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CENTRAL INTELLIGENCE AGENCY

Office of Inspector General



REPORT OF AUDIT

**(U) The Agency's Process for Obtaining Refunds
or Credits for Unused Airline Tickets**

Report No. 2005-0030-AS



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13 April 2007
ISSUE DATE

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(U) Table of Contents

(U) EXECUTIVE SUMMARY 1

(U) BACKGROUND 3

(U) AUDIT RESULTS AND RECOMMENDATIONS 5

(U) Refunds for Unused Airline Tickets Were Not Requested..... 5

(U//FOUO) Charges Were Not Reconciled In a Timely Manner and the CIA May Have Overpaid..... 8

(U) Payments to Vendors for Centrally Billed Travel Accounts Do Not Comply With the Prompt Pay Act 11

(U) Funding From Airline Ticket Refunds Is Not Being Deobligated..... 13

(U) The Agency Does Not Properly Accrue Airline Ticket Expenses or Refunds 15

(U) Objectives, Scope, and Methodology Exhibit A

(U) Recommendations Exhibit B

(U) Audit Team Members Exhibit C

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Report of Audit

**(U) The Agency's Process for Obtaining Refunds
or Credits for Unused Airline Tickets**

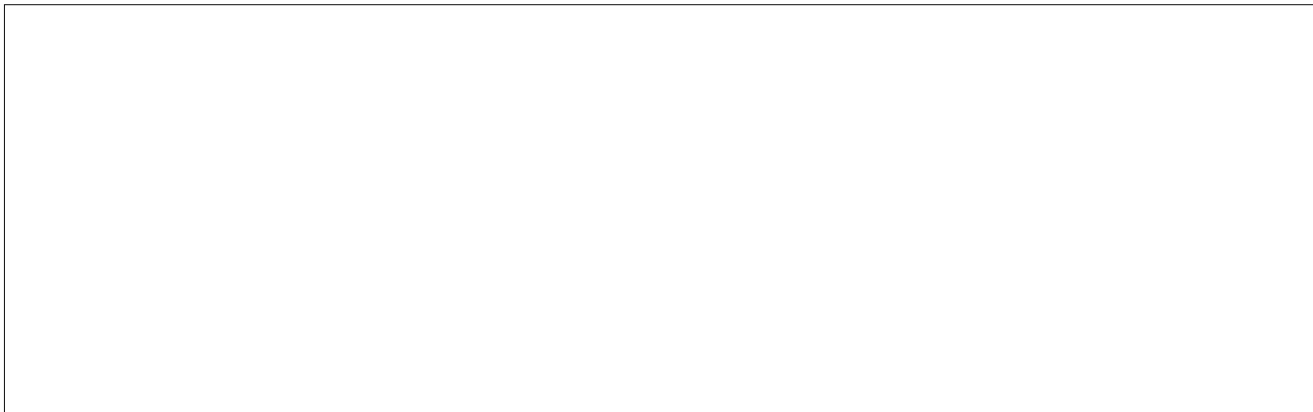
(U) EXECUTIVE SUMMARY

(U) The objectives of this audit were to determine whether:

- There is an effective process in place to ensure that refunds or credits for unused airline tickets are received in a timely manner.
- The Agency financial statements fairly present outstanding refunds or credits for unused airline tickets in accordance with generally accepted accounting principles.

(S) The Agency does not have processes in place to ensure that refunds are obtained for all unused airline tickets charged to the centrally billed accounts.¹ Due to enhanced ticket reservation software implemented in 2004, Central Travel Services (CTS) can identify unused electronic tickets (e-tickets) and process those for refunds. However, it does not have a process to identify unused paper tickets. CTS relies on the traveler or component to return unused paper tickets to CTS for refund processing. There are no procedures in place to reconcile issued airline tickets to completed travel vouchers in order to identify unused paper airline tickets charged to the Agency's centrally billed accounts. In FY 2003 and FY 2004, the Agency may have paid as much as for paper and electronic airline tickets that were not used and were not refunded.²

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¹ (U) The Agency's centrally billed accounts represent credit card accounts administered by the Agency's central travel office for charging transportation costs. The charges are reconciled and paid monthly by the CIA, not by the individual travelers.


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² (U) The Office of the Director of National Intelligence (ODNI) utilizes the Agency's centrally billed accounts for its official travel. As such, the information in this report includes airline ticket purchases of the ODNI, except where otherwise noted.

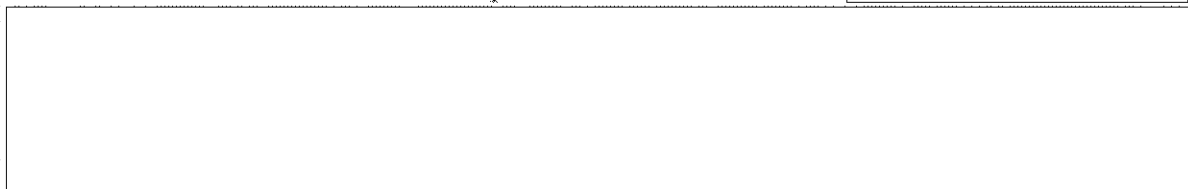
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(S) The Agency does not adhere to the provisions of the Prompt Pay Act in paying credit card bills associated with the purchase of airline tickets. 

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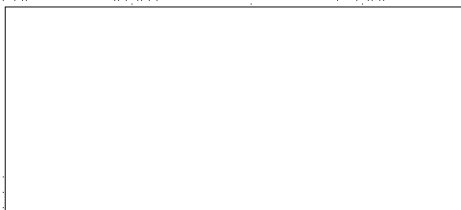
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(U//FOUO) Obligations established for airline tickets for which refunds are received are not being deobligated in a timely manner. Miscommunications regarding responsibilities for deobligating airline ticket funding contribute to the lack of proper monitoring by the component budget officers and finance officers. When airline ticket refunds are not deobligated in a timely manner, components lose opportunities to utilize those funds for other valid requirements.

(S) Approximately  in airline ticket costs (net of refunds) for FY 2005 were not reflected on the Agency's FY 2005 yearend financial statements.³ As reported in the audits of the CIA's FY 2004, FY 2005, and FY 2006 financial statements, the Agency has not developed procedures to accrue all expense activity. The Agency has begun to implement processes to accrue certain expenses based on estimation methods and historical trend data. Although the anticipated completion date for the overall project was originally slated for FY 2006, to date there have been no methodologies developed to estimate and record accruals for travel-related expenses.

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(U) Since the completion of our audit fieldwork, CTS has been proactive in taking actions to address the issues identified in this report. Although we have not evaluated the impact of the actions taken, the improvements should strengthen internal controls.



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Assistant Inspector General for Audit

³ (U) This calculation includes only the centrally billed airline ticket expenses for the Agency, as the activity of the ODNI has been removed.

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(U) AUDIT RESULTS AND RECOMMENDATIONS

**(U) Refunds for Unused Airline Tickets
Were Not Requested**

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(U//FOUO) Inadequate controls over several processes have led to unused airline tickets not being refunded to the Agency. The Agency has issued guidance and instructions to inform travelers who purchase tickets using the Agency's centrally billed accounts that they must return unused tickets immediately to CTS for refund processing.¹⁰ However, the Agency did not implement control procedures to monitor whether travelers were returning unused airline tickets. Prior to 2004, CTS did not have the ability to determine the status of any airline tickets it issued. Implementation of enhanced ticket reservation software in 2004 has enabled CTS to identify and automatically request refunds for unused tickets issued electronically (e-tickets). However, CTS still does not have the capability to independently determine whether paper tickets were actually used.

(U//FOUO) The CIA does not have a process in place to verify which paper tickets were unused and should therefore be processed for refunds. Although all domestic travel utilizes electronic ticketing, many international flights still require a paper ticket. Because much of CIA travel is international, approximately half of all tickets issued by CTS are



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paper tickets.¹¹ CTS relies solely on the traveler or component to inform them when a paper ticket is not used. As part of its contractual agreements, the Agency's Travel Management Companies (TMC) are required to, among other things, process refund requests

[Redacted]

[Redacted] CTS cannot return the tickets to the airlines because, according to CTS management, the tickets were not turned in to CTS by the travelers.

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(U//FOUO) There are no procedures in place to reconcile issued airline tickets to completed travel vouchers. Upon approval of a request for travel (RFT) in [Redacted],¹² component finance officers obligate funds for all costs associated with the trip. The amount of the airline ticket is paid by CTS with the processing of the centrally billed credit card invoice. The remainder of the travel cost is paid when the traveler submits an accounting after the travel has occurred, sometimes several months after the ticket has been purchased. Airline tickets purchased by CTS are not reconciled to the completed travel voucher to determine whether the travel actually occurred. Without reconciling the records, the Agency cannot be certain whether centrally billed account charges represent airline tickets that are used or unused.

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(U//FOUO) Misconceptions by component budget officers and finance officers contribute to ineffective monitoring of airline expenses and refunds. We sent a questionnaire to officers in the 10 components that utilized the largest number of centrally billed airline tickets in FY 2004 and FY 2005.¹³ Of the [Redacted] offices that responded to our questionnaire, several finance officers stated that they depend on the travelers to inform them that trips are cancelled and that it is the travelers' responsibility to return unused tickets to CTS. One officer stated that her office monitors travel to cancel obligations when necessary, however, the office does not monitor the account to verify that a returned ticket is later refunded. The same officer also stated that she believes CTS

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¹¹ (U) In commenting on a draft of this report, the former Chief, CTS stated that while 53 percent of all airline tickets issued by CTS in FY 2005 were paper tickets, less than 10 percent of the airline tickets were paper in FY 2006. He also stated that there will continue to be a decline in the number of paper tickets issued in the coming years as more airports become e-ticket compliant. It is CTS policy to require e-tickets as its primary mode of ticketing, if available. CTS feels well positioned for the current movement away from paper airline tickets and toward the trend of issuing e-tickets and relying on the existing process for tracking unused tickets and refund transactions.

¹² (U) The CIA's Travel Re-engineering, Integration, Automation, and Development Program.

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has to pay for the airline tickets regardless of whether the trip occurred and, if there is a refund, it is received at the Agency level and not returned to the component's budget. Without proper monitoring, the Agency cannot be certain that funds for unused airline tickets are appropriately refunded.

(U//FOUO) The functionality of [redacted] the Agency's travel accounting system, is not being fully utilized. [redacted] is an automated travel system designed to integrate the travel accounting process from trip planning through reimbursement. [redacted] enables travelers to make electronic airline reservations on line with CTS via a reservation worksheet. However, after issuing the tickets, CTS is removed from any future notifications regarding changes and cancellations of the trip. If CTS was alerted to the travel changes and cancellations, it could be more proactive in its attempts to identify and collect unused paper tickets.

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(U//FOUO) As a result of our audit, CTS implemented new procedures to increase travelers' awareness of their responsibility to return unused paper tickets to CTS for refund processing. CTS now requires any traveler or designee who picks up paper airline tickets to sign a statement that he or she understands that paper tickets are to be treated as cash, and that the traveler will return any fully or partially unused paper tickets to CTS to be processed for a refund. CTS also created a similar statement to be sent via cable to travelers who request tickets from the field. In addition, [redacted]

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[redacted] was issued to remind employees of the proper handling of unused airline tickets issued by CTS. The bulletin states that failure to safeguard paper airline tickets (including not returning unused portions of airline tickets) may result in the traveler being held liable for the cost of the ticket.

[redacted]

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Since the second quarter of FY 2005, [redacted] resources have been directed [redacted] to document and improve processes and to implement automated solutions to reduce errors

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and enhance throughput time. The former Chief, CTS also stated that improvements already underway, once completed, will satisfy the requirement for having procedures in place to identify unused tickets. In addition, several [redacted] modifications have been requested. These modifications include the addition of fields in the RFT to differentiate the type of airline ticket issued (paper or e-ticket), a "pop up" reminder to travelers when modifying travel itineraries to return any unused paper tickets to CTS, and enhanced reporting functions such as the identification of RFTs without corresponding accounting vouchers. CTS and Finance are also considering modifying [redacted] to include a certification statement requiring employees to certify that they used their government tickets as issued and do not have any unused tickets to return to CTS.

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(U//FOUO) Charges Were Not Reconciled in a Timely Manner and the CIA May Have Overpaid

(S) As of February 2006, CTS's records reflected a balance due to [redacted] of [redacted], while [redacted] credit card statements reflected a credit balance of [redacted].¹⁴ The credit balance on [redacted] records indicates that, as of February 2006, the CIA had overpaid the credit card invoices. However, CTS's records indicated that [redacted] in billed airline ticket charges had not yet been paid to [redacted] because CTS did not recognize the ticket transactions and could not determine to which obligations the tickets should be charged. The difference between the CIA's records and [redacted] records has not been resolved.

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(S) CTS may not be able to resolve the [redacted] in unreconciled charges from the [redacted] invoices. The unreconciled transactions represent ticket charges and credits dating back to 2004 that are unrecognizable to CTS because they do not match transactions in CTS's airline reservation system. Unrecognized transactions can occur for several reasons, such as an airline charging a ticket to a wrong credit card number, the airline failing to provide enough information to properly identify a transaction, or an individual fraudulently obtaining an airline ticket. Because of the lack of identifying details on many of the individual charges, CTS cannot determine if the transactions are valid and, if they are, to which obligations the tickets should be charged. Some of the transactions (both charges and refunds) have no passenger name or travel destination specified on the credit card invoice. CTS management stated that many of the airline ticket transactions that lack detailed information are the result of ticket exchanges initiated at the airport. Because many of these transactions are now several years old, neither [redacted] nor the airlines is able to provide additional information to assist CTS in

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properly identifying these charges and refunds. The failure to reconcile these accounts over the past several years significantly increases the risk for fraud. CTS does not know if all the tickets charged to the CIA's centrally billed [redacted] accounts are valid Agency transactions.

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(U//FOUO) [redacted]

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(U//FOUO) CTS is implementing new processes and procedures to reconcile the outstanding balances and to improve reconciliation procedures going forward. The TMC recently implemented a software upgrade to assist with the monthly invoice reconciliations. The new software allows access to more information from the airlines to assist with the proper identification of ticket purchases initiated outside of CTS's travel reservation system, while allowing for greater processing time for the monthly invoices. CTS has also dedicated additional resources to submit refund requests more timely, reconcile the outstanding balances on the credit card accounts, and perform a more thorough reconciliation of the monthly invoices going forward. Per CTS officials, significant progress has been made in reconciling outstanding balances with [Redacted] since the completion of our audit fieldwork. In addition, CTS is researching ways for the TMC to gain information on unrecognized charges without formally disputing them with [Redacted].

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[Redacted] These actions are positive steps toward strengthening internal controls.

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[Redacted]

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[Redacted]

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(U) Payments to Vendors for Centrally Billed Travel Accounts Do Not Comply With the Prompt Pay Act

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(S) The CIA does not pay interest due to credit card vendors for the centrally billed travel accounts per the provisions of the Prompt Pay Act.¹⁵ [Redacted]

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[Redacted]

(U) The Prompt Pay Act requires government agencies to pay vendors within 30 days of receipt of a proper invoice. If such payments are not made on time, agencies must pay penalty interest computed at a rate established by the Secretary of the Treasury that is in effect at the time the agencies accrue the obligation to pay the late payment interest penalties. Agencies are required to pay any penalty interest of \$1.00 or more, regardless of whether the business to which the interest is owed requests such payment. Unpaid interest continues to accrue, compounding every 30 days for up to one year from the date payment was due. In addition, per Finance Instruction 02-098, *Prompt Payment of Vendor Invoices Received in the B&Fs*, "All Executive branch vendor payments (in excess of \$1.00) and payments to those defined as contractors or vendors, are subject to the Prompt Pay Act."

(U//FOUO) [Redacted]

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[Redacted]

¹⁵ (U) 31 U.S.C. subtitle III – *Financial Management*, Chapter 39 – *Prompt Payment*.

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¹⁶ (S) [Redacted]

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[Redacted] invoices do not reflect the true dates the invoices were received. For the purposes of determining a payment due date and the date upon which any late payment interest penalty shall begin to accrue, the Act states that the head of the agency is deemed to receive an invoice on either (1) the date on which the place or person designated by the agency to first receive such invoice actually receives a proper invoice or (2) the date of the invoice, if the agency has failed to annotate the invoice with the date of receipt at the time of actual receipt by the place or person designated by the agency to first receive such invoice. CTS's credit card invoices are sent both electronically and via US mail to the TMCs for initial processing. Because each TMC is designated by the Agency to first receive such invoices, the official date of receipt from which the due date should be calculated is the date each TMC receives the invoices. Instead, and incorrectly so, the date stamped on the paper invoices is the date that CTS's finance officer receives the invoices from the TMCs, after the invoices have been reconciled for payment.

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(U//FOUO) CIA's new financial accounting system, [Redacted]

[Redacted] which was implemented in May 2006, automatically generates Prompt Pay interest payments. [Redacted]

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(U) Funding From Airline Ticket Refunds Is Not Being Deobligated

(U//FOUO) Obligations established for airline tickets for which refunds are received are not being deobligated in a timely manner. When a refund is received, CTS records the "receipt of funds" by reestablishing the obligation for the amount of the refund.¹⁷

[redacted] responsible officers in each component are required, at least monthly, to review unliquidated obligations that have been outstanding for three months or longer to determine whether such obligations are still valid. In addition, Agency policy requires the senior certifying officer for a component to submit, by the first workday after the 14th day of October of each year, certification that all open obligations are valid and accurate. In our questionnaire sent to budget officers and finance officers from the [redacted] components utilizing the largest number of centrally billed airline tickets, we asked about the process of monitoring airline ticket obligations. Of the [redacted] offices that responded, most officers stated that they regularly monitor obligations and follow up on open travel obligations to determine if travel took place. However, in our testing of a judgmental sample of 18 refunds [redacted] received and recorded by CTS between October 2003 and December 2005, we found that all of the funds were still obligated as of February 2006.

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(U//FOUO) Inaccurate guidance regarding airline ticket obligations contributes to the lack of proper monitoring. Per Finance Instruction [redacted], CTS will "final flag" the obligation when it expenses the cost of the ticket, which deobligates any residual value of the ticket portion of the obligation. CTS did not final flag ticket transactions [redacted] to CTS travel expense transactions. Per CTS personnel, each "leg" of a trip appears as a separate charge on the monthly credit card bills. CTS personnel have no way of knowing if any particular airline ticket transaction is the last one to be processed for that travel obligation. In addition, several offices still utilize bulk obligations, and a deobligation would cancel all funds associated with any future airline ticket expenses for that obligation. It is for these reasons that CTS does not "final flag" airline ticket expenses or refunds. CTS management had discussions with Finance Policy regarding its rationale for disabling the final flag option [redacted] and is awaiting a final decision from Finance Policy.

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(U//FOUO) There are several misconceptions regarding responsibilities for monitoring airline ticket obligations. In our communications with budget officers and finance officers from the offices that had the most Agency travel, one finance officer believed that refunds are received at the Agency level and not returned to the components' budget. This is not true. Airline ticket refunds are credited back to the obligation to which they were originally charged. A budget officer stated that CTS monitors the ticket portion of the travel obligation and component officers cannot alter that line of the obligation. In reality, CTS has the ability to increase the ticket portion of a travel obligation if the amount obligated is not sufficient to cover the cost of the ticket. However, CTS is not responsible for deobligating those funds if the trip is changed or cancelled. The officer also stated that if a ticket refund is received, CTS deobligates those funds. However, CTS does not believe its officers should be responsible for monitoring the components' obligations and does not, under any circumstances, deobligate component funds. These misconceptions contribute to the lack of proper monitoring of airline ticket expense obligations because component budget officers and finance officers often incorrectly assume that CTS has this responsibility.

(U//FOUO) Accurate obligation information and effective monitoring of unliquidated obligations are essential to reliable budget reports, budget management, performance measures, and financial reporting. When airline ticket refunds are not deobligated in a timely manner, components lose opportunities to utilize those funds for other valid requirements, and Agency financial statements do not accurately reflect the status of obligations. Although it is unlikely that the dollar amount of airline ticket refunds alone will ever be material to the [redacted] [redacted], it may be of significance to the travel budget of an Agency component. Component budget officers and finance officers need accurate guidance regarding their responsibilities to deobligate airline ticket obligations.

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**(U) The Agency Does Not Properly Accrue
Airline Ticket Expenses or Refunds**

(S) Approximately [redacted] in airline ticket costs (net of refunds) for FY 2005 were not reflected on the Agency's FY 2005 yearend financial statements.¹⁸ The expenses were incurred but not paid in FY 2005, and no liability was recorded to reflect these costs. Federal financial accounting standards require that an entity recognize a liability for the unpaid amount of goods received from other entities.¹⁹ If invoices for those goods are not available when financial statements are prepared, the amounts owed should be estimated.

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(U//FOUO) The Agency no longer records an estimate of accounts receivable for outstanding airline ticket refunds. In the past, when a ticket refund was requested from the airlines, CTS would credit a component's budget immediately. CTS would then set up a receivable that would be cleared when the actual credit appeared on a future credit card invoice. However, the CIA ceased recording accounts receivable for outstanding refunds in FY 2002 because the general ledger account was not properly monitored or maintained. Due to staff reductions [redacted] and a change in bank vendors, there was a five-month backlog of credit card invoice reconciliations. When transactions already set up in accounts receivable were not cleared in a timely manner as refunds were recorded, accounts receivable was overstated. In addition, refunds received on the credit card invoices were being credited to the components' budget—a second time—instead of clearing the receivable, creating instances where officers treated the second credit as part of their budget and spent it.

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[redacted]

The Agency has begun to implement processes to accrue certain expenses based on estimation methods and historical trend data. Although the anticipated completion date for the overall project was originally slated for FY 2006, to date there have been no methodologies developed to estimate and record accruals for travel-related expenses; the audit recommendation remains open.

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¹⁸ (U) This calculation includes only the centrally billed airline ticket expenses for the Agency, as the activity of the ODNI has been removed.

¹⁹ (U) Statement of Federal Financial Accounting Standards No. 1, *Accounting for Selected Assets and Liabilities*, paragraph 77.

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Exhibit A

(U) Objectives, Scope, and Methodology

(U) The objectives of this audit were to determine whether:

- There is an effective process in place to ensure that refunds or credits for unused airline tickets are received in a timely manner.
- The Agency financial statements fairly present outstanding refunds or credits for unused airline tickets in accordance with generally accepted accounting principles.

(U//FOUO) We obtained an understanding of the Agency's centrally billed airline ticket processes by examining prior audit reports; researching Agency travel regulations; reviewing the policies and procedures of Central Travel Services (CTS); and interviewing various CTS officials, Travel Management Company contractors, and component budget officers and finance officers. We evaluated the processes of identifying and requesting refunds for unused paper and electronic tickets and determined whether the controls over these processes were properly designed. In addition, we reviewed the reconciliation process utilized by CTS's [redacted] [redacted] to determine whether the status of the unused tickets is effectively monitored and whether the refunds are requested and received in a timely manner.

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(U//FOUO) We interviewed appropriate officials from CTS's [redacted] [redacted] to obtain an understanding of the process of recording the associated accounting transactions for the purchase of centrally billed airline tickets and the refunds anticipated and/or received. We evaluated this process to determine if the refunds receivable and the spending authority for those funds are appropriately recorded in the Agency's accounting system and properly reflected on Agency financial statements.

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(U//FOUO) We reviewed data in the Agency's accounting system regarding airline tickets charged to the centrally billed accounts for fiscal years 2002 through 2005.* We tested a judgmental sample of refunds received to determine timeliness of the refunds, as well as the accuracy of the general ledger accounts to which the transactions were recorded. We reviewed expense vouchers for centrally billed airline tickets along with the statements received from the credit card companies. We

* (U) The Office of the Director of National Intelligence (ODNI) utilizes the Agency's centrally billed travel accounts for its official travel. As such, the information in this report includes airline ticket purchases of the ODNI, except for the calculation of the yearend expense accrual, which includes only Agency purchases.

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analyzed refunds that exceeded the original ticket purchase price. We also reviewed CTS's credit card reconciliations through February 2006.

(U) We sent a questionnaire to budget officers and finance officers in the components that utilized the largest number of centrally billed airline tickets in FY 2004 and FY 2005. We analyzed the responses to gain an understanding of their processes for monitoring airline ticket obligations and refunds.

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(U) We also reviewed relevant statutes and Comptroller General decisions related to the Prompt Pay Act, receipt of vendor rebates, and the period of time government agencies are allowed to claim refunds for goods and services not received.

(U) The audit was performed from December 2005 to May 2006 in accordance with generally accepted government auditing standards.

(U) Comments on a draft of this report were received from the former Chief, Central Travel Services on behalf of Finance, Finance Policy, and Central Travel Services and were considered in the preparation of this report.

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Exhibit B

(U) Recommendations



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(U) The status of significant recommendations will be included in the Inspector General's semiannual reports to the Director, Central Intelligence Agency.

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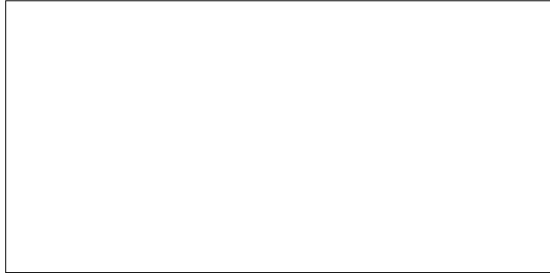
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Exhibit C

(U) Audit Team Members

(U//FOUO) This audit report was prepared by the Financial Management Division, Audit Staff, Office of Inspector General.



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From Attachment**

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