

U.S. Department of Labor

Office of Inspector General—Office of Audit

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



OASAM COULD IMPROVE OVERSIGHT OF PURCHASE CARD TRANSACTIONS

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BRIEFLY...

OASAM COULD IMPROVE OVERSIGHT OF PURCHASE CARD TRANSACTIONS

March 23, 2018

WHY OIG CONDUCTED THE AUDIT

Using purchase cards reduces administrative costs and increases flexibility to meet government needs; however, if not properly managed, purchase cards can increase the risk of illegal, improper, or erroneous purchases. In Fiscal Year 2017, the Department of Labor (DOL) had 760 purchase cardholders who incurred 43,768 transactions, totaling approximately \$15.3 million. The proper design and implementation of controls over the purchase card program are crucial to detecting and preventing fraudulent or improper purchases.

WHAT OIG DID

We conducted a performance audit to determine the following:

Has OASAM designed and implemented adequate controls over DOL's purchase card program to minimize the risk of illegal, improper, or erroneous purchases?

To answer this question, we reviewed purchase card transactions from July 2016 through March 2017 to identify transactions that exceeded purchase limits, transactions from prohibited merchants, weekend and holiday transactions, transactions with taxes, transactions occurring after the purchase card was closed, suspicious vendors, and split purchases.

READ THE FULL REPORT

<http://www.oig.dol.gov/public/reports/oa/2018/17-18-002-07-001.pdf>

WHAT OIG FOUND

OASAM has established adequate controls over DOL's purchase card program to reduce the risk of illegal, improper, or erroneous purchases. However, DOL component agencies did not implement these controls consistently. While we found no purchases of inappropriate or unauthorized goods or services, we did identify inappropriately paid taxes on transactions, and cardholders that failed to document the independent inspection of goods or services received.

We reviewed a statistical sample of 69 high-risk transactions, totaling \$106,456, from a universe of 5,338, and found 22 transactions from 2 vendors in which \$1,486 in taxes were inappropriately paid. Our review of the remaining 5,269 transactions noted 130 additional transactions with the same 2 vendors in which \$1,606 in taxes were also inappropriately paid. Finally, we identified 910 other transactions in our universe that also may have incurred unauthorized and inappropriate tax expenses. Allowing the federal government to incur state and local taxes leaves DOL open to unnecessary costs that could be otherwise used for program expenses.

We also found 7 transactions, totaling \$7,430, that lacked documentation of an independent inspection and acceptance when the purchases were received. The failure to validate the independent receipt of items allows cardholders an avenue to make undetected personal transactions.

OASAM has delegated an extensive part of the purchase card process to DOL component agencies, but it needs to ensure component agencies effectively implement already established controls.

WHAT OIG RECOMMENDED

We made recommendations to the Assistant Secretary for Administration and Management to improve oversight of the purchase card program.

The Assistant Secretary for Administration and Management concurred with the OIG's conclusions and agreed with the recommendations.

TABLE OF CONTENTS

INSPECTOR GENERAL’S REPORT 1

RESULTS 2

 Controls over purchase card transactions were not consistently
 implemented..... 2

OIG’S RECOMMENDATIONS 5

 Summary of OASAM’s response..... 6

APPENDIX A: SCOPE, METHODOLOGY, & CRITERIA..... 7

APPENDIX B: AGENCY’S RESPONSE TO THE REPORT 11

APPENDIX C: ACKNOWLEDGEMENTS 13



INSPECTOR GENERAL'S REPORT

Bryan Slater
Assistant Secretary
for Administration and Management
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This report includes the results of our audit of the Department of Labor's (DOL) purchase card program. Using purchase cards reduces administrative costs and increases flexibility to meet government needs; however, if not properly managed, they can increase the risk of illegal, improper, or erroneous purchases.

In Fiscal Year (FY) 2017, DOL had 760 purchase cardholders who incurred 43,768 transactions, totaling approximately \$15.3 million. The proper design and implementation of controls over the purchase card program are crucial to detecting and preventing fraudulent or improper purchases.

We conducted a performance audit to determine the following:

Has OASAM designed and implemented adequate controls over DOL's purchase card program to minimize the risk of illegal, improper, or erroneous purchases?

Based on our audit, we determined OASAM had established adequate controls over DOL's purchase card program to reduce the risk of illegal, improper, or erroneous purchases, but DOL agencies did not implement these controls consistently.

In conducting this audit, we reviewed purchase card transactions from July 2016 through March 2017 to identify transactions that exceeded purchase limits, transactions from prohibited merchants, weekend and holiday transactions, transactions with taxes, transactions occurring after the purchase card was closed, suspicious vendors, and split purchases.

RESULTS

OASAM had established adequate controls over DOL's purchase card program to reduce the risk of illegal, improper, or erroneous purchases. However, DOL component agencies did not implement these controls consistently. While we found no purchases of inappropriate or unauthorized goods or services, we did identify cardholders who inappropriately paid taxes on transactions and cardholders who failed to document the independent inspection of goods or services received.

Based on our testing of sampled high-risk transactions, we found 22 transactions with 2 vendors where \$1,486 in taxes were inappropriately paid. Our review of 130 additional transactions with the same two vendors noted \$1,606 in taxes that were also inappropriately paid. In addition, we found 7 transactions, totaling \$7,430, that lacked documentation of an independent inspection and acceptance when the purchases were received.

OASAM has delegated an extensive part of the purchase card process to DOL component agencies, but it needs to ensure component agencies effectively implement already established controls.

CONTROLS OVER PURCHASE CARD TRANSACTIONS WERE NOT CONSISTENTLY IMPLEMENTED

Purchase card transactions are governed by policies and procedures contained in the DOL Purchase Card Handbook. During our testing, we did not identify the purchase of any inappropriate or unauthorized goods or services. However, we identified transactions that should not have included taxes and transactions that lacked documentation of an independent inspection and acceptance when the purchases were received.

The purchase card program was created as a way for agencies to streamline federal procurement processes through a low-cost, efficient means of attaining goods and services directly from merchants. Typically, purchase cards are used for transactions of \$3,500 or less — the micro-purchase threshold. For DOL, OASAM manages the purchase card program and is responsible for providing

oversight, controls, and technical assistance. DOL component agencies are responsible for implementing the controls.

DOL component agencies designate an Agency/Organization Program Coordinator (A/OPC) to manage their purchase cards. Some of the duties assigned to A/OPCs include maintaining records to show cardholders have completed required training, reviewing purchase card activity to identify and close or suspend inactive accounts, and establishing controls to ensure cardholders and approving officials (AO) timely submit reconciled bank memo statements and the appropriate supporting documentation for purchase card transactions. AOs and alternate AOs (who serve as backups) are designated by each DOL component agency. These individuals, who must be at an administrative level above the cardholder, review and approve purchase cardholder activity; review incoming questions and issues; monitor fraud and abuse/misuse within their programs; and review the program at least once a year to ensure cardholders and approving officials use internal controls and follow proper procedures.

CARDHOLDERS DID NOT REQUEST TAX-EXEMPT STATUS

Our statistical sample identified 22 transactions from 2 vendors, which incurred unauthorized and inappropriate tax expenses, totaling \$1,486. In addition, we reviewed the remaining transactions in our universe from the same 2 vendors and identified 130 additional transactions with unauthorized and inappropriate tax expenses, totaling \$1,606. Finally, we identified 910 additional transactions in our universe that also may have incurred unauthorized and inappropriate tax expenses. Allowing the federal government to incur taxes leaves DOL open to unnecessary costs that could be used for program expenses.

We tested a statistical sample of 69 high-risk transactions, totaling \$106,456, from a universe of 5,338, and found 19 transactions from the vendor Verizon in which \$1,455 in taxes were inappropriately paid and 3 transactions from the vendor Amazon in which \$31 in taxes were paid.

We then reviewed the remaining 5,269 transactions from our universe to identify any additional exceptions from those vendors and noted 106 additional transactions from Verizon, incurring \$1,504 in taxes, and 24 additional transactions from Amazon, incurring \$102 in taxes that were also inappropriately paid. Additionally, 910 transactions (other than transactions noted above) from multiple vendors may have inappropriately paid \$20,101 in taxes. These improper payments of state and local taxes represented unnecessary costs that could have been used for other program expenses.

According to the DOL Purchase Card Program Handbook, Section 3.4, Tax Exempt Status, the supremacy clause of the U.S. Constitution (as interpreted by several U.S. Supreme Court decisions) establishes that states, including local governments, are prohibited from taxing the federal government. Therefore, when making purchases with the purchase card, cardholders should always request tax-exempt status for their purchases. The inclusion of taxes in government purchases is a violation of federal procurement regulations and results in DOL overpaying for goods and services.

For the Verizon transactions, when the accounts were established, the cardholder did not utilize the federal government's tax-exempt status for state and local taxes and Verizon continued to include the taxes on the invoices. For the Amazon transactions, the cardholder did not ensure that taxes were not included as part of the transaction. In both cases, the AO failed to appropriately monitor the transactions to ensure cardholders adhered to existing DOL Purchase Card Program Handbook requirements regarding the exclusion of taxes in federal government transactions.

Purchase cardholders who incurred taxes should attempt reimbursement by the service or sales provider. Cardholders can also ensure that future taxes are prevented by going through the necessary channels with vendors to authenticate and verify their tax exemption status. For the two vendors identified in our review, cardholders can apply specifically for the Verizon Federal Excise Tax Exemption Certificate and Amazon Tax Exemption Program.

PURCHASES LACKED INDEPENDENT INSPECTIONS AND ACCEPTANCE

When we reviewed the supporting documentation for the 69 high-risk transactions in our sample, DOL could not provide supporting documentation validating that the orders related to 7 Amazon transactions from 5 cardholders, totaling \$7,430, were independently received, inspected, and accepted.¹ The failure to validate the independent receipt of items exposes DOL to an increased risk of paying for items it did not receive and increases the risk that fraudulent personal transactions may go undetected.

According the Purchase Card Program Handbook, Section 3.12, Inspection and Acceptance (Receipt of Supplies and Services), cardholders, when possible, should use a third party to document "independent" inspection and acceptance ("receipt") of supplies and services they order or obtain over-the-counter. This

¹ Our sample was only of high-risk transactions; as such, we did not project the results to the entire universe of transactions.

simply means having another government employee sign off on the receipt or other purchase documentation verifying that the supplies/services were inspected and accepted (and retaining a copy in the cardholder's file). In some cases, it may not be possible to complete an independent inspection and acceptance, such as when making an emergency purchase, or other circumstances where no other government employee is available. In those cases, the cardholder should annotate the purchase documentation to indicate that independent inspection and acceptance was not possible and why.

Independent inspection and acceptance of the purchases did not occur because the purchase cardholders did not follow the applicable policies and procedures to ensure the purchases were properly received. Furthermore, the AO did not ensure the independent inspection and acceptance was properly documented in accordance with existing DOL Purchase Card Program Handbook requirements.

OIG'S RECOMMENDATIONS

We recommend that the Assistant Secretary for Administration and Management:

1. Issue further guidance reminding cardholders and A/OPCs to ensure that transactions are tax exempt.
2. Review all purchases that have incurred taxes and attempt reimbursement by the service or sales provider.
3. Ensure that cardholders properly document the receipt and acceptance of all purchases.

SUMMARY OF OASAM'S RESPONSE

The Assistant Secretary for Administration and Management concurred with the OIG's conclusion and agreed with the recommendations. Management's response to our draft report is included in its entirety in Appendix B.

We appreciate the cooperation and courtesies OASAM extended us during this audit. OIG personnel who made major contributions to this report are listed in Appendix C.



Elliot P. Lewis
Assistant Inspector General
for Audit

APPENDIX A: SCOPE, METHODOLOGY, & CRITERIA

SCOPE

The audit covered purchase card transactions from July 1, 2016, through March 31, 2017, and the policies and procedures pertaining to these transactions. DOL processed 34,536 transactions, totaling \$12,188,291, from July 1, 2016, through March 31, 2017. We conducted fieldwork at the OASAM national office in Washington, DC.

METHODOLOGY

We conducted this performance 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The Council of the Inspectors General on Integrity and Efficiency's (CIGIE) initiated a government-wide project, to analyze and review government purchase card data to determine risks associated with purchase card transactions. CIGIE created a set of ACL algorithms to assist participating Inspectors General in performing data-analysis and identifying high-risk transactions. Additionally, CIGIE provided data-analytical and statistical tools, such as excel spreadsheets and random numbers, to support the reviews and provide uniformity for processing and reporting the results. The set of algorithms provided by CIGIE are listed in Table 1 – CIGIE Testing Algorithms.

Table 1 – CIGIE Testing Algorithms

Algorithm Test	Explanation
1. Transactions exceeding the cardholders' single purchase limit or the micro purchase limit threshold	Determined if the cardholder spent over their authorized limit or exceed the micro purchase limit of \$3,500
2. Prohibited MCC transactions	Determined whether the cardholder purchased from a prohibited vendor
3. Weekend and holiday transactions	Determined whether a cardholder made purchases outside of business hours on weekends or on federal holidays
4. Transactions with tax	Determined whether a cardholder's purchases or transactions incurred sales taxes and other inappropriate fees
5. Transactions occurring after the card was closed	Determined whether a cardholder made purchases after their account was closed
6. Third party or suspicious vendor transactions	Determined whether a cardholder made inappropriate or unauthorized purchases from a third party or questionable vendor
7. Split Transactions	Determined whether a cardholder split a purchase into two or more transactions to avoid exceeding their single purchase limit threshold or the micro-purchase threshold limit of \$3,500

We used ACL to run CIGIE's algorithms, which analyzed transactions and identified the universe of high-risk transactions based on the algorithms listed in Table 1 – Testing Algorithms.

We identified 5,338 high-risk transactions, totaling \$2,115,069, that met at least one of the algorithms for the scope of the audit. Specifically:

- 2,468 transactions, totaling \$1,122,754, were identified as high-risk transactions for FY 2016, Quarter 4 (July 1 through September 30, 2016); and
- 1,395 transactions, totaling \$473,518, were identified as high-risk transactions for FY 2017, Quarter 1 (October 1 through December 31, 2017); and
- 1,475 transactions, totaling \$518,797, were identified as high-risk transactions for FY 2017, Quarter 2 (January 1 through March 31, 2017).

We used CIGIE's *Sample Selection Instructions and Random Numbers* Microsoft Excel spreadsheet to randomly select a statistical sample of 69 high-risk transactions, totaling \$106,456.

We obtained and reviewed DOL's policies and procedures describing the purchase card program and identified the key policies and procedures for detecting potentially illegal, improper, or erroneous purchase card transactions. We interviewed purchase card program officials to discuss controls over the purchase card program. We requested and reviewed supporting documentation from purchase cardholders for sampled transactions.

For the purchase card transaction data we obtained from Citibank, we assessed its reliability by reviewing for missing data, outliers, and obvious errors. Additionally, we compared the transactions and total dollar amount to GSA SmartPay reports. Finally, we traced our randomly selected 69 transactions to source documents. We determined that the data was sufficiently reliable for the purposes of this report.

CRITERIA

- DOL Purchase Card Program Handbook;
- Purchase Card Management Plan 2017 ;
- The Government Charge Card Abuse Prevention Act of 2012 ;
- OMB CIRCULAR NO. A-123, Appendix B, Revised ;
- GSA - CBA Purchase Card Tax Exemption ;
- Federal Acquisition Regulations (FAR) - Subpart 29.3 - State and Local Taxes ; and
- Federal Acquisition Regulations (FAR) - Part 13 - Simplified Acquisition Procedures.

APPENDIX B: AGENCY'S RESPONSE TO THE REPORT

U.S. Department of Labor

Office of the Assistant Secretary
for Administration and Management
Washington, D.C. 20210



MAR 16 2018

MEMORANDUM FOR ELLIOT P. LEWIS
Assistant Inspector General for Audit

FROM: BRYAN SLATER
Assistant Secretary for
Administration and Management

A blue ink handwritten signature of Bryan Slater, consisting of a stylized 'B' and 'S'.

SUBJECT: Purchase Card Transactions
Draft Report No. 17-18-002-07-001

Thank you for the opportunity to review the Office of Inspector General's (OIG) statement of findings on the performance audit of the Department of Labor's (DOL) purchase card program. I am pleased that the OIG confirmed that the Office of the Assistant Secretary for Administration and Management (OASAM) has established adequate controls over DOL's purchase card program to reduce the risk of illegal, improper or erroneous purchases and found no purchases of inappropriate or unauthorized goods and services. Below is management's response to the OIG statement of findings noting how the Office of the Chief Procurement Officer (OCPO) will work to address the recommendations.

Statement of Findings: *OASAM has established adequate controls over DOL's purchase card program to reduce the risk of illegal, improper, or erroneous purchases. However, DOL agencies did not implement these controls consistently. While the OIG identified no purchases of inappropriate or unauthorized goods or services, OASAM could improve the oversight of purchase card transactions. OIG identified inappropriately paid taxes on transactions and cardholders that failed to document the independent inspection of goods or services received.*

OASAM has delegated an extensive part of the purchase card process to DOL component agencies, but it needs to improve its monitoring and training to ensure the component agencies effectively implement already established controls over purchase card activity.

Recommendation 1: *OASAM should issue further guidance reminding cardholders and Agency/Organization Program Coordinators (A/OPC) to ensure that transactions are tax exempt.*

Management's Response: Management accepts this recommendation. The Office of Procurement Policy (OPP) will issue a notice to cardholders and A/OPCs that reiterates the government's status as tax exempt, and will conduct targeted training regarding the Department's relevant policies and procedures. This training session will be conducted no later than June 30, 2018, and will become part of the curriculum for new cardholders and A/OPCs.

Recommendation 2: *OASAM should review all purchases that have incurred taxes and attempt reimbursement by the service or sales provider.*

Management's Response: Management accepts this recommendation. OASAM's OPP has identified all of the FY 2017 transactions that incurred taxes and has begun the process of requesting reimbursement by the service or sales provider. OASAM estimates that the reimbursement process will be completed by the end of FY 2018.

Recommendation 3: *OASAM should ensure that cardholders properly document the receipt and acceptance of all purchases.*

Management's Response: Management accepts this recommendation. OASAM acknowledges that it has established adequate controls over DOL's purchase card program but that it needs to improve its oversight to ensure that agencies are effectively implementing already established controls, to include ensuring that cardholders properly document the receipt and acceptance of all purchases. OASAM's OPP has planned 24 purchase card account reviews to be completed by the end of FY 2018. As a part of each review, OPP will evaluate the cardholder's documentation of the receipt and acceptance of purchases. OPP will then take information learned as a result of the review to conduct further training for cardholders and A/OPCs.

Should you have any questions regarding OPP's response, please have your staff contact Ms. Jillian Matz, OPP Director, at matz.jillian@dol.gov.

APPENDIX C: ACKNOWLEDGEMENTS

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