized but were not supported by valid justification.[14] Federal and State travel regulations provide that travel in excess of 14 hours, without a rest stop en route or a rest period on arrival is justification for premium class. We found premium travel included trips with such rest stops for flights lasting under 14 hours.

Table 1 contains specific examples of both unauthorized and unjustified travel from both our statistical sample and data mining work. These examples illustrate the improper use of premium-class travel and a resulting increase in travel costs. More detailed information about some of the cases follows the table.

[14] An estimated 51 percent of the transactions would have failed justification regardless of the authorization status.

Table 1: Examples of Premium-Class Travel Not Authorized or Properly Justified

Traveler	Source	Itinerary	Class of ticket	Cost of premium ticket paid	Estimated cost of coach-fare ticket [a, b]	Reason for exception
1	Data mining	Washington, D.C., to Honolulu, Hawaii, through Canada	Business	$3,228	$790	Travel was authorized by a blanket authorization. Traveler signed their own upgrade. Continuous travel without rest stops was less than 14 hours. Transaction failed authorization and justification.
2	Data mining	Johannesburg, South Africa, to Asmara, Eritrea, through Frankfurt, Germany	Business	$8,353	$2,921	Traveler approved his own travel. Traveler flew premium class and was reimbursed for lodging for a rest stop en route. Transaction failed authorization and justification.
3	Data Mining	Johannesburg, South Africa, to Asmara, Eritrea, through Frankfurt, Germany	Business	$8,353	$2,921	Traveler flew premium class and was reimbursed for lodging at a rest stop in Frankfurt. Transaction failed justification.
4	Data Mining	Washington, D.C., to Honolulu, Hawaii, through San Francisco	First class	$4,155	$858	Traveler flew first class to Hawaii using a travel order that allowed for travel to and within Europe. Travel was less than 14 hours. Transaction failed authorization and justification.
5	Statistical Sample	Washington, D.C., to Moscow, Russia	Business	$6,712	$1,784	Family of four flew business class from Washington, D.C., to Moscow. Trip was less than 14 hours. Transaction failed justification for premium travel.

Source: GAO analysis of premium-class travel transactions and supporting documentation.

[a]Source of estimated coach fares is GSA contract fare or expedia.com.

[b]Fares do not include all applicable taxes and airport fees.

- Traveler #1 flew from Washington, D.C., to Honolulu, Hawaii. The total cost of the trip was $3,228. In comparison, the unrestricted government fare from Washington, D.C., to Honolulu was $790. According to State regulation, travelers using premium-class travel are not entitled to an overnight rest stop en route. Furthermore, the travel was authorized by a blanket premium-travel authorization signed by a subordinate of the traveler and a separate trip authorization was not included to specifically authorize this trip, as required. The travel authorization did not provide specific justification for business-class travel and the travel was not more than 14 hours. Therefore, the transaction failed authorization and justification.

- Travelers #2 and #3 traveled from Johannesburg to Asmara through Frankfurt, at a cost of about $8,353 each, a total of $16,706. Although they traveled business class for the entire trip, they were reimbursed for a hotel room during the layover in Frankfurt on the return visit, at a cost of about $171 each. According to State regulation, travelers using premium-class travel are not entitled to a government-funded[15] rest stop en route. If the travelers had flown coach for this round trip and taken a rest stop en route, the airfare would have cost about $2,921 and State could have saved about $11,000 for the two tickets. One of these travelers approved the travel authorizations for both himself and the other traveler.

- Traveler #4 flew first class from Washington, D.C., to Hawaii on a blanket travel order that only authorized travel within Europe. Although the travel was less than 14 hours, State provided no justification for first class, and State did not report the first-class travel to GSA. We found that State issued a first-class airline ticket to Hawaii using a blanket travel authorization that authorized premium-class accommodations. State issued the ticket to an unauthorized destination–Hawaii–because the blanket travel order authorized travel to Europe and State's travel officials did not review the blanket authorization to ensure that the travel authorization was current, valid, and the trip was to an authorized destination. Because State did not follow its own policies for authorization and review of travel, the government paid $4,155 for an unauthorized trip.

Management Decisions to Offer Premium Travel as a Benefit

State's management allowed top State and other foreign affairs executives to use premium-class travel by approving blanket travel orders, similar to a blank check. State also allowed premium-class travel as a benefit–without considering less expensive alternatives–to other employees for flights lasting over 14 hours and for permanent change of station travel, costing taxpayers tens of millions of dollars. Further, State's practice is for diplomatic couriers to use premium-class travel accommodations to escort diplomatic pouches.

[15] Although the rest stop was not overnight, the travelers arrived in Frankfurt early in the day and obtained lodging at government expense to rest while waiting for an evening flight from Frankfurt to Johannesburg.

Executive Premium-Class Travelers

State's top executives, including under secretaries and assistant secretaries, often used premium-class travel regardless of the length of the flight. Our data mining of frequent premium-class travelers showed that many of these travelers were senior foreign affairs executives. On the basis of this information, we expanded our data mining to include trips taken by selected presidential appointees and SES-level foreign affairs staff to determine if their travel was authorized and justified according to federal and State regulations. In addition to the federal and State regulations, we also applied the criteria set forth in our internal control standards[16] and sensitive payments guidelines[17] in evaluating the proper authorization of premium-class travel. For example, State travel regulations and policies do not restrict subordinates from authorizing their supervisors' premium-class travel, a practice which our internal control standards consider to be flawed. Therefore, a premium-class transaction that was approved by a subordinate would fail the control test based on our internal control standards. State and other foreign affairs agencies paid over $1 million for 269 premium-class tickets for flights taken by 17 foreign affairs executives during April 2003 through September 2004. We found 65 tickets containing business- and first-class segments costing about $300,000 that were under 14 hours. Most of these flights were to destinations within the United States, South America, and Western Europe. Further, over $860,000 in premium-class trips taken by executives were obtained using blanket authorizations. For each premium-class trip, State regulation requires specific authorization to fly premium class. In most cases, the blanket travel orders authorized premium-class travel for an entire year and were signed by subordinates. State officials told us that because the blanket authorization allowed premium class, the executives obtained premium-class tickets even when the trip was under 14 hours. The subordinate authorizers told us they could not challenge an under secretary or an assistant secretary. Examples of premium-class trips associated with improper accommodation and their additional cost to taxpayers are included in figure 3 to illustrate the issues associated with executive premium-class travel found through our data mining.

[16]GAO/AIMD-00-21.3.1.

[17]GAO/AFMD-8.1.2.

Figure 3: Examples of Premium-Class Travel by State and Other Foreign Affairs Executives from Washington, D.C.

Destination	Amount paid	GSA fare	Potential savings (= $1,000)
Zurich, Switzerland	$8,275	$780	$7,495
London, England	$7,215	$650	$6,565
Geneva, Switzerland	$6,267	$966	$5,301
Amsterdam, Netherlands	$5,833	$630	$5,203
Brussels, Belgium	$6,328	$1,150	$5,178
Frankfurt, Germany	$6,173	$1,000	$5,173
Vienna, Austria	$5,582	$756	$4,826
Oslo, Norway	$4,879	$856	$4,023
Manchester, England	$4,473	$800	$3,673
Monterey, California	$3,992	$684	$3,308

Source: GAO.

Note: GSA fares exclude applicable taxes and fees.

Other Premium-Class Travelers

State also made a management decision to offer premium-class travel to its employees as a benefit, resulting in increased costs to taxpayers. Although State officials were aware that offering employees rest stops on longer flights was often less expensive than premium-class travel, they offered the more expensive premium-class travel to employees for all flights lasting over 14 hours, which increased costs. For example, one individual in our statistical sample flew premium-class roundtrip from Washington, D.C., to Tel Aviv at a cost of over $6,000. Although the trip lasted over 14 hours, as an alternative to paying the premium-class rates, State could have flown this employee coach and paid the cost of an overnight rest stop in London, for a total cost of about $2,300 (about $1,600 for the GSA contract airfare and $700 in lodging and per diem expenses). Overall, this option could have saved taxpayers over $3,700. State officials explained that they made these decisions about premium-class travel to improve morale and retain highly qualified foreign-service personnel. State officials also believed that, among other factors, their decisions about premium-class travel for trips in excess of 14 hours have led to increased morale, as reflected in "The Best Places to Work" survey. However, State could not provide any empirical evidence that showed a direct correlation that offering premium-class travel increased its scores on the survey or increased retention of foreign-service personnel, and could not provide evidence that travel was a metric in the "Best Places to Work" survey. In contrast, agencies, such as DOD, attempt to avoid the significant additional cost associated with premium-class travel on flights lasting more than 14 hours by encouraging employees to take a rest stop en route to their final destination, saving hundreds, sometimes thousands, of tax dollars per trip. Finally, our testing showed that all State employees, not just those in the foreign service that are governed by State regulations, were authorized to use premium-class, without constraint, when the trip was over 14 hours.

State also decided to offer premium-class travel to foreign service employees for permanent change of station moves for all flights that exceeded 14 hours, in accordance with federal and State regulations. However, State's decision resulted in increased costs to taxpayers. Permanent change of station and similar moves accounted for about $17 million (12 percent) of State's and other foreign affairs agencies' premium-class travel for April 2003 through September 2004. Prior to 2002, State policy prohibited the use of premium-class accommodations for permanent change of station travel, even when the duration of the travel exceeded 14 hours—a prohibition established by many other agencies with staff stationed overseas, including DOD. However, in 2002, State eliminated that prohibition at a significant cost to taxpayers. We found numerous examples in our statistical sample in which premium-class travel was properly authorized, and as such these transactions were among the 33 percent of transactions that were considered to be properly authorized and justified. However, it is important to note that because of State's decision to treat premium-class travel as a benefit, State did not consider having the travelers take alternative, less expensive forms of travel.

Premium-Class Travel by Diplomatic Couriers

We found instances where State's diplomatic couriers[18] lacked proper authorization, justification, or both when flying premium class; therefore, we believe State could potentially save considerable taxpayer dollars if it more aggressively managed the travel of its couriers. For example, when couriers are not on a mission to escort diplomatic pouches or they are escorting only cabin-carried diplomatic pouches, they must follow the

[18] As mentioned, we did not evaluate whether couriers were necessary or appropriate or if there were any security issues associated with courier service procedures.

same travel regulations explained earlier as all State and other foreign affairs employees.[19]

We tested diplomatic courier transactions in our statistical sample of premium-class transactions and performed data mining of fiscal year 2003 and 2004 transactions. In total, we tested over 20 diplomatic courier premium-class transactions. We found control breakdowns similar to those described above with blanket authorization and justification of courier premium-class travel. Blanket travel orders were used to authorize premium-class courier travel for all courier transactions that we tested but, as stated, blanket orders do not specifically authorize premium travel as required by State regulations. Although the Courier Service used mission security requirements to justify premium-class travel by its couriers, we found examples of premium-class travel when couriers were returning empty-handed, commonly referred to as "deadheading." In response to these findings, Courier Service officials acknowledged that the use of premium class is not justified when couriers return empty-handed unless the 14-hour rule applies. Courier Service officials also told us that couriers may not know when they will be returning empty-handed until they arrive at an airport and are told that the post did not complete the expected outgoing pouch. By that time, they may not be able to downgrade their return ticket to economy class because a foreign airline is unwilling to do so, or time does not permit them to return to the gate to change their ticket. However, the Courier Service did not indicate on the documentation that it provided to us any attempts to downgrade their tickets in a deadheading or any other situation where premium-class travel was not justified. Further, the Courier Service Deputy Director told us that because there are still some problems in this area, they routinely check courier trip reports to identify and address any noncompliance.

We found that State's Courier Service has begun to institute cost-saving measures that, if expanded, could save taxpayer dollars. These measures include the expanded use of cargo carriers (e.g., FedEx), which do not require the couriers to purchase passenger tickets and charge lower freight costs than the commercial airlines. Our analysis of a FedEx study

[19] By regulation, State is required to ensure the secure movement of classified U.S. government documents and material across international borders. The Courier Service mission is to provide secure transportation of classified documents and materials for the federal government. State's practice is for its diplomatic couriers to use premium-class travel accommodations to personally escort diplomatic pouches containing classified U.S. government documents and material across international borders.

performed for the Courier Service showed that substantial air cargo savings and benefits could be achieved through direct cargo flights with multiple stops along a designated route. Although the Courier Service initiated the use of cargo carriers in late 2004, expanding this approach to the extent practical could achieve substantial savings. However, to achieve the additional savings, the Courier Service would need to overcome foreign mission resistance to meeting cargo aircraft outside of business hours. According to Courier Service officials, foreign mission personnel have been unwilling to meet air cargo shipments that arrive outside normal business hours and at cargo airports outside city limits. According to State, Mexico City has recently indicated a willingness to support cargo flight arrivals at Toluca airport. Courier Service officials also told us that while all agencies receiving diplomatic pouches should share responsibility for meeting and taking custody of diplomatic pouch shipments, the burden has generally fallen on State employees.

Lack of Oversight and Controls Led to Other Breakdowns

Ineffective oversight and breakdowns in controls also led to problems with State's other centrally billed travel activities. For example, although federal agencies are entitled to recover payments made to airlines for tickets that they ordered but did not use, State and other foreign affairs agencies paid for about $6 million in airline tickets that were not used and not processed for refund. We found paper and electronic unused tickets for both domestic and international flights. State was unaware of this problem before our audit because it did not monitor employees' adherence to travel regulations and did not have a systematic process in place for TMCs to identify and process unused tickets. State also failed to reconcile or dispute over $420,000 of unauthorized and potentially fraudulent charges before paying its account. Instead of disputing these charges with Citibank, State simply deducted the amounts from its credit card bill. This action had the unanticipated consequence of substantially reducing the amount of rebates that State would have been eligible to receive. Thus, State earned only $700,000 out of a possible $2.8 million in rebates that could have been earned if State disputed unauthorized charges and paid the bill in accordance with the terms of the contract with Citibank.

Ineffective Controls and Monitoring Led to Numerous Unused Tickets

We asked for data on unused tickets purchased on State's centrally billed accounts from the top six domestic airlines—United, Continental, American, Delta, Northwest, and U.S. Airways. All airlines except U.S. Airways directly provided us electronic data on unused tickets. Data provided by the five airlines and verified against Citibank's data showed that over 2,700 airline tickets with a face value of about $6 million purchased with State's centrally billed accounts were unused and not refunded. The airline tickets State purchased, for State and other foreign affairs personnel, through the centrally billed accounts are generally acquired under the terms of the air transportation services contract that GSA negotiates with U.S. airlines. Airline tickets purchased under this contract have no advance purchase requirements, have no minimum or maximum stay requirements, are fully refundable, and do not incur penalties for changes or cancellations. Under this contract, federal agencies are entitled to recover payments made to airlines for tickets that agencies acquired but did not use.[20] While generally there is a 6-year statute of limitation on the government's ability to file an action for financial damages based on a contractual right,[21] the government also has up to 10 years to offset future payments for amounts it is owed.[22]

State Did Not Monitor Employee Adherence to Travel Regulations

During fiscal years 2003 and 2004, State did not implement controls to monitor State's and other foreign affairs employees' adherence to travel regulations requiring notification of TMC or the appropriate State officials about unused tickets. Federal and State travel regulations require a traveler who purchased a ticket using the centrally billed account either to return any unused tickets purchased to the travel management center that furnished the airline ticket or to turn in unused tickets immediately upon arrival at their post to the administrative officer or, upon arrival in Washington, D.C., to the executive officer of the appropriate managing bureau or office. This notification of an unused ticket initiates a process to submit requests to the airlines for refunds.

Figure 4 illustrates where control breakdowns can occur if travelers do not adhere to State requirements. As shown, once a ticket is charged to the centrally billed account and given to the traveler, State has no systematic controls to determine independently if the ticket was used—or remains unused—unless notified by the traveler. If the traveler does not report an unused ticket, the ticket would not be refunded unless TMC monitored the status of airline tickets issued electronically and applied for the refunds.

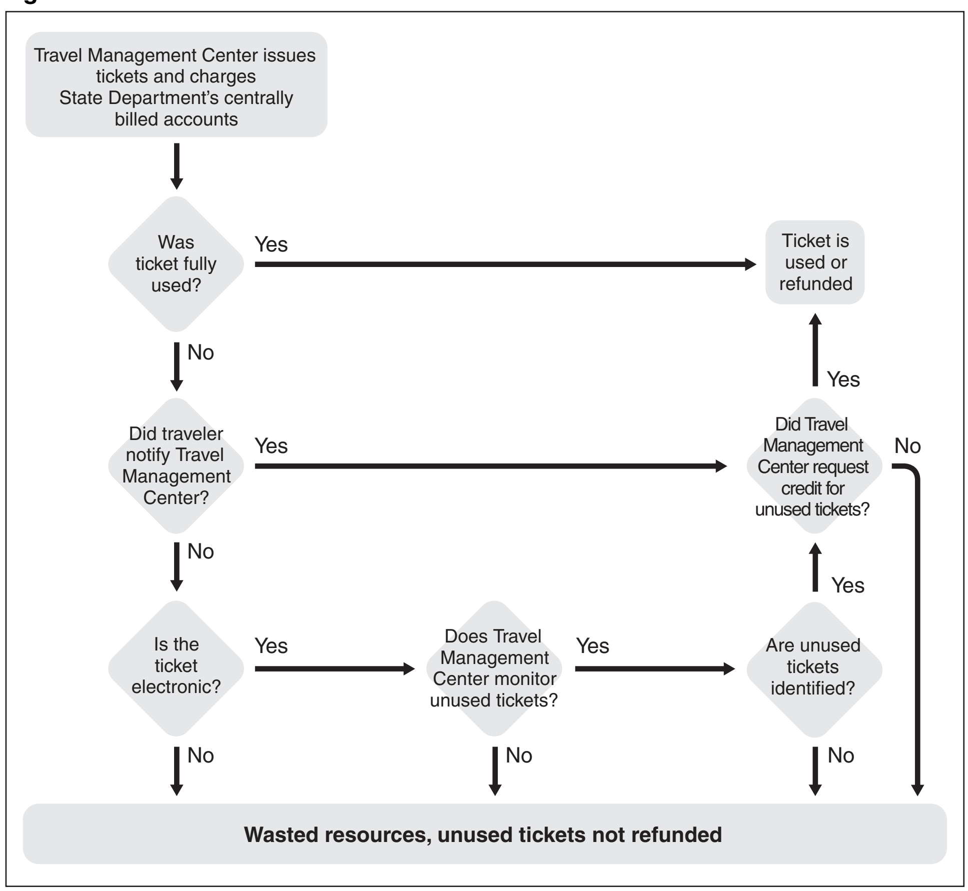
[20] 31 U.S.C. § 3726(h).

[21] 28 U.S.C. § 2415(a).

[22] 31 U.S.C. § 3716(e).

Figure 4 shows that the failure of the traveler to notify the appropriate official of an unused paper ticket would result in the ticket being unused and not refunded. Although bank data indicate that State received some credits for airline tickets purchased, State did not maintain data in such a manner as to allow it to identify the extent of unused tickets and to determine whether credits were received.

Figure 4: Flowchart of Control Breakdowns in the Unused Ticket Process



Source: GAO.

State Did Not Have a Process for Travel Management Centers to Identify All Unused Tickets

State did not have a systematic process in place to monitor whether TMCs were consistently identifying and filing for refunds on unused tickets. For instance, State contractually required the domestic TMC to identify and process all unused electronic tickets. In exchange, the TMC received a fee for each refund received for an unused ticket. However, State did not implement procedures to determine whether unused tickets were being identified and credits were being received. Instead, State officials took the TMC's monthly report indicating only the total dollar amount of refunds submitted to the airlines as evidence of contractual compliance. Unless State implements control procedures to verify whether TMCs were identifying and filing for refunds on the unused tickets consistently, State cannot provide reasonable assurance that all requests for refunds resulted in a credit to the government.

Even when a TMC had procedures in place to identify and process unused electronic tickets, State was still unable to identify unused paper tickets. For example, by fiscal years 2003 and 2004, State's domestic TMC and TMCs at both of the overseas locations we visited had the capability to identify or search the databases of the airlines that participate in electronic ticketing or to receive notification from the airlines of unused tickets, and subsequently obtain refunds. However, even though the TMCs can identify electronic tickets, they cannot independently identify paper tickets, which are typically used for international travel.[23] State has not implemented a systematic process to verify whether a significant portion of airline tickets are unused, such as matching tickets issued by TMC with travel vouchers submitted by travelers upon completion of their trip. Without such a process State will not have reasonable assurance that tickets purchased through the centrally billed accounts are used or refunded.

In addition to the $6 million dollars of unused tickets or trip segments we identified using the airline data, we estimated that, based on the statistical sample, 3 percent of premium-class airline tickets were unused and not refunded. This 3 percent estimate is for premium-class tickets only and excludes coach accommodations.

Table 2 contains specific examples of tickets that the airlines identified as unused that we tested as a part of our statistical sample of premium class transactions and data mining selections. Since these tickets were not used, they resulted in waste and increased costs to taxpayers.

[23] We found that about 70 percent of State's foreign affairs travel is international or includes at least one flight segment with an origin or destination outside the continental United States.

Table 2: Examples of Waste Related to Unused Tickets

Traveler	Source	Itinerary	Class of ticket(s)	Price paid	Explanation for unused tickets
1	Statistical sample	Albuquerque, NM, to Ethiopia and return	First and business	$8,838	Traveler completed travel using a second ticket issued for the same trip.
2	Statistical sample	Washington, DC, to Nigeria	Business	$5,503	Traveler went to Senegal instead of Nigeria using a different ticket.
3	Statistical sample	Buenos Aires, Argentina, to Lima, Peru	Business	$1,327	Traveler used an identical coach-class ticket.
4	Data mining	Miami, FL, to Mexico	Business	$2,254	Traveler went to Chile instead of Mexico using a different ticket.

Source: GAO analysis.

State Did Not Dispute Unauthorized Transactions and Lost Performance Rebates

State did not dispute over 320 unauthorized transactions, totaling over $420,000, associated with its two primary domestic centrally billed accounts during fiscal year 2003 and fiscal year 2004. TMCs reconcile transactions on the monthly credit card invoice to the tickets issued by the TMC and recorded in the airline reservation system. Disputes are typically filed for transactions that neither the TMC nor State identified as having issued or authorized. Tickets that do not match could occur for many reasons, such as an airline charging the ticket to the wrong credit card account, an individual fraudulently obtaining an airline ticket, or the merchant or credit card vendor failing to provide enough information to allow the transaction to match. State did not have processes or procedures in place to file disputes for transactions that failed to reconcile between the bank invoice and the computer reservation system. We provided State a list of 219 travelers' names[24] associated with the over 320 unauthorized transactions to verify that they were State employees or otherwise authorized by State or other foreign affairs agencies to travel. According to State, 38 of the 219 travelers were individuals for whom State had no record of ever working for State as an employee, contractor, or being authorized to travel as an invited guest. Thus, these transactions could be potentially fraudulent charges. As for the remaining 181 travelers, State informed us that while the airline tickets purchased were for individuals who are either current or former State employees, contractors, or invited

[24] We are investigating these transactions to determine if they are fraudulent.

guests, State has no evidence that the trips had been authorized. Thus, these trips also could represent potentially fraudulent charges.

As a result of not disputing unauthorized charges and not paying its bill in accordance with the contract, State faced the unanticipated consequence of substantially reducing the amount of rebates that it would have been eligible to receive. For example, if State had effectively managed the domestic accounts and disputed these charges, State could have earned over $1 million in rebates. Instead, State earned only about $174,000 in performance rebates for its domestic accounts. In contrast, at two overseas posts that we visited, State was properly disputing transactions. However, as previously noted, State still did not effectively manage its centrally billed accounts departmentwide and, consequently, earned only $700,000 out of a possible $2.8 million in performance rebates from Citibank.

The contract that State entered into with Citibank to issue centrally billed account travel cards enables State to earn performance rebates based on how quickly State pays the monthly bill. To earn the performance rebate, State must pay the bill within 30 calendar days from the statement date. State earns the maximum performance rebate if it pays the centrally billed account—less any disputed charges—on the statement date; for unpaid bills, the amount of the rebate decreases each day thereafter. If State pays the centrally billed account more than 30 days after the statement date, State does not earn a performance rebate.

Throughout the audit period, State generally submitted payment for its domestic centrally billed accounts within the 30 day window; however, State frequently failed to pay the entire amount of the bill, leaving potentially unauthorized charges unpaid, but not properly disputed. During fiscal years 2003 and 2004, State did not dispute any of the previously mentioned over 320 unauthorized charges applied to its domestic centrally billed accounts, and instead simply deducted the amounts due from its credit card bill. If State had disputed these charges, Citibank would have given State a 60-day grace period to investigate whether the charges were appropriate and the disputed amounts would not have to be paid until the investigation was completed. An average person cannot simply determine which charges on their credit card bill they are going to pay but must notify the bank of any unauthorized charges. Since State did not dispute the charges, it was still liable for the amounts associated with these charges and simply deducting them from the credit card bill did not relieve State of its responsibility for these charges. Consequently, State was not only paying for potentially fraudulent charges, but it also lost the performance rebates it could have earned by promptly paying its monthly centrally billed account bill.

Conclusion

The State department serves a critical role for the federal government and in that role State and other foreign affairs employees are required to travel extensively, often internationally. However, travel regulations state that employees on official government travel must follow published requirements and exercise the same standard of care in incurring expenses that a prudent person would exercise when traveling on personal business. Our work shows that travelers using State's over 260 centrally billed travel accounts often do not meet that standard, which has resulted in millions of dollars of unnecessary costs to taxpayers. With the serious fiscal challenges facing the federal government, agencies need to do everything they can to operate as efficiently as possible. Improved management and oversight of the State department's centrally billed travel program would save taxpayers tens of millions of dollars annually.

Recommendations for Executive Action

We are making the following 18 recommendations to improve internal control over the authorization and justification of premium-class travel and to strengthen the control environment as part of an overall effort to reduce improper premium-class travel and unnecessary or inappropriate State costs. Because of the substantial cost and sensitive nature of premium-class travel, we recommend that the Secretary of State direct the appropriate officials to implement specific internal control activities over the use of premium travel and establish policies and procedures to incorporate federal and State regulations as well as guidance specified in our *Standards for Internal Control* and our *Guide for Evaluating and Testing Controls Over Sensitive Payments.* While a wide range of activities can contribute to a system that provides reasonable assurance that premium-class travel is authorized and justified, at a minimum, the internal control activities should include the following:

- Develop procedures to identify the extent of premium-class travel, including all business-class travel, and monitor for trends and potential misuse.

- Develop procedures to identify all first-class fares so that State can prepare and submit complete and accurate first-class travel reports to GSA.

- Require State to develop a management plan requiring that audits of State's issuance of premium-class travel are conducted regularly, and the results of these audits are reported to senior management. Audits of premium-class travel should include reviews of whether travel management centers adhere to all governmentwide and State regulations for issuing premium-class travel.

- Periodically provide notices to travelers and supervisors/managers that specifically identify the limitations on premium-class travel, the limited situations in which premium-class travel may be authorized, and how the additional cost of premium-class travel can be avoided.

- Require that premium-class travel be approved by individuals who are at least of the same grade as the travelers and specifically prohibit the travelers themselves or their subordinates from approving requests for premium-class travel.

- Prohibit the use of blanket authorization for premium-class travel, including management decisions offering premium-class travel as a benefit to executives and other employees.

- Encourage State department personnel traveling as a result of a permanent change of station to take a rest stop en route to their final destination to avoid the significant additional cost associated with premium-class flights and thus save the taxpayer thousands of dollars per trip.

- Urge other users of State's centrally billed travel accounts to take parallel steps to comply with existing travel requirements.

To promote the economy and efficiency of Courier Service operations, we recommend that the Secretary of State direct the Courier Service to take the following actions:

- Expand the use of cargo carriers, such as FedEx, to the extent practicable.

- Direct foreign missions to assure that organizations using diplomatic courier services share responsibility for meeting and accepting air cargo shipments of diplomatic pouches.

- Clarify written policy to clearly state that diplomatic couriers must use economy class accommodations when in a “dead-head” capacity unless relevant exceptions (e.g., 14-hour rule) exist, and enforce the requirement.

To recover outstanding claims on unused tickets, we recommend that the Secretary of State initiate the following actions:

- Immediately submit claims to the airlines to recover the $6 million in fully and partially unused tickets identified by the airlines and discussed in this report.

- Work with the five airlines identified in this report and other airlines from which State purchased tickets with centrally billed accounts to determine the feasibility of recovering other fully and partially unused tickets, the value of the unused portions of those tickets, and initiate actions to obtain refunds.

To enable State to systematically identify future unused airline tickets purchased through the centrally billed accounts, and improve internal controls over the processing of unused airline tickets for refunds, we recommend that the Secretary of State direct the appropriate personnel within services and agencies to take the following actions:

- Evaluate the feasibility of implementing procedures to reconcile airline tickets acquired using the centrally billed accounts to travel vouchers in the current travel system.

- Enforce employees’ adherence to existing travel regulations requiring notification of unused tickets.

- Modify existing travel management center contracts to include a requirement that the international travel management centers establish a capability to systematically identify unused electronic tickets in their computer reservation systems and file for refunds on the tickets identified as unused.

- Routinely compare unused tickets processed by the travel management centers to the credits on the Citibank invoice.

To provide assurance of accurate and timely payments of the centrally billed accounts and to maximize rebates, we recommend that the Secretary of State establish procedures to ensure that all transactions on the Citibank invoice are either paid in accordance with the contract or properly disputed.

Agency Comments and Our Evaluation

In written comments on a draft of this report, State concurred with all 18 of our recommendations and said that it is firmly committed to aggressive stewardship of the taxpayers' resources entrusted to the department. However, State also commented that our report overstates the problem, fails to identify improper travel conducted for other than official government travel, identifies only a few instances of unjustified travel, and implies incorrectly that State carelessly implemented business-class regulations without regard to the increased cost. We disagree.

We do not agree with State's position that we overstate the nature and extent of its control breakdowns and ineffective oversight. State and other foreign affairs travelers charged almost $140 million on premium-class travel from April 2003 through September 2004. On the basis of our statistical sample, 67 percent of premium-class travel was not properly authorized, justified, or both. This failure rate and the associated dollars spent on premium class travel shows that taxpayers lost tens of millions of dollars on improper travel. For example, State issued premium-class tickets to a family of four traveling from Washington to Moscow for a permanent change of duty station. Although this trip was well under the required 14 hours to justify premium-class travel, State purchased the premium class accommodations for almost four times the cost of coach seats. In addition to the waste exemplified here and elsewhere in our report, taxpayers lost millions more because State failed to recover payments made to airlines for tickets issued but never used and failed to reconcile and dispute other charges properly. For example, State paid for a premium-class ticket for roundtrip travel between New Mexico and Ethiopia that was neither used nor refunded. These specific examples and our overall analysis clearly show how ineffective oversight—not just procedural problems—resulted in substantial waste of taxpayers' dollars.

As our report clearly explains, we did not specifically question whether travel charged to State's centrally billed travel accounts were necessary. Therefore, we purposely did not identify improper travel conducted for other than official government travel and thus our report makes no conclusions on this matter.

State's position that our findings of improper travel are simply the result of "procedural problems" and that "only a few instances" of travel were conducted outside of the regulations are inconsistent with the facts. In this regard, over half of the transactions we tested—not just a few instances—were not simply the result of procedural problems (e.g., not properly authorized), they were unjustified because the travel was conducted outside of the regulations. Over half of the travelers improperly flew premium-class on trips lasting shorter than 14 hours or flew business class and also took a rest stop, which is to be used in lieu of using premium-class accommodations to economize travel. For example, one State traveler flew premium-class between points in Europe on a trip lasting well short of 14 hours and also took an unjustified rest stop, which further added lodging and subsistence expenses to the total cost of travel. Another traveler flying short of 14 hours on a premium-class ticket enjoyed 3 nights of rest upon her return. These and other examples of unjustified travel underscore problems beyond what State says are simply "deficient procedural protocols" and demonstrate how State's ineffective oversight of premium-class travel resulted in substantial losses to taxpayers.

Finally, State takes exception with our characterization that it treated premium-class travel as an employee benefit. This position, however, is in stark contrast to the representations State made throughout our review. For example, although State prohibits blanket authorizations for premium-class travel, many of State's top executives consistently flew on blanket travel orders improperly authorizing premium class from Washington to numerous domestic and other destinations that were well below the 14 hours required to justify such travel. For example, one senior State executive completed 45 premium-class trips costing $213,000, many of which were under 14 hours, using a blanket travel order. These executive travelers set a tone at the top that premium-class travel was in fact a benefit to the traveler and not something that should be minimized or used sparingly. In addition, during our review, State said that it indeed offered premium-class travel as a benefit to its employees and that such travel contributed to their improved employee feedback provided to "The Best Places to Work" survey. However, State could not provide evidence that travel was a metric in that survey. Moreover, regardless of the increased cost associated with such moves, State began in 2002 and continues today to offer premium-class travel for permanent change of station moves as a benefit to its employees and their families. We believe these examples, especially the top State executives who gave themselves the benefit of flying premium class when federal law and regulations did not allow such travel, demonstrate that the tone at the top of the department indicates that premium-class travel is in fact a benefit, without specific regard to cost. State’s comments are reprinted in appendix II.

As agreed with your offices, unless you announce the contents of this report earlier, we will not distribute it until 30 days from its date. At that time, we will send copies to interested congressional committees; the Secretary of State, the Director and Deputy Director of the Diplomatic Courier Service, and the Director of the Office of Management and Budget. We will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at http://www.gao.gov.

Please contact me at (202) 512-7455 or kutzg@gao.gov if you or your staffs have any questions concerning this report. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors are listed in appendix III.

Gregory D. Kutz
Managing Director
Forensic Audits and Special Investigations

Objectives, Scope, and Methodology

This report responds to your request that we audit and investigate internal controls over State's centrally billed travel accounts, which include travel related to the Department of State, other U.S. government agencies principally engaged in activities abroad, and other domestic departments and agencies with international operations. The objectives of our audit were to determine the effectiveness of the Department of State's internal controls over its centrally billed travel card program and determine whether fraudulent, improper, and abusive travel expenses exist. Specifically we evaluated the effectiveness of State's internal controls over (1) the authorization and justification of premium-class tickets charged to State's centrally billed travel accounts and (2) monitoring unused tickets, reconciling monthly statements, and maximizing performance rebates.

To assess the effectiveness of internal controls over State's use of the centrally billed accounts, we obtained an understanding of the travel process, including premium-class travel authorization, unused ticket identification, and overall travel card management and oversight, by interviewing State officials from Resource Management, Travel and Transportation Management Division; Diplomatic Security, Overseas Building Operations; Educational and Cultural Affairs; U.S. Consulate, Frankfurt, Germany and U.S. Embassy, Pretoria. We also interviewed key officials from the American Express, Carlson Wagonlit, and Concorde travel management centers. We reviewed General Services Administration's (GSA) *Federal Travel Regulations* (FTR) and State's *Foreign Affairs Manual* (FAM) and *Foreign Affairs Handbook* (FAH). We reviewed State's internal department notices and other travel-related guidance. Finally, we conducted "walk-throughs" of the domestic and overseas travel processes.

Evaluating the Effectiveness of Controls over Premium-Class Travel

We audited controls over the authorization and issuance of premium-class travel during fiscal years 2003 and 2004. State's credit card vendor, Citibank, could not provide the first 6 months of fiscal year 2003 (October 2002–March 2003) level III data due to limitations in its archiving capabilities. The level III data indicate whether a transaction is premium or coach. Therefore, we used 18 months of data from April 2003 through September 2004 to select a probability sample of premium-class transactions and also used this same time period for our data mining and analysis of premium-class transactions. Our assessment covered the following:

- The extent to which State used the centrally billed accounts to obtain premium-class travel was determined.
- Testing a statistical sample of premium-class transactions to assess the implementation of key management controls and processes for authorizing and issuing premium-class travel, including approval by an authorized official and justification in accordance with regulations. We also used data mining to identify other selected transactions throughout the premium-class travel transactions to determine if indications of improper transactions existed.
- State's management policy towards the use of premium-class travel was determined.

Magnitude of Premium-Class Travel

To assess the magnitude of premium-class travel by State and other foreign affairs agencies, we obtained from Citibank a database of fiscal years 2003, 2004, and 2005 travel transactions charged to State's centrally billed and individually billed travel card accounts. The databases contained transaction-specific information, including ticket fares, codes used to price the tickets—fare basis codes—ticket numbers, names of passengers, and numbers of segments in each ticket. We reconciled these data files to control totals provided by Citibank and to data reported by GSA on State's centrally billed account activities. We queried the database of positive debit transactions (charges) for fare codes that corresponded to the issuance of first- and business-class travel, identifying all airline transactions that contained at least one leg in which State and other foreign affairs agencies paid for premium-class travel accommodations.

We further limited the first- and business-class transactions to those costing more than $750 because many premium-class tickets on intra-European flights cost less than $750 and the corresponding coach-class tickets were not appreciably less. By eliminating from our population first- and business-class transactions costing less than $750, we avoided the possibility of identifying a large number of transactions in which the difference in cost was not significant enough to raise concerns of the effectiveness of the internal controls. The total number of transactions excluded was 1,067, costing approximately $532,000. While we excluded premium-class transactions costing less than $750, we (1) did not exclude all intra-European flights and (2) potentially excluded unauthorized premium-class flights. Limitations of the database prevented a more precise methodology of excluding lower-cost first- and business-class tickets.

Statistical Sampling and Data Mining

Table 3 summarizes the population[1] of State and other foreign affairs agencies' airline travel transactions containing at least one premium-class leg charged to State's centrally billed accounts from April 2003 through September 2004 and the subpopulation subjected to testing.

Table 3: State and Other Foreign Affairs Agencies' Premium-Class Travel Populations Subjected to Sampling

Dollars in thousands

Total population of premium-class transactions		Excluded transactions (premium class costing less than $750)		Population subject to sampling (premium class costing at least $750)		Transactions tested	
Transactions	Dollars	Transactions	Dollars	Transactions	Dollars	Transactions	Dollars
30,268	$133,000	2,799	$11, 700	27,469	$121,300	107	$467

Source: GAO analysis of Citibank data.

To assess the implementation of key controls over the authorization and issuance of premium-class travel, we tested a probability sample of premium-class transactions. In general, the population from which we selected our transactions for testing was the set of positive debit transactions totaling $750 or more for both first- and business-class travel that were charged to State's centrally billed accounts during April 2003 through September 2004. Because our objective was to test controls over travel card expenses, we excluded credits and miscellaneous debits (such as fees) that would not have been for ticket purchases from the populations tested.

We further limited the population of first- and business-class transactions to those without a matching credit. By eliminating transactions with matching credits, we avoided selecting a large number of transactions in which the potential additional cost of the premium-class ticket was mitigated by a credit refund so as not to raise concerns about the effectiveness of the internal controls. The total number of transactions

[1] The total population subject to sampling does not include about 1,650 transactions totaling $6.9 million that we identified in data provided by Citibank subsequent to sampling.

excluded was 2,799, totaling approximately $11.7 million. While we excluded premium-class transactions with a matching credit, we did not exclude all transactions with a matching credit because sometimes the data did not always identify the fare basis codes to allow us to determine if the travel was premium or coach.

To test the implementation of key control activities over the issuance of premium-class travel transactions, we selected a probability sample of transactions. Specifically, we selected 107 premium-class transactions totaling about $467,000. For each transaction sampled, we requested that State provide us the travel order, travel voucher, travel itinerary, and other related supporting documentation. We used that information to test whether documentation existed that demonstrated that State had adhered to key internal controls over authorizing and justifying premium-class tickets. On the basis of the information State provided, we determined whether a valid official approved the premium-class travel and whether the premium-class travel was justified in accordance with State regulations. We also applied criteria set forth in our internal control standards and sensitive payments guidelines in evaluating the proper authorization of premium-class travel. For example, while State travel regulations and policies do not address subordinates authorizing their supervisors' premium-class travel, our internal control standards consider such a policy to be flawed; therefore, a premium-class transaction that was approved by a subordinate would fail the control test. The results of the samples of these control attributes can be projected to the population of transactions at State and other foreign affairs agencies as a whole, but not to individual bureaus or posts.

With our probability sample, each transaction in the population had a nonzero probability of being included, and that probability could be computed for any transaction. Each sample element was subsequently weighted in the analysis to account statistically for all the transactions in the population, including those that were not selected. Because we followed a probability procedure based on random selections, our sample is only one of a large number of samples that we might have drawn. Since each sample could have provided different estimates, we express our confidence in the precision of our particular sample's estimates as 95-percent confidence intervals (e.g., plus or minus 10 percentage points.) These are intervals that would contain the actual population value for 95-percent of the samples we could have drawn. As a result, we are 95-percent confident that each of the confidence intervals in this report will include the true values in the study population. All percentage estimates from the sample of premium-class air travel have sampling errors (confidence interval widths) of plus or minus 10 percentage points or less. Table 4 summarizes the premium-class statistical sample results.

Table 4: Premium-Class Statistical Sample Results

Authorization Controls					
Travel order provided?	Travel order signed?	Premium travel specifically authorized?	Premium travel not authorized by blanket travel order?	Justification Control Trip more than 14 hours without a rest stop?	Estimated percentage of transactions with this particular failure
Failed					4
Passed	**Failed**				5
Passed	Passed	**Failed**			13
Passed	Passed	Passed	**Failed**		17
Passed	Passed	Passed	Passed	**Failed**	28

Source: GAO analysis of Citibank data.

Note: Each test is dependent on the result of the prior test(s). For example, if no travel order was provided the transaction failed and no other tests were conducted to determine whether the travel order was signed. The justification test was dependent on the outcome of the authorization test(s). Therefore, since 42 of 107 transactions (39 percent) failed the authorization test, we tested 65 total transactions specifically to determine whether there was justification for premium-class travel.

In addition to our statistical sample, we selected other transactions identified by our data mining efforts for review. Our data mining identified individuals who frequently flew using first- or business-class accommodations. For data mining transactions, we also requested that State provide us the travel order, travel voucher, travel itinerary, and any other supporting documentation that could provide evidence that the premium-class travel was properly authorized and justified in accordance with State policies. If the documentation provided indicated that the transactions were proper and valid, we did not pursue the matter further. However, if the documentation was not provided, or if it indicated further issues related to the transactions, we obtained and reviewed additional documentation about these transactions.

High-Level Officials

Our initial data mining efforts identified executives that frequently flew first and business class. On the basis of our findings, we expanded our selection of high-level officials to include most of State's top executives, including presidential appointees and senior executives. We evaluated these transactions in the same manner as described above.

Diplomatic Couriers

Based on the statistical sample of premium class transactions, we estimate that 6 percent of the transactions in the sample population represent travel by diplomatic couriers. We also identified courier transactions by data mining for travelers that frequently flew first and business class. We found six courier transactions in our statistical sample and an additional 16 transactions identified during data mining for proper authorization and justification. We reviewed pertinent laws, federal regulations, and State department policies and procedures and interviewed current and former Diplomatic Courier Service staff. We also conducted an on-site inspection of classified pouch procedures at the Logistics Operations Center and observed the FedEx process for inventory, pouching, and packaging of classified materials for shipment to London, Paris, and Frankfurt. We did not have authorization to open, inspect, and verify that classified pouches contained only classified materials. Also, we did not observe and assess courier procedures at foreign airports related to accessing the tarmac to take custody of outgoing and incoming diplomatic pouch materials. During the course of our work, we interviewed Department of State Inspector General, Diplomatic Courier Service, and Administrative Logistics Management officials and Department of Homeland Security officials responsible for customs and border protection.

Evaluating the Effectiveness of Controls over Other Centrally Billed Account Activities

We also audited the controls over other centrally billed account activities, including the identification and processing of unused tickets and disputing of unauthorized transactions, during fiscal years 2003 and 2004. Our assessment covered

- the magnitude of centrally purchased tickets that were not used and not processed for a refund, and
- the extent of unauthorized transactions that were not disputed and of the rebates lost, as a result.

To assess the internal controls over these other CBA activities, we first applied the fundamental concepts and standards set forth in our *Standards* *for Internal Control in the Federal Government*[2] to the practices followed by these units to manage unused tickets and to dispute transactions that did not match or that the reconciliation process determined were unresolved. Because we determined that controls over unused tickets were ineffective, we did not assess these controls.

Magnitude of Unused Tickets

To assess the magnitude of tickets charged to the centrally billed accounts, which were unused and not refunded, we requested that the six airlines that State and other foreign affairs agencies used most frequently provide us with data relating to tickets State and other foreign affairs agencies purchased during fiscal years 2003 and 2004 that were unused and not refunded. These six airlines—American, Delta, Northwest, Continental, United, and U.S. Airways—together accounted for about 80 percent of the value of total airline tickets State and other foreign affairs agencies purchased. To obtain assurance that the tickets the airlines reported as unused represented only airline tickets charged to State centrally billed accounts, we compared data provided by the airlines to transaction data provided by Citibank. Because State does not track whether tickets purchased with centrally billed accounts were used, we were unable to confirm that the population of unused tickets that the airlines provided was complete in that it included all State and other foreign affairs agencies' tickets that were unused and not refunded.

While American, Delta, Northwest, and United provided data that allowed us to identify the centrally purchased tickets that were fully unused and not refunded and partially used and not refunded, Continental could only provide data on fully unused and not refunded tickets and U.S. Airways did not provide any data. Because none of the airlines provided data sufficient for calculating the exact unused value (residual value), we were limited to reporting the amount charged to the centrally billed accounts related to both fully unused and partially unused tickets.

Extent of Unauthorized Transactions Not Disputed

To determine the extent of airline tickets that did not reconcile between the tickets issued by State's travel management center and the Citibank invoice of tickets purchased on the centrally billed account, we (1) obtained

[2] GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

unresolved transaction reports for State's largest domestically managed centrally billed accounts and (2) verified that the transactions were charged to a State centrally billed account using the Citibank transaction data.

Magnitude of Rebates Lost

To identify the potential rebates lost[3] on State's centrally billed accounts, we requested that Citibank provide (1) the total amount of rebates earned by State on its centrally billed account program for fiscal year 2003 and fiscal year 2004, (2) the volume of transactions used by Citibank to compute the rebate amounts, and (3) the rebate pricing schedule Citibank used to determine the amount of rebates. Using the volume of transactions and the rebate pricing schedule provided by Citibank, we calculated the highest potential rebate that State could have earned on the centrally billed account program. We then compared the potential rebate amounts to the actual rebates earned.

Data Reliability Assessment

We assessed the reliability of the Citibank centrally billed account data by (1) performing various testing of required data elements, (2) reviewing existing information about the data and system that produced them, and (3) interviewing Citibank officials knowledgeable about the data. In addition, we verified that totals from the databases agreed with the centrally billed account activity reported by GSA. We determined that data were sufficiently reliable for the purposes of our report.

To assess the reliability of the unused ticket data provided to us by American, Continental, Delta, Northwest, and United Airlines, we (1) consulted airline officials knowledgeable about the data and

[3] According to State, "Citibank pays the Department a performance or payment productivity rebate based on calculated "net turndays" for payments. The rebates are not driven directly from the actual payment date, but are calculated using accounts receivable average balances divided by average daily charge volumes. The specific calculations use a derived Average Accounts Receivable, which is the sum of daily accounts receivable (outstanding) balances at the end of a cycle divided by the number of days in the cycle month and a Net Charge Volume. Net Charge Volume represents all cycle purchases and other charges, less credits, divided by billing cycle days. The Average Accounts Receivable is then divided by the Average Net Charge Volume which yields the "turndays" factor used to derive the actual refund percentage from a pre-established table. Lower turndays yield higher rebate percentages and increases in turndays reduce the rebate percentage. The effect of undisputed items is that in subsequent billing cycles the Average Accounts Receivable number is higher, yielding a higher calculated turnday computation and lower rebate."

(2) performed testing on specific data elements. In addition, we validated that the tickets reported as unused by each airline represented tickets centrally purchased by State by comparing each airline's data to the Citibank centrally billed account. We also reviewed the 2003 and 2004 Notes to the Consolidated Financial Statements for each airline to verify that amounts related to unused tickets were included as a liability. We concluded that the data were sufficiently reliable for the purposes of this report.

Comments from the Department of State

United States Department of State

Washington, D.C. 20520

FEB - 7 2006

Ms. Jacquelyn Williams-Bridgers
Managing Director
International Affairs and Trade
Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548-0001

Dear Ms. Williams-Bridgers:

We appreciate the opportunity to review your draft report, "STATE'S CENTRALLY BILLED FOREIGN AFFAIRS TRAVEL: Internal Control Breakdowns and Ineffective Oversight Lost Taxpayers Tens of Millions of Dollars," GAO Job Code 192145.

The enclosed Department of State comments are provided for incorporation with this letter as an appendix to the final report.

If you have any questions concerning this response, please contact Howard Renman, Director, Office of Global Financial Services, Bureau of Resource Management, at (703) 875-5607.

Sincerely,

S. Kaplan

Sid Kaplan (Acting)

cc: GAO – John Kelly
M – Henrietta Fore
State/OIG – Mark Duda

Department of State Comments on GAO Draft Report
STATE'S CENTRALLY BILLED FOREIGN AFFAIRS TRAVEL: Internal Control Breakdowns and Ineffective Oversight Lost Taxpayers Tens of Millions of Dollars
(GAO-06-298, GAO Code 192145)

Thank you for the opportunity to respond to the report "*State's Centrally Billed Foreign Affairs Travel, Internal Control Breakdowns and Ineffective Oversight Lost Taxpayers Tens of Millions of Dollars*". We note that GAO's study covers travel of all foreign affairs agencies, and not just the Department of State ("the Department"). While we believe this report overstates the nature and extent of the problem, we are addressing the deficiencies noted by taking corrective action based on all of GAO's 18 recommendations. However, the Department believes a number of key assertions in the report, including the title, are misleading.

The Premium Travel Was Justified
Although deficiencies in documentation for premium class travel were noted in the draft report, there is no basis to conclude that the travel in question was not otherwise proper under existing criteria, nor did these procedural problems result in the loss of "tens of millions of dollars." A lack of proper documentation indicates procedural problems and those are being remedied by the Department. But GAO did not find any instances of travel that was improperly conducted for other than official government purposes, and only a few instances in which the travel was conducted outside of the regulations for premium class travel, which we are investigating and will remedy. These salient points should be highlighted to underscore that deficient procedural protocols are at the root of the problem – and these will be fixed – not a case of individuals obtaining "benefits" otherwise not permitted by law, regulation or policy.

Premium Travel Not a "Benefit"
The draft report also contains several inaccurate assertions concerning Department travel regulations governing travel in excess of 14 hours. GAO states throughout the draft report that the Department offers premium class travel to all employees as a "benefit". This statement connotes that we carelessly implemented business class regulations without regard to the increased cost. All Department employees, not just those in the Foreign

Service, are authorized to use premium class travel in accordance with applicable regulations. For further clarification, we do not provide business class for all flights in excess of 14 hours. For flights over 14 hours, we provide business class for temporary duty travelers, permanent change of station travelers, and travelers evacuated for medical reasons. The regulations also give employees the option to fly economy class with a rest stop instead of flying business class. The Department's policies and approved regulations in force at the time made approval by the authorizing official, whether domestic or overseas, sufficient in these cases.

The Department of State is firmly committed to aggressive stewardship of the taxpayers resources with which we are entrusted. Notwithstanding our concerns about some aspects of the GAO study as stated above, we acknowledge, and are resolute in our commitment to remedy, the deficiencies GAO noted in the 18 recommendations made in the study, as detailed below.

Recommendation 1: The Secretary of State should direct the appropriate officials to develop procedures to identify the extent of premium class travel, including all business class travel, and monitor for trends and potential misuse.

Response:
We concur. The Department is implementing a strengthened travel oversight program to ensure travel policies are being followed consistently. In September 2005, the Department established a business class travel report, similar to the General Services Administration (GSA)-mandated annual first class travel report. To monitor our business usage for trends and to guard against potential misuse, the monthly business class travel report is being made available to oversight offices such as the Department's Office of the Inspector General, as well as to bureau executive offices and the Executive Secretariat.

Recommendation 2: The Secretary of State should direct the appropriate officials to develop procedures to identify all first class fares so that State can prepare and submit complete and accurate first class travel reports to GSA.

Response:

We concur. The Bureau of Administration will continue to submit the annual first class travel reports to GSA, and will work with GSA, Citibank, and the Department's Travel Management Centers (TMCs) in Washington and overseas to develop procedures for more complete and comprehensive reports on first class travel.

Recommendation 3: The Secretary of State should direct the appropriate officials to require the Department to develop a management plan requiring that audits of State's issuance of premium class travel are conducted regularly, and results of such audits are reported to senior management. Audits of premium class travel should include reviews of whether travel management centers adhere to all government-wide and State regulations for issuing premium class travel.

Response:
We concur. Senior management now reviews on a monthly basis reports based on reviews of a sampling of premium class tickets issued and the associated documentation. In addition, the evaluation and testing of controls over premium class travel have been incorporated into the Department's Improper Payments Information Act (IPIA) Program. The results of these reviews are included as part of our annual Performance and Accountability Report. In addition, the Department's Office of the Inspector General will review premium class travel during inspections of both domestic and overseas operations.

Recommendation 4: The Secretary of State should direct the appropriate officials to periodically provide notices to travelers and supervisors/managers that specifically identify the limitations on premium class travel, the limited situations in which premium class travel may be authorized, and how the additional cost of premium class travel can be avoided.

Response:
We concur. The Bureau of Administration will begin (February 2006) issuing quarterly notices to Department employees and overseas posts addressing the issues noted in the recommendations. In addition, the Department began in December 2005 a series of special training classes for employees responsible for arranging travel for their offices. To date, six classes have been held; two in December 2005 and four in January 2006. Additionally, we hosted a Town Hall meeting in January that provided a

forum for questions and answers on travel policy. These sessions will become a regular feature of the Department's travel oversight program. Also, training programs at the Foreign Service Institute for General Services Officers, Financial Management Officers, and Senior Officers will be revised to place further emphasis on the importance of these measures.

The Department created and is using a new form that travelers and authorizing officers must complete to substantiate the justification and approval for business class travel for each trip. In the quarterly notices, the Department will emphasize the requirement for these forms to be used. Furthermore, the Department has requested that GSA amend the contracts with the Travel Management Centers to require that the approval form with proper approval be submitted to the TMC prior to issuance of business class tickets and that the TMC maintain the forms for the prescribed records retention period.

Recommendation 5: The Secretary of State should direct the appropriate officials to require that premium class travel be approved by individuals who are at least of the same grade as the travelers and specifically prohibit the travelers themselves or their subordinates from approving requests for premium class travel.

Response:
The Department is in the process of revising the Foreign Affairs Manual (FAM) policy and will provide notice to senior officials and to other employees that premium class travel must be approved by the employee's supervisor or an appropriate official outside of the chain of command. For executive level travel, this means that Assistant Secretary premium class travel must be approved by their Under Secretary, that Ambassadorial or Charge premium class travel be approved by the regional bureau Executive Director and that Under Secretary premium class travel be approved by the Executive Secretary.

Recommendation 6: The Secretary of State should direct the appropriate officials to prohibit the use of blanket authorization for premium class travel, including management decisions offering premium class travel as a benefit to executives and other employees.

Response:
The Department already prohibits blanket authorizations for premium class travel. In September 2004, the Assistant Secretary for Administration instructed bureaus by memo of the requirement for trip-specific authorizations for business class travel. We are in the process of revising the Department's regulations to more explicitly prohibit use of blanket authorizations for premium class travel and to emphasize the requirement for trip-specific authorization. The Department will reiterate the policy by Department Notice and telegram under the signature of a senior Department official.

Recommendation 7: The Secretary of State should direct the appropriate officials to encourage State Department personnel traveling as a result of a permanent change of station to take a rest stop en route to their final destination to avoid the significant additional cost associated with premium class flights and thus save the tax payer thousands of dollars per trip.

Response:
We concur. Where cost and mission effective, the Department will encourage employees traveling as a result of permanent change of station to use a rest stop rather than utilizing premium class travel.

Recommendation 8: The Secretary of State should direct the appropriate officials to inform other users of State's centrally billed travel accounts to take parallel steps to comply with existing travel requirements.

Response:
We concur. The Under Secretary for Management will inform other agencies to take parallel steps to comply with existing travel requirements.

Recommendation 9: The Secretary of State should direct the Courier Service to expand the use of cargo carriers, such as FedEx, to the extent practicable.

Response:
We concur. The Courier Service is firmly committed to raising operational efficiency and reducing costs using tools and ideas pioneered by our private sector partners, including the use of cargo carriers such as FedEx and UPS. To date, trunk-line cargo routes to Europe and Asia have been implemented, saving approximately $255,000 per annum on the heavily used Washington

to Frankfurt sector. Separate trips to Paris and London were eliminated with the multiple-stop routing. The Asian routing to Seoul and Bangkok saves 50% on airfares alone and combines three separate trips. Plans are in progress to add sectors to Mexico City, Tel Aviv, and Athens, and the Department will aggressively analyze additional business practice changes.

Recommendation 10: The Secretary of State should direct the Courier Service to direct foreign missions to assure that organizations using diplomatic courier services share responsibility for meeting and accepting air cargo shipments of diplomatic pouches.

Response:
We concur. In effect since 1994, the Department's policy (12 FAM 150.1) states "Courier escort duties are the responsibility of all agencies at post that use the classified pouch channel." An ALDAC will be issued directing posts to implement the Department's policy for the fair sharing of classified pouch courier escort duties.

Recommendation 11: The Secretary of State should direct the Courier Service to clarify written policy to clearly state that diplomatic couriers must use economy class accommodations when in a "dead-head" capacity unless relevant exceptions (e.g., 14 hour rule) exist, and enforce the requirement.

Response:
We concur. The Bureau of Diplomatic Security will provide a written policy which clearly states that diplomatic couriers must use economy class accommodations when in a "deadhead" capacity, unless relevant exceptions apply, and enforce the requirement. The policy will direct that each courier trip report, where deadhead travel occurs, document that economy class was used or explain when a relevant exception applied. Supervisory officers will monitor reporting to ensure that the requirement is followed.

Recommendation 12: The Secretary of State should immediately submit claims to the airlines to recover the $6 million in fully and partially unused tickets identified by the airlines and included in this report.

Response:
We concur. The Bureau of Administration and Bureau of Resource Management are working with the airlines, travel offices, Posts, and

travelers to submit claims to recover the value of unused tickets identified by the airlines as a result of the GAO audit.

Recommendation 13: The Secretary of State should work with the five airlines identified in this report and other airlines from which State purchased tickets with centrally billed accounts to identify the feasibility of determining the recoverability of other fully and partially unused tickets purchased with State centrally billed accounts, determine the value of the unused portions of those tickets, and initiate actions to obtain refunds.

Response:
We concur. The Bureau of Administration and Bureau of Resource Management are working with the five airlines and other airlines from which State purchased tickets with centrally billed accounts to identify any tickets (or portions of tickets) that were not used for travel, to determine the value of the unused portions of those tickets, and to initiate actions to obtain refunds. The Department will request that in future contracts GSA require airlines to provide federal agencies with unused ticket data upon request.

Recommendation 14: The Secretary of State should direct the appropriate personnel within services and agencies to evaluate the feasibility of implementing procedures to reconcile airline tickets acquired using the centrally billed accounts to travel vouchers in the current travel system.

Response:
We concur. The Bureau of Resource Management will produce from the Department's Central Financial Management System several reports that will be distributed beginning in January 2006 to bureau Executive Directors in order to strengthen domestic office accountability for unused tickets of travel those domestic offices approve. These reports, which will also be reviewed by the Deputy Assistant Secretary for Administration (Logistics Management), are (1) a report of tickets issued during the current month, (2) a report of travel orders where the ticket obligation has had more than one charge against the centrally billed account (CBA), and (3) a report of travel orders where the travel end date is at least 45 days past, no travel voucher has been filed, but the ticket obligation has incurred a charge against the CBA.

Recommendation 15: The Secretary of State should direct the appropriate personnel within services and agencies to enforce employees' adherence to existing travel regulations requiring notification of unused tickets.

Response:
We concur. As noted in recommendation #14, the Department will use new reports to assist individual bureau authorizing offices responsible for ensuring the appropriate disposition of unused tickets to reconcile outstanding travel vouchers. Further, the Department will issue periodic notices, including reminders on earnings and leave statements of Department employees, on reporting unused tickets and will add language to the employee's certification statement on travel vouchers confirming that any unused or partially unused tickets have been returned for refund as a part of the travel vouchering process.

Recommendation 16: The Secretary of State should direct the appropriate personnel within services and agencies to modify existing travel management center contracts to include a requirement that the international travel management centers establish a capability to systematically identify unused electronic-tickets in their computer reservation systems and file for refunds on the tickets identified as unused.

Response:
We concur. The Bureau of Administration has requested that GSA modify existing overseas TMC contracts to (1) include a requirement that the TMC identify and report to the travel office all unused electronic-tickets based on specified criteria before the unused electronic-ticket data is removed from the computer reservation system and (2) routinely process refunds for tickets identified as unused and submit all requests for refunds that have been processed to the travel office.

By notice and telegram, the Bureau of Administration will advise authorizing officers domestically and overseas that the TMCs are responsible for consistently identifying unused tickets and processing these tickets for refunds. The Bureau of Resource Management will be responsible for tracking the refund of unused tickets domestically, and financial management officers will be responsible overseas.

Recommendation 17: The Secretary of State should direct the appropriate personnel within services and agencies to routinely compare unused tickets processed by the travel management centers to the credits on the Citibank invoice.

Response:
We concur. The Department's 14 FAM 517.2 requires that unused tickets be turned-in at the conclusion of travel for reconciliation of the account. In an effort to improve this aspect of our operations, the Department will, through the methods previously described, more strictly monitor compliance with this requirement and will periodically remind travelers of the Department policies and regulations regarding the disposition of unused tickets. The Department's existing disciplinary policies will be used, as and when appropriate, for failures to comply with this requirement. As part of revised standard operating procedures, the financial management offices will routinely compare credits on TMC reports, Citibank invoices and unused tickets provided at the end of travel to reconcile outstanding travel balances.

Recommendation 18: The Secretary of State should establish procedures to ensure that all transactions on the Citibank invoice are either paid in accordance with the contract or properly disputed.

Response:
We concur. The Department has substantially improved the domestic centrally billed travel account reconciliation and disputes process. Since September 2005 we have utilized a new travel management provider, Carlson Wagonlit, and have implemented a documented and agreed-upon joint disputes process. Permanent responsibility for performing the review and dispute function now rests in the RM/GFS/F Office of Claims. For travel services provided by Carlson, we receive the data to file disputes in a timely fashion and are current on filing them with Citibank. Since the September 2005 start of contract performance by Carlson Wagonlit, we have had 30 unmatched transactions that we disputed with Citibank. Twenty-eight of the disputes turned out to be erroneous charges that resulted in credits to our centrally billed account. The other two were matched and paid when more information was provided by the airlines in response to our dispute. We will continue to aggressively work on this process.

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