

GAO

Testimony

Before the Committee on Governmental Affairs,  
U.S. Senate

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For Release on Delivery  
Expected at 10 a.m. EDT  
Wednesday, June 9, 2004

# DOD TRAVEL CARDS

## Control Weaknesses Led to Millions in Fraud, Waste, and Improper Payments

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Highlights of [GAO-04-825T](#), a testimony before the Committee on Governmental Affairs, United States Senate

## Why GAO Did This Study

In November 2003, GAO testified on the significant level of improper premium class travel purchased with centrally billed accounts. These findings led to concerns over the Department of Defense's (DOD) overall management of the centrally billed account program. At the request of this Committee, Senator Grassley, and Representative Schakowsky, GAO performed work to determine whether DOD controls were adequate to protect the centrally billed accounts from fraud, waste, and abuse. This testimony focuses on whether DOD (1) paid for airline tickets that it did not use and did not process for refund, (2) improperly reimbursed travelers for the cost of airline tickets paid for with centrally billed accounts, and (3) adequately secured access to centrally billed accounts against improper and fraudulent use. This testimony also addresses the internal control breakdowns that led to instances of fraud, waste, and abuse and DOD's corrective actions.

In two companion reports issued today, DOD concurred with the 31 recommendations GAO made—including moving to a well-managed individually billed account program—to improve the management of unused tickets, recover the value of outstanding unused tickets, prevent and detect improper payments, reduce the risk that airline tickets are issued on invalid travel orders, and improve security over the centrally billed accounts.

[www.gao.gov/cgi-bin/getrpt?GAO-04-825T](http://www.gao.gov/cgi-bin/getrpt?GAO-04-825T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gregory Kutz at (202) 512-9505 or [kutzg@gao.gov](mailto:kutzg@gao.gov).

## DOD TRAVEL CARDS

# Control Weaknesses Led to Millions of Dollars in Fraud, Waste, and Improper Payments

## What GAO Found

A weak control environment and breakdowns of key controls over the centrally billed accounts led to millions of dollars wasted on unused airline tickets, reimbursements to travelers for improper and potentially fraudulent airline ticket claims, and issuance of airline tickets based on invalid travel orders.

Problem identified	Illustrative example(s)
<b>Unused airline tickets</b>	
<ul style="list-style-type: none"> <li>58,000 airline tickets—primarily fiscal years 2001 and 2002 tickets—with a residual value of more than \$21.1 million were unused and not refunded as of October 2003</li> <li>Many more tickets are partially unused with unknown residual value</li> <li>\$100 million in potential unused tickets from fiscal years 1997 to 2003</li> </ul>	Some unused tickets are first or business class tickets that cost thousands of dollars: <ul style="list-style-type: none"> <li>\$9,800 round trip from Washington, D.C. to Canberra, Australia</li> <li>\$3,400 round trip from Washington, D.C. to San Diego, Calif.</li> </ul>
<b>Reimbursements to travelers for improper and potentially fraudulent airline ticket claims</b>	
<ul style="list-style-type: none"> <li>About 27,000 potential improper reimbursements totaling more than \$8 million identified at the Army, Marine Corps, and Navy during fiscal year 2001 and 2002</li> <li>123 of 204 transactions selected for testing were improper and potentially fraudulent</li> <li>Air Force Audit Agency estimated that losses for the Air Force due to improper payments to be \$6.5 million over 6 years</li> </ul>	Some travelers submitted multiple claims for tickets they did not purchase, which could be indicative of intent to defraud the government: <ul style="list-style-type: none"> <li>A GS-15 received 13 improper payments totaling almost \$10,000 but claimed he did not notice the overpayments</li> <li>A GS-13 repeatedly submitted false claims for airline ticket reimbursements after being told they were improper</li> </ul>
<b>Centrally billed accounts not adequately secured against improper and fraudulent use</b>	
<ul style="list-style-type: none"> <li>No verification that travel order is valid before airline tickets are charged to the centrally billed accounts and obligations recorded to pay for the airline tickets</li> <li>Centrally billed account numbers were compromised and used for personal gain</li> </ul>	<ul style="list-style-type: none"> <li>Using a basic scheme to defraud, GAO obtained a round-trip airline ticket from Washington, D.C. to Atlanta, Ga. that was paid for by DOD</li> <li>A DOD traveler used a centrally billed account number to purchase over 70 airline tickets costing over \$60,000, which he resold at a discount</li> </ul>

Source: GAO analysis of DOD data.

In some instances where the centrally billed accounts were compromised, DOD did not pay for the airline tickets because DOD disputed those charges. However, not all DOD units disputed unauthorized charges. As a result, DOD is vulnerable to paying for fraudulent charges. A major contributing factor to these problems is that DOD's travel order, ticket issuance, and travel voucher systems are not integrated, and DOD had not designed compensating procedures to reconcile data in these systems. Thus, DOD was unable to detect instances where (1) the absence of a travel voucher might indicate that an airline ticket was unused, (2) travelers improperly claimed reimbursement for tickets they did not purchase, and (3) an authorized individual did not approve the travel order submitted to obtain an airline ticket. Other causes are excessive reliance on DOD travelers to report unused tickets, inadequate voucher review, and weak centrally billed account safeguards.

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Madame Chairman and Members of the Committee:

Thank you for the opportunity to discuss the Department of Defense's (DOD) management of its centrally billed accounts. This testimony is a continuation of previous work we performed on weaknesses in controls over DOD's premium class travel acquired using the centrally billed travel accounts.<sup>1</sup> Our two related reports,<sup>2</sup> released today and developed at the request of this Committee, Senator Grassley, and Representative Schakowsky, describe additional problems we identified in DOD's controls over the centrally billed accounts. These weaknesses, and other weaknesses we had previously reported upon related to DOD's management of the individually billed accounts,<sup>3</sup> are illustrative of DOD's long-standing financial management problems, which are pervasive, complex, and deeply rooted in virtually all business operations. Such problems led us in 1995 to put DOD financial management on our list of high-risk areas—those that are highly vulnerable to fraud, waste, and abuse—a designation that continues today.<sup>4</sup>

The centrally billed accounts are used by most DOD services and units to purchase transportation services such as airline and train tickets, facilitate group travel, and procure other travel-related expenses.<sup>5</sup> In contrast, the individually billed travel accounts are used by individual travelers primarily for lodging, rental cars, and other travel expenses. Further, unlike the

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<sup>1</sup>U.S. General Accounting Office, *Travel Cards: Internal Control Weaknesses at the DOD Led to Improper Use of First and Business Class Travel*, [GAO-04-88](#) (Washington, D.C., Oct. 24, 2003), and *Travel Cards: Internal Control Weaknesses at the DOD Led to Improper Use of First and Business Class Travel*, [GAO-04-229T](#) (Washington, D.C.: Nov. 6, 2003).

<sup>2</sup>U.S. General Accounting Office, *DOD Travel Cards: Control Weaknesses Led to Millions of Dollars Wasted on Unused Airline Tickets*, [GAO-04-398](#) (Washington, D.C.: Mar. 31, 2004), and *DOD Travel Cards: Control Weaknesses Resulted in Millions of Dollars of Improper Payments*, [GAO-04-576](#) (Washington, D.C.: June 9, 2004).

<sup>3</sup>U.S. General Accounting Office, *Travel Cards: Control Weaknesses Leave Army Vulnerable to Potential Fraud and Abuse*, [GAO-03-169](#) (Washington, D.C.: Oct. 11, 2002), *Travel Cards: Control Weaknesses Leave Army Vulnerable to Potential Fraud and Abuse*, [GAO-02-863T](#) (Washington, D.C.: July 17, 2002), *Travel Cards: Control Weaknesses Leave Navy Vulnerable to Fraud and Abuse*, [GAO-03-147](#) (Washington, D.C.: Dec. 23, 2002), *Travel Cards: Control Weaknesses Leave Navy Vulnerable to Fraud and Abuse*, [GAO-03-148T](#) (Washington, D.C.: Oct. 8, 2002), and *Travel Cards: Air Force Management Focus Has Reduced Delinquencies, but Improvements in Controls Are Needed*, [GAO-03-298](#) (Washington, D.C.: Dec. 20, 2002).

<sup>4</sup>U.S. General Accounting Office, *High-Risk Series: An Overview*, [GAO/HR-95-1](#) (Washington, D.C.: February 1995), and *High-Risk Series: An Update*, [GAO-03-119](#) (Washington, D.C.: January 2003).

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individually billed travel accounts, where travelers are responsible for all charges and for remitting payments for the monthly bill, charges for centrally billed accounts are billed directly to the government for payment. For fiscal years 2001 and 2002, DOD travelers incurred \$7.1 billion in expenses on the centrally billed and individually billed travel card accounts, with about \$2.8 billion related to the use of centrally billed accounts.

Today, we will share our perspective on whether DOD (1) paid for airline tickets that it did not use and did not process for refund, (2) improperly reimbursed travelers for the cost of airline tickets paid for using centrally billed accounts, and (3) adequately secured access to the centrally billed accounts against improper and fraudulent use. We will also address the internal control breakdowns that led to these instances of fraud, waste, and abuse and DOD's corrective actions.

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## Summary

Weaknesses in the design and implementation of key internal controls over the centrally billed accounts led to millions of dollars wasted on airline tickets that were unused and not refunded, and millions more where DOD made payments to travelers for improper and potentially fraudulent claims the travelers filed for airline tickets that DOD—and not the traveler—purchased. The weaknesses were also highlighted when DOD issued us an airline ticket and recorded an obligation to pay for that ticket based on a fictitious travel order we prepared. We also found that some DOD centrally billed accounts had been compromised and used for personal gain.

Limited data provided by DOD's five most frequently used airlines indicated that DOD had purchased—primarily in fiscal years 2001 and 2002—about 58,000 tickets with a residual (unused) value of \$21.1 million that were unused and not refunded as of October 2003. In addition, three airlines reported that DOD had purchased more than 81,000 airline tickets costing more than \$62 million that it used only partially, that is, at least one leg had not been used. We also found that DOD was not aware of the magnitude of these unused tickets, and therefore did not know their number or dollar value. Based on further assessment of the limited airline data, we determined that it is possible that DOD had purchased, since 1997, more than \$100 million in airline tickets with its centrally billed accounts that it

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<sup>5</sup>The Air Force is an exception to this general rule. The Air Force equally uses both centrally billed and individually billed accounts for purchasing airline tickets.

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did not use and did not process for refunds. The millions of dollars in airline tickets were wasted because DOD did not have a systematic process to identify and process unused airline tickets.

We also found that DOD made millions of dollars of improper reimbursements to travelers who filed potentially fraudulent claims for airline tickets that DOD, and not the travelers, paid for using the centrally billed accounts. Some DOD travelers submitted multiple claims for airline tickets they did not purchase, which could indicate an intent to defraud the government. During fiscal years 2001 and 2002, these improper reimbursements were made on about 27,000 transactions totaling more than \$8 million. We identified the \$8 million through data mining of limited fiscal year 2001 and 2002 travel voucher data provided by the Army, Navy, and Marine Corps. Further testing of a nonrepresentative selection of 204 potentially improper claims for airline tickets confirmed that 123 payments totaling about \$97,000 were improper. For example, one traveler received 13 improper payments totaling almost \$10,000 for airline tickets he did not purchase, yet claimed that he did not realize he was overpaid. In another case, one traveler continued to file false claims and eventually received improper payments of \$3,600 despite repeated notification that his claims were improper.

The lack of adequate security over the centrally billed accounts also exposed these accounts to improper and fraudulent use. We found that DOD allowed the centrally billed accounts to be used for payment of airline tickets without verifying the validity of the travel order. Our investigation demonstrated the ease with which an unauthorized individual could obtain an airline ticket using a fictitious travel order. Specifically, we found that DOD readily issued an airline ticket—for which we were able to obtain a boarding pass—on the receipt of a fictitious travel order, and automatically recorded an obligation to pay for the airline ticket issued on the basis of the fictitious travel order. The lack of adequate security also resulted in some DOD centrally billed accounts being compromised and used for personal gain. For instance, a military service member used the centrally billed accounts to buy airline tickets costing more than \$60,000 and sold them at a discounted rate to coworkers and family members. Because DOD disputed these unauthorized transactions once they were identified as unauthorized, DOD received credits from Bank of America and did not incur losses. However, some DOD locations did not file disputes for unauthorized items or track their resolution. As a result, DOD could have paid for fraudulent transactions from compromised accounts.

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Weaknesses in the design of internal controls, specifically the lack of interface between DOD's travel order, ticket issuance, and travel voucher systems, and the lack of compensating procedures to reconcile data from these systems, were major contributing factors to the fraud, waste, and improper payments we identified. For example, without reconciling data from the ticket issuance to the travel voucher system, DOD could not identify instances where the absence of a travel voucher indicates that travel was canceled and the airline ticket was unused, or that an airline ticket claimed on a travel reimbursement was improper. Without an interface between the travel order and ticket issuance systems, DOD could not determine that a travel order was valid before ticket issuance. Again, DOD did not implement compensating procedures to verify that the travel order was valid before it paid Bank of America for the airline tickets. Other internal control weaknesses included excessive reliance on DOD travelers to report unused tickets, inadequate supervisory review of vouchers, and lack of physical safeguards over centrally billed accounts.

As discussed in the two reports released today, DOD agreed with all 31 of our recommendations to improve internal controls over the centrally billed accounts. In particular, DOD agreed that using a well-controlled individually billed account program to pay for airline tickets would transfer responsibility for all charges to the individual cardholder and reduce the financial exposure resulting from the weaknesses in the controls over DOD's centrally billed accounts. DOD has also begun to take corrective actions in a number of areas. DOD has convened task forces and working groups to address the deficiencies we have identified, taken actions to attempt to recover the \$21.1 million in tickets identified as unused and not refunded, and recovered more than \$50,000 of the \$100,000 in improper payments we identified.

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## Millions of Dollars Wasted on Airline Tickets that Were Unused and Not Refunded

Our analysis of limited airline data found that DOD had purchased millions of dollars in airline tickets that it did not use and did not process for refund. Because DOD did not maintain data on unused tickets, DOD was not aware of this problem prior to our audit. Further assessment of the data indicated that it is possible that since 1997, DOD purchased more than \$100 million in airline tickets with its centrally billed accounts that it did not use and did not process for refunds.

As shown in table 1, data provided by five of DOD's most frequently used airlines<sup>6</sup> showed that about 58,000 tickets with a value of \$21.1 million were purchased with DOD's centrally billed accounts but were unused and not

refunded. DOD was not aware of these unused tickets and did not know their number or dollar value. The \$21.1 million we identified included more than 48,000 tickets valued at \$19.2 million that were fully unused, and \$1.9 million in the unused (residual) value of about 10,000 partially used tickets,<sup>7</sup> that is, at least one leg had not been used. These tickets were primarily acquired during fiscal years 2001 and 2002, although some were also purchased during fiscal years 1999, 2000, and 2003.

**Table 1: Known Value of Unused and Unclaimed Airline Tickets, November 1998 through December 2002**

<b>Airline</b>	<b>Number of tickets</b>	<b>Known unused value of fully and partially unused airline tickets (dollars in millions)</b>
American	15,877 <sup>a</sup>	\$4.1 <sup>a</sup>
Delta	15,588	6.4
Northwest	3,479	2.3 <sup>b</sup>
United	16,283	6.0
US Airways	6,719	2.3
<b>Total</b>	<b>57,946</b>	<b>\$21.1</b>

Source: GAO analysis of Bank of America and airline data.

<sup>a</sup>In total, American Airlines reported 24,013 tickets with residual value of more than \$6.2 million that were fully or partially unused. We excluded 8,136 American Airlines unused tickets totaling more than \$2.1 million from our analysis because either (1) less than 6 months had passed since the tickets were purchased and when American Airlines provided the file or (2) Bank of America data did not confirm whether the tickets were fully or partially unused.

<sup>b</sup>Values represent the amount Bank of America reported for tickets Northwest identified as being unused.

In addition to the known, unused value of \$21.1 million, DOD also failed to claim refunds on an additional 81,000 partially unused tickets purchased at more than \$62 million, of which the residual value is unknown. This is because Delta, Northwest, and United airlines, which provided us with these data, informed us that their ticket data are not maintained in a format that would allow them to easily quantify the remaining unused value.

<sup>6</sup>The five most frequently used airlines accounted for more than 80 percent of airline tickets DOD purchased in fiscal years 2001 and 2002.

<sup>7</sup>These 10,000 tickets were from American Airlines, the only airline that provided us the residual value of partially unused tickets.

The data the five airlines provided in response to our request for fiscal years 2001 and 2002 unused ticket data were not uniform, complete, or consistent. For example, while American, Delta, Northwest, and United provided some data on partially unused tickets, US Airways did not provide any. Further, while Delta, Northwest, and United provided data on the total purchase price of tickets that were partially unused, American Airlines was the only airline that provided data on the purchase price and unused value of its partially unused tickets. The airlines cited difficulties with accessing their historical files as the reason for not being able to fully respond to our request. The airlines pointed out that to provide additional information, they would have had to access information that had been stored in archived computer files, and in some instances, the computer files had been eliminated and the only documentation that remained were paper records of the flights.

Also as we reported previously, DOD’s failure to monitor premium class travel had resulted in more than 70 percent of premium class travel being unauthorized and unjustified, and thus increased cost to taxpayers.<sup>8</sup> Although we found that the vast majority of the wasted airline tickets were for coach class travel, the most egregious examples of waste related to premium class tickets costing thousands of dollars that DOD—and thus the taxpayers—paid for that were not used and therefore provided no benefit to the government or the taxpayers. For example, United Airlines reported that a Navy traveler used the centrally billed account to purchase a round-trip business-class ticket costing \$9,800 from Washington D.C., to Canberra, Australia. Table 2 shows examples of first and business class tickets purchased for travel through December 2002 that were identified as unused—and were not refunded—as of October 2003.

**Table 2: Examples of Unused and Unclaimed Premium Class Tickets**

	<b>Ticket itinerary</b>	<b>Ticket price</b>
1	Round trip – Washington, D.C. to Canberra, Australia	\$9,800
2	Round trip – Atlanta, Georgia to Muscat, Oman	8,100
3	Round trip – Washington, D.C. to Canberra and Honolulu	8,000
4	Round trip – Washington, D.C. to Tokyo, Japan	7,300

<sup>8</sup>GAO-04-88.



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<b>Ticket itinerary</b>		<b>Ticket price</b>
5	One way – Stuttgart, Germany to Honolulu	4,800
6	One way – Washington, D.C. to Brussels, The Netherlands	2,800
7	One way – Washington, D.C. to Chicago, Illinois	900

Source: GAO.

Based on further assessment of the limited airline data, we determined that it is possible that DOD purchased at least \$100 million in airline tickets that were unused and not refunded since 1997, the oldest year for which centrally billed account data were available. This amount is derived by using data provided by the airlines for fiscal year 2002 to calculate the total value of unused tickets as a percentage of total tickets purchased using the centrally billed accounts, and applying the resulting percentage to the almost \$8 billion in total value of tickets purchased with a centrally billed account since 1997. Federal agencies are authorized to recover payments made to airlines for tickets that agencies acquired but did not use.<sup>9</sup> Consequently, DOD might be entitled to recover the value of the unused and unrefunded tickets from the airlines.

Because DOD did not maintain data on unused tickets, DOD would have to rely on the airlines to provide the relevant data needed to claim refunds. While the airlines provided us with at least 1 year of the data we requested, some airline representatives expressed concerns about the feasibility and costs of providing additional unused ticket data. However, unused tickets from these 5 airlines and the more than 85 other airlines that DOD uses represent a potentially substantial government claim. To assist DOD in claiming refunds or converting the unused tickets to future use, we provided DOD with a list of the unused ticket information we received from the airlines in December 2003. As will be discussed in further detail below, DOD has taken actions to request repayment of the over \$21 million in known unused tickets from the airlines.

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<sup>9</sup>31 U.S.C. § 3726(h).

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## Reimbursements for Improper and Potentially Fraudulent Airline Ticket Claims Could Total Millions of Dollars

We found that breakdown in internal controls resulted in numerous instances during fiscal years 2001 and 2002 where DOD travelers submitted improper claims and subsequently received improper reimbursements for airline tickets they did not purchase. Requesting reimbursement for items that the traveler did not pay for may violate the False Claims Act and be punishable by imprisonment or a monetary fine, or both. Although limitations in DOD data prevented us from accurately estimating the magnitude of these improper reimbursements, our data mining of limited DOD data indicated that the potential improper claims could total more than \$8 million dollars.

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## Magnitude of Potentially Improper Payments

During fiscal years 2001 and 2002, DOD spent over \$10.8 billion on travel and transportation expenses for DOD military and civilian personnel, of which about \$2.8 billion were charged to the centrally billed accounts, and the remaining \$8 billion through voucher settlement.<sup>10</sup> However, significant limitations related to DOD travel and transportation data prevented us from accurately estimating the magnitude of improper payments DOD made to travelers for improper and potentially fraudulent claims travelers filed for airline tickets that DOD—and not the traveler—purchased. Specifically, travel voucher data received from the Army, Navy, and Marine Corps covered only about \$4.5 billion of the \$8 billion in total travel voucher expenses.<sup>11</sup> Despite these limitations, our data mining of about 50 percent of voucher data identified about 27,000 travel claims totaling over \$8 million for which DOD made potentially improper reimbursements to travelers for airline tickets that had actually been paid for using DOD centrally billed accounts. Although we were unable to obtain Air Force data in a format that would help us identify instances of improper payments, the Air Force Audit Agency<sup>12</sup> reported that the Air Force also improperly paid travelers for the cost of airline tickets purchased with centrally billed accounts and estimated that the improper payments cost the Air Force \$6.5 million over 6 years.

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<sup>10</sup>Voucher settlements are made in payments of travel expenses travelers incur through the individually billed accounts or other means.

<sup>11</sup>Even though the Army, Navy, and Marine Corps provided us with travel voucher data, we were unable to obtain assurance concerning the completeness and reliability of these data. In addition, the Air Force did not provide data in the format we requested to enable analysis.

<sup>12</sup>Air Force Audit Agency, *Centrally Billed Accounts for Travel*, F2003-003-FB1000 (Washington, D.C., Apr. 24, 2003).

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## Results of Improper Payment Testing

To determine whether DOD improperly paid travelers for the airline tickets purchased with centrally billed accounts, we tested 204 travel claims selected from the 27,000 potentially improper travel claims we identified through data mining. We selected the 204 travel claims containing about \$154,000 in potentially improper payments using a nonrepresentative methodology. Our tests—which consisted of reviewing what the travelers claimed as reimbursable expenses, what DOD paid, and what was purchased using the centrally billed accounts—confirmed that DOD made 123 improper payments totaling more than \$97,000 to 91 travelers.<sup>13</sup> Fifteen of the 123 improper payments had been identified prior to our audit because the travelers voluntarily notified DOD of the improper payments, or because DOD found that the payments were improper through its own voucher audits. Further, in response to our audit, DOD collected more than \$42,500 from 46 travelers for 63 improper airfare payments, and is in the process of recovering the remaining improper payments

We found that improper payments fell into two categories. The first category, which is linked to DOD's unused ticket problem, comprises 15 instances totaling almost \$16,000. In these instances, DOD and the traveler each purchased one airline ticket for the same travel,<sup>14</sup> and DOD properly reimbursed the traveler for the airline ticket used and charged to the traveler's individually billed account. However, lack of reconciliation procedures, which I will discuss in further detail below, resulted in DOD not being able to detect that a payment for an airline ticket purchased and paid for by the traveler corresponded to an unused airline ticket purchased with a centrally billed account.

The second, and more typical, category of improper payments were made to 76 travelers for airline tickets they simply did not purchase. Only 4 travelers notified the Defense Finance and Accounting Service—and made restitution—on the improper payments prior to our audit. The remaining improper payments would also be fraudulent if the travelers intentionally filed false claims.

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<sup>13</sup>The remaining 32 travelers did not submit improper or fraudulent claims.

<sup>14</sup>For example, if the airline has no record that a ticket was purchased using the centrally billed account, the traveler would have to purchase another ticket. In other instances, emergency circumstances such as weather problems might require that the traveler purchase another ticket at the airport.

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## Examples of Improper Payments

Travelers who had not purchased airline tickets should not have requested reimbursements, nor should DOD have paid the travelers for the cost of the airline tickets. Knowingly requesting reimbursement for items that the traveler did not pay for may violate the False Claims Act and be punishable by imprisonment or a monetary fine, or both. Although most of the 76 travelers we identified submitted improper claims once, several travelers we identified repeatedly submitted claims for airline tickets they did not purchase, which could indicate an intent to defraud the government. For example:<sup>15</sup>

- A GS-15 submitted claims—and received payments—for 13 airline tickets totaling almost \$10,000 that he did not purchase. One of these claims was for an international ticket costing more than \$3,500. Despite receiving almost \$10,000 over a 9-month period, the traveler informed us that he did not notice that he had received payments for expenses he did not incur.
- Despite six notifications by DFAS from March 2001 to July 2002 that his vouchers contained improper airfare claims, a GS-13 acquisition specialist continued to submit false airfare claims from August 2002 to June 2003. This employee ultimately received \$3,600 in payments for six improper claims. To circumvent proper review of his vouchers, the traveler scribbled his own name as the approving official and approved his own voucher. The traveler also took other questionable actions related to travel. For example, the traveler used the individually billed travel card to obtain two unrestricted coach class tickets for family members to fly to Germany. These unrestricted coach class tickets were normally priced at \$2,800 each compared to the reduced government rate of \$546 per person, which the traveler was able to obtain by using the individually billed card. The traveler also rented luxury vehicles—Mercedes Benz and Lincoln Navigator—while on government travel, typically at a rental rate of more than \$100 a day.
- Another traveler, an E-9, represented to us that he knew that he received \$1,400 in payments for two airline tickets he did not purchase. The traveler did not take actions to notify DFAS of the overpayment. The traveler kept the payment until our audit.

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<sup>15</sup>See our related report, [GAO-04-576](#), for further examples of improper payments.

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Because of potential fraud, we have referred these cases to the DOD Office of Inspector General for further inquiry, and potential referral to the appropriate U.S. Attorney for further consideration.

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## Inadequate Security over the Centrally Billed Accounts Increased Risk of Fraud and Abuse

We also found that inadequate security resulted in improper and fraudulent use of the centrally billed accounts. Specifically, DOD did not adequately protect the centrally billed accounts from being used to purchase airline tickets based on fictitious travel orders and from being compromised and used for personal gain. These weaknesses exposed the centrally billed accounts to increased risk of fraud and abuse.

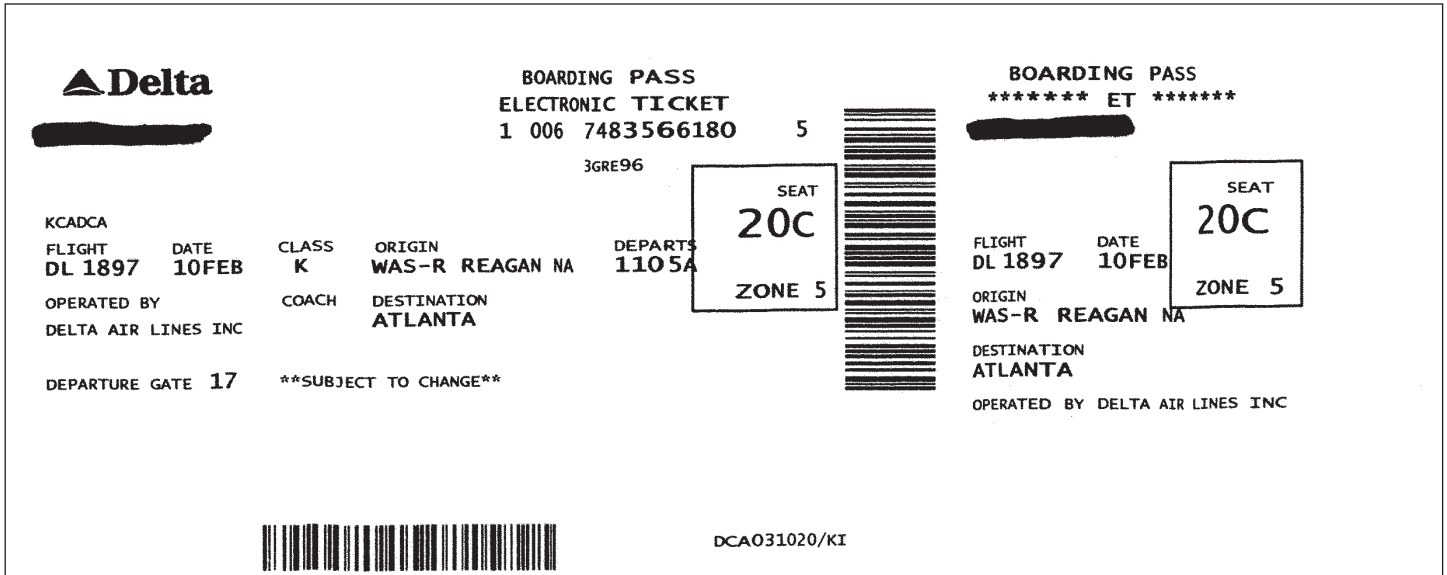
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## Airline Ticket Purchased Based on Fictitious Travel Order

We found that DOD allowed the centrally billed accounts to be used for payment of airline tickets without verifying the validity of the travel order. Consequently, we performed additional work during fiscal year 2004 to determine whether our concerns were warranted, or whether DOD could detect instances where invalid travel orders are used to obtain airline tickets. Our tests were also designed to determine whether current DOD controls could detect a ticket that is partially unused, and process that ticket for refund.

Our work involved creating, in February 2004, a fictitious travel order using fictitious names for the traveler and approving official. We had a GAO employee sign the travel order as the approving official using the fictitious name. We called a commercial travel office (CTO) assigned to one of the locations where we performed our testing and requested that they purchase a round trip airline ticket from Washington, D.C., to Atlanta, Ga. Upon receiving a faxed copy of our fictitious order, the CTO issued the airline ticket and charged it to a centrally billed account. The CTO then notified us that the ticket was issued and on the day of the scheduled flight, we went to the airline's ticket counter at the airport and picked up a boarding pass for the outbound flight from Washington, D.C., to Atlanta (see fig. 1).

Figure 1: Boarding Pass for Airline Ticket Charged to a Centrally Billed Account for Fictitious Traveler



Source: Delta Airlines.

Two months later, we obtained and reviewed the Bank of America invoice for the centrally billed account the CTO used to purchase the unauthorized ticket. The documentation indicated that DOD made payment to Bank of America without being aware that the travel order was fictitious, or that it had issued an airline ticket based on a fictitious travel order. Because it did not verify that the travel order was valid, DOD allowed its system to create an obligation to pay for the ticket. Further, DOD had not by that time detected that the return portion of the airline ticket was unused. Consequently, DOD had not processed a refund for the unused portion. After we informed DOD about the airline ticket that we obtained using the fictitious travel order, DOD requested and received a refund from the airline for the ticket we obtained.

## Centrally Billed Accounts Were Compromised and Used Fraudulently

During fiscal years 2001 and 2002, some DOD centrally billed accounts were compromised and fraudulently used for personal gain. We detected these fraudulent activities by reviewing Bank of America data and making inquiries of DOD officials. In many instances, DOD had detected the

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fraudulent transactions, and did not incur losses, because it disputed these transactions with the Bank of America. For example:

- Between August 2001 and March 2002, a Navy seaman used the centrally billed accounts to purchase over 70 tickets totaling more than \$60,000. The 70 unauthorized tickets were identified by the CTO as unauthorized, that is, tickets they did not issue while reconciling tickets they had issued to the Bank of America invoices. According to the Naval Criminal Investigative Service (NCIS), to which this case was referred, the seaman called the airlines and purchased the tickets by giving them the centrally billed account numbers, which he found printed on his travel itineraries. Some of the 70 airline tickets were obtained for the seaman's own travel, but in many instances the tickets were sold at a discounted rate to other Navy personnel and their family members.
- Similarly, a Marine Corps corporal used the centrally billed account number printed on his itinerary to fraudulently purchase, through the internet, 11 airline tickets and a hotel accommodation totaling \$3,360 between July and October 2000. The charges were identified as unauthorized by the CTO during the reconciliation process, and disputed with Bank of America.

In the above cases, DOD identified and disciplined the military personnel and did not incur financial losses. This is because, in both cases, DOD officials filed disputes with Bank of America upon receiving notification from the CTO that they had no record of having issued the airline ticket or making the hotel accommodation, and thus the transactions appeared to be unauthorized. Monitoring of the disputes also helped DOD officials conclude that the transactions were fraudulent, and resulted in Bank of America reimbursing DOD for the fraudulent transactions.

The examples above indicated the importance of identifying unauthorized transactions and filing disputes. However, our audit also found that not all DOD offices filed disputes. During fiscal years 2001 and 2002, 5 of the 11 units we visited did not file disputes. Other DOD units that did file disputes did not do so consistently. Although some transactions that appeared to be unauthorized could ultimately be traced to tickets actually purchased by DOD, other unauthorized transactions occurred because the centrally billed accounts were compromised and used fraudulently. Without disputing or researching centrally billed account transactions that appear to be unauthorized, DOD is exposed to significant risks that centrally billed

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accounts would be compromised, similar to the two cases discussed above, but without detection.

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## Weaknesses in Design and Implementation of Key Internal Controls Contributed to Fraud, Waste, and Abuse

We found that the lack of interface among DOD's primary travel systems—travel order, ticket issuance, and travel voucher—was the common underlying cause and major contributing factor that allowed the fraud, waste, and abuse we identified to occur without detection. DOD had intended that the Defense Travel System (DTS) would address this fundamental weakness; however, DTS had experienced cost and schedule delays. In the interim, DOD had either not designed adequate compensating procedures, such as reconciliation of data from these systems, or had not effectively implemented procedures it had in place, such as verifying the validity of all travel orders before paying Bank of America for airline ticket charges. Other weaknesses that contributed to the fraud, waste, and abuse we identified above included excessive reliance on travelers to report unused tickets, lack of adequate supervisory review of travel claims, and inadequate safeguards of centrally billed account numbers.

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## Lack of Integrated Travel Systems and Effective Compensating Procedures Contributed to Fraud, Waste, and Abuse

DOD's travel systems—specifically the travel order, obligations, ticket issuance, and travel voucher processing—are not integrated. DOD's current travel systems do not have the ability to route only valid travel orders to the CTO for ticket issuance, or routinely match travel vouchers to tickets issued through the centrally billed accounts before making voucher or centrally billed account payments. We also found that DOD had not designed controls, or implemented effective controls, to compensate for these system weaknesses.

We found that DOD had not designed other procedures to link or reconcile tickets issued using the centrally billed accounts to the voucher system. A link or reconciliation between these two types of data would assist DOD in preventing or detecting both unused tickets and improper payments. For example, if DOD compared ticket issuance and voucher data, DOD could detect instances where a lack of a travel voucher might indicate that the ticket was unused. Further follow-up would confirm that a number of these tickets are unused and therefore, could result in actions to claim a refund on those tickets. Without reconciling these two types of records, DOD cannot obtain reasonable assurance that centrally billed account charges represent airline tickets that are eventually used. Reconciliation



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would also enable DOD to detect instances where a traveler submitted a claim for airfare for which a corresponding ticket was issued using the centrally billed accounts. In these instances, if the traveler submitted evidence that he bought another airline ticket, DOD would detect that the airline ticket purchased with the centrally billed account was unused, or, if such evidence was not submitted, that the airfare claim should be rejected.

We also found that, in instances where DOD designed compensating procedures to address lack of system integration, DOD did not effectively implement these procedures. As mentioned previously, DOD travel systems did not have the ability to route only valid travel orders to the CTO for ticket issuance.<sup>16</sup> Without this capacity, DOD was unable to detect from its systems instances where a travel order was not approved by an authorized individual and should not be used as the basis for airline ticket issuance and payment. One compensating procedure would involve DOD providing the CTOs with a list of approving officials, or these officials' signature cards, to aid in determining the validity of the travel orders the CTO received before tickets are issued. DOD had chosen not to implement this front-end procedure, electing instead to focus on back-end procedures. However, our work found flaws in DOD implementation of these back-end procedures.

The back-end procedure requires that DOD verify that an obligation exists for each airline ticket charged on the centrally billed accounts—a process called prevalidation—before payment is made to the Bank of America. This procedure is intended to provide DOD with assurance that, prior to payment of the Bank of America invoice, airline ticket charges on the centrally billed accounts are supported by valid travel orders. By verifying that an obligation exists for the travel order that authorizes each airline ticket charged on the Bank of America's invoice, the prevalidation process could identify instances where obligations have not been established, which could indicate that the travel order might not be valid, such as the fictitious order we faxed to DFAS to obtain the airline ticket we described previously.

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<sup>16</sup>Requiring airline tickets purchased with centrally billed accounts to be issued based on valid travel orders is the first step in preventing DOD from purchasing airline tickets that are not for official government business.

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However, the Financial Management Regulations (FMR) allows DFAS—DOD’s disbursing organization—to record a new obligation, or increase an existing obligation, up to \$2,500 for transactions that fail prevalidation if DFAS is in possession of a valid obligating document. The FMR also defines a valid obligating document to include a travel order.<sup>17</sup> Thus, if DFAS receives a travel order from the CTO, DFAS is not required to determine the validity of the travel order if the airline ticket charge is less than \$2,500.<sup>18</sup> However, as discussed previously, the CTOs forwarded the travel orders to DFAS without verifying that these orders were valid. Therefore, DFAS does not have reasonable assurance that the obligations it creates based on the travel orders the CTO provided were approved by individuals who have the authority to authorize the travel. As our investigative work demonstrated, failure to determine the validity of all travel orders for which a corresponding obligation had not been created resulted in DOD creating an obligation to pay for the airline ticket we obtained based on the fictitious travel order.

DOD officials informed us that DTS, currently being developed to replace the more than 30 travel systems now operating within the department, will provide an integrated process of preparing travel orders and making travel arrangements, including airline reservations, and filing and paying travel vouchers. According to these officials, it will also include a capability to routinely match travel vouchers to tickets issued through the centrally billed accounts. DTS was originally scheduled to be fully operational in 2002, but has experienced cost and schedule delays. According to the program management office, DTS will be operational for about 80 percent of DOD personnel in 2006.

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<sup>17</sup>Some DOD units, such as a number of Navy units, require that DFAS return all airline ticket transactions that failed the prevalidation test to the units that created the travel order so that the units can record the obligations. This is not a DOD-wide practice. Instead, DFAS records the obligation to pay for the airline ticket and then notifies the unit that an obligation was created. It is expected that each unit’s resource manager would conduct timely review of the obligations DFAS created for validity, as DOD has only 60 days to dispute invalid charges. Based on previous work we performed on the Navy’s review of unliquidated obligations, which found that Navy fund managers failed to review unliquidated obligations over \$50,000, and the work we performed on unused tickets, which found Air Force’s monitoring of open travel orders to be ineffective, we again raise questions as to whether each unit’s resource manager would review obligations in a timely manner to detect inaccurate obligations created by DFAS.

<sup>18</sup>If an obligation needs to be created or increased by more than \$2,500, DFAS is to notify the unit that created the travel order, and give the unit 10 days to record that obligation before DFAS could record the obligation.

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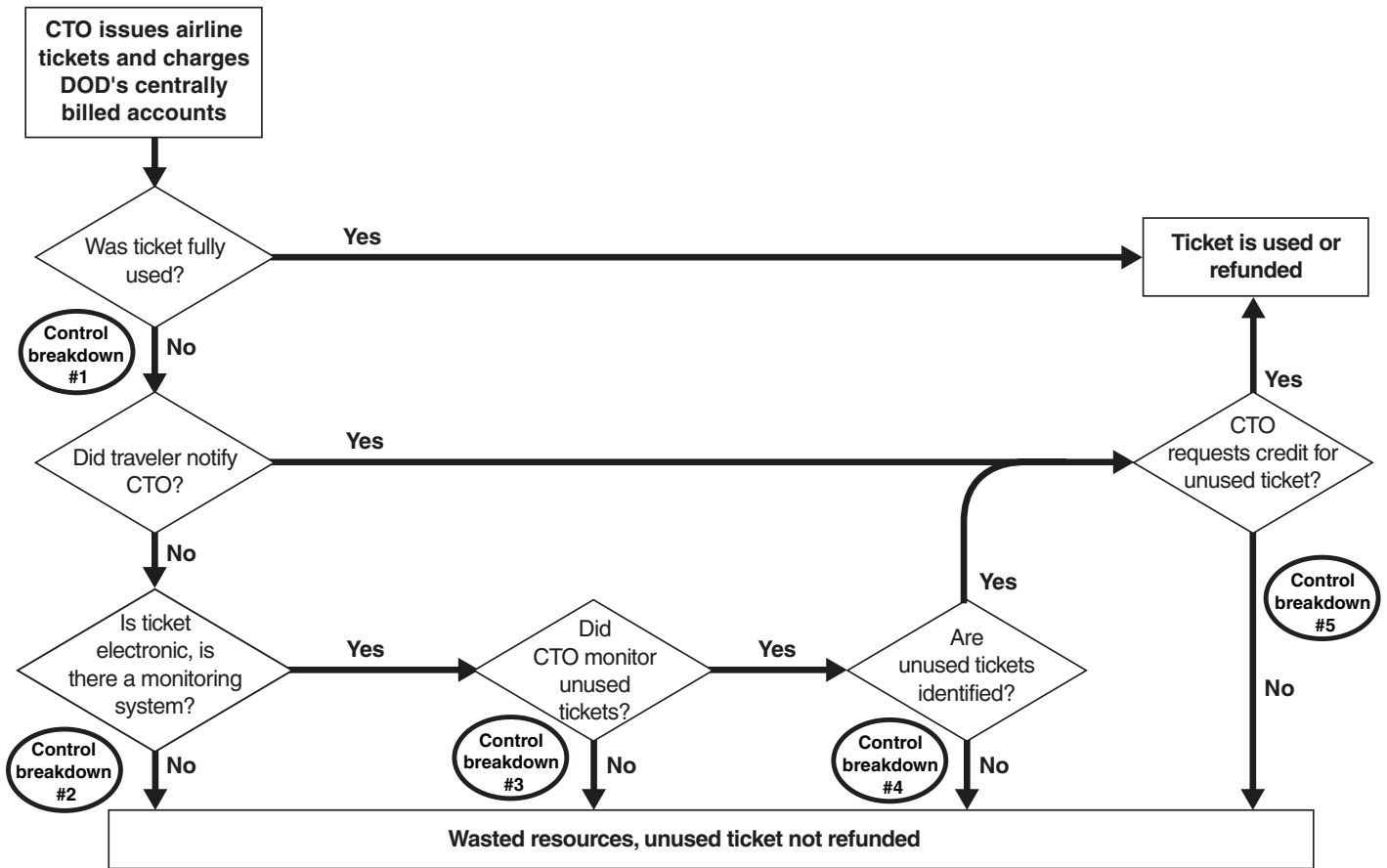
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## Excessive Reliance on Travelers to Report Unused Tickets

Another contributing factor to unused and unrefunded tickets is DOD's excessive reliance on travelers to report unused tickets to the CTOs. Appropriate reporting of unused tickets is needed to help DOD request refunds in a timely manner so that scarce resources are returned to the government. DOD travel and financial management regulations require that travelers notify the appropriate CTO when a ticket is unused and to return the unused ticket to the CTO for refund. According to bank data, DOD received credits amounting to about 9 percent of the airline tickets purchased through the CTOs during fiscal years 2001 and 2002, indicating that some DOD travelers followed the unused ticket requirements. However, DOD did not implement control procedures to systematically determine the extent to which DOD travelers adhered to the unused ticket requirements, and to identify instances in which they did not.

We identified a number of control breakdowns due to excessive reliance on travelers to notify DOD of unused tickets. Figure 2 illustrates the many ways in which a ticket can be unused and not refunded. Internal control breakdown 1 could occur if the traveler does not notify the CTO of an unused paper ticket. Control breakdown 2 occurs if the ticket is electronic, but the CTO had not implemented a system to monitor the ticket databases maintained by the airlines to determine whether the ticket is unused. Control breakdown 3 occurs if the CTO does not consistently monitor unused tickets, and therefore could not identify all unused tickets. Control breakdown 4 occurs if the CTO identifies or is notified of an unused ticket, but fails to process a refund. Finally, breakdown 5 occurs in the event that the CTO or the government travel office (GTO) does not track the status of refunds from the airlines, and therefore was not aware that a refund was not given.

Figure 2: Possible Control Breakdowns in the Unused Ticket Process



Source: GAO analysis of the process of issuing tickets charged to DOD's centrally billed accounts.

### Inadequate Voucher Review Contributed to Improper Payments

We found that some improper and potentially fraudulent payments for airline tickets could be prevented if DOD approving officials conducted adequate review of the travel vouchers and the supporting documentation before authorizing the vouchers for payment. DOD's financial management regulations require that approving officials review travel vouchers for accuracy before authorizing them for payment. Many of the airline receipts submitted as supporting documentation for the improper claim clearly showed that the airline ticket was purchased using the centrally billed accounts. In these instances, if the approving officials had conducted

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careful review of the travel vouchers and supporting documentation, the official would have noted that the traveler was not entitled to the travel reimbursement. Further, the reviewing officials should have been knowledgeable that local and component policy called for centrally billed accounts to be used to purchase the airline tickets that were claimed as a reimbursable expense on the vouchers.

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**Lack of Physical Safeguards Exposed Centrally Billed Accounts to Fraudulent Activities**

DOD was exposed to fraudulent activities because DOD did not adequately safeguard the centrally billed account numbers. These accounts require safeguarding because stolen account numbers can be used fraudulently for personal gain. We determined that a major contributing factor to DOD's accounts being compromised was that many DOD units did not adequately protect centrally billed account numbers. Of the 11 CTOs we visited to observe control procedures and conduct statistical sampling, 8 printed the centrally billed account credit card number used to purchase the airline ticket on the trip itinerary that was given to each traveler along with the airline ticket. In these instances, the CTOs could have safeguarded these accounts by limiting the accounts' identity to the last four digits or simply not printing the account number on the traveler's copy of the itinerary. In fiscal year 2003, some CTOs improved their safeguards of the centrally billed account numbers by printing only the last four digits of the credit account number. However, not all CTOs have implemented this safeguard. We also found that copies of these itineraries were maintained at CTO offices that were accessible to any traveler who required assistance with travel reservations. Further, at the Pentagon, the GTO stored the reconciliation packages in boxes with the centrally billed account numbers prominently written on the outside of the boxes in an office that was not secured. Failure to safeguard centrally billed account numbers creates unnecessary risks that expose the government to fraudulent activities.

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## Corrective Actions Related to DOD's Management of the Travel Card Programs

During fiscal years 2002 and 2003, we issued a series of testimonies<sup>19</sup> and reports<sup>20</sup> that focused on problems that the Army, Navy, and Air Force had in managing the individually billed travel card accounts. These testimonies and reports showed high delinquency rates and significant potential fraud and abuse related to DOD's individually billed travel card program. However, in a recent report<sup>21</sup> concerning control weaknesses with DOD travel we recognized improvements that DOD has made in the management of the individually billed accounts. These improvements point to the possibility of using this program as the principal means of acquiring tickets, thereby reducing the government's risk of losses arising from the use of centrally billed accounts.

In response to our testimonies and reports on the individually billed accounts, the Congress took actions in the fiscal year 2003 appropriations and authorization acts<sup>22</sup> and the fiscal year 2004 authorization act<sup>23</sup> requiring (1) the establishment of guidelines and procedures for disciplinary actions to be taken against cardholders for improper, fraudulent, or abusive use of government travel cards; (2) the denial of government travel cards to individuals who are not creditworthy; (3) split disbursements<sup>24</sup> for paying a portion of the expenses claimed on a travel voucher directly to the credit card bank and the remainder to the cardholder; and (4) offset of delinquent travel card debt against the pay or retirement benefits of DOD civilian and military employees and retirees.

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<sup>19</sup>[GAO-02-863T](#) and [GAO-03-148T](#).

<sup>20</sup>[GAO-03-169](#), [GAO-03-147](#), and [GAO-03-298](#).

<sup>21</sup>U.S. General Accounting Office, *DOD Travel Cards: Control Weaknesses Led to Millions of Dollars Wasted on Unused Airline Tickets*, [GAO-04-398](#) (Washington, D.C.: Mar. 31, 2004).

<sup>22</sup>Department of Defense Appropriations Act, 2003, Pub. L. No. 107-248, 116 Stat. 1519 (2002), and the Bob Stump National Defense Authorization Act for Fiscal Year 2003, Pub. L. No. 107-314, 116 Stat. 2458 (2002).

<sup>23</sup> National Defense Authorization Act for Fiscal Year 2004, Pub. L. No. 108-136, 117 Stat. 1392 (2003).

<sup>24</sup>Split disbursement is a process in which DOD pays the travel-card-issuing bank directly for charges incurred on the travel card and claimed on the travel voucher. Additional money owed to the traveler is deposited directly into the traveler's bank account. Split disbursements are mandatory for all military and DOD civilian personnel. See the National Defense Authorization Act for Fiscal Year 2004, Pub. L. No. 108-136, § 1009, 117 Stat. 1392, 1587 (2003), 10 U.S.C. § 2784a.

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DOD has implemented many of the legislatively mandated improvements—most notably the implementation of split disbursements and salary offsets and the reduction in the numbers of individuals with access to the travel cards. According to Bank of America, the delinquency rates we noted in our prior reports at the Army, Navy, and Air Force have decreased. For example, the monthly delinquency rate at the Navy had decreased from an average of about 11 percent during fiscal year 2002 to an average of less than 7 percent in fiscal year 2003. Similarly, during that same period, the Army's average monthly delinquency rate decreased from about 14 percent to an average of about 9 percent. Although these rates are still substantially above the agency goal of 4.5 percent, the proper implementation of split disbursements should continue to reduce these delinquency rates.

The use of a well-controlled individually billed account travel program as the principal mechanism for acquiring airline tickets will help limit the government's financial exposure by reducing the magnitude of unused tickets and improper payments, and preventing improper and fraudulent use from inadequate security over centrally billed accounts. However, the use of the individually billed accounts to acquire airline tickets would only minimize, not eliminate, the necessity of implementing internal controls over the centrally billed account program. DOD would still need to maintain a centrally billed account structure to purchase airline tickets for travelers who have been denied individually billed accounts, infrequent travelers whose individually billed credit cards have been canceled, and new employees who have not yet acquired individually billed accounts.

In addition, DOD has taken actions to improve management of its centrally billed account travel program based on the results of our premium class travel and unused airline ticket reports. Specifically, DOD commissioned a task force to establish policies and procedures intended to help prevent unauthorized use of premium class travel. The March 16, 2004, report by the premium class task force contained corrective actions in the areas of policy and controls of travel authorization, ticket issuance, and internal control oversight to address our recommendations. Many of the task force's recommendations have been implemented.

In the area of unused tickets, DOD issued claim letters in late February to five airlines requesting repayment of the over \$21 million in known unused tickets and programmed letters for claims against other airlines. The responses from the airlines have been varied. One airline indicated that they needed further information to process refunds, while another airline

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informed DOD that it may not be able to accommodate DOD's refund claims due to its weak financial position. To date, DOD has not exerted its rights afforded by federal law<sup>25</sup> to offset payments due to the airlines for the amount of unused tickets. As a result, to date none of the potentially over \$21 million of unused ticket money has been returned to DOD by the airlines.

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## Conclusion

The millions of dollars wasted on unused airline tickets, improper payments, and fraudulent activities provide another example of why DOD financial management is one of our "high-risk" areas, with DOD highly vulnerable to fraud, waste, and abuse. While DOD has acknowledged the control weaknesses we identified and has taken actions to address some of these weaknesses, DOD needs to take a more active role in identifying and resolving control weaknesses. In each case identified in our two most recently issued reports, DOD officials acknowledged that they were not aware of these significant and long-standing control breakdowns prior to our audit. DOD must proactively identify control weaknesses and implement a system of internal controls that provide reasonable assurance to both DOD senior management and the taxpayers that the billions of dollars in travel expenses paid for with centrally billed accounts are spent prudently. As our nation continues to be challenged with growing budget deficits and increasing pressure to reduce spending levels, it is important that DOD improve its management of the travel program, which will save millions of dollars annually.

Madam Chairman and Members of the Committee, this concludes my prepared statement. I would be pleased to respond to any questions that you may have.

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<sup>25</sup>31 U.S.C. § 3716(e).



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