



OFFICE OF
INSPECTOR GENERAL
U.S. DEPARTMENT OF THE INTERIOR

U.S. DEPARTMENT OF THE INTERIOR'S INTERNAL CONTROLS FOR PURCHASE CARDS AND FLEET CARDS



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Memorandum

To: Debra Sonderman
Director, Office of Acquisitions and Property Management

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Deputy Inspector General

Subject: Final Audit Report – U.S. Department of the Interior’s Internal Controls for
Purchase Cards and Fleet Cards
Report No. 2015-ER-011

This memorandum transmits the results of our audit of the U.S. Department of the Interior’s (DOI) internal controls for purchase cards and fleet cards. For DOI and its bureaus, purchase and fleet cards provide an efficient way to make small purchases, thereby streamlining the traditional Federal procurement and payment processes. In doing so, DOI saves millions of dollars in administrative costs.

We performed our audit to determine whether internal controls are adequately designed and appropriately implemented; whether internal controls provide effective oversight; and whether the charge card program is operating in compliance with applicable laws, regulations, and policies. We found areas of concern that could jeopardize the public trust and subject DOI to potential fraud and misuse of U.S. Government charge cards. Specifically, we identified issues related to poor internal control and oversight; absence of clear guidance; noncompliance with bureau-specific policies; insufficient documentation for use of convenience checks; inactive accounts; miscoded transactions being approved; and use of an outdated policy.

In our report we provide 10 recommendations that we believe will help DOI and its bureaus strengthen the management and oversight of the charge card program. Based on the Office of Acquisition and Property Management’s (PAM) response to the draft report (see Appendix 6), we consider one recommendation unresolved, two recommendations resolved but not implemented, and the remainder of recommendations resolved and implemented (see Appendix 7). We will send the three recommendations that are unresolved or resolved but not implemented to the Assistant Secretary for Policy, Management and Budget to track their resolution and implementation.

The legislation creating the Office of Inspector General requires that we report to Congress semiannually on all audit, inspection, and evaluation reports issued; actions taken to implement our recommendations; and recommendations that have not been implemented.

We appreciate the cooperation and assistance of PAM and bureau staff. If you have any questions about this report, please call me at 202-208-5745.

Table of Contents

| | |
|---|----|
| Results in Brief | 1 |
| Introduction..... | 2 |
| Objective | 2 |
| Background | 2 |
| Findings..... | 6 |
| Poor Internal Control and Oversight | 6 |
| Absence of Clear Guidance for Purchase of Professional Services | 12 |
| Noncompliance With Bureau-Specific Policies | 13 |
| Insufficient Documentation for Use of Convenience Checks | 14 |
| Inactive Accounts | 15 |
| Miscoded Transactions Being Approved | 17 |
| Use of an Outdated Policy..... | 19 |
| Conclusion and Recommendations..... | 20 |
| Conclusion..... | 20 |
| Recommendations Summary..... | 20 |
| Appendix 1: Scope and Methodology..... | 26 |
| Appendix 2: Sites and Offices Contacted | 28 |
| Appendix 3: Purchase Card Transactions by Category, With Costs | 30 |
| Appendix 4: Fleet Card Transactions by Category, With Costs..... | 31 |
| Appendix 5: Hurricane Sandy Transactions by Category, With Costs..... | 32 |
| Appendix 6: Response to Draft Report | 33 |
| Appendix 7: Status of Recommendations..... | 41 |

Results in Brief

For the U.S. Department of the Interior (DOI) and its bureaus, purchase and fleet cards provide an efficient way to make small purchases, thereby streamlining the traditional Federal procurement and payment processes. In doing so, DOI saves millions of dollars in administrative costs. In fiscal year (FY) 2014, there were 26,518 purchase card accounts across DOI, used to make almost 1.2 million transactions that totaled approximately \$394 million. In this same time period DOI had 26,433 fleet card accounts, with more than 500,000 transactions totaling approximately \$54 million.

Purchase and fleet are two of the three business lines in DOI's Integrated Charge Card Program, or ICCP (the third is travel). Federal law and the Office of Management and Budget require periodic assessments of the ICCP. Accordingly, we audited internal control processes for DOI's purchase and fleet cards, reviewing FY 2014 transactions for 10 departmental agencies. Altogether we reviewed 337 statements containing 443 transactions, totaling more than \$451,000.

Overall, we found areas of concern associated with internal controls and documentation. Specifically, we identified issues pertaining to—

- poor internal control and oversight;
- absences of clear guidance;
- noncompliance with bureau-specific policies;
- insufficient documentation for use of convenience checks;
- inactive accounts;
- miscoded transactions being approved; and
- use of an outdated policy.

These issues leave DOI and its bureaus vulnerable to financial mismanagement and an increased potential for fraud, waste, and abuse.

We provide 10 recommendations to help improve management and oversight of the ICCP. Our audit provides DOI and its bureaus with a significant opportunity to address problems associated with ICCP oversight.

Introduction

Objective

Our objective for this audit was to determine whether—

- internal controls for the Integrated Charge Card Program (ICCP) are adequately designed and appropriately implemented to effectively deter fraud, waste, or abuse;
- the ICCP has effective oversight and management; and
- the ICCP is operating in compliance with applicable laws, regulations, and policies.

See Appendix 1 for our scope and methodology. Appendix 2 contains a list of the sites and offices we visited or contacted during our audit.

Background

Executive agencies, including the U.S. Department of the Interior (DOI), use charge cards and convenience checks to purchase goods and services. Agencies must maintain internal controls that reduce the risk of fraud, waste, and abuse in their charge card programs. To accomplish this, the Government Charge Card Abuse Prevention Act of 2012 (Pub. L. No. 112-194) provides guidance and requires heads of executive agencies that issue and use charge cards and convenience checks to “establish and maintain safeguards and internal controls over their usage.” The Act further requires the Inspector General of each executive agency to—

- conduct periodic assessments of the agency’s charge card program to identify and analyze the risks of illegal, improper, or erroneous purchases and payments;
- perform analyses or audits, as necessary, of charge card transactions designed in part to identify potentially illegal, improper, or erroneous uses;
- report the results of such analyses or audits to the head of the executive agency; and
- report to the Office of Management and Budget (OMB) on the agency’s implementation of recommendations that address the audit findings.

OMB Memorandum M-13-21, “Implementation of the Government Charge Card Abuse Prevention Act of 2012,” dated September 6, 2013, provides guidance to executive departments and agencies on implementing the Act’s internal control and reporting requirements. In addition, OMB Circular No. A-123, “Management’s Responsibility for Internal Control,” Appendix B, Revised, provides policies and procedures for agency management of charge cards and requires agencies to have internal controls to reduce the risk of fraud, waste, and error in the use of those cards. The requirements for agency acquisitions using

simplified acquisition methods such as Government charge cards are outlined in the Federal Acquisition Regulation (FAR), Part 13, “Simplified Acquisition Procedures.”

Overview of DOI’s Integrated Charge Card Program

The ICCP is designed to provide tools for simply and quickly procuring small-dollar-value supplies and services, official travel, and fuel, maintenance, and repairs for DOI-owned vehicles and equipment.

DOI’s Office of Acquisition and Property Management oversees and develops policy for the ICCP, while each bureau has an agency/organization program coordinator (A/OPC) who is responsible for management of the program. Approving officials (AOs) provide oversight of designated cardholders and review and sign charge card statements to approve transactions. The “DOI Integrated Charge Card Program Policy Manual” (or ICCP Policy Manual, dated November 2008) details the policies and procedures for the ICCP and describes the responsibilities of those who administer and manage the program.¹

A charge card account can be established in one or any combination of three business lines: purchase, travel, and fleet. The ICCP allows transactions to be billed directly to the Federal Government, which qualifies cardholders for exemption from sales taxes in most States, streamlines payment to vendors, and helps reduce delinquencies. Overall, DOI’s integrated charge cards are designed to reduce administrative costs for employees and businesses where the cards are used.

Purchase and travel business lines are assigned to individual employees. The purchase business line allows cardholders to use the cards to pay for micro-purchases of supplies and services (at the time of our audit, micro-purchase limits were \$2,000 for construction, \$2,500 for services, and \$3,000 for supplies). Cardholders with contracting officer warrants are authorized to make larger purchases.

Cardholders who have purchase line responsibilities may also be issued convenience checks at the discretion of their bureau. Cardholders may use convenience checks to purchase needed goods and services; OMB Circular No. A-123 and departmental guidance stipulate, however, that convenience checks are permitted only when a vendor does not accept the purchase card and there is no other source available. Before using a convenience check, cardholders are required to make a reasonable effort to locate another vendor that can provide the same goods and services and that can accept the purchase card.

Unlike purchase cards, fleet cards are assigned to specific vehicles or equipment, not a particular individual. When a charge card is assigned to a vehicle, major

¹ Since completion of fieldwork, the ICCP Policy Manual has been revised. This audit reviewed internal control processes as defined in the 2008 manual.

piece of equipment, boat, or aircraft, the license plate or property number is embossed on the card, which is to be used only for that assigned vehicle, equipment, boat, or aircraft. For the purposes of this report, regarding the fleet business line, the individual who reconciles the account and prepares the certification or signs the statements will be referred to as the “cardholder.” The supervisor of the fleet manager will be designated as the “approving official” with responsibility to approve the statements/certification.

Problems With Charge Card Oversight

In February 2014, KPMG completed an audit on DOI’s financial statements for FY 2013 and found that DOI had not consistently followed the internal controls set forth in its ICCP Policy Manual primarily due to personnel not fully understanding the charge card policies and procedures or dedicating the appropriate time to perform oversight responsibilities.

Previous Office of Inspector General (OIG) reports also recounted similar findings.^{2 3} In FYs 2012 and 2013, OIG issued a series of reports focusing on travel card usage within DOI. The issues identified focused on effective use of internal controls and primarily regarded supervisors not verifying and approving charges on statements, cardholders and supervisors not signing statements, and missing supporting documentation.

The issues identified by KPMG and previous OIG reports, however, are not unique to DOI. In 2008, the U.S. Government Accountability Office (GAO) performed a governmentwide audit of charge card internal controls.⁴ In the audit, which included DOI and focused on purchase card activities, GAO evaluated the effectiveness of internal controls intended to minimize fraud and abuse. Through statistical sampling, data mining, and investigations, GAO identified specific examples of potentially fraudulent, improper, and abusive transactions. GAO found that 41 percent of the transactions it reviewed governmentwide failed to meet basic internal control standards.

In addition to the GAO review, a recent U.S. Securities and Exchange Commission (SEC) audit⁵ found that within the SEC, controls over purchase card and convenience check transactions needed improvement and that cardholders and AOs were not reconciling purchases with bank information in a timely manner. Similarly, an Environmental Protection Agency (EPA) audit report⁶ found that the EPA did not provide effective oversight of compliance with

² DOI OIG, “Management Advisory: Department of the Interior Purchase and Fleet Card Administration (Report No. Y-EV-MOA-0002-2007),” September 24, 2007.

³ DOI OIG, “Controls Over Check Writing,” Report No. C-EV-MOA-0009-2011, October 2012.

⁴ GAO, “Governmentwide Purchase Cards: Actions Needed to Strengthen Internal Controls to Reduce Fraudulent, Improper, and Abusive Purchases,” Report No. GAO-08-333, March 2008.

⁵ SEC, “Controls Over the SEC’s Government Purchase Card Program,” Report No. 517, March 28, 2014.

⁶ EPA OIG, “Ineffective Oversight of Purchase Cards Results in Inappropriate Purchases at EPA,” Report No. 14-P-0128, March 4, 2014.

internal control procedures. In fact, half of the transactions sampled by the EPA were tied to purchases that were prohibited, improper, or erroneous.

Audit Focus

Our audit focused exclusively on DOI's purchase card and fleet card internal control processes for 10 departmental agencies,⁷ namely—

- Bureau of Indian Affairs (BIA);
- Bureau of Land Management (BLM);
- Bureau of Ocean Energy Management (BOEM);
- Bureau of Reclamation (USBR);
- Bureau of Safety and Environmental Enforcement (BSEE);
- National Park Service (NPS);
- Office of Surface Mining Reclamation and Enforcement (OSMRE) (audited fleet cards only);
- Office of the Secretary (OS);
- U.S. Fish and Wildlife Service (FWS); and
- U.S. Geological Survey (USGS).

In FY 2014, there were 24,284 purchase card accounts across DOI, used to make almost 1.2 million transactions that totaled approximately \$394 million. During this same time period DOI had 26,433 fleet card accounts, with more than 500,000 transactions totaling more than \$54 million. J.P. Morgan Chase & Co. was the issuer for DOI's purchase and fleet cards.

We identified high-risk transactions to examine based on merchant category codes (MCCs) for restricted goods or services.⁸ For purchase cards, we reviewed 267 statements containing 355 transactions, 20 of which were made via convenience check, totaling more than \$233,000 in transaction costs (see Appendix 3); for fleet cards, we reviewed 42 statements and 55 transactions, totaling more than \$24,000 (see Appendix 4). In addition, we reviewed 28 purchase card statements specific to Hurricane Sandy purchases, containing 33 transactions totaling more than \$194,000 (see Appendix 5).⁹

⁷ In this report the term “agencies” is used to encompass DOI components, including bureaus, offices, services, and other units.

⁸ According to the General Services Administration's “Managing GSA SmartPay Purchase Card Use” (January 2014, Report No. 5-14-00138), MCCs are established by the bankcard associations or banks to identify different types of business. Merchants select the codes best describing their businesses. At the department and bureau levels, A/OPCs may limit the types of businesses where the card will be accepted by restricting the MCCs available to the cardholder.

⁹ For FY 2014, there were 6,584 transactions specifically associated with Hurricane Sandy, totaling almost \$5.76 million.

Findings

Our findings revealed several concerns regarding the management, oversight, and execution of DOI's purchase and fleet cards. Agencies did not adequately ensure that internal controls were effectively implemented and did not fully comply with departmental and bureau policies. Specifically, we identified issues pertaining to—

- poor internal control and oversight;
- absence of clear guidance;
- noncompliance with bureau-specific policies;
- insufficient documentation for use of convenience checks;
- inactive accounts;
- miscoded transactions being approved; and
- use of an outdated policy.

If not appropriately addressed, these issues leave DOI and the bureaus vulnerable to financial mismanagement and an increased potential for fraud, waste, and abuse.

Poor Internal Control and Oversight

Insufficient Statement Reviews

Federal programs must comply with applicable laws and regulations and operate with minimal potential for waste, fraud, and mismanagement. Department- and bureau-level management is responsible for developing and maintaining effective internal control to prevent or detect weaknesses in program design and operation.

We found that reconciliation of charge card statements is not being performed in accordance with DOI requirements and public law. As part of the ICCP internal control process, the ICCP Policy Manual, § 1.4.6.4 and § 1.4.6.5, requires cardholders and AOs to review, sign, and date charge card statements as well as verify supporting documentation within 30 calendar days of the bank statement date. The AO signature is an indication of the validity and approval of all transactions needed to support the operation, and this specific duty may not be delegated. In addition, the Government Charge Card Abuse Prevention Act, § 1909(a)(3)(A), states: “the holder of a purchase card and each official with authority to authorize expenditures charged to the purchase card are responsible for reconciling the charges appearing on each statement of account for that purchase card with receipts and other supporting documentation.”

We looked at purchase card statements for nine agencies. Of the 267 purchase card statements we reviewed, 36 (or 13.5 percent) were not reconciled within 30 days of statement date by the cardholders, and 67 statements (25.1 percent) were also not reconciled by the AOs within the required 30 days (see Figure 1).

Also included in these findings are 33 statements that were signed by neither the cardholder nor the AO in this timeframe.

| Bureau | No. of Purchase Card Statements | No. of Transactions | No. of Statements Not Reviewed by Cardholders Within 30 Days | No. of Statements Not Reviewed by Approving Officials Within 30 Days |
|--------------|---------------------------------|---------------------|--|--|
| BIA | 61 | 80 | 10 | 21 |
| BLM | 52 | 52 | 5 | 11 |
| USBR | 21 | 31 | 5 | 5 |
| BSEE/BOEM* | 1 | 1 | 0 | 0 |
| FWS | 31 | 35 | 5 | 7 |
| NPS | 75 | 112 | 8 | 16 |
| OS | 11 | 29 | 3 | 6 |
| USGS | 15 | 15 | 0 | 1 |
| Total | 267 | 355 | 36 | 67 |

* BSEE and BOEM are grouped together because the two bureaus share one A/OPC.

Figure 1. Review of purchase card bank statements, by agency.

We looked at fleet card statements for eight agencies. Of the 42 fleet card statements we reviewed, 18 (or 43 percent) were not reviewed and signed by cardholders within 30 days of the statement date, and 20 statements (48 percent) were not reconciled by the AOs within the required 30 days (see Figure 2). Also included in these findings are 17 statements that were signed by neither the cardholder nor the AO in this timeframe.

| Bureau | No. of Fleet Card Statements | No. of Transactions | No. of Statements Not Reviewed by Cardholder Within 30 Days | No. of Statements Not Reviewed by Approving Official Within 30 Days |
|--------------|------------------------------|---------------------|---|---|
| BIA | 2 | 2 | 0 | 0 |
| BLM | 2 | 3 | 2 | 2 |
| BSEE | 1 | 1 | 1 | 1 |
| FWS | 14 | 25 | 2 | 2 |
| NPS | 6 | 6 | 4 | 3 |
| OSMRE | 1 | 1 | 0 | 1 |
| USBR | 3 | 3 | 1 | 1 |
| USGS | 13 | 14 | 8 | 10 |
| Total | 42 | 55 | 18 | 20 |

Figure 2. Review of fleet card bank statements, by agency.

We looked at Hurricane Sandy-related statements for three agencies. We found that 11 of the 28 statements we reviewed (or 39 percent) were not reconciled by cardholders within 30 days of the statement date, and 12 statements (43 percent) were not properly reconciled by the AO within the required 30 days (see Figure 3). Also included in these findings are 11 statements that were signed by neither the cardholder nor the AO in this timeframe.

| Bureau | No. of Hurricane Sandy Bank Statements | No. of Transactions | No. of Statements Not Reviewed by Cardholder Within 30 Days | No. of Statements Not Reviewed by Approving Official Within 30 Days |
|--------------|--|---------------------|---|---|
| FWS | 2 | 2 | 0 | 0 |
| NPS | 21 | 26 | 11 | 12 |
| USGS | 5 | 5 | 0 | 0 |
| Total | 28 | 33 | 11 | 12 |

Figure 3. Review of Hurricane Sandy bank statements, by agency.

Missing Documentation

Federal laws and regulations, as well as DOI's ICCP Policy Manual, require cardholders to obtain and keep adequate documentation for transactions. Specifically, the ICCP Policy Manual, § 3.9, requires that each transaction in a statement be accompanied by original receipts and supporting documentation as applicable, including but not limited to requisitions, receipts, packing slips, statements of accounts, Internet confirmations, special approvals, purchase logs, and receiving reports, to be maintained for a period of 3 years. Supporting documentation assists the AO and A/OPC in examining the appropriateness of a

given purchase, and the cardholders need to reconcile their purchase records with the transaction information from the bank.

During our audit we found incomplete, insufficient, or absent support documentation (see Figure 4). Of the 355 purchase card transactions that we reviewed, we found 15 that did not have the required supporting documentation. For example, four BIA transactions totaling \$1,157.50 had no receipts or supporting documentation; one FWS transaction for \$99 had no receipt or supporting documentation; and nine transactions from multiple agencies totaling \$21,683.00 contained only the statement associated with the transaction but no receipt or supporting documentation showing that the purchase had been completed.¹⁰ We identified one potentially fraudulent NPS transaction for \$17,000 for 67 Plateau Indian artifacts. The supporting documentation contained insufficient evidence to support the purchase—there was no purchase log, no itemized list of artifacts purchased, no contract for the transaction that exceeded micro-purchase authority, and no valuation of the items or proof that these are actual American Indian artifacts. This finding has been referred to our Office of Investigations.

Similarly, out of the 55 fleet card transactions we reviewed, we found 2 FWS transactions that did not have the required supporting documentation. These transactions totaled \$121.78.

Out of the 33 Hurricane Sandy transactions we reviewed, we identified five NPS transactions totaling \$1,789.46 that had no receipts or supporting documentation.

¹⁰ USBR had seven such transactions, totaling \$13,500; FWS had one transaction, totaling \$6,000; and NPS had one transaction, totaling \$2,183.

| | No. of FY 2014 Trans- actions Reviewed | No. of Trans- actions Without Support | Error Rate* | Total \$ Associated With Reviewed Transactions | Total \$ Associated With Transactions Without Support | Error Rate† |
|-----------------|--|---|----------------|--|--|----------------|
| Purchase card | 355 | 15 | 4.2% | \$233,392.84 | \$39,939.50 | 17.1% |
| Fleet card | 55 | 2 | 4% | \$24,057.19 | \$121.78 | 0.5% |
| Hurricane Sandy | 33 | 5 | 15.2% | \$194,290.59 | \$1,789.46 | 0.9% |
| Total | 443 | 22 | 5% | \$451,740.62 | \$41,850.74 | 9.3% |

* Calculated as: number of transactions without support divided by the total number of FY 2014 transactions reviewed.

† Calculated as: dollar amounts associated with transactions without support divided by the total dollar amount associated with reviewed transactions.

Figure 4. Review of missing support documentation.

Ensuring that appropriate documentation is available and reviewed is essential in helping to prevent or detect potential fraud. The statements that we reviewed contained insufficient documentation, raising concerns related to enforcement of OMB and DOI requirements.

Recommendations

We recommend that:

1. Agencies develop internal controls and increase accountability actions so that cardholders and AOs review statements and attach supporting documents as required by the ICCP Policy Manual; and
2. Upon completion of the OIG investigation, NPS take steps to recover the cost of any illegal, improper, or erroneous purchases associated with the Plateau Indian artifacts.

Inconsistent Management Oversight

To prevent or reduce the risk of questionable transactions from occurring, Federal agencies are required by the Government Charge Card Abuse Prevention Act of 2012, § 1909(a)(3)(B)(11), to institute “effective systems, techniques, and technologies to prevent or identify illegal, improper, or erroneous purchases.”

OMB Circular No. A-123 states that “monitoring the effectiveness of internal control should occur in the normal course of business” and that “periodic reviews, reconciliations, or comparisons of data should be included as part of the regular assigned duties of personnel. Periodic assessments should be integrated as part of management’s continuous monitoring of internal control.” The ICCP Policy Manual, § 1.4.6.1, states that bureaus and offices are required to have a written management plan and written policy that, at a minimum, include scheduled reviews of transaction records, frequency of reviews, and review methodology. As part of their regular duties, A/OPCs are also required to “conduct or participate in charge card reviews in accordance with departmental and bureau charge card policy” (ICCP Policy Manual, § 1.4.6.2).

Although the ICCP Policy Manual does not specify a frequency for review, we observed that most of the agencies we audited were conducting regular reviews (either monthly or quarterly) of purchase card transactions. We noted inconsistencies in the reviews performed by BIA. Rather than being conducted quarterly, as required by the Bureau’s “Charge Card Policy Manual, Version 1.1,” the reviews at BIA were conducted in 3 consecutive months, followed by 9 months with no reviews. An inconsistent review process presents an increased risk of fraudulent charge card use and program mismanagement.

From our interviews, we ascertained that during FY 2014 BIA did not have an appropriate number of personnel to conduct any regular recurring reviews, leaving 9 months of purchase card activity not reviewed. BIA only conducted internal reviews monthly for the first quarter of FY 2014; in comparison, the NPS A/OPC conducted reviews of random cardholders every month, and FWS also conducts reviews on a monthly basis to identify fraudulent and inappropriate transactions.

BIA’s inconsistent management review process demonstrates a failure to comply with internal Bureau guidance and a failure to adequately manage the risks associated with the charge card program. The fact that we were able to readily identify a number of issues noted in this report suggests that if BIA were to conduct management reviews on a regular, recurring basis, many of these issues could have been detected and addressed. Failing to conduct internal management reviews indicates poor diligence by Bureau personnel and may lead to insufficient control. Consequently, BIA is placing DOI at risk for potential fraud and misuse of Federal funds.

Recommendation

We recommend that:

3. BIA conduct recurring management reviews of charge card transactions and clearly demonstrate actions taken when deficiencies are identified.

Absence of Clear Guidance for Purchase of Professional Services

The ICCP Policy Manual in place at the time of the audit did not provide clear guidance on the purchase threshold for micro-purchases of professional services. We identified five transactions above the authorized spending limits for services. Four of the transactions were made by BIA and were under the MCC for “legal services/attorneys.” We noted that each transaction was for \$3,000, which was above the \$2,500 micro-purchase limit. We also noted one BLM transaction under the same MCC for \$3,000, which was likewise above the micro-purchase limit.

FAR Subpart 13.2 provides specific guidelines for purchases at or below the micro-purchase threshold, and the ICCP Policy Manual, § 1.6.1, specifically states that bureau/office personnel who are not warranted contracting officers are authorized to use the charge card to make micro-purchases for services up to \$2,500. The \$2,500 limit for services is based on requirements stipulated in the Service Contract Act of 1965 (SCA); however, the U.S. Department of Labor (DOL) regulations that implement the SCA also provide an exception for services obtained from “learned professionals”¹¹ that makes procurement of these services exempt from the \$2,500 micro-purchase limit.

The ICCP Policy Manual did not address the issue of exceptions to the \$2,500 micro-purchase limit; however, DOI’s Office of Acquisition and Property Management did have a draft memorandum addressing the issue of exceptions.

¹¹ The “learned professionals” exemption is restricted to professionals for whom specialized academic training is a standard prerequisite for entrance into the profession.

Recommendations

We recommend that:

4. Agencies establish internal controls designed to identify purchases exceeding authorized limits; and
5. The Office of Acquisition and Property Management issue final guidance on the professional services exemption from micro-purchase limits that reflects the Department of Labor regulations.

Noncompliance With Bureau-Specific Policies

OMB Circular No. A-123, Appendix B, requires that each Federal agency develop and maintain written policies and procedures for the appropriate use of charge cards consistent with OMB guidance. Required elements of a charge card management plan include management controls, policies, and practices for ensuring appropriate charge card and convenience check usage and oversight of payment delinquencies, fraud, misuse, or abuse. Similarly, DOI's ICCP Policy Manual, § 1.4.6.1, states that every bureau and office must have a written management plan and written policy for charge card use. Bureaus may impose requirements that are more stringent for internal controls beyond what DOI requires.

During our audit, we reviewed written policies for BIA, BOEM/BSEE, FWS, NPS, USBR, and USGS. Of these, BIA, NPS, and USGS had additional requirements beyond the requirements stipulated in the ICCP Policy Manual:

- BIA's "Charge Card Policy Manual, Version 1.1" (released September 2009 and revised June 2010), § 6.4.4, adds a requirement for cardholders to maintain a purchase log.
- NPS' "SmartPay Policy (Draft)," § 3.3 D, also requires its cardholders to maintain a purchase log.
- USGS' "Acquisition Operating Procedures – Charge Card Guide" (dated June 5, 2014) contains a similar requirement (§ D.1.a(1)) for what it refers to as a "transaction log."

We found that for BIA, 51 of the 80 purchase card transactions (64 percent), valued at \$36,698.45, did not include the required purchase log from the cardholder. For NPS, 7 of the 112 purchase card transactions (6 percent), valued at \$22,551.79, did not include the required purchase log. For USGS, 2 out of 15 purchase card transactions (13 percent), valued at \$90, did not include the required transaction log.

When purchase logs are not reviewed in a timely manner, cardholders may change previously approved purchases and the AO would not discover potential fraud. The deficiencies we noted could have been readily resolved by either the AO during the initial review, or subsequently during a higher level review, if review requirements had been followed. The failure to comply with self-prescribed bureau-level internal controls shows an absence of due diligence and has the potential to subject the bureaus to unnecessary risk, thereby increasing the likelihood of fraudulent activity.

Recommendation

We recommend that:

6. Agencies develop and implement internal control procedures needed to ensure purchase logs are properly documented, maintained and current.

Insufficient Documentation for Use of Convenience Checks

Although we did not find convenience checks being used for purchases above the micro-purchase levels, we did identify instances of convenience check use without adequate support documentation or justification for their use.

OMB Circular No. A-123 states that convenience checks are “intended for use with merchants that do not accept purchase cards and for other authorized purposes where charge cards are not accepted. Convenience checks should be used as a payment of last resort, only when no reasonable alternative merchant is available who accepts the charge card.” DOI’s ICCP Policy Manual, § 3.12.2, also states that convenience checks may be used only where purchase cards are not accepted by a merchant, for emergency incident response, and for other approved purposes. In addition, the U.S. Department of the Treasury has ruled that the limitations on using convenience checks are necessary because convenience checks are not compliant with electronic funds transfer, and the Debt Collection Improvement Act of 1996 (Pub. L. No. 104-134) requires, with limited exceptions, that Federal payments be made through electronic means.¹² Convenience checks may not be written above the micro-purchase limit as defined in the ICCP Policy Manual § 3.12.3. At the time of our audit, the micro-

¹² Per the Debt Collection Improvement Act, the term “electronic funds transfer” (also known as EFT) means any transfer of funds, other than a transaction originated by cash, check, or similar paper instrument, that is initiated through an electronic terminal, telephone, computer, or magnetic tape, for the purpose of ordering, instructing, or authorizing a financial institution to debit or credit an account. EFT includes Automated Clearing House (ACH) transfers, Fedwire transfers, transfers made at automatic teller machines, and transfers at point-of-sale terminals.

purchase limits for convenience checks were \$3,000 for supplies, \$2,500 for services, and \$2,000 for construction.

Although we did not find use above the threshold, we did identify two transactions made by USGS totaling \$4,188.08 with incurred fees totaling \$79.57. One transaction was for vehicle repairs totaling \$2,198.08, while the second transaction was for mounts to a research boat totaling \$1,990. Neither transaction had proper support documentation justifying the use of a convenience check.

Although the incurred fees may not be substantial, the absence of adequate support documentation and justification increases the risk that purchases could be fraudulent or improper.

Recommendation

We recommend that:

7. Agencies instruct cardholders and AOs regarding the authorized uses of convenience checks and take appropriate actions for those who do not comply with policy.

Inactive Accounts

Purchase Card Accounts

In FY 2014, there were 24,284 purchase card accounts across DOI. We reviewed 1,812 purchase card accounts associated with employees who separated or transferred from DOI during FY 2014 (see Figure 5). Out of the 1,812 accounts, 966 (or 53 percent) were canceled prior to the account holder separating from DOI. The remaining 846 accounts were canceled after the account holder separated. Out of these 846 accounts, we found that 631 (75 percent) were canceled within 30 days following separation of the account holder and the remaining 215 (25 percent) were canceled more than 30 days post separation. One account was not canceled for 486 days after the employee separated from DOI.

The ICCP Policy Manual § 1.12 states: “When a cardholder resigns, transfers, or is terminated, the surrender and destruction of charge cards and convenience checks, closing of the account, and cancellation of PaymentNet¹³ access must be part of the final employee clearance process. Any records in the cardholder’s possession must be turned over to the supervisor for central filing unless otherwise specified in Bureau policy.”

In addition, the Government Charge Card Abuse Prevention Act mandates that Federal agencies invalidate the purchase cards of employees immediately upon

¹³ PaymentNet is J.P. Morgan’s Web-based management tool for reviewing charge card statements and transactions.

termination of employment or, for transfers to another unit in the same agency, immediately upon transfer, unless the agency determines that both units are covered by the same purchase card authority.

Failing to deactivate accounts prior to when a cardholder separates exposes DOI to risk of financial loss by either the separated employee or another employee using the card.

| Bureau | No. of Purchase Card Accounts From Individuals Separated in FY 2014 | No. of Accounts Closed Before Separation | No. of Accounts Closed Within 30 Days of Separation | No. of Accounts Closed After 30 Days of Separation |
|--------------|---|--|---|--|
| BIA | 141 | 78 | 39 | 24 |
| BLM | 287 | 147 | 109 | 31 |
| BOEM | 28 | 12 | 15 | 1 |
| BSEE | 61 | 39 | 17 | 5 |
| FWS | 245 | 116 | 101 | 28 |
| NPS | 422 | 214 | 142 | 66 |
| OS | 53 | 19 | 17 | 17 |
| USBR | 96 | 61 | 30 | 5 |
| USGS | 479 | 280 | 161 | 38 |
| Total | 1,812 | 966 | 631 | 215 |

Figure 5. Closure of purchase card accounts, by agency.

Fleet Card Accounts

As described previously, DOI fleet cards are assigned not to a specific employee but rather to specific vehicles, major pieces of equipment, boats, or aircraft. The individual who reconciles the fleet card account and prepares the certification or signs the statement (often the fleet A/OPC or fleet manager) is referred to as the “cardholder.”¹⁴

Out of the 26,433 fleet card accounts active in FY 2014, 5,444 (or 21 percent) had no transactions during the year and 675 (3 percent) were reported lost or stolen (see Figure 6).

Deactivation of unused fleet cards appears to be an ongoing issue. A 2007 OIG management advisory noted that 29 percent of the open fleet card accounts disclosed no activity and were not deactivated.¹⁵

¹⁴ See DOI ICCP Policy Manual, §§ 4.2 and 4.3.

¹⁵ DOI OIG, “Management Advisory: Department of the Interior Purchase and Fleet Card Administration (Report No. Y-EV-MOA-0002-2007),” September 24, 2007.

| Bureau | No. of Fleet Card Accounts Open in FY 2014 | No. of Fleet Card Accounts With Zero Transactions | No. of Fleet Card Accounts Reported As Lost/Stolen |
|---------------|---|--|---|
| BIA | 3,138 | 846 | 101 |
| BLM | 4,476 | 243 | 223 |
| BOEM | 0 | 0 | 0 |
| BSEE | 32 | 0 | 1 |
| FWS | 7,557 | 1,659 | 142 |
| NPS | 6,872 | 1,992 | 130 |
| OS | 5 | 0 | 1 |
| OSMRE | 156 | 17 | 7 |
| OST | 20 | 5 | 0 |
| USBR | 1,659 | 215 | 25 |
| USGS | 2,518 | 467 | 45 |
| Total | 26,433 | 5,444 | 675 |

Figure 6. Fleet card accounts, by agency. (Note: Information provided in this figure was obtained from DOI's Charge Card Support Center.)

Although some fleet card accounts may be associated with vehicles that are infrequently used or that are retained for emergency purposes (such as combating wildfires), allowing these accounts to remain open and active for extended periods of time puts DOI at risk of financial loss through misuse. We noted in our review that DOI has taken steps to address this issue. Specifically, in August 2015, DOI issued an updated ICCP Policy Manual, which requires inactive accounts to be suspended if they have not recorded any transactions over an 18-month period.

Recommendation

We recommend that:

8. Agencies close cardholder accounts before employees separate to prevent fraudulent use.

Miscoded Transactions Being Approved

According to the General Services Administration's (GSA) charge card guide,¹⁶ MCCs are established by the bankcard associations or banks to identify different types of businesses. Merchants select the codes that best describe their businesses. At the department and bureau levels, A/OPCs may limit the types of businesses where the card will be accepted by restricting the MCCs available to the cardholder.

¹⁶ GSA, "Managing GSA SmartPay Purchase Card Use," Report No. 5-14-00138, January 2014.

During our audit, we noted that DOI has identified 17 MCCs against which purchases are routinely restricted. The ICCP Policy Manual prohibits a number of types of purchases by card or convenience check, including any purchase that is not a necessary use of appropriated funds for official Government business, purchase of firearms or weapons, and long-term rental or lease of buildings.

While DOI routinely restricts 17 MCCs, we noted that FWS has identified an additional 49 codes that are routinely excluded from its purchase groups, making the bureau's list of vendors more restrictive. These codes are associated with cruise lines, package stores (retailers of beer, wine, and liquor), cigar stores and stands, timeshares, and billiard and pool establishments. While we have shown that MCC inaccuracies do occur, restricting these MCCs from the start and drawing attention to vendors that are mislabeled can help correct errors in or misuse of the system.

Although we found that restricted MCCs had been identified, we noted that transactions posted under a restricted MCC were still being approved. We identified 28 FWS transactions containing 7 MCCs that are on the bureau's restricted list.¹⁷ Of the 28 transactions, 15 occurred on accounts on which the bureau or A/OPC failed to apply the restricted MCC groups. For the 13 remaining transactions (related to the "Duty Free" and "Golf Courses – Public" MCCs), the MCCs had been included in the exclusion group defined by the A/OPC.

We also identified occurrences of inaccurate MCCs assigned to vendors based on what the vendor actually does. For example, BIA had nine transactions for office supplies under the name of an Indian reservation rather than the source from which the supplies were ordered. These transactions were coded "Fines" instead of the MCC for office supplies and totaled \$2,392.22. BLM had one transaction for \$1,500 listed as a fine to the City of Ketchum Police Department. That transaction was actually for a cleaning detail paid for by BLM for a parks and recreation site. We also identified four NPS transactions showing MCCs for dental services, but they were actually for firefighter physicals. Each of these physicals cost \$151, for a total of \$604. USGS had two transactions showing mismatched MCCs: one code was for a cigar store at a cost of \$1,525, but the transaction was actually for a carpet cleaner, and another transaction, for \$666.45, was coded for a sports promotion, but was actually for a geological conference in Switzerland. Although the transactions were for valid expenses, the coding for these expenses was not correct. Even though the assignment of MCCs is outside the scope of DOI's responsibilities, incorrect coding can lead to inappropriate charges that may go undetected in a review process, or it can result in legitimate expenses being flagged for review or even blocked.

The practice of blocking certain MCCs has the potential to increase oversight efficiency and reduce the likelihood and risk of fraud and misuse of Government funds.

¹⁷ FWS restricted 49 MCC codes beyond those identified as restricted by DOI.

Recommendations

We recommend that:

9. DOI work with its agencies to establish a departmentwide systematic review process for assigning MCC restricted groups; and
10. Agencies, in conjunction with the issuing bank, verify the accuracy of MCCs and verify that appropriate restrictions have been placed on purchase card accounts.

Use of an Outdated Policy

At the time of our audit, DOI was operating under an outdated ICCP Policy Manual, published on November 24, 2008. Operating under an outdated policy placed a burden on the bureaus in meeting changing requirements. During our interviews with bureau personnel, A/OPCs expressed concern about implementing bureau-level policies to amend the DOI guidance, due to anticipation of new DOI guidance. The A/OPC at one bureau felt that not having an updated policy addressing PaymentNet implementation made it difficult to adapt to the online review and approval system. Another bureau kept an outdated policy active and simply issued instructional memorandums and bulletins to address issues as they surfaced. Finally, one bureau never issued its draft policy, in anticipation of revised Department guidance.

We note, however, that after completion of our fieldwork, DOI did issue new guidance on the ICCP, dated August 2015. The new policy still requires bureaus and offices to establish policies and procedures tailored to their needs while adhering to ICCP guidance.

Conclusion and Recommendations

Conclusion

We conducted an assessment of DOI's charge card and convenience check programs as required by OMB. Specifically, we audited DOI's purchase card and fleet card internal control processes, reviewing FY 2014 transactions for 11 departmental agencies. While our assessment involved a small sample of the total charge card transactions, our findings highlight important systemic issues for potentially all of DOI's charge card policies and practices.

We found areas of concern associated with internal controls and documentation, leaving the bureaus vulnerable to financial mismanagement and an increased potential for fraud, waste, and abuse. We noted that bureaus did not adequately ensure that internal controls were effectively implemented and did not fully comply with departmental and bureau policies.

We offer 10 recommendations that could make it easier for DOI and its bureaus to make needed changes.

Recommendations Summary

We issued a draft version of this report to DOI's Office of Acquisition and Property Management (PAM) and received responses to our recommendations. Summaries of PAM responses and our analysis are below. See Appendix 6 for the full text of the response; Appendix 7 lists the status of each recommendation. In addition, based on information provided in the response, we made some minor revisions to the report.

We recommend that:

1. Agencies develop internal controls and increase accountability actions so that cardholders and AOs review statements and attach supporting documents as required by the ICCP Policy Manual.

PAM response: PAM concurred with this recommendation. On August 27, 2015, PAM issued an updated policy document, "DOI-AAAP-0027, Department of the Interior Integrated Charge Card Program Policy." This policy rescinded "DIAPR 2008-05, Integrated Charge Card Program Policy Manual," issued in June 2008, and the "Interim Integrated Charge Card Program Policy Manual," issued in November 2008. Section IV of the 2015 ICCP policy, "Internal Controls," prescribes controls that are designed to complement the annual requirements established by the DOI Office of Financial Management and meet the requirements of OMB Circular No. A-123, Appendix B, "Improving the Management of Government Charge Card Programs." Bureaus and offices must establish

controls and provide annual assurance that the controls exist and are regularly monitored. Section V of the 2015 ICCP policy, “Administration,” requires bureaus and offices to ensure that cardholder transactions are reconciled, reviewed, and have relevant receipts and supporting documentation.

PAM indicated that it is working with DOI University to develop new training for cardholders and approving officials based on the updated ICCP policy and provisions of the Government Charge Card Abuse Prevention Act of 2012. PAM indicated in its response that cardholder training plans will also be updated in DOI Learn to schedule refresher training.

PAM indicated that it has also directed the bureaus to submit plans to implement the use of electronic monitoring tools provided by the servicing bank for online cardholder statements, with the goal of phasing out the manual review and approval process over the next several years.

OIG analysis: Based on PAM’s response, we consider this recommendation resolved but not implemented. PAM did not provide support or a target date for completion of the action items for either the cardholder training through DOI University or for when bureaus are to submit their plans to begin use of electronic monitoring tools.

2. Upon completion of the OIG investigation, NPS take steps to recover the cost of any illegal, improper, or erroneous purchases associated with the Plateau Indian artifacts.

PAM response: PAM concurred with this recommendation. PAM acknowledged that the investigation is ongoing and that NPS will take appropriate steps to recover any improper or erroneous payments if warranted once the investigation is completed.

OIG analysis: Based on PAM’s response, and since this remains an open investigation, we consider this recommendation resolved but not implemented until the investigation is closed and documentation is provided indicating the actions taken by NPS.

3. BIA conduct recurring management reviews of charge card transactions and clearly demonstrate actions taken when deficiencies are identified.

PAM response: PAM concurred with this recommendation. In its response, PAM indicated that in FY 2013, BIA began using J.P. Morgan’s PaymentNet online review and approve functionality. PAM also indicated that in FY 2013, DOI implemented the MasterCard Expert Management System (EMS) to analyze and electronically monitor transaction data.

PAM indicated that the EMS has the capability to highlight selected transactions for review, providing a level of internal control. In addition, PAM indicated that BIA A/OPCs conduct online reviews using prescribed workflow steps to document their review and to report action to OIG. PAM also indicated that internal control reviews are performed by BIA's Division of Internal Evaluation and Assessment and KPMG.

OIG analysis: Although PAM concurred with recommendation, PAM did not provide any documentation of the actions discussed in the response. Accordingly, we consider this recommendation to be unresolved and request that PAM provide documentation of the actions taken or planned to the Office of Policy, Management and Budget for resolution.

4. Agencies establish internal controls designed to identify purchases exceeding authorized limits.

PAM response: PAM concurred with this recommendation. PAM indicated that the 2015 ICCP policy identifies internal controls and Section IV of the policy prescribes a comprehensive system of internal controls for the charge card program.

OIG analysis: Based on PAM's response and review of the 2015 ICCP policy (implemented after completion of our fieldwork), we consider this recommendation resolved and implemented. The ICCP guidance prescribes adequate internal control procedures to be applied toward monitoring use of purchase cards.

5. The Office of Acquisition and Property Management issue final guidance on the professional services exemption from micro-purchase limits that reflects the Department of Labor regulations.

PAM response: PAM partially concurred with this recommendation. PAM acknowledged that the expired November 2008 ICCP policy did not contain additional guidance related to the micro-purchase limit, but a June 26, 2016 PAM-issued policy established the use of the integrated charge card as the preferred method of payment to acquire third-party services for "learned professionals," which includes mediation services. PAM did not concur that the transactions identified exceed authorized spending limits, since the Department of Labor regulations that implement service contract labor standards provide that the services of "learned professionals" are exempt from the \$2,500 limit.

OIG analysis: Based on PAM's response and the support provided, we modified the language in the report and consider this recommendation resolved and implemented.

6. Agencies develop and implement internal control procedures needed to ensure purchase logs are properly documented, maintained and current.

PAM response: PAM did not concur with this recommendation. In its response, PAM indicated that the report reviewed bureau-specific policies and found that BIA, NPS, and USGS added requirements for cardholders to maintain a purchase log. PAM stated that the updated ICCP policy, issued in 2015, rescinded all previously issued charge card policies, including bureau-specific policies, and that the 2015 ICCP policy requires bureaus and offices to establish supplemental policies and procedures that adhere to the information provided in the ICCP policy; however, there is no mandate for bureaus to maintain purchase logs. According to PAM, none of the bureaus evaluated for this report have issued updated policy to require the use of purchase logs.

OIG analysis: Based on PAM's response and the requirements set forth in the 2015 ICCP policy, we consider this recommendation resolved and implemented.

7. Agencies instruct cardholders and AOs regarding the authorized uses of convenience checks and take appropriate actions for those who do not comply with policy.

PAM response: PAM partially concurred with this recommendation. In its response, PAM stated that while the 2015 ICCP policy does not specifically require documentation to justify the use of convenience checks, Section II, "Roles and Responsibilities," requires convenience check writers to be responsible for complying with a host of requirements, including completing applicable training, ensuring convenience checks are appropriately issued, reviewing statements for accuracy, destroying unused checks and closing accounts following bureau exit, reconciling accounts with appropriate supporting documentation, and maintaining documents in accordance with bureau and DOI requirements. PAM's response also referred to Section V of the 2015 ICCP policy, "Administration," which prescribes actions to be taken in the event of convenience check misuse or abuse.

In addition, PAM's response provided a statement justifying the use of convenience checks by BIE for the purchase of student lunches at Burger King. PAM also provided a statement regarding our finding pertaining to USGS' use of convenience checks without appropriate support.

OIG analysis: Based on PAM's response and the guidance provided under the 2015 ICCP policy, we consider this recommendation to be resolved and implemented.

8. Agencies close cardholder accounts before employees separate to prevent fraudulent use.

PAM response: PAM did not concur with this recommendation. In its response, PAM indicated that: “upon official notification of an employee separation date during the exit clearance process, the cardholder account is first temporarily suspended to prevent fraudulent use. The cardholder’s account is closed after ensuring all outstanding travel vouchers or purchase card transactions have posted in the bank system.” In addition, PAM indicated that inactive accounts are monitored and reviewed every 540 days (18 months) for fraudulent use. PAM also indicated that DOI has implemented a series of oversight tools designed to increase internal controls. These include an automatic inactive account email alert functionality used by A/OPCs to monitor and review inactive accounts and the implementation of MasterCard EMS data mining rules to analyze and monitor fleet card inactive account activity.

OIG analysis: Based on PAM’s response and the process currently in place, we consider this recommendation resolved and implemented.

9. DOI work with its agencies to establish a departmentwide systematic review process for assigning MCC restricted groups.

PAM response: PAM did not concur with this recommendation. In its response, PAM indicated that merchants are registered in various business categories when the business begins accepting charge cards for payment and that this process is managed by the credit card companies. PAM also indicated that departmentwide restricted MCCs are monitored by the MasterCard EMS data mining tool and updates to the merchant category groupings are discussed during a biweekly ICCP meeting. PAM also indicated that efforts are underway to add new governmentwide restricted category codes to EMS.

OIG analysis: Based on PAM’s response, we consider this recommendation resolved and implemented.

10. Agencies, in conjunction with the issuing bank, verify the accuracy of MCCs and verify that appropriate restrictions have been placed on purchase card accounts.

PAM response: PAM did not concur with this recommendation. PAM indicated that appropriate restrictions on integrated charge card business lines are already in place.

OIG analysis: Based on PAM’s responses to this recommendation and to Recommendation 9, and both departmentwide and governmentwide efforts

to identify restricted MCCs, we consider this recommendation resolved and implemented.

Appendix I: Scope and Methodology

Scope

The scope of our audit covered charge card transactions for 11 agencies during fiscal year 2014.

Methodology

We audited the effectiveness of the U.S. Department of the Interior's (DOI) internal controls on charge card transactions through review of policies and procedures as well as transaction testing. We analyzed the internal control procedures obtained from the bureau agency/organization program coordinators. We reviewed reports of infractions, inactivity, split purchases, and separated employees. We reviewed criteria documents (such as OMB Circular No. A-123, Appendix B) and DOI's manual for the Integrated Charge Card Program (ICCP).

To accomplish the audit's objectives, we—

- gathered general, administrative, and background information to provide a working knowledge of the ICCP;
- reviewed relevant audit reports;
- identified and reviewed policies and procedures related to the ICCP;
- reviewed merchant category codes;
- selected and reviewed a judgmental sample of charge card statements and transactions, as described below:
 - For purchase cards, we reviewed 267 statements (355 transactions) totaling more than \$233,000. We reviewed merchant names and merchant category codes for atypical transactions and high-risk transaction groups. We selected 335 purchase card transactions from 21 transaction groups. We also reviewed 20 transactions via convenience checks.¹⁸
 - For fleet cards, we reviewed 42 statements (55 transactions) totaling more than \$24,000. As with purchase cards, we reviewed the merchant names and merchant category codes for atypical transactions and high-risk transaction groups. We identified 9 such transaction groups.

¹⁸ Convenience check transactions were all affiliated with one merchant category code (9999 – Convenience Checks).

- For Hurricane Sandy purchases, we reviewed 28 statements (33 transactions) associated with three bureaus totaling more than \$194,000. We reviewed merchant names and merchant category codes for atypical transactions and high-risk transaction groups.
- conducted site visits to interview DOI and bureau personnel responsible for oversight of the ICCP;
- used an auditor-generated checklist¹⁹ to determine compliance with established guidelines; and
- performed tests of internal controls relevant to our audit objectives.

We did not choose a statistical sample, because the Government Charge Card Abuse Prevention Act of 2012 emphasizes identifying cases of illegal, improper, or erroneous purchases. As part of our audit, we performed tests to detect fraud and illegal acts to ensure that public funds were being used for their intended purpose. A suspected occurrence of fraud was referred to the Office of Investigations.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit's objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We used data from JP Morgan's PaymentNet and DOI's Financial and Business Management System (FBMS) in conducting this audit. The PaymentNet data for purchase and fleet transactions is transferred into FBMS. The controls over FBMS are evaluated as part of the annual DOI financial statement audits conducted by KPMG with oversight by the Office of Inspector General. These included controls over charge card transactions. In addition, under the General Services Administration's SmartPay2 contract, PaymentNet is subject to Government certification and accreditation assessments. Consequently, we believe that the data from these systems are sufficiently reliable given our audit objectives. We also used data from DOI's Federal Payroll and Personnel System (FPPS) in evaluating whether accounts were being closed in a timely manner. The controls over this system are also audited by KPMG on an annual basis.

¹⁹ Our checklist was based on guidance from the Council of Inspectors General on Integrity and Efficiency (CIGIE), specifically "A Practical Guide for Reviewing Government Purchase Card Programs," June 2002, <https://www.ignet.gov/sites/default/files/files/credit-cards-06-002.pdf>.

Appendix 2: Sites and Offices Contacted

Bureau of Indian Affairs
12220 Sunrise Valley Drive
Reston, VA 20192

Bureau of Land Management
Denver Federal Center, Building 50
P.O. Box 25047
Denver, CO 80225-0047

Bureau of Ocean Energy Management
1849 C Street, NW.
Washington, DC 20240

Bureau of Reclamation
Denver Federal Center, Building 56, Room 1000
Kipling and Sixth Avenue
Denver, CO 80225

Bureau of Safety and Environmental Enforcement
Headquarters
1849 C Street, NW.
Washington, DC 20240

National Park Service
7333 West Jefferson Avenue
Lakewood, CO 80235

Office of Acquisition and Policy Management
1849 C Street, NW.
Washington, DC 20240

Office of Surface Mining Reclamation and Enforcement
1951 Constitution Avenue, NW.
Washington, DC 20240

Office of the Secretary
1849 C Street, NW.
Room 2543, Mail Stop 2557
Washington, DC 20240

U.S. Fish and Wildlife Service

Denver Operations
7333 West Jefferson Avenue
Lakewood, CO 80235

U.S. Geological Survey

Headquarters
12201 Sunrise Valley Drive
Reston, VA 20192

Interior Business Center

Charge Card Support Center
7301 West Mansfield Avenue
Denver, CO 80235

Appendix 3: Purchase Card Transactions by Category, With Costs

| Merchant Category | Totals | |
|---|--------------|---------------------|
| | Transactions | Dollar Amount |
| Amusement Parks, Circuses, and Carnivals | 21 | \$15,237.04 |
| Bowling Alleys | 20 | 3,379.00 |
| Chiropractors/Podiatrists | 4 | 968.00 |
| Chiropractors | 12 | 1,020.00 |
| Cigar Stores and Stands | 2 | 3,791.00 |
| Convenience Check | 20 | 21,763.36 |
| Cosmetic Stores | 5 | 3,492.13 |
| Dentist/Orthodontists | 8 | 2,576.35 |
| Duty Free Stores | 1 | 107.98 |
| Fines | 31 | 4,231.55 |
| Funeral Services and Crematories | 7 | 3,788.88 |
| Golf Courses | 37 | 12,668.73 |
| Hearing Aids—Sales, Service, and Supply Stores | 46 | 35,974.85 |
| Jewelry Stores—Watches, Clocks, and Silverware | 26 | 4,086.60 |
| Legal Services/Attorneys | 45 | 78,685.39 |
| Membership Clubs (Sports, Recreation, Athletic) | 44 | 7,344.25 |
| Pawn Shops | 4 | 22,382.90 |
| PayPal Peer-to-Peer Transactions | 4 | 2,522.98 |
| Spas—Health and Beauty | 6 | 3,275.00 |
| Sports—Promoters and Professional | 11 | 6,039.95 |
| Wig and Toupee Stores | 1 | 56.90 |
| Total | 355 | \$233,392.84 |

Appendix 4: Fleet Card Transactions by Category, With Costs

| Merchant Category | Totals | |
|---|--------------|--------------------|
| | Transactions | Dollar Amount |
| Grocery Stores, Supermarkets | 27 | \$1,824.41 |
| Telecommunications Equipment, Including Telephone Sales | 1 | 903.00 |
| Hotels–Lodging (Not Listed Elsewhere) | 4 | 389.94 |
| Advertising Services | 1 | 1,812.00 |
| Boat Rentals and Leases | 1 | (272.00) |
| Car Rental Companies (Not Listed Elsewhere) | 2 | 625.00 |
| Stationery, Office Supplies, Printing/Writing Paper | 2 | 246.18 |
| Boat Dealers | 16 | 18,303.66 |
| Tourist Attractions and Exhibits | 1 | 225.00 |
| Total | 55 | \$24,057.19 |

Appendix 5: Hurricane Sandy Transactions by Category, With Costs

| Merchant Category | Totals | |
|---|--------------|---------------------|
| | Transactions | Dollar Amount |
| Other Services Not Elsewhere Classified | 2 | \$1,190.00 |
| Motorcycle Shops and Dealers | 1 | 17,000.00 |
| Convenience, Deli, Specialty Food Stores | 3 | 5,506.24 |
| Pet Shops—Pet Foods and Supply Stores | 2 | 277.11 |
| News Dealers and Newsstands | 1 | 8.55 |
| Car Washes | 1 | 5.00 |
| Furniture, Home Furnishings, and Equipment Stores | 2 | 1,959.70 |
| Doctors (Not Elsewhere Classified) | 4 | 2,590.00 |
| Sporting Goods Stores | 4 | 2,152.02 |
| Gasoline Service Stations | 3 | 8,314.57 |
| Automotive, Aircraft, and Farm Equipment Dealers Not Elsewhere Classified | 2 | 29,417.90 |
| Wholesale Clubs | 2 | 5,340.96 |
| Bicycle Shops—Sales and Service | 1 | 7,078.55 |
| Hobby, Toy, and Game Shops | 1 | 8.00 |
| Business Services Not Elsewhere Classified | 1 | 113,097.00 |
| Durable Goods Not Elsewhere Classified | 1 | 150.00 |
| Specialty Retail Stores—Miscellaneous | 1 | 20.00 |
| Shoe Stores | 1 | 174.99 |
| Total | 33 | \$194,290.59 |

Appendix 6: Response to Draft Report

The Office of Acquisition and Property Management's response to our draft report follows on page 34.



United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, DC 20240

AUG 30 2016

Memorandum

To: Mary L. Kendall
Deputy Inspector General

From: Debra E. Sonderman, Director *Debra E. Sonderman*
Office of Acquisition and Property Management

Subject: Response to Draft Audit Report – U.S. Department of the Interior’s Internal Controls for Purchase Cards and Fleet Cards (Report No. 2015-ER-011)

Thank you for the opportunity to review the Office of Inspector General (OIG) draft audit report entitled, *U.S. Department of the Interior’s Internal Controls for Purchase Cards and Fleet Cards*, Report No. 2015-ER-011, dated June 30, 2016.

The audit focused on transactions from 2014 and policies that were in effect during that time. On August 27, 2015, the Office of Acquisition and Property Management (PAM) issued Department of the Interior Acquisition, Assistance and Asset Policy (DOI-AAAP) – 0027, *Department of the Interior Integrated Charge Card Program Policy*. This policy rescinded Department of the Interior Acquisition Policy Release (DIAPR) 2008-05, *Integrated Charge Card Program Policy Manual*, issued in June 2008; and the *Interim Integrated Charge Card Program Policy Manual*, issued in November 2008. As such, many of the internal controls and processes that are discussed in this report have been updated and strengthened by the issuance of the updated policy. We will address these individually in our responses to the recommendations below.

Recommendation 1. Agencies should develop internal controls and increase accountability actions so that cardholders and AOs review statements and attach supporting documents as required by the ICCP Policy Manual.

Response: Concur. Section IV of the 2015 Integrated Charge Card Program (ICCP) Policy, *Internal Controls*, prescribes controls that are designed to complement the annual requirements established by the DOI Office of Financial Management, and meet the requirements of Office of Management and Budget (OMB) Circular A-123, Appendix B, *Improving the Management of Government Charge Card Programs*. Bureaus and offices must establish controls and provide annual assurance that the following controls exist and are regularly monitored:

- Control must exist to ensure a cardholder reconciles transactions within 30 days of the end of the cycle date.
- Control must exist to ensure proper supporting documentation accompanies charge card transactions.

- Control must exist to ensure the approving official/supervisor approves or disapproves charge card transactions within 30 days of the end of the cycle date.
- Control must exist to ensure a cardholder is not the approver of her or his own transactions regardless of review and approve methodology.

Section V of the ICCP Policy, *Administration*, also requires bureaus and offices to ensure that cardholder transactions are reconciled, reviewed, and have relevant receipts and supporting documentation. Copies of the policies referenced here are attached for your information.

The updated DOI-AAAP-0027 is housed on a Google site. This technology allows the Department to issue policy updates more timely and reach a wider population than conventional policy development/distribution methods, which supports enhanced internal controls.

PAM is working with DOI University to develop new cardholder and approving official training based on the updated ICCP Policy and provisions of the Government Charge Card Abuse Prevention Act of 2012. Cardholder training plans will also be updated in DOI Learn to schedule refresher training.

In October 2015, PAM directed the bureaus to submit plans to implement the use of electronic monitoring tools provided by the servicing bank for online cardholder statement of transaction reviews and supervisor approval/disapproval. Approved plans will be incorporated into periodic updates to the DOI ICCP Policy, as appropriate. The goal is to phase out the manual review and approve process and the requirement for signatures on statements to the maximum extent possible over the next several years.

Recommendation 2. Upon completion of the OIG investigation, NPS take steps to recover the cost of any illegal, improper, or erroneous purchases associated with the Plateau Indian artifacts.

Response: Concur. We understand that the investigation related to the purchase of Plateau Indian artifacts with the government charge card is ongoing, and no additional information is available at this time. The NPS will take appropriate steps to recover any improper or erroneous payments if the results of the investigation warrant such action.

Recommendation 3. BIA conduct recurring management reviews of charge card transactions and clearly demonstrate actions taken when deficiencies are identified.

Response: Concur. In FY 2013, BIA began its implementation of the JP Morgan PaymentNet on-line review and approval functionality. PaymentNet provides the capability to monitor and review cardholder transactions electronically on a daily basis. Bureau Agency/Organization Program Coordinators (A/OPCs) use PaymentNet reports and email alerts to help manage oversight of the bureau charge card programs. Also in FY 2013, the Department implemented the MasterCard Expert Management System (EMS) to analyze and electronically monitor transaction data. The EMS provides an essential internal control that improves surveillance by highlighting selected transactions for A/OPC review. The BIA A/OPCs conduct online reviews using prescribed workflow steps to document their review, and to report actions to the OIG.

Collectively, these oversight tools increase transparency and accountability; strengthen internal controls; and reduce the risk of fraud, waste, abuse and/or misuse associated with the charge card program. Additional internal control reviews are performed by the BIA Division of Internal Evaluation and Assessment and KPMG.

Recommendation 4. Agencies establish internal controls designed to identify purchases exceeding authorized limits.

Response: Concur. The 2015 ICCP policy substantially enhanced internal controls to include systems of checks and balances, monitoring and reviews to effectively mitigate risk and safeguard the integrity of the charge card program. Section IV of the policy, *Internal Controls*, prescribes a comprehensive system of internal controls for each of the business processes associated with the charge card program, such as:

Transaction Process

- Control must exist to prevent or promptly detect a cardholder who makes improper transactions, which may include splitting purchases, buying outside of business line authority, spending over authorized limits, and purchasing prohibited goods and services.
- Control must exist to ensure disputed purchases and discrepancy between a receipt and other supporting documentation and the statement of account is resolved in the manner prescribed in the GSA SmartPay master contract.

Review and Approve Process

- Control must exist to ensure a cardholder reconciles transactions within 30 days of the end of the cycle date.
- Control must exist to ensure proper supporting documentation accompanies charge card transactions.
- Control must exist to ensure the approving official/supervisor approves or disapproves charge card transactions within 30 days of the end of the cycle date.
- Control must exist to ensure a cardholder is not the approver of her or his own transactions regardless of review and approve methodology.

Charge Card Management Process

- Control must exist to ensure that charge card balances are paid and accounts are closed as required.
- Control must exist to ensure lost, damaged, or stolen cards are properly addressed.
- Control must exist to ensure charge card delinquency is addressed, including as necessary, through salary offsets.
- Controls must exist to ensure steps are taken to recover the cost of any illegal, improper, or erroneous purchases or payments, including as necessary, through salary offsets.
- Control must exist to ensure the number of cardholders assigned to an Approving Official/Supervisor is reasonable based on the volume of cardholder activity and organizational structure.
- Control must exist to ensure the Approving Official/Supervisor has direct knowledge of the cardholder's role and the ability to verify receipt of goods or services.

- Control must exist to ensure the number of cardholders and Approving Officials/Supervisors assigned to an A/OPC is reasonable based on the volume of cardholder activity and organizational structure.
- Control must exist to ensure that responsibilities of an Approving Official/Supervisor and A/OPC do not overlap. Control must exist to ensure the assignment of duties is separated by individuals; this may include the following duties: authorizing, approving, and recording transactions; receiving assets; approving cardholder statements; making payments; certifying funds; and reviewing or auditing.

Transaction controls exist to prevent or promptly detect a cardholder who makes improper transactions, which may include splitting purchases, buying outside of business line authority, spending over authorized limits, and purchasing prohibited goods and services.

Recommendation 5. The Office of Acquisition and Property Management issue final guidance on the professional services exemption from micro-purchase limits that reflects the Department of Labor regulations.

Response: Partially Concur. The Department acknowledges that the expired November 2008 Integrated Card Program Policy Manual did not contain additional guidance related to the micro purchase threshold. However, on June 26, 2016, PAM issued DOI-AAAP-0083, *Acquire “Learned Professional” Services at DOI* (attached). This policy establishes use of the DOI integrated charge card as the preferred method of payment to acquire third-party services for “learned professionals” (e.g., mediators, facilitators, coaches, organizational development experts, and others involved with mediation) under the following circumstances:

- When the services being acquired meet the test criteria of “learned professionals” described in 29 C.F.R.541.301, *Learned Professionals*;
- When the individual or entity providing the service accepts charge cards; and
- When the value of the services does not exceed the micro-purchase threshold.

The Department does not concur with the assertion that the transactions identified in the report exceeded the authorized spending limits for services. The Service Contract Labor Standards (formerly known as the Service Contract Act of 1965) limit the purchase of services using the charge card to \$2,500; however, Department of Labor regulations that implement the Service Contract Labor Standards provide that the services of “Learned Professionals” are exempt from the \$2,500 limit. These services are subject to the standard micro-purchase threshold under the Federal Acquisition Regulation (FAR) Subpart 13.2. Agencies are not required to republish this exemption; however, DOI established the charge card as the preferred method of payment for third-party services for learned professionals at the \$3,500 micro purchase limit.

Recommendation 6. Agencies develop and implement internal control procedures needed to ensure purchase logs are properly documented, maintained and current.

Response: Non-concur. The report reviewed bureau-specific policies and found that BIA, NPS and USGS added requirements for cardholders to maintain a purchase log. The updated ICCP Policy, issued in 2015, rescinded all previously issued charge card policies, including bureau-specific policies. The 2015 ICCP policy requires bureaus and offices to establish supplemental policies and procedures to adhere to the information provided in the policy; however, there is no mandate for bureaus to maintain purchase logs. To date, none of the bureaus evaluated for this report have issued updated policy to require the use of purchase logs. In FY 2013, BIA began its use of the servicing bank's electronic tools for online statement review and approval which provide an optional electronic purchase log to assist with account reconciliations. The use of this tool has since been expanded within BIA and is increasingly being used among all DOI bureaus.

Recommendation 7. Agencies instruct cardholders and AOs regarding the authorized uses of convenience checks and take appropriate actions for those who do not comply with policy.

Response: Partially Concur. While the 2015 ICCP Policy does not specifically require documentation to justify the use convenience checks, Section II, *Roles and Responsibilities*, requires convenience check writers to be responsible for the following:

- Completing mandatory training, applying for convenience checks, and obtaining spending authority;
- Ensuring the convenience checks are issued in her or his legal name;
- Reviewing account statements to ensure all transactions are accurate, valid, and incurred for official government business;
- Following bureau exit clearance procedures to ensure that unused checks are destroyed and account is closed when leaving the organization;
- Reconciling accounts with supporting documentation;
- Providing reconciliation documentation to the Group Management Assistant if the cardholder does not have computer access;
- Tracking outstanding checks that may appear as transactions on future billing statements; and
- Maintaining convenience check transaction files in accordance with bureau or office records retention requirements.

The BIE student lunch at Burger King was pre-ordered using an approved purchase request. The purchase cardholder was not present at the point of sale; therefore, the prudent business decision to write a convenience check to meet mission needs was not an attempt to circumvent policy. The USGS convenience usage is in compliance with the ICCP Policy.

The Department has implemented the Master Card EMS automated data mining tool to monitor convenience checks written to merchants that accept the purchase card. The automated data mining tool provides an essential internal control and improves convenience check surveillance by highlighting selected transactions for bureau A/OPC review. The BIA A/OPCs perform

online review using the case management tool and workflow steps to document their reviews. Section V of the ICCP Policy, *Administration*, also prescribes actions for A/OPCs to report instances of suspected misuse or abuse.

Recommendation 8. Agencies close cardholder accounts before employees separate to prevent fraudulent use.

Response: Non-concur. Upon official notification of an employee separation date during the exit clearance process, the cardholder account is first temporarily suspended to prevent fraudulent use. The cardholder's account is closed after ensuring all outstanding travel vouchers or purchase card transactions have posted in the bank system. Additional information such as email communications, Federal Personnel Payroll System (FPPS) employee status reports, and Financial and Business Management System (FBMS) inactive vendor report are also used to ensure timely account closures. The Charge Card Support Center routinely reviews these reports with bureau A/OPCs during biweekly Integrated Charge Card Program Partnership meetings. Unfortunately, we are not able to research the closed account circumstances with the cardholder's names that were referenced in this report. This data was not provided by the OIG.

In FY 2013, the Department implemented the automatic inactive account email alert functionality in the servicing bank's electronic monitoring tool to help A/OPCs monitor and review inactive accounts every 540 days. In addition, MasterCard EMS data mining rules were implemented to analyze and electronically monitor fleet card inactive account activity. Collectively, these oversight tools increase transparency, accountability, strengthens internal controls, and reduces the risk of fraud, waste, abuse and/or misuse on the charge card program. The Department's process for account closure is in compliance with the ICCP Policy, OMB Circular A-123 Appendix B, and the Government Charge Card Abuse Prevention Act of 2012.

Recommendation 9. DOI work with its agencies to establish a Departmentwide systematic review process for assigning MCC restricted groups.

Response: Non-concur. Merchants worldwide who accept the commercial credit card are registered in various business categories known as merchant category codes when the business begins accepting commercial credit cards as a form of payment. This commercial business process is managed by the credit card companies. The Federal Government does not have the authority to contract with the commercial market place or to direct merchants to change their commercial business practices.

The Department-wide restricted merchant category codes are monitored by the MasterCard EMS data mining tool. This tool monitors questionable or unauthorized merchant category codes for potential fraud, waste, abuse, and misuse, split transactions and charge card policy noncompliance. Efforts are already underway to add new government-wide restricted merchant category codes to EMS. Updates to merchant category groupings are routinely discussed during biweekly Integrated Charge Card Program Partnership meetings.

Recommendation 10. Agencies, in conjunction with the issuing bank, verify the accuracy of MCCs and verify that appropriate restrictions have been placed on purchase card accounts.

Response: Non-concur. Appropriate merchant category code restrictions on the integrated charge card business lines (purchase, travel, fleet, and declining balances accounts) already exist and are updated on an as-needed basis.

Thank you for the opportunity to comment. If you have questions or require additional information, please contact me at (202) 513-7554 or Debra_Sonderman@ios.doi.gov.

Attachments

Appendix 7: Status of Recommendations

| Recommendation | Status | Action Required |
|----------------------|------------------------------|--|
| 1, 2 | Resolved but not implemented | We will refer these recommendations to that Assistant Secretary for Policy, Management and Budget to track their implementation. |
| 4, 5, 6, 7, 8, 9, 10 | Resolved and implemented | No further action is required. |
| 3 | Unresolved | We will refer this recommendation to the Assistant Secretary for Policy, Management and Budget for resolution. |

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