



**EVALUATION OF
THE DEPARTMENT OF LABOR'S
PURCHASE CARD PROGRAM**

**OFFICE OF THE ASSISTANT SECRETARY FOR ADMINISTRATION
AND MANAGEMENT**

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ACRONYMS AND GLOSSARY

ACRONYMS

AO	-	Approving Official
A/OPC	-	Agency/Organization Program Coordinator
BLS	-	Bureau of Labor Statistics
DOL	-	Department of Labor
FAR	-	Federal Acquisition Regulations
GSA	-	General Services Administration
ILAB	-	Bureau of International Labor Affairs
MCC	-	Merchant Category Code
MSHA	-	Mine Safety and Health Administration
OA	-	Office of Audit
OASAM	-	Office of the Assistant Secretary for Administration and Management
OIG	-	Office of Inspector General
PCIE	-	President's Council on Integrity and Efficiency
PE	-	Procurement Executive
RASO	-	Regional Administrative Staff Officer

GLOSSARY

A/OPC	Individual designated by the Agency/Organization to manage the purchase card program for the Agency/Organization. Generally serves as the focal point for answering questions, coordinating applications, issuing and destroying cards, and reviewing reports.
Approving Official	Individual tasked with reviewing transactions of cardholders to ensure proper use of the purchase card. Approving Officials make

sure that purchases are necessary for accomplishing the mission of the agency.

Citibank	Bank that the Department of Labor chose to service DOL's purchase card program.
CitiDirect	Web-based environment system that gives authorized personnel access to a broad range of standard electronic reporting information/data, as well as the ability to create ad hoc reports.
Department	The Department of Labor, encompassing all of its program agencies.
Micro-Purchase	As defined in FAR 2.101, an acquisition of supplies or services (except construction), the aggregate amount of which does not exceed \$2,500.
Program Coordinator	Individual located in OASAM's Division of Acquisition and Management Support Services. The coordinator works with Citibank, as well as the A/OPCs, Approving Officials, and cardholders to facilitate administration of the credit card program Department-wide.
Program Participants	Includes the Program Coordinator, A/OPCs, Approving Officials, and Cardholders.
Simplified Acquisition Procedures	Policies and procedures for the acquisition of supplies and services, including construction, research and development, and commercial items, when the aggregate amount does not exceed the Simplified Acquisition Threshold.
Simplified Acquisition Threshold	As described in FAR 2.101, \$100,000, except in the case of any contract to be awarded and performed, or purchase to be made, outside the United States in support of a contingency operation as defined in 10 U.S.C. 101(a)(13).

EXECUTIVE SUMMARY

The Office of Inspector General conducted an evaluation on the adequacy of policies, procedures, and internal controls over the Department of Labor's Purchase Card Program. This program is a vital tool to the business operations of the Department. It comprised 114,906 transactions totaling approximately \$37.4 million for the twelve-month period of April 1, 2001, to March 31, 2002. Our evaluation found that internal controls and written operational procedures were not sufficient to detect and/or prevent potential misuse of the Government purchase card. Of particular concern were the inconsistent implementation of purchase card procedures within DOL agencies, and the lack of an adequate reconciliation process to ensure the validity of monthly purchase card transactions.

The Department's Procurement Executive has recently taken several positive steps to improve the Purchase Card Program, such as the implementation of annual program reviews, and reviews of cardholders that maintain a single purchase limit authority above the micro-purchase threshold. However, we found that internal controls and written operational procedures were inadequate to ensure that the goals of the Purchase Card Program are being fulfilled. Specifically, the Department needs to increase management oversight and controls over the program, update policy and procedural guidelines, improve the process used to transmit program information to cardholders, and ensure that adequate training is provided for assigned program responsibilities.

FINDINGS AND RECOMMENDATIONS

Finding A: Management Oversight and Control Over the Purchase Card Program Needs to be Strengthened

Within DOL, each program agency operates its purchase card program independently. However, our review found that management (Agency Headquarters and Regional Program Managers) did not provide a strong internal control structure that would require program agencies to consistently adhere to OASAM policies and procedures for purchase card programs. In addition, Agency/Organization Program Coordinators (A/OPC) did not provide sufficient information regarding matters that impact the overall operation of the program. We recommend that OASAM:

Require A/OPCs to provide updated information on a regular basis regarding changes to program participant information, such as change of addresses, telephone numbers, and assigned duty station.

Examine and modify, as needed, single and monthly purchase card limits in order to achieve ceilings that more accurately reflect spending patterns and agency needs.

Require agencies to review and update Merchant Category Code (MCC) controls to minimize prohibited purchases.

Re-examine GSA's recommendations for:

- Establishing formal criteria for the selection of cardholders and approving officials' accounts, single and monthly purchase limits, MCC blocks for usage, and deactivating or canceling purchase cards.
- Approving Official (AO) to cardholder common ratios to better ensure timely reviews of transactions.

Finding B: Current Policy and Procedural Guidelines Do Not Adequately Address Key Aspects of the Purchase Card Program

We found that the absence of formal procedures affected all areas of the Purchase Card Program. The Department's processes and procedures were not detailed enough to ensure that all aspects of an agency's program were operating in accordance with applicable regulations. Since each program agency operates its program independently, OASAM officials informed us that they do not believe that they have authority to "police" the program. Moreover, they stated that purchase card enforcement is the responsibility of management within each program agency. However, the DOL *Small Purchase Handbook* states that OASAM is responsible for policy and procedural guidance for the overall administration of the Purchase Card Program within the Department. We recommend that OASAM:

Update current policy and procedures, and publish appropriate changes, including the development of supplemental guidance and/or desk references, that inform program participants of their responsibilities on key aspects of the program.

Require agencies to review (a) contracting authority for cardholders with purchasing authority above the micro-purchase threshold, and (b) the number of cardholders based on the agency's need to better ensure realistic ceilings.

Advise agencies to better ensure that purchase cards are only used by qualified individuals responsible for making purchases, and ensure that the complete *Small Purchase Handbook* is accessible to all program participants.

Incorporate purchase card responsibilities in the performance standards for responsible OASAM employees, and encourage other program agencies to implement similar changes.

Review and address factors under the "risk assessment" component for internal controls as referenced in GAO's *Standard for Internal Control in the Federal Government*.

Finding C: Improved Communication and Training Will Enhance the Effectiveness of the Program

We found that the Purchase Card Coordinator was consistent in distributing policy and program information to A/OPCs. However, we found that all A/OPCs did not consistently provide necessary training and purchase card information to program participants. Therefore, there is reduced assurance that program participants were kept abreast of relevant purchase card information, and properly trained prior to receiving purchase cards. To strengthen internal controls over the program, we recommend that OASAM:

Consistently provide necessary information about the Purchase Card Program to all program participants.

Establish formal training requirements for program participants prior to the issuance of purchase cards.

Survey and evaluate current A/OPCs to determine training needed in order to fully utilize the capabilities of CitiDirect.

AGENCY RESPONSE AND OIG CONCLUSION

In response to OIG's official draft report, OASAM generally agreed with our findings. As a result of corrective actions planned or already taken by OASAM, we consider all 12 recommendations to be resolved. The recommendations will be closed pending OIG's receipt of appropriate documentation of corrective actions as specified in the report. We have incorporated excerpts from OASAM's response in the Findings and Recommendations section of this report. OASAM's complete response is included as an Appendix to the report.

BACKGROUND

In 1998, the General Services Administration (GSA) established a commercial purchase card program called SmartPay to replace the 1994 International Merchant Purchase Authorization Card (I.M.P.A.C.) program used by agencies to make small purchases. Under the auspices of the GSA SmartPay Program agencies were authorized to select providers. The Department of Labor (DOL) chose Citibank Visa to provide purchase card services to the Department. Within the Department of Labor (DOL), the goals in implementing this program were to 1) simplify procurement, 2) maintain reasonable assurance that purchases are consistent with procurement regulations, 3) expedite receipt of small purchases, and 4) minimize related administrative costs.

GSA's *Blueprint for Success: Purchase Card Oversight*, prepared by a working group of Agency/Organization Program Coordinators (A/OPC), serves as an information source for preventing and detecting misuse and fraud with Government purchase cards. DOL's *Small Purchase Handbook, Appendix (revised in 1999)* includes procedures for using the credit card for small purchases. The purchase card should be used, whenever possible, in place of purchase orders for \$2,500 or less, Standard Form 44 (Purchase order-Invoice-Voucher), and convenience checks. In addition, the Federal Acquisition Regulation, part 13.003(e), requires agencies to use the purchase card and electronic purchasing techniques to the maximum extent practicable in conducting simplified acquisitions.

In DOL, the Office of the Assistant Secretary for Administration and Management (OASAM) maintains responsibility for providing general policy guidelines, management oversight, and technical assistance to agencies regarding the purchase card program. Within OASAM, the Procurement Executive (PE) is responsible for overall policies and procedures related to procurements and training under the purchase card program.

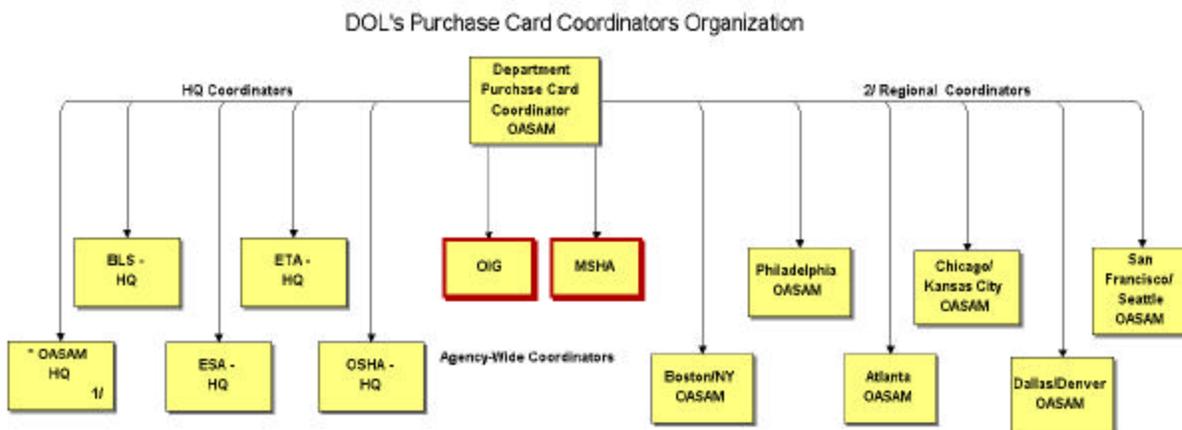
Under provisions of the SmartPay program that allow agencies to select a provider, Citibank provides card-based services to DOL. In coordination with Citibank, the OASAM Program Coordinator develops the DOL task order under the GSA contract, and arranges for necessary training and/or training materials for nationwide use.

The Director of OASAM's Financial Management Operations and OASAM Regional Administrators are responsible for the management and financial support of the credit card program within their servicing areas, with the exception of the Mine Safety and Health Administration (MSHA) and the Office of Inspector General (OIG).

In order to facilitate the daily operation of the Purchase Card Program, DOL developed a network of A/OPCs to manage and monitor the program. MSHA and OIG have appointed an employee to serve as A/OPC for their entire agency. ESA, ETA, OSHA and BLS appointed an A/OPC to handle only those employees located in their national office. For regional employees, the agencies rely on a regional OASAM employee to function as A/OPC for the region.

Figure 1 depicts the organizations with purchase card coordinators. Currently, there are a total of 17 A/OPCs who handle DOL’s Purchase Card Program.

Figure 1



OASAM regional offices internal structure, geographic location, and size determines the purchase card hierarchy structure. Each of the regions have two designated A/OPCs, with exception of the Boston/Ny, Philadelphia and Atlanta regions, which only have one A/OPC. (Source: Citibank)

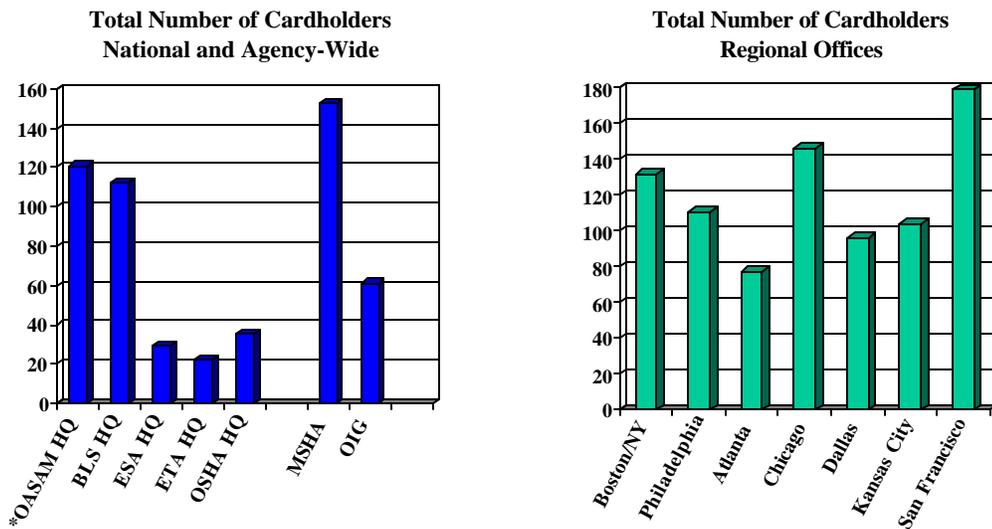
1/ OASAM HQ A/OPC handles the following agencies in addition to OASAM HQ cardholders: ARB, ASP, BRB, ECAB, ILAB, NSSB, OALJ, OCFO, OCIO, ODEP, OPA, OSBP, OSEC, PWBA, SOL, VETS, and WB.

2/ Regional A/OPCs handle regional cardholders in the following agencies: ARB, ASP, BLS, ETA, ESA, OALJ, OSHA, OSEC, PWBA, SOL, VETS, and WB.

Within the DOL Purchase Card Coordinators Organization, program agencies designate Approving Officials (AOs) who maintain responsibility for obtaining and controlling the use of credit cards issued to cardholders within their jurisdiction. Each agency sets purchase limits for cardholders and AOs. The cardholder is responsible for all purchases made with their assigned purchase card.

Based on Citibank’s “Account Listing” report dated March 28, 2002, the Department had approximately 1,378 cardholder accounts¹ within the agencies and regional offices shown in Figure 2. During the period of April 1, 2001, through March 31, 2002, cardholders made 114,906 transactions for a total of \$37,410,327.

Figure 2



Several Federal executive departments have noted the potential for fraud and misuse of the purchase card in their agencies. As a result, Congressional concern over the use of government purchase cards has risen in recent years. In July 2001 and March 2002, the House Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations, and the Committee on Government Reform held hearings regarding the misuse of purchase cards by Department of Defense employees. In addition, the President’s Council on Integrity and Efficiency’s Inspections and Evaluations Roundtable proposed a government-wide evaluation of the purchase card program.

¹ In addition to the cardholder accounts, the Department has 103 “corporate accounts.” These accounts serve as a budgetary tool that summarized funding information about all of the accounts under a particular hierarchy for that account.

PURPOSE, SCOPE, AND METHODOLOGY

PURPOSE

The purpose of this evaluation was to assess whether the Department of Labor's (DOL's) internal control procedures for the government purchase card program are adequate. The specific evaluation objectives were to identify: (1) the adequacy of controls in place over the Purchase cards; (2) whether processes and procedures in place were being followed; and, (3) areas that could be strengthened in order to better ensure that the goals of the program are achieved.

SCOPE

OIG's Office of Audit (OA) frequently examines purchase card transactions under the procurement section of the Annual Financial Statement Audit. Therefore, we limited our review to systemic policy and procedural issues within the purchase card program, excluding convenience checks. Our review period covered activities occurring between April 1, 2001, and March 31, 2002.

In addition to this report, we will issue separate reports to assess the internal controls over purchase cards within the Bureau of International Labor Affairs (ILAB), the Mine Safety and Health Administration (MSHA), the Bureau of Labor Statistics (BLS), and the Office of Inspector General (OIG).

METHODOLOGY

To determine the adequacy of DOL's internal controls over the Purchase Card Program, we examined: Citibank standard reports such as Account Listing and Decline Authorization Reports, data from Citibank's ad hoc reporting database that produces customized reports, pertinent federal laws and regulations, and DOL and Citibank guidelines and training materials. In addition to conducting a limited review of transaction data for most of the agencies in the Department, we conducted an analysis of data from OASAM Headquarters, ILAB, MSHA, BLS, and OIG. This included site-visits to headquarters and selected regional offices in order to review data, records, and interview program participants.

We used the five components² of internal controls identified in GAO's *Standard for Internal Control in the Federal Government* to evaluate the Department's internal control status. We also reviewed the PCIE/ECIE Inspection and Evaluation Committee's, *A Practical Guide For Reviewing Government Purchase Card Programs*, as a planning tool.

We coordinated our review with OIG's OA in order to avoid any duplication of efforts in the procurement area. Further, OA conducted tests of files in OASAM, BLS HQs, MSHA, ETA and OSHA.

We interviewed the Department's Purchase Card Program Coordinator and 16 of the Department's A/OPCs, as well as a selected number of Servicing Finance Offices' staff members. We randomly sampled and interviewed 24 cardholders and 16 Approving Officials from the selected agencies. We also interviewed the Citibank Account manager to obtain clarification on report structures.

² GAO identifies the following five standards for internal controls: control environment, risk assessment, control activities, information and communications, and monitoring.

We tested internal controls over document receipt and acceptance, reconciliation of monthly statements, pre-approval process of purchases, accountability after the cardholder made purchases, and indications of violation of procurement laws. Specifically, our review of transactions included 13,648 out of 114,906 transactions (12 percent) for the period April 1, 2001 to March 31, 2002.

In order to increase our understanding of issues related to the Purchase Card Program, we attended GSA training and seminars. We also attended Congressional hearings concerning government purchase cards.

We conducted our evaluation in accordance with the *Quality Standards for Inspections* published by the President's Council on Integrity and Efficiency.

FINDINGS AND RECOMMENDATIONS

The Department's Procurement Executive has recently taken several positive steps to improve the Purchase Card Program, such as the implementation of annual program reviews, and reviews of cardholders that maintain a single purchase limit authority above the micro-purchase threshold. However, our evaluation found that internal controls and written operational procedures were not sufficient to detect and/or prevent potential misuse of the Government purchase card. Specifically, the Department needs to increase management oversight and controls over the program, update policy and procedural guidelines, improve the process used to transmit program information to cardholders, and ensure that adequate training is provided to employees for assigned program responsibilities

FINDING A: MANAGEMENT OVERSIGHT AND CONTROL OVER THE PURCHASE CARD PROGRAM NEEDS TO BE STRENGTHENED

Office of Management and Budget (OMB) Circular No. A-123, Management Accountability and Control, dated June 1995, states that agency managers shall incorporate management controls in the strategies, plans, guidance, and procedures that govern their programs and operations. However, our review found that management (Agency Headquarters and Regional Program Managers) did not provide a strong internal control structure that would require each program agency to consistently adhere to OASAM policies and procedures for purchase card programs. In addition, key features of the purchase card program that could be used as preventive measures to reduce the occurrence of credit card abuses were not fully implemented.

Management Oversight

Within DOL, each program agency operates their purchase card program independently. We found that management was not enforcing program requirements for: ensuring an appropriate separation of duties between Approving Officials and cardholders; maintaining up-to-date program information; and, ensuring the appropriate use of Government purchase cards regarding the appropriateness of transactions, as well as the use of purchase cards solely by authorized cardholders.

Approving Officials

The Standards for Internal Controls in the Federal Government states, in part, that key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. In addition, GSA's *Blueprint for Success: Purchase Card Oversight*, herein referred to as "GSA's Manual," states that the responsibilities of cardholders, approving officials, and A/OPCs not overlap in order to ensure that management controls are not circumvented. According to GSA publications and DOL purchase card policies and procedures, Approving Officials (AOs) are responsible for selecting cardholders, making purchase decisions, monitoring purchase card activity, and ensuring that all transactions are in accordance with Government requirements. DOL's policy recommends that the AO maintain supervisory responsibility over the cardholder supervisor, and be at least one pay grade above the cardholder. However, we identified several cases where the same official functioned as the AO and the cardholder. We also found numerous instances where cardholders were also AOs for each other.

GSA's Manual for operating a purchase card program suggest that the number of cardholders and the volume of transactions for which an approving official is responsible needs to be reasonable so that the official may conduct reviews in a timely manner. Timely reviews of transactions are necessary to ensure

detection of possible cases of card misuse and fraud. GSA's Manual states that the most common AO to cardholder ratio is between 1:4 and 1:10. We found that most of the AOs had ten or less cardholders assigned to them. However, 19 of the Department's 435 AOs were assigned more than ten cardholders. In one case, we identified an AO with as many as 34 cardholders assigned.

According to OMB Circular A-123, Management Accountability and Control, management should ensure that appropriate authority, responsibility, and accountability are defined and delegated. As part of the Purchase Card Program, AOs are responsible for conducting monthly reconciliations to ensure the propriety of cardholder purchases. However, we found instances where there was no AO signature to indicate that a reconciliation had been conducted.

In addition, several agencies did not formally designate Alternate AOs to conduct the purchase card review functions in their absence. Our review of agency records disclosed that if an AO was not available to review the cardholder's monthly statement and supporting documentation, the reconciliation process usually did not take place, or unauthorized individuals signed for the AO.

Maintenance of Current Program Information

The Standards for Internal Control in the Federal Government states, in part, that transactions and other significant events need to be clearly documented and readily available for examination. DOL policies and procedures do not require A/OPCs to routinely update program participant information such as change of addresses, telephone numbers, and the location of cardholders within an A/OPC's area of responsibility. OASAM frequently receives external requests for information on DOL cardholders and contracting officials. In order to respond with accurate information, the Program Coordinator must request A/OPCs to update purchase card information. This is one of the times that program participant information is updated. In order to better ensure an appropriate level of accountability and control, management should consistently maintain accurate program information that includes current program participant information.

Appropriate Use of the Purchase Card

According to DOL policy, it is the joint responsibility of the cardholders' respective AOs and procurement officials at local and headquarters offices to identify and flag unauthorized micro-purchases, and take appropriate corrective actions. In order to allow agencies the maximum latitude in purchase decisions, GSA's Master Contract excludes only a few categories of purchases, such as long-term rental or lease of land or buildings, travel or travel-related expenses, and cash advances. DOL's policy does not fully address appropriate use of the purchase card. However, it does cite prohibited uses, which include:

- Travel and travel-related services
- Advisory and assistance services
- Services of a continuing or long-term nature, which are substantial and should be acquired through another procurement mechanism
- Telephone line services provided via the Federal Telecommunications System Contract
- Rental or lease of space
- Repair of GSA vehicles
- Clothing (including footwear), except in emergency situations when required for safety
- Supplies, furniture, and equipment available through mandatory sources of supply and where the vendor does not accept payment via credit card
- Fragmented micro-purchases
- Any other items that require specific approval(s) by officials above the level of the cardholder

Exceptions to prohibited uses of the purchase card should be pre-approved or documented by the A/OPCs.

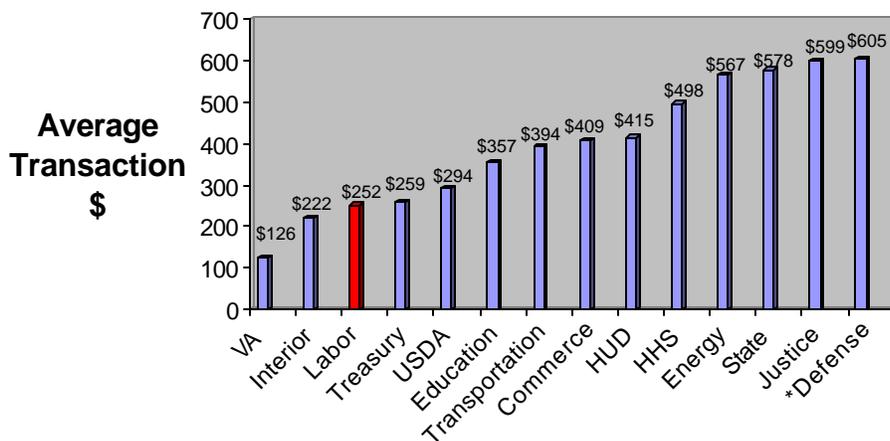
We found that many of the cardholders and approving officials were not fully aware of what constituted purchase card misuse. GSA’s Manual states examples of misuse such as: purchases which exceed the cardholder’s limit, purchases which are not authorized by the agency, purchases for which there is no funding, purchases for personal consumption, purchases that do not comply with FAR and/or other applicable procurement statutes and regulations, and purchases that are billed by merchants, but never received by the agency.

Based on our review of Citibank’s *Decline Authorizations Report*³, 624 cardholder accounts made 3,470 “decline attempts” for purchases totaling approximately \$2.5 million. For example, the report indicated that cardholders attempted to make 816 transactions that exceeded the cardholders’ authorized credit limit. Further, we noted that Citibank declined other cardholders’ transactions for such reasons as exceeding transaction limits, expired cards, closed accounts, and excluded merchant category codes (MCCs), which are indications of potential purchase card misuse. Many of these declined transactions were more prevalent during the end of the fiscal year.

Based on information provided by GSA for fiscal year (FY) 2001, we compared DOL’s average transaction rate of \$252 to other agencies. In our opinion, DOL’s low average transaction rate, along with only 84 out of 1,378 cardholders with single purchase limits greater than \$2,500 may have contributed to the likelihood of our evaluation not disclosing high-dollar value misuses of the purchase card in DOL in comparison to misuses of the purchase card at other Federal agencies. However, this does not prevent the misuse of the card for purchases with low dollar amounts. As shown in Figure 3, only two other agencies, the Departments of Veterans Affairs and Interior, had lower average transaction rates.

Figure 3

**Purchase Card Utilization Statistics by Federal Agency
FY 2001**



Our evaluation found many of the same issues identified in previous OIG audits since FY 1998, such as missing credit card statements and supporting documentation, and policy and procedures that have not been updated. Our review of transaction data also identified several micro-purchase transactions that could indicate potential instances of misuse. Specifically, we reviewed 13,648 out of 114,906 transactions (12

³ This report covers declined data for the period of September 1, 2001 through March 30, 2002.

percent) for the twelve-month period. Based on the vendors and/or MCCs, we identified the following questionable transactions:

- 108 travel-related transactions for individual hotel rooms, restaurants, airlines, vehicle rentals, and lodging
- 95 memberships to charitable and/or social organizations transactions
- 45 transactions for long-term monthly rentals
- 559 transactions for purchases at antique stores, craft and hobby stores, jewelry stores, department stores, variety/discount stores, and drug stores
- 75 transactions for non-office furniture

These transactions should have been subjected to further examination by the responsible A/OPCs. Even though it is within the agency's discretion to determine if such purchases enhance the effectiveness of the agency in accordance with applicable appropriation laws, these transactions appeared to be non-traditional purchases without written justifications to support their purchase as a necessary expense to a particular appropriation or program.

Our review also disclosed purchases for personal and other questionable items such as cosmetics, gift certificates, clothing, picture frames, plaques or trophies (other than performance based or incentive awards), refreshments, refrigerators, employee gifts, conference mementos, personal memberships and promotional items. For example, management approved the purchase of over \$600 for supplies, which included two microwaves, a vacuum cleaner, toaster, can opener, coffee makers, a wet jet kit, condiments (salt, pepper, and sugar), and other kitchen items. A finance specialist brought these purchases to the attention of the Department's acquisition policy office, who requested the manager's justification for the purchases. During the course of our field work, the manager provided a response to agency management officials; however, the response did not satisfy management's concerns. As a result, OASAM issued a memorandum of reprimand to the manager citing the inappropriateness of such purchase card activity.

Use of Purchase Card by Unauthorized Individuals

Office of Management and Budget Circular No. A-123, Management Accountability and Control, states that management controls must provide reasonable assurance that assets are safeguarded against waste, loss, unauthorized use, and misappropriation. However, we found incidences where the purchase card and/or account numbers were made accessible to individuals other than the assigned cardholder.

Unauthorized individuals made purchases over the phone and the Internet. In addition, we identified multiple purchases with the characteristics of a "split purchasing" pattern, and merchant receipts with other than the cardholder's signature on orders placed via the telephone.

We found that cardholders had delegated their purchase card responsibilities to an administrative assistant or an administrative staff person. The administrative assistant was usually the individual responsible for maintaining office supplies, and ensuring that office equipment was available and operational. However, these individuals were unfamiliar with appropriate procurement procedures, and were not designated as authorized users of a purchase card.

Many of the cardholders we interviewed understood that the card had been issued for their use exclusively. However, because of workload or convenience, it was easier for them to allow other individuals to use the

card. The cardholders permitted staff members with legitimate purchase requests to use their account number to directly place the order or use the designated administrative assistant to place the order. Several of the cardholders established procedures that would allow the requestor to inform the designated administrative assistant of their needs. Then, the administrative assistant would document and verify the request with the cardholder before placing the order. The cardholders were unaware that allowing unauthorized individuals access to their account number could potentially compromise the integrity of the purchase card.

A/OPC Management Control

We found that A/OPCs were not making use of available control mechanisms such as spending limits, Merchant Category Code (MCC) blocks, deactivating purchase cards with minimal inactivity, etc. as a means of preventing and detecting misuse and/or fraud with Government purchase cards. These controls are also useful in providing the agency a means of monitoring how and where cardholders use their card.

Credit limits are used as a means to restrict single purchase limits and monthly expenditures by the cardholder, and serve as a budgetary tool and deterrent for excessive cardholder misuse. However, A/OPCs and agency officials did not set realistic monthly limits that reflected cardholders' spending patterns and needs. For example, we found one cardholder who had three cards with single purchase limits of \$2,500, and monthly purchase limits of \$50,000 for each card. Therefore, the cardholder had a total monthly single purchase limit of \$7,500, and a monthly credit limit of \$150,000. While there may be reasons a cardholder may have more than one card, we found the agency did not have written justification for the cardholder having multiple cards. The lack of realistic ceilings allows cardholders to circumvent the system by making numerous small purchases without reaching their monthly ceiling.

The bankcard association and Citibank establish MCCs to identify different types of businesses. Merchants select the codes that best describe their business. Using these codes, agencies can limit or block the types of businesses where the purchase card can be accepted by providing Citibank a list of restricted MCCs for their agency. Our review of transactions disclosed that cardholders used the purchase card for items that should have been made with travel and fleet credit cards. Citibank officials explained that it is the A/OPCs' responsibility to provide restricted MCCs. However, agency A/OPCs had not taken steps to prohibit these types of transactions with MCC restrictions.

DOL policies and procedures do not address actions that should be taken when a purchase card is unused for an extended period of time. GSA's Manual recommends that purchase cards not used on a continuous basis should be deactivated. However, we found that at least 27 cardholders had not used the purchase card for eight months or more, but their cards had not been deactivated. Citibank officials explained that A/OPCs are responsible for canceling or deactivating accounts with little or no activity. However, A/OPCs and other agency officials had not developed a process for deactivating purchase cards with minimal activity.

RECOMMENDATIONS

We recommend that OASAM:

1. Require A/OPCs to provide updated information related to program participants on a regular basis.
2. Examine and modify, as needed, single and monthly purchase limits in order to achieve ceilings that more accurately reflect spending patterns and agency needs.
3. Require agencies to review and update MCC controls to minimize prohibited purchases.
4. Reexamine GSA's recommendations for:
 - Establishing formal criteria for the selection of cardholders and approving officials' accounts, single and monthly purchase limits, MCC blocks for usage, and deactivating or canceling purchase cards.
 - AO to cardholder common ratios.

OASAM's Response

Recommendation 1: *“The Procurement Executive will issue a memorandum to DOL agencies requiring an initial update of information and will require future updates on a quarterly basis. This initial information will be captured through a centralized database that will be maintained by OASAM, beginning November 2002. Agencies will also be requested to review the need of their cardholders to maintain purchasing authority above the micro-purchase threshold and the number of cardholders based on the their agencies’ programmatic need. Agencies will also be requested to provide a list of those cardholders that require cards above the micro-purchase limit and justification for the number of cardholders that exceed the recommended ratio (less than 1:10). OASAM will conduct periodic reviews of the database to ensure information is updated regularly. This requirement will also be included in a revised purchase card handbook.”*

Recommendation 2: *“As a policy, we have limited single purchase authority to \$2,500, unless the purchase cardholder is a warranted contracting officer or an individual with unique requirements who has completed appropriate training. In the Procurement Executive’s memorandum to DOL agencies (noted in Response #1 above) we will include information on the current purchase authority of each participant. For those accounts with single purchase card authority over \$2,500, we will require that A/OPCs confirm in writing that the appropriate limit is reflected. To ensure realistic monthly ceilings are consistently established, we will require that A/OPCs evaluate prior monthly total expenditures on a quarterly basis to determine whether monthly ceiling amounts require adjustments. In instances where an exception is warranted, A/OPCs will be required to provide justification to the approving official and maintain records of those approvals.”*

“It should be noted that certain cardholders, such as warehouse personnel and organizations with a higher volume of monthly purchases, might have a legitimate need for higher monthly limits. Currently, the Departmental default limit is set at \$10,000 per month. While there are no statutory or regulatory

guidelines establishing a monthly threshold, we will require that A/OPCs maintain justification for cardholders exceeding the \$10,000 monthly limit and closely monitor accounts that exceed that threshold.”

Recommendation 3: “...After consultation with A/OPCs, we will develop a DOL template of proposed appropriate MCC codes to be shared with the Agencies. After notifying cardholders, approving officials, and administrative officers of this change and its potential impact on future purchases, we will instruct Citibank to convert the current MCC controls to the new DOL default template and apply it department-wide. Specific requests for exceptions to the default template will be reviewed by the DOL’s Purchase Card Coordinator and will require the written approval of the Director, Division of Acquisition Management Services (DAMS).”

Recommendation 4: “We will examine the GSA recommendations to ensure that our written policies and procedures are consistent with recommended criteria. We will establish a policy for a ratio of approving officials to cardholders within the GSA recommended ratios....offices that currently exceed this ratio will be requested to adjust their operating ratios accordingly, or provide written justification to DAMS, outlining why that ratio should be exceeded.”

OIG’s Conclusion

We consider recommendations 1-4 to be resolved. If fully implemented, OASAM’s proposed corrective actions would adequately address our recommendations. The recommendations will be closed upon OIG’s receipt of the information listed below which should be submitted to this office no later than **January 31, 2003**:

- The memorandum/policy issuance to DOL agencies requesting updated program information as discussed above in your response to recommendations 1 and 2. This updated information should also include the official designation and training status of the alternate approving officials.
- A copy of DOL’s MCC template, including the written instructions to Citibank to implement the new template.
- DOL’s written policy regarding the ratio of approving officials to cardholders, as well as any agency justifications for exceeding that ratio.

FINDING B: CURRENT POLICY AND PROCEDURAL GUIDELINES DO NOT ADEQUATELY ADDRESS KEY ASPECTS OF THE PROGRAM

The Standards for Internal Control in the Federal Government state that management is responsible for developing detailed policies, procedures, and practices to fit their agency’s operations and to ensure that they are built into an integral part of operations. However, we found that that absence of formal procedures affected all areas of the Purchase Card Program. The Department’s processes and procedures were not detailed enough to ensure that all aspects of an agency’s program were operating in accordance with applicable regulations. Since each agency operates their purchase card program independently, OASAM officials informed us that they do not believe that they have authority to “police” the program, and that purchase card enforcement is the responsibility of management within each program agency. However, the DOL *Small Purchase Handbook* states that OASAM is responsible for policy and procedural guidance for the overall administration of the Purchase Card Program within the Department.

GSA Manual recommends that an agency’s policy, at a minimum, address the following areas to ensure clear guidance to A/OPCs, Approving Officials, and Cardholders:

➤ <i>Delegation of Contracting Authority</i>	➤ <i>Reconciling Accounts</i>
➤ <i>Training Requirements</i>	➤ <i>Review Procedures</i>
➤ <i>Account Limits</i>	➤ <i>Criteria for Establishing Accounts</i>
➤ <i>Span of Control for Approving Officials and A/OPCs</i>	➤ <i>Criteria for Canceling Account with Minimal Activity</i>
➤ <i>Receipt and Acceptance of Supplies and Services</i>	➤ <i>Uses of the Card</i>

We found that the Department’s purchase card procedures did not adequately communicate guidance on several of key aspects. In addition, this guidance was only available to program participants in hardcopy, and could not be accessed through the DOL website.

Delegation of Authority

Federal Acquisition Regulations (FAR), Part 1.603-3(a) states “*Contracting officers shall be appointed in writing on an SF 1402, Certification of Appointment, which shall state any limitations on the scope of authority to be executed.*” In addition, FAR, Part 1.603-3(b) states, “*agency heads are encouraged to delegate micro-purchase authority to individuals...who will be using the supplies or services being purchased. Individuals delegated this authority are not required to be appointed on an SF 1402, but shall be appointed in writing in accordance with agency procedure.*” However, we found that DOL’s policies and procedures do not inform program participants of the Department’s current delegations of authority. Further, we found that OASAM’s Office of Acquisition and Management Support Services did not maintain

(1) adequate records that specified authorities delegated to procurement officials in the Department, (2) copies of current appointments (SF 1402) of contracting officers, or (3) written appointments for those individuals delegated micro-purchase authority. Also, the Program Coordinator informed us that OASAM does not require agencies to designate in writing those cardholders with delegated micro-purchase authority, which contradicts requirements as outlined in the FAR.

Procurement delegation of authority sets limits and informs procurement officials of their contracting and grant limitations including spending and usage limitations. DOL officials at headquarters and in the regional offices may delegate procurement authority up to \$2,500. In a Departmental memorandum dated May 24, 2002, the Procurement Executive reiterated to Administrative Officers and Regional Administrators that “...no one has been given authority to use the purchase card in excess of the micro-purchase threshold [\$2,500] other than for payment against existing purchase orders or contracts. Only warranted contracting officers, and some purchasing agents, have the training and have been given the authority to use the purchase card above this dollar threshold.”

Based on single purchase limits provided by A/OPCs to Citibank, 94 percent, or 1,294, of DOL’s cardholders can make single purchases of \$2,500 or less. The remaining 6 percent, or 84 cardholders must be trained and warranted contracting officers/purchasing agents with the authority to use the purchase card above the micro-purchase threshold. However, we could only verify that 24 of the 84 cardholders had the qualifications for a single purchase limit greater than \$2,500.

Receipt of Purchases

OMB Circular No. A-123 states that transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. However, since documentation procedures used by cardholders varied by agency, we were unable to determine whether supplies and services ordered were actually received from the vendor/merchant. Documentation such as packing slips, invoices, and charge card slips did not always identify the recipient, date received, authorized signatures, and a description of the item or service.

DOL’s policy does not indicate the specific property and equipment that must be recorded, tracked, and verified. However, DOL policy related to the purchase of reportable equipment states, “...when sensitive or mission critical non-expendable personal property is purchased by the credit card, the cardholder should follow normal procedures for assuring this is recorded in the appropriate Departmental Property Management System...If in doubt as to whether a specific item is reportable, the administrative office should be contacted for assistance.”

Our review of program agencies’ records showed that there was minimal documentation for the purchase of and accounting for sensitive or mission critical non-expendable personal property items such as computers, cellular phones, audio/visual equipment, non-ADPE communications equipment, radios, calculators, medical/laboratory equipment, safety/test equipment, and specialized tools. For example, one agency purchased two color televisions, a digital video recorder, and a digital camera in one transaction.

The DOL *Small Purchase Handbook* requires the use of requisition forms (DL1-1s) and purchase logs. Requisition forms require several key elements including a description of articles or service; the requestors’ and supervisors’ signatures; and, the quantity and amount of purchase. Several program participants interviewed believed that the Department no longer required the use of these documents since the *Appendix* to the DOL *Small Purchase Handbook* is all that they were provided and it does not address the use of requisition forms and/or purchase logs. In addition, DOL’s policy only required cardholders and/or finance offices to retain appropriate records until the account is billed and settled; however, most agencies maintained the official documentation in their finance offices for various periods of time.

Review and Reconciliation Process Is Not Consistent

Based on DOL’s policy and procedures, AOs are responsible for reviewing purchases made by cardholders. However, we found that many AOs did not conduct thorough reviews of the monthly statements received

from cardholders or forward the statements to the finance office for payment. Instead, they relied on their budget or administrative staff to alert them of potential credit card issues. Because of inadequate training, AOs were not fully aware of their program responsibilities for ensuring that all purchases made by cardholders were appropriate.

Our review disclosed that the reconciliation process was not functioning as intended. For example, we identified missing monthly statements, inadequate documentation to support transactions, absent or incomplete purchase logs, inadequate descriptions of cardholder purchases, insufficient purchase data provided by the vendor/merchant, no proof of delivery, non-availability of credits and dispute documentation, or missing written justification/approval for exceptions.

DOL policy states, “...within five working days from the date signed by the Approving Official, local procurement offices are required to forward memo statements, purchase invoices, and Approving Official summary account listings to servicing finance offices. Processing is not to be delayed pending resolution of procurement issues, since these bills are subject to provisions for the Prompt Payment Act. The original copy of the approved Memo Statement along with the corresponding charge card slips shall be forwarded to the servicing finance office.” However, A/OPCs and finance office officials stated that they did not receive reconciled monthly statements with supporting documents in their office by the required due date.

One of our selected sites had 71 active cardholders during a three-month period. For that period, 31 cardholders did not submit their reconciled statements by the required due date. Nine of these cardholders did not submit their reconciled statement for at least two months, and five of these nine cardholders did not submit reconciled statements for all three months. We examined Citibank’s Account Activity⁴ for two of the cardholders, and identified potential indications of credit card misuse such as purchases in even dollar amounts, frequent purchases with the same vendor, and prohibited MCCs.

GSA’s Manual states that agency purchase card policies should address reviews to be undertaken by the AO and A/OPC. DOL purchase card policy only requires BLS and regional OASAM offices to forward certified monthly statements and documentation received from the cardholders to the A/OPC. The other agencies in the Department forwarded their monthly statements and documentation directly to the finance offices for payment. If A/OPCs are included in each agency’s reconciliation process, it could serve as an additional line of defense in mitigating risks to the agency. In addition, cardholders should use a standardized form to provide additional information to A/OPCs on questionable transactions. An example is provided on the GSA website:

http://www.gsa.gov/attachments/GSA_PUBLICATIONS/pub/PurchaseCardOversight.

During our review, we noted that some agencies were proactive in taking steps to ensure an effective reconciliation process. For example, one agency A/OPC suspends a cardholder’s account if they do not reconcile their monthly purchases by a designated date. This practice has helped to minimize the problem in that agency. Other Federal agencies have used even more detailed procedures to enhance the process to include an agency-wide card suspension penalty for those cardholders who do not submit reconciled statements in a timely manner. The first card suspension requires the approving official to document that they have completed the required reconciliation. The A/OPC would then reinstate the purchase card within 24-36 hours. If the A/OPC suspends the card a second time during a given time period, the card would be suspended for several weeks after the AO completed the reconciliation. In the case of a third suspension, the A/OPC has the discretion to cancel the cardholder’s account. Once an A/OPC cancels the account, the cardholder must wait 6-12 months before a new account could be opened.

⁴ Citibank’s Account Activity report provides details on each transaction such as date, type, merchant name and dollar amount. This report is particularly useful for identifying suspicious merchants, unusually high spending patterns or untimely purchases.

Purchase Card Cancellation Procedures

A/OPCs and the Department's Program Coordinator have the authority to suspend or cancel purchase cards within their area of responsibility. Purchase cards can be canceled for reasons such as a change in the cardholder's job status, separation or retirement from DOL, or cardholder misuse. GSA's Manual outlines the process used to initiate suspension or cancellation procedures.

Our review disclosed that accounts were being maintained for former purchase card participants, including AOs and A/OPCs, who were no longer employed by the Department. For example, one AO had left the Department over two years ago, but their purchase card was still active. In addition, we found two cases where program agencies continued to use accounts in cardholders' names even though those cardholders were no longer assigned to the agency.

Based on interviews with A/OPCs, we found that there was no mechanism in place to alert A/OPCs of administrative changes regarding a program participant or responsible official. In fact, A/OPCs stated that they only become aware of administrative changes regarding cardholders and AOs by chance or "word of mouth." In the absence of controls to immediately terminate purchase cards based on administrative changes, the vulnerability of purchase cards to abuse is greatly increased.

Dispute Resolution Process

GSA's Manual provides instructions regarding the dispute resolution process. These instructions state that in most cases, the cardholder should contact the merchant directly to resolve any disputed charges. If the cardholder and merchant are unable to resolve the dispute, the cardholder should complete a dispute form. All disputes must be reported to the agency's customer service representative within 60 days of receipt of the disputed statement. The contractor will suspend the disputed charge, and provide immediate temporary credit to the account pending resolution of the matter. According to the GSA contract, if cardholders do not officially dispute a purchase within 60 days after receipt of the disputed statement, the cardholder is responsible for the charge, and the Government purchase card will not be credited.

Our review found that when a discrepancy was identified on the invoice, the cardholder was usually able to informally resolve the dispute with the merchant. However, we found that cardholders did not always document their dispute resolution attempts. There were cases of unexplained credits on statements, and instances where the cardholder was waiting for a credit from the merchant. However, because attempts to resolve the discrepancies were not documented, there was no mechanism to ensure that the dispute was appropriately resolved or that the Government purchase card was properly credited for any amounts due.

Based on discussions with cardholders, they were not familiar with the dispute resolution process, and the timeframes for initiating specific actions as part of this process. Many of the program participants informed us that they would like to receive information regarding the dispute resolution process, and related documentation procedures.

GSA's Manual states that A/OPCs are required to monitor disputes filed by cardholders. However, we found that the A/OPCs were not always aware of on-going disputes since a notification process was not in place. Also, in cases where the cardholder formally initiated the dispute resolution process, there was no clear designation of whether the A/OPC, SFO, AO, or cardholder maintained responsibility for monitoring the dispute throughout the resolution process. Controls over the dispute resolution process need to be established in order to better ensure the appropriateness of Government purchase card payments.

Accountability Over Purchase Card Program Operations

As discussed in the Background section of this report, the Department developed a network of A/OPCs to manage and monitor the program. The majority of the A/OPCs were OASAM employees who performed the A/OPC responsibilities in addition to their regular duties. We found that purchase card responsibilities were not clearly linked to program participants' performance standards. The absence of this link greatly contributed to a lack of accountability by program participants who regarded their purchase card program responsibilities as an incidental function as compared to those specific duties and responsibilities outlined as performance standards for rating purposes. Responsibilities related to the Purchase Card Program need to be included in performance standards to better ensure accountability over program operations.

RECOMMENDATIONS

We recommend that OASAM:

5. Update current policy and procedures, and publish appropriate changes, including the development of supplemental guidance and/or desk references that guide program participants on key aspects of the program. The policy and procedures should include such items as:
 - implementation of a dual review process where all A/OPCs are actively involved in the review of purchase card transactions /appropriate documentation;
 - record retention requirements for purchase card documentation;
 - requiring cardholders to use purchase credit card logs and requisition forms to track purchase card activity.
6. Require agencies to review their need for contracting authority for cardholders with purchasing authority above the micro-purchase threshold and the number of cardholders based on the agencies' need.
7. Advise agencies to better ensure that qualified individuals responsible for making purchases only use purchase cards, and ensure that the complete *Small Purchase Handbook* is accessible to all program participants.
8. Recommend that managers and supervisors incorporate purchase card responsibilities in the performance standards for responsible OASAM program participants, and encourage other program agencies to implement similar changes.
9. Review and address factors under the GAO's "risk assessment" component for internal controls as referenced in GAO's *Standard for Internal Control in the Federal Government Components of Internal Control*.

OASAM's Response

Recommendation 5: To address this recommendation:

- "In August 2002, DOL Spotlight Number 764 was issued, outlining conduct and responsibility for safeguarding and using the Department's purchase card. It specifically highlighted responsibility to: (1) safeguard the storage and availability of purchase cards, (2) ensure that only authorized

official purchases are made, (3) training cardholders, and (4) the non-transferability of purchase cards to other individuals.”

- *“The Division of Acquisition Management Services will develop a standardized checklist for A/OPCs to use when reviewing purchase card accounts and a desk reference for cardholders. This checklist will allow A/OPCs to periodically review their Agency purchase card programs for compliance with established departmental thresholds, limitations and training requirements. We anticipate issuing this guidance by the end of the first quarter of FY 2003.”*
- *“The DOL Purchase Card Handbook will be updated to reflect policy changes, including restricted or prohibited purchases, ethics and record retention requirements, reconciliation of statements, and purchase card logs. In addition, we will include criteria that will be used to determine if, when, and how credit card accounts are to be suspended or terminated indefinitely (e.g., abuse or transfer of the cardholder). The revised Handbook will be issued by the end of 2nd quarter in FY 2003.”*

Recommendation 6: *See Response to Recommendation # 2.*

Recommendation 7: *“As noted in Response #5, we have already issued DOL Spotlight No. 764, which reiterates the prohibition of the use of the card by individuals other than the cardholder designated on the card. OASAM will work with DOL Agency financial management servicing offices, to implement a training program for all current and new cardholders, approving officials, and A/OPCs. We will set target dates for individuals who are found to have not completed required training, and will monitor compliance with those dates. This will become a part of our quarterly report and update systems with A/OPCs.”*

“The General Services Administration (GSA) currently offers free web-based purchase card training for cardholders and approving officials. These courses will be primary tools to conduct the training, and will be supplemented by other sources as the need arises. OASAM will continue to explore alternative sources of desktop purchase card training that will facilitate extending this training to the field.”

“In addition, we have begun planning for our first Purchase Card Conference, which will be held in the first quarter of FY 2003. The focus of the conference for A/OPCs, approving officials and others from the procurement community is to set a more uniform approach to managing the purchase card program. The conference will be used to promote increased oversight and control of the purchase card program and ensure the appropriate use of the card. As part of the conference, we will include training on verification/reconciliation of cardholder purchases, required documentation and information on purchasing limits. In addition, Citibank will conduct training on how to query special and ad-hoc reports.”

Recommendation 8: *“Included in the Procurement Executive’s memorandum to DOL Agencies will be a recommendation that managers and supervisors include performance elements in the performance standards of cardholders, approving officials, and A/OPCs. Sample elements will be provided that may be adapted to reflect the specific responsibilities of their purchase card officials.”*

Recommendation 9: *“GAO defines ‘risk assessment’ as an assessment of the risks the agency faces from both external and internal sources. As noted in the draft report, DOL has a low percentage of employees with purchase cards compared to other agencies and a low single purchase threshold that will mitigate the harm in the case of abuse.”*

“OASAM has also reduced risks associated with the Purchase Card Program by monitoring, requiring documentation, and purchase card activity review and approval. Since January 2001, OASAM has conducted purchase card reviews of the Bureau of Labor Statistics, ETA’s Office of Job Corps, and the

Mine Safety Health Administration. These reviews include a sampling of purchase card transactions in order to determine vulnerabilities. We have specifically focused on questionable purchases, and missing documentation. Although our reviews have revealed some inappropriate practices, to date we have not uncovered specific examples of waste, fraud, or abuse. Additional procurement reviews are scheduled for FY 2003. OASAM also plans to institute an Agency Purchase Card Self Certification Program. Implementation will include the submission of data on the agencies' credit card activity, problem areas, how problems are being addressed, and certification of the submission by the Agency Head. This annual review will supplement the targeted procurement management reviews being conducted by OASAM and assist in identifying trends or problem areas that require increased technical assistance."

OIG's Conclusion

We consider recommendations 5-9 to be resolved as a result of OASAM's planned corrective actions. These recommendations will be closed, pending receipt of the following material. This documentation should be provided to this office no later than **January 31, 2003**:

- A standardized checklist(s) for A/OPCs to use when reviewing accounts, desk reference(s) for cardholders, etc.
- The action plan for implementation of a Department-wide training program for all cardholders, approving officials, and A/OPCs. Although, we agree with OASAM's planned corrective action on training as referenced in the response to recommendation 7, we believe OASAM should encourage agencies to issue purchase cards to individuals tasked with making the purchases.
- The memorandum/policy issuance to DOL agencies that recommends including performance elements regarding purchase card responsibilities in performance standards of all program participants to better ensure accountability over the purchase card program.
- List of proposed Procurement Reviews as indicated above in your response to recommendation 9.
- The implementation plan for the Agency Purchase Card Self-Certification Program.
- In addition, please provide notification that the revised *Purchase Card Handbook* (1) reflects policy and procedural changes as indicated in your response, as well as instructions related to separation of duties, delegation of authority, and dispute resolution, (2) includes coverage of purchase card issues during ethics or standards of conduct classes for employees with purchase card responsibilities, and (3) has been posted on the *Labornet* by **April 18, 2003**.

FINDING C: IMPROVED COMMUNICATION AND TRAINING WILL ENHANCE THE EFFECTIVENESS OF THE PROGRAM

Providing accurate and timely information to cardholders is essential in ensuring efficient and effective program operations. Although the Purchase Card Coordinator distributed policy and program information to A/OPCs, program participants did not receive adequate information and essential training related to the purchase card program. As a result, program participants were not kept abreast of issues related to purchase card operations, and were not properly trained before credit cards were received.

Communications

Under the current system, the Program Coordinator disseminates information to A/OPCs who transmit information to purchase cardholders and approving officials. DOL's policy does not address how purchase card information should be disseminated to program participants. However, we found that the level of communication provided to program participants was directly related to the A/OPCs' expertise and how actively involved they were in the program.

Program participants indicated that they received minimal information regarding the purchase card program from the Department. Further, we found only a few instances where agencies developed and disseminated their own internal procedures or supplemental guidance to ensure that cardholders understood the purchase card process. The lack of information and instructions regarding the proper use of the purchase card and related requirements may contribute to internal control weaknesses and abuses over purchase card usage.

There are several methods that could be used to transmit purchase card information to program participants. The most readily available means may be through DOL's website or *Spotlight* publication. Prior to our review, these tools had not been used or considered as a means of delivering information to program participants. In order to better ensure the success of the purchase card program, participants need to keep abreast of program requirements, responsibilities, and updated information on a regular basis.

Training

The Standards for Internal Control in the Federal Government state that training should be aimed at developing and retaining employee skill levels to meet changing organizational needs. GSA's Manual defines training as a key component of fraud prevention. However, we found that the majority of program participants had not received any formal cardholder training or received training only during the inception of the program. Specifically, only one third of the A/OPCs and cardholders, and none of the approving officials we interviewed, had completed any type of purchase card training. Resources such as GSA's web-based Smartpay Purchase Card training had not been utilized.

The Program Coordinator indicated that Citidirect⁵, a web-based environment where A/OPCs could be trained to use the credit card information available, is underutilized. Our review found that several A/OPCs were unaware of Citidirect's capabilities. Only one of the A/OPCs interviewed had taken the Citidirect training.

Many cardholders we interviewed did not believe that training was necessary for their level of purchasing. Further, most program participants showed little or no interest in attending and/or completing formal

⁵Through Citidirect, Citibank's web-based electronic delivery system, designated cardholders can access account and other card-related information on-line.

training since their agency management placed no emphasis on training. They believe that it would be more helpful for the Department to circulate a fact sheet of “do’s” and “don’ts.”

According to data obtained from Citidirect, 120 new cardholders have entered the Purchase Card Program since October 2001. However, A/OPCs do not require cardholders to receive training prior to receipt of a purchase card. When asked if each cardholder had completed purchase card training, one A/OPC informed us that they had no way of knowing who had formal, on-line, or any type of training.

GSA’s Manual designates training as a factor to consider in appointing A/OPCs or AOs to ensure they can successfully perform their duties. However, Department-wide purchase card training has not been offered to A/OPCs. The Program Coordinator forwards training opportunities that become available from such sources as Citibank, GSA, USDA, etc. to A/OPCs. Based on discussions with program participants, we were unable to determine whether cardholders took advantage of those training opportunities.

Cardholders with purchase authority over the micro-purchase level of \$2,500 are considered by the Department as “procurement officials,” and, therefore, are required to receive procurement ethics training. The OIG believes that discussions regarding the appropriate use of the purchase card should not be limited to procurement officials, and should be included in regular ethics training for employees with purchase card responsibilities.

RECOMMENDATIONS

We recommend that OASAM:

10. Provide more information to program participants about the purchase card program by doing such things as:
 - Developing materials such as a simple list of practical “Do’s and Don’ts” or Frequently Asked Questions (FAQs) to be distributed to employees;
 - Make use of available resources as a media, e.g. the *Spotlight* to communicate purchase card information not only to the A/OPCs, but to all program participants;
 - Covering purchase card issues during current ethics or standards of conduct classes for employees with purchase card responsibilities;
 - Informing employees that their transactions are being reviewed; and advise employees that disciplinary action will be taken regarding misuse.
11. Establish formal requirements for training cardholders prior to the issuance of purchase cards.
12. Survey and evaluate current A/OPCs to determine what training would be necessary to fully utilize CitiDirect.

OASAM’s Response

Recommendation 10: To address this recommendation:

- *“OASAM will post on the Labornet all purchase card policy guidelines, source documentation and hyperlinks to federal polices (such as the GSA Blueprint for Success). As bulletins, guidelines, and*

policies are promulgated, the executed documents will also be posted in the 1st quarter of FY 2003.”

- *“In preparation for the Purchase Card Conference, we will compile recent guidance on purchase card operations to share with participants, and stakeholders. The Conference will include presentations by the Office of Inspector General, Office of Management and Budget and the General Services Administration. We have asked Citibank to conduct hands-on computer based sessions, as part of the Conference, on purchase card account management, including how to generate "ad hoc" reports to identify fragmented acquisitions, decline authorizations, inactive accounts, questionable purchases above the micro-purchase threshold, delinquent reconciliation of accounts, and suspicious purchases as identified by merchant category codes.”*

Recommendation 11: *“A training program as identified in Response # 7 and # 10 will be implemented by the end of the first quarter of FY 2003.”*

Recommendation 12: *“As part of the Purchase Card Conference agenda, we will assess future training needs of the A/OPCs, including what is needed to launch CitiDirect.”*

OIG’s Conclusion

OASAM’s proposed corrective actions adequately address recommendations 10-12. Also, we noted that your response to the third item under recommendation 10 is included in your response to recommendation 5. Therefore, we consider recommendations 10-12 to be resolved. These recommendations will be closed after receipt of the following written documentation by this office, no later than **January 31, 2003:**

- Notification of the posting of all DOL purchase card policy guidelines, source documentation, and hyperlinks to federal policies on the **Labornet**.
- An action plan for implementing a Department-wide training program for all cardholders, approving officials, and A/OPCs.
- The agenda and attendance records for the planned Purchase Card Conference.

APPENDIX

Agency's Response



MEMORANDUM FOR SYLVIA

A handwritten signature in black ink, appearing to read "E. C. Hugler".

FROM: EDWARD C. HUGLER
Deputy Assistant Secretary
For Administration and Management

SUBJECT: Response to Evaluation of DOL 's Purchase Card Program Review
Draft Report No. 2E-09-00 1-0002 Purchase Card

This memorandum responds to the draft findings and recommendations of the Office of Inspector General's (OIG) evaluation of DOL's Purchase Card Program, dated September 13, 2002. We appreciate the balance included in the draft report which notes, "the Procurement Executive has recently taken several positive steps to improve the program". Overall the draft report offers useful suggestions for improving management of the DOL Purchase Card Program.

Finding A: Management Oversight and Control of the Purchase Card Program is Inadequate

Recommendation 1: Require Agency /Organization Purchase Card Coordinators (A/OPCs) to provide updated program participants' information on a regular basis (i.e. monthly, quarterly, semi-annual).

Response: The Procurement Executive will issue a memorandum to DOL agencies requiring an initial update of information and will require future updates on a quarterly basis. This initial information will be captured through a centralized database that will be maintained by OASAM, beginning November 2002. Agencies will also be requested to review the need of their cardholders to maintain purchasing authority above the micro-purchase threshold and the number of cardholders based on their agencies' programmatic need. Agencies will also be requested to provide a list of those cardholders that require cards above the micro-purchase limit and justification for the number of cardholders that exceed the recommended ratio (less than 1 :10). OASAM will conduct periodic reviews of the database to ensure information is updated regularly. This requirement will also be included in a revised purchase card handbook.

Recommendation 2: Examine and modify both the single purchase limits and monthly limits for consistency and more realistic ceilings.

Response: As a policy, we have limited single purchase authority to \$2,500, unless the purchase cardholder is a warranted contracting officer or an individual with unique requirements who has completed appropriate training. In the Procurement Executive's memorandum to DOL agencies (noted in Response #1 above) we will include information on the current purchase authority of each participant. For those accounts with single purchase card authority over \$2,500, we will

require that A/OPCs confirm in writing that the appropriate limit is reflected. To ensure realistic monthly ceilings are consistently established, we will require that A/OPCs evaluate prior monthly total expenditures on a quarterly basis to determine whether monthly ceiling amounts require adjustments. In instances where an exception is warranted, A/OPCs will be required to provide justification to the approving official and maintain records of those approvals.

It should be noted that certain cardholders, such as warehouse personnel and organizations with a higher volume of monthly purchases, might have a legitimate need for higher monthly limits. Currently, the Departmental default limit is set at \$10,000 per month. While there are no statutory or regulatory guidelines establishing a monthly threshold, we will require that A/OPCs maintain justification for cardholders exceeding the \$10,000 monthly limit and closely monitor accounts that exceed that threshold.

Recommendation 3: Require agencies to review and update Merchant Category Classification (MCC) controls to eliminate prohibited purchases.

Response: The General Services Administration (GSA) credit card contract includes various groupings of pre-established MCC codes. After consultation with A/OPCs, we will develop a DOL template of proposed appropriate MCC codes to be shared with the Agencies. After notifying cardholders, approving officials, and administrative officers of this change and its potential impact on future purchases, we will instruct Citibank to convert the current MCC controls to the new DOL default template and apply it department-wide. Specific requests for exceptions to the default template will be reviewed by DOL's Purchase Card Coordinator and will require the written approval of the Director, Division of Acquisition Management Services (DAMS). I

Recommendation 4: Reexamine GSA 's recommendations for: establishment of formal criteria for the selection of cardholders and approving official accounts, single and monthly purchase limits, MCCs blocks for usage, and deactivation or cancellation of purchase cards; and AO to cardholder common ratios of 1 :4 and 1: 10.

Response: We will examine the GSA recommendations to ensure that our written policies and procedures are consistent with the recommended criteria. We will establish a policy for a ratio of approving officials to cardholders within the GSA recommended ratios. The three offices that currently exceed this ratio will be requested to adjust their operating ratios accordingly, or provide written justification to DAMS, outlining why that ratio should be exceeded.

Finding B: Current Policy and Procedural Guidelines Do Not Adequately Address Key Aspects of the Pro2ram

Recommendation S: Update current policy and procedures, and publish appropriate changes, including the development of supplemental guidance and/or desk references that direct program participants on key aspects of the program.

Response: To address this recommendation:

- In August 2002, *DOL Spotlight Number 764* was issued,' outlining conduct and responsibility for safeguarding and using the Department's purchase card. It specifically highlighted responsibility to: (1) safeguard the storage and availability of purchase cards, (2) ensure that only authorized official purchases are made, (3) training cardholders, and (4) the non-transferability of purchase cards to other individuals.
- The Division of Acquisition Management Services will develop a standardized checklist for A/OPCs to use when reviewing purchase card accounts and a desk reference for cardholders. This checklist will allow A/OPCs to periodically review their Agency purchase card programs for compliance with established departmental thresholds, limitations and training requirements. We anticipate issuing this guidance by the end of the first quarter of FY 2003.
- The DOL Purchase Card Handbook will be updated to reflect policy changes, including restricted or prohibited purchases, ethics and record retention requirement, reconciliation of statements, and purchase card logs. In addition, we will include criteria that will be used to determine if, when, and how credit card accounts are to be suspended or terminated indefinitely (e.g., abuse or transfer of the cardholder). The revised Handbook will be issued by the end of the 2nd quarter in FY 2003.

Recommendation 6: Require agencies to review their need for contracting authority for cardholders with purchasing authority above the micro-purchase threshold and the number of cardholders based on the agencies' need.

Response: See Response # 2.

Recommendation 7: Advise agencies to issue purchase cards to appropriately qualified individuals who are actually making the purchases and make accessible the complete *Small Purchase Handbook* to all program participants.

Response: As noted in Response #5, we have already issued DOL Spotlight No.754, which reiterates the prohibition of the use of the card by individuals other than the cardholder designated on the card. OASAM will work with DOL Agency financial management servicing offices, to implement a training program for all current and new cardholders, approving officials, and A/OPCs. We will set target dates for any individuals who are found to have not completed required training, and will monitor compliance with those dates. This will become a part of our quarterly report and update systems with A/OPCs.

The General Services Administration (GSA) currently offers free web-based purchase card training for cardholders and approving officials. These courses will be primary tools to conduct the training, and will be supplemented by other sources as the need arises. OASAM will continue to explore alternative sources of desktop purchase card training that will facilitate extending this training to the field.

In addition, we have begun planning for our first Purchase Card Conference, which will be held in the first quarter of FY 2003. The focus of the conference for A/OPCs, approving officials and others from the procurement community is to set a more uniform approach to managing the purchase card program. The conference will be used to promote increased oversight and control of the purchase card program and ensure the appropriate use of the card. As part of the conference, we will include training on verification/reconciliation of cardholder purchases, required documentation and information on purchasing limits. In addition, Citibank will conduct training on how to query special and ad-hoc reports.

Recommendation 8: Incorporate purchase card responsibilities in the performance standards for OASAM program participants and encourage other program agencies to implement similar changes.

Response: Included in the Procurement Executive's memorandum to DOL Agencies will be a recommendation that managers and supervisors include performance elements in the performance standards of cardholders, approving officials, and A/OPCs. Sample elements will be provided that may be adapted to reflect the specific responsibilities of their purchase card officials.

Recommendation 9: Review and address factors under GAO's "risk assessment" component for internal controls.

Response: GAG defines "risk assessment" as an assessment of the risks the agency faces from both external and internal sources. As noted in the draft report, DOL has a low percentage of employees with purchase cards compared to other agencies and a low single purchase threshold that will mitigate the harm in the case of abuse.

OASAM has also reduced the risks associated with the Purchase Card Program by monitoring, requiring documentation, and purchase card activity review and approval. Since January 2001, OASAM has conducted purchase card reviews of the Bureau of Labor Statistics, ETA's Office of Job Corps, and the Mine Safety Health Administration. These reviews include a sampling of purchase card transactions in order to determine vulnerabilities. We have specifically focused on questionable purchases, and missing documentation. Although our reviews have revealed some inappropriate practices, to date we have not uncovered specific examples of waste, fraud, or abuse. Additional procurement reviews are scheduled for FY 2003. OASAM also plans to institute an Agency Purchase Card Self Certification Program. Implementation will include the submission of data on the agencies' credit card activity, problem areas, how problems are being addressed, and certification of the submission by the Agency Head. This annual review will

supplement the targeted procurement management reviews being conducted by OASAM and assist in identifying trends or problem areas that require increased technical assistance.

Finding C: Improved Communication and Training Will Enhance the Effectiveness of the Program

Recommendation 10: Provide more information about the purchase card program through improved materials and training. I

Response: To address this recommendation:

- OASAM will post on the Labornet all purchase card policy guidelines, source documentation and hyperlinks to federal policies (such as the GSA Blueprint for Success). As bulletins, guidelines, and policies are promulgated, the executed documents will also be posted in the 1st quarter of FY 2003.
- In preparation for the Purchase Card Conference, we will compile recent guidance on purchase card operations to share with participants, and stakeholders. The Conference will include presentations by the Office of Inspector General, Office of Management and Budget and the General Services Administration. We have asked Citibank to conduct hands-on computer based sessions, as part of the Conference, on purchase card account management, including how to generate "ad hoc" reports to identify fragmented acquisitions, decline authorizations, inactive accounts, questionable purchases above the micro-purchase threshold, delinquent reconciliation of accounts, and suspicious purchases as identified by merchant category codes.

Recommendation 11: Establish formal requirements for training cardholders prior to the issuance of purchase cards.

Response: A Training program as identified in Response #7 and #10 will be implemented by the end of the first quarter of FY 2003.

Recommendation 12: Survey and evaluate current A/OPCs to determine what training would be necessary to fully utilize CitiDirect.

Response: As part of the Purchase Card Conference agenda, we will assess future training needs of the A/OPCs, including what is needed to launch CitiDirect.

I believe that we have addressed the issues raised in the draft report. If you need additional information, please have a member of your staff contact Jeffrey Saylor at (202) 693-7282.

cc: Patrick Pizzella