



United States
General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

B-259229

February 6, 1995

Mr. Larry Eisenhart
Deputy Chief Financial Officer
Department of State

Dear Mr. Eisenhart:

This letter responds to your September 8, 1994, request that we provide you an interpretation of the requirements in Title 2, "Accounting," and Title 7, "Fiscal Procedures," of GAO's Policy and Procedures Manual for Guidance of Federal Agencies, pertaining to processing employee travel claims. As described in your letter, the Department of State is attempting to streamline its system for processing employee travel claims in response to the National Performance Review (NPR) initiative to simplify administrative processes. As you know, in line with the NPR initiative, the Joint Financial Management Improvement Program (JFMIP) is examining governmentwide travel procedures with a view toward streamlining the processes. Although the JFMIP project began recently, we feel that as it progresses, it should provide useful information that you should consider regarding your proposed system.

In your request, you mentioned that the General Services Administration (GSA)¹ waived several items in your proposal provided your proposal did not conflict with the requirements of the GAO Policy and Procedures Manual. You also requested an opinion from the Internal Revenue Service (IRS) on whether the flat-rate lodging reimbursement contained in your proposal constitutes income to the traveler for income tax purposes. If it did, the Department would incur additional costs to (1) track and report those reimbursements as income to IRS and the traveler and (2) withhold taxes. Subsequent to your request, you received an opinion from IRS that the reimbursement did not constitute income to the traveler for income tax reporting purposes.

To supplement the information in your request letter, we contacted your staff to discuss the proposal in more detail. However, we did not perform any tests of your current or proposed system, and consequently, our response only addresses your proposal conceptually and does not address whether your present system is capable of accommodating the proposal.

¹GSA is responsible for issuing employee travel regulations which are published in its manual titled "Federal Travel Regulations."

As discussed in this letter, we identify two concerns regarding your proposal and offer four additional control procedures to alleviate the concerns. Based on our understanding of your proposal, we have no objection to its implementation provided that the four additional controls we suggest are effectively implemented.

Department of State's Proposal

You propose to eliminate the need for employees to forward documented receipts with travel vouchers for certification for all lodging, transportation, and other expenses and instead require employees to maintain the documents at their current duty stations. Also, the proposal calls for employees to be reimbursed at the maximum lodging amount on a flat-rate basis, compared to the current practice of reimbursing employees for actual lodging costs, up to the maximum allowed.

You also propose to automate your travel system² after an anticipated 1-year testing period. The Department could adopt, with modifications, the commercial software, "Travel Manager Plus," from Federal Software Company located in Reston, Virginia. Under this system, employees would submit their travel vouchers electronically for approval and certification without the supporting documents attached. Employees will attest to claims with electronic signatures. As we understand it, the lodging expense amounts will be listed separately on the voucher, and the traveler would attest that commercial lodging was used. Also, all expenses under \$75 would be summarized on the vouchers appearing on the electronic screen for approval. However, your staff stated that the detailed data supporting each item under \$75 would also be maintained in the electronic system and could be called up from the system for review by the person approving or certifying the voucher. The detailed data would be maintained on file electronically with the electronic voucher for the same period. To certify a travel claim for payment, only the voucher and its summary information would be transferred to the Department's automated accounting system for processing.

Your staff told us that going to a flat-rate lodging amount would reduce the administrative effort to separately record all actual lodging costs incurred, submit receipts, and examine the voucher and lodging receipts to determine accuracy of the claim. Your staff also pointed out that a flat-rate lodging amount would be consistent with how meals and related incidental amounts are currently reimbursed to travelers.

²Many overseas offices will continue to operate a manual system; however, the paper forms and certain manual procedures used in the automated system would be implemented in the manual systems.

As we understand it, each travel voucher would be examined for approval by the traveler's supervisor or another equivalent official, usually assigned to the traveler's duty station. That official would have access to the documentary support if he or she wishes to see it. The official's approval, done electronically, would indicate that the (1) travel was actually taken and was considered official business and (2) charges seem reasonable. Your staff further explained that the vouchers and related detail would be forwarded electronically to the certifying officers, either in the traveler's official duty station for travelers assigned overseas or in Washington headquarters for travelers stationed stateside. Each voucher would be certified electronically as to propriety, correctness, and accuracy.

In addition, your staff stated that post audit statistical samples would be taken (initially each month) at the official duty station for travelers assigned overseas or at headquarters for travelers assigned stateside and will conform to the requirements of Title 7 of the GAO Policy and Procedures Manual. All travel vouchers certified for payment during the month would be stratified by type of travel and dollar amount. The sample selected for post audit is intended to be based on a 90-percent confidence level.³ Your staff explained that for each voucher in the sample, the traveler would be asked to forward all documentary support. Once the duty station or headquarters receives the documents, the voucher would be fully examined to determine propriety and accuracy of all amounts.

Your staff also explained that a substantial training effort will be undertaken to ensure that the Department's staff effectively implement the proposal. Part of the training, they explained, will be devoted to staff who travel and will focus on document retention and storage procedures and will specify the applicable requirements in Title 8, "Records Retention," of the GAO Policy and Procedures Manual and the General Services Administration's "General Records Schedules."

³The confidence level is the degree of assurance that the sample results will be the same as the universe of all items being tested. Initially, during the testing phase, a sample having a greater than 90-percent confidence level would be selected.

GAO's Assessment of the Proposal: Additional Controls Would Constitute an Effective System Design

Regarding titles 2 and 7, your request raises four issues: (1) whether it is appropriate for the traveler to retain documents supporting his or her own travel claims, (2) whether reimbursement for lodging can be made properly at the maximum allowable amount on a flat-rate basis, (3) whether designated officials will have sufficient detail and support needed to approve and certify travel vouchers without access to hard copy supporting documentary evidence, such as receipts, and (4) whether the electronic signatures used by the traveler and in the approval and certification functions contain the necessary controls to ensure data integrity. Regarding your question about summary totals, we believe that such totals on an individual voucher or computerized screen as you propose is not an issue. Title 7 does not preclude approval or certification of such summary totals if the information on each item constituting a summary total is readily available to the reviewing official and maintained on file electronically with the voucher.

The Traveler Retaining Supporting Documentation

Regarding the first issue, Title 2, appendix II, "Internal Control Standards," requires that all transactions be clearly documented and that the documentation be readily available for examination. Your proposal does not eliminate the need for documentary evidence supporting lodging, transportation, and other expenses related to employee travel. The only difference is that your proposal calls for traveling employees to maintain relevant supporting documents at their respective duty stations or program offices rather than submitting them with the vouchers as they now do. Thus, the current practice of retaining the documentation (the voucher and all supporting evidence) at the traveler's official duty station for a traveler assigned overseas or in Washington headquarters for a traveler stationed stateside would be modified. However, the results of the sample along with all supporting documentation selected in the sample for post audit review would be maintained centrally at the traveler's duty station or headquarters. The vouchers and related information not selected in the sampling process would be stored electronically.

While Title 2 does not preclude supporting documentation from being filed at the location of the employee who completes the travel, we raised the question of how the Department would be assured of obtaining the supporting documentation should employees retire or leave the agency. Your staff stated that employees either retiring or leaving the agency would be required to go through formal check-out procedures before receiving their last salary payment. One of the requirements for completing a proper check-out would be to obtain clearance from the

travel unit. To ensure that all official documents supporting claims are maintained by the agency for the required documentation retention period (usually 3 years), the unit would, under the proposal, require the employee to submit all supporting documentation related to travel completed within the retention period to obtain clearance. The supporting documents would be retained at the traveler's duty station or program office.

Lodging Reimbursement on a Flat-Rate Basis

On the second issue, the GAO Policy and Procedures Manual does not address lodging reimbursement based on a flat-rate basis. However, such a flat-rate basis poses a risk that the government would incur more costs than it would otherwise. Travelers who incur minimal lodging costs by staying at a government facility/military base or low cost lodging would, in many instances, receive excessive travel stipends under the proposal, especially if they stay at that location for an extended period. We do not believe that federal employees should receive maximum flat-rate per diem under those circumstances.

We believe the Department should analyze the costs and benefits of going to a flat-rate basis for lodging before the decision is made to implement it. The analysis should include consideration of the cost to process travel vouchers as well as a review of past travel authorizations and claims by employees compared to the maximum amounts allowed. If the difference is minimal, justification would exist for going to such a rate. If the difference is material, the Department should reconsider going to such a rate or establish a procedure to ensure that travelers incur at least a significant portion of the flat-rate amount or, if not, are reimbursed at the actual costs incurred.

Approving and Certifying Payment Without Supporting Documents

Related to the third issue, Title 7 requires that approval and certification of payments to be based on sufficient evidence that clearly establishes the validity of a claim against the government. Traditionally, approval and certification of payment on travel vouchers has been based on review of the supporting documentary receipts that accompany the voucher. Supporting documentation assists in determining the propriety and accuracy of the claim.

Title 7 does not preclude the approval or certification of travel vouchers without supporting documentation attached if adequate controls compensate for the absence of attached documentation. Your proposal provides for several compensating controls. The approving official, who

usually would be the traveler's supervisor, should know that the travel actually occurred and the purpose of it, and will review the charges for reasonableness. He or she will have access to the supporting documentary receipts if needed for review. Also, a post audit statistical sampling procedure would be conducted to test vouchers for accuracy, propriety, and sufficiency of underlying documentation. If these controls are effectively implemented, management should have reasonable assurances that the approval and certification functions are operating as they should.

Although not delineated in the proposal, a certifying officer may, because of his or her responsibility, upon review of a voucher request that the supporting documentation be provided prior to actual certification. We believe that this certifying officer's responsibility should be made clear to the Department's staff so that they are aware that the request may be made.

Electronic Signatures

Electronic signatures generated and validated in data processing systems should provide necessary data integrity by helping to ensure against system errors and irregularities. Electronic signatures that are (1) unique to the signers, (2) under the signer's sole control, (3) capable of being verified, and (4) linked to the data in such a way that if the data are changed the signature is invalidated⁴ can provide such integrity. The National Institute of Standards and Technology⁵ (NIST) has established procedures for the evaluation and approval of certain electronic signature techniques that are necessary to achieve the above four control objectives.

As we have indicated, we have not reviewed any systems currently in operation at the Department nor the methodology used to generate and validate the electronic signatures in your automated accounting system. However, as we understand the Travel Manager Plus software,⁶ some of the key control features itemized above for effective signatures are not achieved through that software. For example, the signatures are not generated in accordance with the procedures outlined in the applicable Federal Information Processing Standard. Also certain techniques necessary for effective control are not used in the signature verification process. We do not sanction electronic signature systems that use

⁴These four items are discussed in 71 Comp. Gen. 109 (1991).

⁵Under the requirements of the Computer Security Act, NIST is responsible for establishing standards for federal computer systems that process sensitive but unclassified information.

⁶We have reviewed the electronic signature generation and validation methodology in the modified Travel Manager Plus software currently being implemented by the Air Force.

algorithms and techniques not approved by NIST.⁷ Your staff stated that the Department will be working with the vendor of the Travel Manager Plus software, as the Air Force is currently doing, to move towards implementing the four previously mentioned characteristics of valid electronic signatures.

Additional Procedures Would Alleviate Internal Control Concerns

We support initiatives to create a government that works better and costs less. At the same time, we believe that agencies have the responsibility to protect the government's interest. Improvements to streamline the employee travel payment process should be made only within a framework of adequate, cost-effective controls that reasonably ensure that payment transactions are properly authorized and sufficient records of these transactions are maintained. Although Titles 2 and 7 allow flexibility to permit agencies to implement payment systems best suited for their needs, the preceding discussion has identified two potential problems that could arise under your proposal.

To address these potential problems, and to minimize the risk of irregularities and errors, your proposal should include the following four additional procedures or controls.

1. An analysis of the costs and benefits of going to a flat-rate basis for lodging should be made before implementing such a rate. The analysis should include a review of past travel authorizations and claims by employees compared to the maximum amount allowed. The findings of the analysis should provide the justification for (a) going to a flat-rate basis, (b) remaining on an actual reimbursement basis, or (c) going to a modified flat-rate basis where travelers receive the (1) flat-rate if they incur a significant portion of the maximum amount or (2) actual costs incurred.
2. A segment of the training which highlights the certifying officer's responsibility and the fact that he or she may, upon review of a voucher, request that the supporting documentation be provided prior to actual certification.
3. The electronic signature generation and validation process should, upon completion of your staff's work with the vendor,⁸ contain the four

⁷RCAS Authentication (GAO/AFMD-93-70R, May 4, 1993).

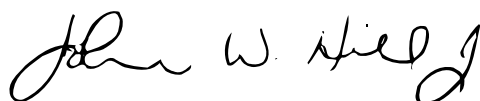
⁸We are working with the Air Force to resolve our electronic signature generation and validation concerns. When these concerns are satisfactorily resolved and your implementation parallels their system, reasonable assurance should exist over the signature generation and validation process.

previously mentioned characteristics for the signature of the traveler, approving official, and certifying officer.

4. You should particularly emphasize the new system during the annual reviews of internal controls under the Federal Managers' Financial Integrity Act the first year the system is operational. In future years, special emphasis should be placed on determining if travelers are maintaining supporting travel documentation at their duty stations for the records retention period.

I hope our comments are helpful as you look for ways to streamline your administrative processes and reduce the cost of government. If you have any questions or would like to discuss these matters further, please contact Bruce Michelson, Assistant Director, at (202) 512-9366.

Sincerely yours,



John W. Hill, Jr.
Director, Financial Management
Policies and Issues

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