

**STATEMENT OF ANGELA B. STYLES
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BEFORE THE
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS
COMMITTEE ON ENERGY AND COMMERCE
UNITED STATES HOUSE OF REPRESENTATIVES**

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Chairman Greenwood, Congressman Deutsch, and Members of the Subcommittee, I appreciate the opportunity to appear before you today to discuss the problems agencies are experiencing in managing their purchase card programs. While the program is a valuable tool, recent General Accounting Office (GAO) and Inspector General (IG) reports indicate that serious management reforms are needed to reduce fraudulent and unauthorized purchases. The integrity of the purchase card program has been damaged by irresponsible or fraudulent acts and must be restored.

Reports of mismanagement, fraud, and abuse are strong indications that agencies do not have adequate internal controls in place to manage the risk associated with the purchase card program. As a result of a decade of acquisition reform initiatives that have largely emphasized operational expediency, many of the checks and balances critical for effective acquisition oversight have been marginalized to the point where taxpayer dollars are being put at an unacceptably high level of risk. Although the purchase card program operates as a partnership between agencies, the banks, and the General Services Administration (GSA), agencies, first and foremost, must take responsibility for the internal management breakdowns that have led to the types of problems we will discuss today.

The Charge Card Program -- Travel and Purchase Cards

I have been asked to focus on the problems with purchase cards, but would like to explain briefly the differences in liability and scope of the purchase and travel card programs. While both card programs expose the government to risk, each is operated differently and presents unique management challenges.

As a general rule, purchase card accounts are centrally billed: vendors are paid directly by the government. When the purchase card is used, the government assumes direct liability. Travel card accounts are generally billed individually, requiring the employee to pay the bill. The agency then reimburses the employee. The individual assumes liability for travel card purchases, and the banks can refer delinquent accounts to collection agencies, much as a bank would with a personal credit card.

In accordance with Public Law 105-264, "Travel and Transportation Reform Act of 1998," federal employees are generally required to use the travel card for all payments of expenses for official government travel, such as hotels and restaurants. As a result, the federal government has issued over 2 million travel cards to civilian and military

personnel. Half of the federal workforce carries a government travel card whether they travel once a month or once a year. Delinquency rates of 9 percent for civilian agencies and 12 percent for the Department of Defense (DOD) suggest that the travel card program also needs to be reexamined.

The programs differ vastly in scope as well. In 2001, agencies issued approximately 390,000 purchase cards and spent \$13.7 billion in purchases. In the same year, agencies issued 2.1 million travel cards and spent \$5.3 billion. Purchase cards, though fewer in number account for more expenditures and expose the government to greater liability. My comments today will be targeted at the problems associated with the purchase card program.

Micro-Purchases and The Purchase Card Program

Agencies delegate buying authority to purchase cardholders to buy goods and services needed to support mission goals. Each transaction averages approximately \$570 and is generally made in accordance with the micro-purchase provisions set forth in Federal Acquisition Regulation (FAR) 13.2. Micro-purchases are defined by statute, 41 USC 428, as purchases at or below \$2,500. These purchases are not subject to competition, nor are they reserved for small businesses. As I will discuss later, the purchase card is the preferred method for making micro-purchases, which helps to explain the volume of purchase card transactions and, therefore, the potential for abuse. Agencies often tie their delegations of buying authority to the micro-purchase threshold and any increase in the threshold increases the government's exposure to risk.

Employees can also use the purchase card to pay for goods and services in excess of the micro-purchase limit. FAR 13.301 sets the policy for use of the purchase card as a payment tool under any other type of contract, including task or delivery orders under existing contracts, basic ordering agreements, or blanket purchase agreements. While purchases over \$2,500 must be made in accordance with the governing FAR provisions, including competition requirements, some cardholders have been delegated payment authority up to \$100,000 or more. Cardholders with this authority use these cards as a convenient payment method, and this ease of payment increases the government's exposure to liability. Determining whether purchases over \$2,500 were made in accordance with the FAR (to place orders under existing contracts or to make payments), or were open market purchases that should have been subject to competition and other acquisition requirements, can be difficult. Inappropriate transactions may go undetected. The high spending limits and the difficulty in ensuring the appropriate use of FAR provisions creates an environment ripe for fraud and abuse.

History and Growth of the Purchase Card Program

The purchase card program began as a multi-agency pilot effort in 1986, and became a government-wide program in 1989 when GSA awarded the first contract for card services. During the first 5 years of the contract, the volume of purchases increased by nearly 1,500 percent, the dollar volume by 2,400 percent. The Federal Acquisition

Streamlining Act of 1994 (FASA) established the micro-purchase threshold discussed earlier, and Executive Order 12931, *Federal Procurement Reform*, was also issued in October 1994 to encourage the expansion of the purchase card program and take advantage of the micro-purchase authority provided for in the statute. As a result, the purchase card became the preferred method for making micro-purchases; this policy is set forth in FAR 13.201.

Additionally, Section 848 of the Defense Authorization Act for Fiscal Year 1998 required that, by October 1, 2000, at least 90 percent of DOD's eligible micro-purchases be made using streamlined micro-purchase procedures, which essentially means use of the purchase card. As a result of these statutory and regulatory preferences for card usage, the purchase card expenditures rose from approximately \$1.6 billion in 1995 to \$13.7 billion in 2001.

Agencies receive rebates on their expenditures, generally based on transaction volume, payment terms, or both, depending on the conditions negotiated in their task orders with the banks. Rebates for expedited payment generally increase with the speed of payment, and many agencies maximize these rebates by paying within twenty-four to forty-eight hours. GSA estimates that agencies were refunded nearly \$75,000,000 in 2001 under the travel and purchase card programs, substantially due to expedited payments. Discounted payment terms are a significant benefit of the card program, and agencies should optimize rebates by processing card payments quickly.

Lack of Adequate Management Controls

While the purchase card program has benefited agencies in some ways, management practices have not evolved to accommodate the rapid growth of the program. Because this gap has created opportunities for a wide range of fraud and abuse, we have taken and will continue to take substantive, affirmative steps to ensure agencies improve their internal control systems to monitor expenditures properly.

I am concerned by reports of inadequate management oversight and review, lack of account administration, excessive spending limits, and inadequate training. Here are a few examples:

- According to the Department of the Interior (DOI) IG Advisory Report, 2002-I-0011, issued December 2001, an investigation of their integrated card program – travel and purchase – indicated that 1,116 former employees still had active charge cards. Their investigation, based on a statistical sampling process, is disturbing because the termination of accounts for former employees is a basic card administration function.
- According to a DOD IG Report, “Controls Over the DOD Purchase Card Program, D-2002-075,” issued March 29, 2002, 6,533 cardholders had monthly spending limits of over \$100,000 and 40 of those cardholders had a limit of \$9,999,999. While delegations in excess of the micro-purchase

threshold may be justified in some instances, this level of exposure to risk, without proper management controls in place, is unacceptable.

- The same DOD IG report also indicated that 29,120 purchase cards were unused for over 6 months, raising the question of whether the cards should have been issued. The circulation of unnecessary cards exposes the government to liability and is indicative of the poor controls agencies are using to manage their card programs.
- The DOD IG further reported that purchases of over \$439,000 were processed after card accounts were no longer approved for use. Agency approving officials and program coordinators were not aware that these closed accounts could still be used until they were terminated a separate administrative process.
- According to the DOD IG report, over \$4 million in inappropriate transactions by employees appear to have been made with businesses such as pawnshops, jewelry stores, and antique shops. Agencies have the ability to prevent purchases from certain merchants but often do not. This lack of attention to risk management is expensive, unacceptable, and must be corrected.
- A February 2002 letter report from the Department of Energy (DOE) IG, I01OP001, found that contractor employees, who had been issued purchase cards in accordance with the GSA contracts, used federal funds to purchase personal property or property not related to the contract. This report also indicated that some contractors did not require basic separation of duties, which allowed the same person to make purchases, reconcile the invoice, and retain the documentation. No independent review was required.

Based on the DOE report, I plan to carefully review the provisions in FAR 51.1 that currently allow federal agencies to issue purchase cards to contractors. This FAR provision establishes the conditions for contractor use of government supply sources, and to facilitate these transactions, GSA's master purchase card contracts allow for conditional use of the card by contractors, when approved by GSA and the issuing agency.

These examples are important because they represent the types of problems many agencies are experiencing. These instances of poor oversight are not just embarrassing to the government, but demonstrate a serious lack of internal controls that creates an environment vulnerable to fraud.

Purchase Card Fraud

Turning to a more serious consequence of poor program management let me share a few examples of the abuses documented in GAO and IG investigations. These egregious examples of fraud tarnish the image the federal workforce, our greatest

resource. While these incidents may be anomalies, they nevertheless diminish the public's trust in government and must be addressed immediately to prevent recurrence.

As reported by the DOE IG, lack of oversight and review allowed a contractor program manager to purchase \$85,000 of personal or non-contract property, and a subordinate to charge \$13,000 on his manager's card. Both were terminated and pled guilty to theft charges. In another example, a Department of Commerce employee, who made personal charges on a government purchase card and then confiscated invoices to avoid detection, was successfully prosecuted. The employee was sentenced to jail and full restitution is being pursued.

A DOD IG memorandum, dated March 19, 2002, lists examples of fraud cases that were successfully prosecuted. DOD secured restitution and other fees totaling almost \$1.5 million – a significant loss recovery effort – in the eleven cases described. Defendants were sentenced to prison, probation, home detention, or other appropriate remedy, and held responsible for their actions. I expect to see more examples of this commitment to accountability as we improve the purchase card program. Agencies must be more aggressive in referring potential fraud cases to the appropriate civil and criminal authorities. Such action deters potential card abusers and demonstrates strong agency commitment to improving program integrity.

Management Tools

These reports are even more troubling given the many management tools available for agencies to use. GSA, for example, issues guidance for agency program coordinators and cardholders, offers free online training, hosts conferences and workgroups, and has recently developed comprehensive guidance on purchase card oversight. With all of these tools available, I am deeply concerned by the failure of agencies to implement proper controls to protect the government from unnecessary risk. Agencies cannot continue to manage their programs as they have in the past; they must reevaluate their efforts and take meaningful, corrective measures to restore the integrity of their operations.

OMB Action

On April 18, 2002, the Director of the Office of Management and Budget (OMB) issued a memorandum to the heads of all departments and agencies requesting a comprehensive review of their internal controls for both purchase and travel card expenditures. Each agency is required to submit remedial action plans for both travel and purchase card programs to OMB by June 1, 2002, which will be reviewed by my office, the Office of Federal Financial Management, and OMB's Resource Management Offices.

OMB is specifically concerned with the lack of adequate internal controls and has emphasized this concern in the memorandum. Agencies are expected to establish better internal controls by setting appropriate spending limits, providing effective training in order to better manage their programs, and generally improving oversight.

We have asked agencies to seriously consider deactivating a large number of accounts, and reactivating the accounts of a smaller, more appropriate number of cardholders based on demonstrated need.

We have also asked agencies to take immediate administrative action against employees who have abused their charge card privileges and, in cases involving possible fraud, refer them to the appropriate civil and criminal authorities. While some agencies have pursued these remedies, employees who abuse their card privileges are not always held accountable and may continue to work in the federal service. Documented cases of travel and purchase card abuse should be included in an employee's official personnel file for future reference.

OMB recently approved an E-government effort to improve the sharing of human resources information among agencies, which may reduce the incidence of repeated credit card abuse. The Office of Personnel Management (OPM) is leading an effort, Enterprise Human Resources Integration, to consolidate employment information in a central system. My office will work with OPM to determine if proven card abuse can be included in this system as part of an employee's permanent record.

Conclusion

I thank the Subcommittee for its interest in improving the government's purchase card program. If operated properly, the program is a valuable tool for procurement and financial management. We are dedicated to improving the effectiveness of the program, while reducing the incidence of fraud and abuse. Better program management begins with a commitment from senior managers, and I assure you that OMB places a top priority on improving the card programs and expects agencies to consider it a top priority as well.

We welcome the opportunity to continue this discussion with you as we review the purchase card program, identifying long-term solutions to improve agency performance. This concludes my prepared remarks, and I would be pleased to answer any questions you or the Members of the Subcommittee might have.