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United States Government Accountability Office
Washington, DC 20548

August 6, 2004

Congressional Requesters

Subject: *Pacific Northwest National Laboratory: Enhancements Needed to Strengthen Controls Over the Purchase Card Program*

The Pacific Northwest National Laboratory (PNNL) located in Richland, Washington, is a government-owned, contractor-operated Department of Energy (DOE) national laboratory. The Battelle Memorial Institute manages the lab under a cost-reimbursable contract with DOE. Battelle is paid a management fee to operate the lab and is reimbursed for all allowable costs charged to the contract.

During the fall of 2002, the Federal Bureau of Investigation began investigating two Los Alamos National Laboratory employees for alleged misuse of lab credit cards. Other allegations of theft and misuse of government funds at Los Alamos soon followed. In light of the problems identified at Los Alamos, you asked us to review selected procurement and property management practices at two NNSA[1] and two DOE contractor labs, including PNNL.[2]

This report summarizes the information provided during our June 14, 2004 briefing to your staff on these issues as they relate to PNNL. The enclosed briefing slides highlight the results of our work and the information provided.[3] Specifically, we reviewed PNNL's purchase card program and property management practices to determine whether (1) internal controls over the lab's purchase card (Pcard) program provided reasonable assurance that improper purchases would not occur or would be detected in the normal course of business, (2) purchase card expenditures made under the contract properly complied with lab policies and other applicable requirements and were reasonable in nature and amount and thus were allowable costs payable to the contractor under the contract, and (3) property controls over selected asset acquisitions provided reasonable assurance that accountable assets

[1]The National Nuclear Security Administration (NNSA) was created in fiscal year 2000 as a separately organized agency within DOE. As part of its national security mission, NNSA has responsibility for the institutional stewardship of three national security laboratories.
[2]The four labs we reviewed were DOE's Lawrence Berkeley National Laboratory and Pacific Northwest National Laboratory, and NNSA's Lawrence Livermore National Laboratory and Sandia National Laboratories.
[3]Separate briefings were provided for each of the labs reviewed, which we also summarized in separate letters.

would be properly recorded and tracked.[4] Our review covered selected transactions that occurred during fiscal year 2002 and the first half of fiscal year 2003 (October 1, 2001, through March 31, 2003), which were the most current data available when we requested the data for our review. This report also includes four recommendations for action—three related to actions needed to be taken by PNNL and one related to action needed to be taken by the DOE contracting officer for PNNL.

Results in Brief

The lab had established a number of internal controls to help ensure that improper purchases would not occur or would be detected in the normal course of business. However, we identified additional control areas in the lab's Pcard program that need to be strengthened in order to further reduce the risk of improper purchases. For example, during the majority of our review period, the Pcard administrator and her assistant—who were responsible for monitoring cardholder compliance with Pcard policies, requesting new cards, and authorizing spending limit increases—were also cardholders. This created a conflict of interest that could compromise program oversight. In addition, of the 148 nonstatistically selected Pcard transactions obtained through data mining[5] for fiscal year 2002 and the first half of fiscal year 2003, we found 12 (9 percent) of the transactions totaling $21,834 lacked sufficient documentation such as an invoice, credit receipt, or other sales documentation necessary to fully validate the dollar amount, quantity, and nature of the items purchased. The lack of such documentation minimizes the effectiveness of supervisory review of Pcard transactions.

We also identified $104,250 of improper, wasteful, and questionable purchases in our review of transactions selected on a statistical and nonstatistical basis. While relatively small compared to the approximately $44 million in purchase card activity that occurred during the review period, it demonstrates areas where additional enhancements in controls are needed. Specifically, we found improper purchases consisting of:

- Ten groups of split purchases—that is, groups of two or more similar transactions that were split to circumvent single purchase limits—consisting of 21 transactions totaling $81,448 from a statistical sample. Based on our audit work, we estimate that $777,766 of total fiscal year 2002 and the first half of fiscal year 2003 purchase transactions identified as potentially split, were split purchases.[6]

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[4]Throughout this document, references to purchases and transactions refer to those made by the contractor employees of the lab that are charged to the DOE contract. Although the lab's purchase cards are issued by the contractor, purchases charged to the DOE contract are ultimately reimbursed and thus paid for by the federal government. Similarly, property purchased that is charged to DOE becomes government property.

[5]Data mining applies a search process to a data set, analyzing for trends, relationships, and interesting associations. For instance, it can be used to efficiently query transaction data for characteristics that may indicate potentially improper activity.

[6]The total dollar value of the population of 211 potentially split purchases identified from data mining was $1,794,477. We are 95 percent confident that the total dollar value of actual split purchases was between $462,787 and $1,092,745.

- Seven transactions totaling $7,956 that were improperly charged to cardholders' accounts by someone other than the cardholder, contrary to lab policy. These were for purchases at vendors with whom the cardholders had a preexisting account.

- Eleven transactions totaling $8,534 that were improper because they were unallowable under the contract or were prohibited from being purchased with a Pcard. For example, one transaction for $1,277 was for catering services that were unallowable at the time of purchase.

We also identified three transactions totaling $693 that we considered wasteful because they were excessive in cost when compared to other alternatives and/or were of questionable need and four transactions totaling $5,619 that we considered questionable because they were missing key documentation that would enable us or the lab to determine what items were purchased and whether they were proper and reasonable. Because we only tested a small portion of the transactions we identified that appeared to have a higher risk of fraud, waste, or abuse, there may be other improper, wasteful, and questionable purchases in the remaining untested transactions.

Accountable assets we tested generally were properly accounted for and tracked in PNNL's property management system. Of the 32 accountable assets totaling $52,753 that were in the test population, 3 assets totaling $4,700 had not been recorded in the property management system.

The lab has made a number of recent policy and procedural changes that, if properly implemented, should help improve internal controls over its Pcard program. However, additional corrective actions are needed to address weaknesses identified.

Recommendations for Executive Action

In order to address the issues identified in our review, we recommend that the Secretary of Energy direct the Pacific Northwest National Laboratory's Director to take the following three actions to strengthen internal controls over the purchase card program and reduce the lab's vulnerability to improper, wasteful, and questionable purchases.

- Cancel purchase card accounts for cardholders who also perform oversight functions over the purchase card program to help ensure appropriate independence and separation of duties between these functions.

- Establish policies and procedures requiring that purchasers maintain a copy of the detailed sales receipt, invoice, or other independent support showing the description, quantity, and price of individual items purchased.

- Require approving officials, during their review of cardholder transaction documentation, to ensure that the cardholders obtained a sales receipt or

invoice to support each purchase, and that the cardholder obtained and documented any required preapprovals before purchase.

We also recommend that the Secretary of Energy direct the DOE contracting officer for the lab to review the improper, wasteful, and questionable items we identified to determine whether any of these purchases should be repaid to DOE.

Agency Comments

We met with laboratory and local DOE officials to obtain their oral comments on a draft of this briefing. They generally agreed with our findings and recommendations and indicated that the lab has taken or will take action to address the issues identified. For example, lab officials indicated that while the practice has been to provide the most complete source documentation available, they agreed to formalize the requirement and plan to work with the contracting officer to establish the most complete level of documentation required to support Pcard transactions. They also indicated they would emphasize this and other requirements during training. In addition, the lab cancelled the Pcard administrator's assistant's Pcard effective June 7, 2004. The lab also provided technical and clarifying comments, which we incorporated as appropriate.

Scope and Methodology

To determine if PNNL's internal controls over its Pcard program provided reasonable assurance that improper purchases would not occur or would be detected in the normal course of business, we reviewed PNNL's contract with DOE and applicable provisions of the DOE Acquisition Regulation (DEAR) and the Federal Acquisition Regulation (FAR), performed walkthroughs of key processes, interviewed PNNL and DOE management and staff, and compared the results to the lab's policies and GAO's *Standards for Internal Control in the Federal Government*.[7] These standards provide the overall framework for establishing and maintaining internal control and for identifying and addressing major performance and management challenges and areas at greatest risk of fraud, waste, abuse, and mismanagement and are based on internal control guidance for the private sector.[8]

To determine whether Pcard expenditures complied with lab policies and other applicable requirements and were reasonable in nature and amount, we performed data mining on fiscal year 2002 and the first half of fiscal year 2003 Pcard transactions to identify indicators of potential noncompliance with policies and procedures and to identify purchases that appeared to be from unusual vendors, purchases made on weekends, during the holidays, or at fiscal-year end, and purchases of sensitive assets. Based on the results, we (1) identified 211 potential split purchases consisting of 1,338 transactions. From these, we selected a statistical sample of 27 potential

[7]U.S. General Accounting Office, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).
[8]*Internal Control—Integrated Framework*, Committee of Sponsoring Organizations of the Treadway Commission (COSO).

split purchases consisting of 75 transactions and tested to determine whether they were in fact split purchases, (2) used a nonstatistical selection of 25 transactions made by cardholders while on leave or by former employees to determine whether they were proper purchases, and, (3) tested a nonstatistical selection of 148 transactions for evidence of supervisory review and approval, adequacy of supporting documentation, and reasonableness of the purchases.

To determine if property controls over selected asset acquisitions provided reasonable assurance that accountable assets would be properly recorded and tracked, we performed walkthroughs to observe property controls, reviewed property management policies and procedures, tested accountable property items selected in the nonstatistical selection to determine whether these assets had been entered into the lab's property system prior to our review, and performed data mining on the property database to identify possible database errors or inaccuracies such as property assigned to terminated employees and multiple property items with the same serial number.

We requested oral comments on a draft of the enclosed briefing slides from the Secretary of Energy or his designee and have included any comments as appropriate in the letter and enclosed slides. While we identified some improper, wasteful, and questionable purchases, our work was not designed to determine the full extent of such purchases. We conducted our work on all four labs from March 2003 through May 2004 in accordance with generally accepted government auditing standards.

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Unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after its date. At that time, we will send copies of this report to the Ranking Minority Member, House Committee on Energy and Commerce; the Secretary of Energy; and the Pacific Northwest National Laboratory Director. Copies will also be made available to others upon request. In addition, the report will be available at no charge on our home page at http://www.gao.gov. If you have any questions about this report, please contact me at (202) 512-9508 or Doreen Eng, Assistant Director, at (206) 287-4858. You may also reach us by e-mail at calboml@gao.gov or engd@gao.gov. Additional contributors to this assignment were Rick Kusman, Delores Lee, Kelly Lehr, Diane Morris, Eileen Peguero, Estelle Tsay, and Eric Wenner.

Linda M. Calbom
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Enclosure

List of Requesters

The Honorable Sherwood Boehlert, Chairman
The Honorable Bart Gordon, Ranking Minority Member
Committee on Science
House of Representatives

The Honorable Joe Barton, Chairman
Committee on Energy and Commerce
House of Representatives

The Honorable Jerry Costello
The Honorable James Greenwood
The Honorable W.J. "Billy" Tauzin
House of Representatives

June 14, 2004, Briefing

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Pacific Northwest National Laboratory

Enhancements Needed to Strengthen Controls Over the Purchase Card Program

Briefing to the Staff of the Committees on Science and Energy and Commerce, House of Representatives

June 14, 2004

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Introduction and Objectives

- The Pacific Northwest National Laboratory (PNNL) located in Richland, Washington, is a government-owned, contractor-operated Department of Energy (DOE) national laboratory. It is managed by the Battelle Memorial Institute under a cost-reimbursable contract with DOE. Battelle is paid a management fee to operate the lab and is reimbursed for all allowable costs charged to the contract.

- During the fall of 2002, the Federal Bureau of Investigation began investigating two Los Alamos National Laboratory employees for alleged misuse of lab credit cards. Other allegations of theft and misuse of government funds at Los Alamos soon followed.

- In light of the problems identified at Los Alamos, you asked us to review selected procurement and property management practices at two NNSA[1] and two DOE contractor labs, including PNNL.[2]

[1]The National Nuclear Security Administration (NNSA) was created in fiscal year 2000 as a separately organized agency within DOE. As part of its national security mission, NNSA has responsibility for the institutional stewardship of three national security laboratories.

[2]The four labs we reviewed were DOE's Lawrence Berkeley National Laboratory and Pacific Northwest National Laboratory, and NNSA's Lawrence Livermore National Laboratory and Sandia National Laboratories.

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Introduction and Objectives (cont'd)

The objectives of our review at PNNL were to determine whether:

- Internal controls over the lab's purchase card (Pcard) program provided reasonable assurance that improper purchases would not occur or would be detected in the normal course of business.
- Purchase card expenditures made under the contract (1) properly complied with lab policies and other applicable requirements and (2) were reasonable in nature and amount and thus were allowable costs payable to the contractor under the contract.
- Property controls over selected asset acquisitions provided reasonable assurance that accountable assets would be properly recorded and tracked.

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Introduction and Objectives (cont'd)

- Our review covered selected transactions that occurred during fiscal year 2002 and the first half of fiscal year 2003 (October 1, 2001, through March 31, 2003), which were the most current data available when we requested the data for our review.

- Throughout this document, references to purchases and transactions refer to those made by the contractor employees of the lab who are charged to the DOE contract. Although the lab's purchase cards are authorized by the contractor, purchases charged to the DOE contract are ultimately reimbursed and thus paid for by the federal government. Similarly, property purchased that is charged to DOE becomes government property.

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Results in Brief

- The lab has established a number of internal controls to help ensure that improper purchases would not occur or would be detected in the normal course of business. However, we identified additional control areas in the lab's Pcard program that need to be strengthened in order to further reduce the risk of improper purchases. For example:

  - During the majority of our review period, the Pcard administrator and her assistant—who were responsible for monitoring cardholder compliance with Pcard policies, requesting new cards, and authorizing spending limit increases—were also cardholders. This created a conflict of interest that could compromise program oversight.

  - 12 (9 percent) of 148 nonstatistically selected transactions totaling $21,834 lacked sufficient documentation such as an invoice, credit receipt, or other sales documentation necessary to fully validate the dollar amount, quantity, and nature of the items purchased.

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Results in Brief (cont'd)

- We also noted $104,250 of improper, wasteful, and questionable purchases in our review of transactions selected on a statistical and nonstatistical basis. While relatively small compared to the approximately $44 million in purchase card activity that occurred during the review period, it demonstrates areas where additional enhancements and controls are needed. These included:
  - Ten groups of improper split purchases—that is, groups of two or more similar transactions that were split to circumvent single purchase limits—consisting of 21 transactions totaling $81,448 from the statistical sample. Based on our audit work, we estimate that $777,766 of total fiscal year 2002 and the first half of fiscal year 2003 purchase transactions identified as potentially split, were split purchases.[3]
  - Seven transactions totaling $7,956 that were improperly charged to cardholders' accounts by someone other than the cardholder, contrary to lab policy. These were for purchases at vendors with whom the cardholders had a preexisting account.

[3]The total dollar value of the population of 211 potentially split purchases identified from data mining was $1,794,477. We are 95 percent confident that the total dollar value of actual split purchases was between $462,787 and $1,092,745.

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Results in Brief (cont'd)

- Eleven transactions totaling $8,534 that were improper because they were unallowable under the contract or were prohibited from being purchased with a Pcard.

- Three transactions totaling $693 that we considered wasteful because they were excessive in cost when compared to other alternatives and/or were of questionable need, such as $413 for an oversized laptop case with wheels when comparable cases were available for about $100.

- Four transactions totaling $5,619 that we considered questionable because they were missing key documentation that would enable us or the lab to determine what items were purchased and whether they were proper and reasonable.

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Results in Brief (cont'd)

- Accountable assets we tested generally were properly accounted for and tracked in PNNL's property management system. Of the 32 accountable assets totaling $52,753 that were in the test population, 3 assets totaling $4,700 had not been recorded in the property management system.

- The lab has made a number of recent policy and procedural changes that, if properly implemented, should help improve internal controls over its Pcard program. We are making four recommendations to address issues raised in our review that require additional action.

- Lab and local DOE officials generally agreed with our recommendations. The lab indicated it cancelled the Pcard administrator's assistant's card effective June 7, 2004, and agreed to work with the contracting officer to establish the most complete level of documentation required to support Pcard transactions. Lab officials also indicated they would emphasize this and other requirements during training.

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Background

- PNNL is a multiprogram research laboratory located in Richland, Washington, and has been operated by the Battelle Memorial Institute, a nonprofit entity, since 1965.
- The lab's 4,000 staff are Battelle employees. Its fiscal year 2003 budget was about $550 million.
- PNNL implemented the Pcard program in 1995. During fiscal year 2002, the lab made about $31 million in Pcard purchases.
- As of March 2003, the lab had 869 active Pcards. In response to recent internal and DOE reviews, PNNL management has been reducing the number of cardholders. As of May 2004, there were 671 active Pcards.

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Background (cont'd)

- Most cardholders have $5,000 or $10,000 single purchase transaction limits. Eight cardholders have single purchase limits ranging from $25,000 to $100,000, due to their responsibilities for making certain labwide purchases (e.g., telephone services, furniture, vehicle leases).

- PNNL's property management section provides policy and oversight for property management at the lab.

- PNNL uses two receiving facilities to receive procured goods including Pcard purchases. As items are received, central receiving staff are to review the corresponding purchase records and packing slips to determine if the package appears to contain accountable assets. If so, they are to open the packages and apply inventory bar-codes and/or ownership tags to the items, as appropriate.

- Specific managers within each organization are assigned the responsibility for coordinating with property management to track the physical assets and ensure that recorded information for each accountable asset is current.

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Background (cont'd)

- Items that qualify as accountable assets are bar-coded and recorded in the property management system. Accountable assets include:
  - All assets with an acquisition value of $5,000 or more, and
  - Designated sensitive assets, which are items susceptible to theft and generally have an acquisition value of $500 or more, and include items such as laptops and DVD recorders.
- As of March 2003, PNNL's property management system contained about 20,000 DOE-owned accountable assets with a total recorded acquisition cost of $306 million.

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Scope and Methodology

To determine if PNNL's internal controls over its Pcard program provided reasonable assurance that improper purchases would not occur or would be detected in the normal course of business, we

- Reviewed PNNL's contract with DOE and applicable provisions of the DOE Acquisition Regulation (DEAR) and the Federal Acquisition Regulation (FAR), and

- Performed walkthroughs of key processes, interviewed PNNL and DOE management and staff, and compared the results to the lab's policies and GAO's *Standards for Internal Control in the Federal Government*. These standards provide the overall framework for establishing and maintaining internal control and for identifying and addressing major performance and management challenges and areas at greatest risk of fraud, waste, abuse, and mismanagement and are based on internal control guidance for the private sector.[4]

[4]*Internal Control — Integrated Framework*, Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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Scope and Methodology (cont'd)

To test specific control activities and determine whether Pcard expenditures complied with lab policies and other applicable requirements and were reasonable in nature and amount, we first obtained from the lab the database of purchase card transactions for fiscal year 2002 and the first 6 months of fiscal year 2003. We separately obtained from the lab's Pcard issuing bank the total dollar value of Pcard purchases for the period to compare to the database for completeness.

We then selected transactions using the following methods.

- *Data mining*. We performed data mining on the Pcard transaction database to identify indicators of potential noncompliance with policies and procedures.
  - We looked for potential split purchases (i.e., groups of two or more similar transactions that potentially were split to circumvent single purchase limits) and transactions on cards assigned to employees on leave or former employees.

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Scope and Methodology (cont'd)

- Because our data mining for split purchases yielded 1,338 transactions that made up 211 potential split purchases, we selected a statistical sample of 75 transactions that made up 27 potential split purchases. We reviewed the related supporting documentation and the lab's response in assessing whether these were in fact split purchases.

- Because our data mining for transactions made by cardholders while on leave or by former employees also yielded hundreds of transactions, we made a nonstatistical selection of 25 of these transactions and forwarded the results to the lab for a response and related documentation that we used to assess the transactions.

- *Nonstatistical selection*. We performed additional data mining on Pcard transactions to identify purchases that appeared to be from unusual vendors, purchases made on weekends, during the holidays, or at fiscal-year end, and purchases of sensitive assets.

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Scope and Methodology (cont'd)

- As these analyses yielded thousands of transactions, we then made a nonstatistical selection of 150 of these transactions totaling $175,936, taking into account factors such as item description, amount, and frequency of similar purchases, among other things. We did not select any transactions that were previously identified by internal audit and agreed to by PNNL management as unallowable items. However, we did select some in which the lab had not yet determined allowability.

- Based on our review of supporting documents, we determined that two transactions were made by unknown perpetrators with stolen Pcards. Because we were able to verify that the charges were subsequently reversed by the issuing bank, we eliminated these from the nonstatistical selection, thus reducing the total selection to 148 transactions.

- We tested the 148 transactions for specific control activities, such as evidence of supervisory review and approval, adequacy of supporting documentation, as well as to examine the reasonableness of the purchases.

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Scope and Methodology (cont'd)

To determine if property controls over selected asset acquisitions provided reasonable assurance that accountable assets would be properly recorded and tracked, we

- Performed walkthroughs to observe property controls,
- Reviewed property management policies and procedures,
- Tested accountable property items selected in the nonstatistical selection to determine whether these assets had been entered into the lab's property system prior to our review, and

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Scope and Methodology (cont'd)

- Performed data mining on the property database to identify possible database errors or inaccuracies such as property assigned to terminated employees and multiple property items with the same serial number.

- While we identified some improper, wasteful, and questionable purchases, our work was not designed to determine the full extent of such purchases.

- We conducted our work on all four labs from March 2003 through May 2004 in accordance with generally accepted government auditing standards.

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Internal Control Weaknesses

PNNL management has recognized the inherent risks associated with the Pcard program and has implemented controls to help ensure that improper purchases would not occur or would be detected in the normal course of business. However, the exceptions noted in our review, primarily split purchases, point to additional areas that need to be addressed to further enhance controls over the Pcard program. PNNL management is already addressing some of these issues in response to recent audits.

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Internal Control Weaknesses (cont'd)

Examples of Pcard controls that were instituted at PNNL to reduce the risk of improper purchases and help ensure that accountable property was recorded and tracked included the following:

- Based on the dollar amount of the purchase entered into the Pcard system for each order, the Pcard system automatically flagged certain purchases to alert central receiving staff that the item may require certain ownership tags and property bar-codes.

- Central receiving staff could access the Pcard system for detailed purchase information to facilitate the identification of accountable assets and alert the Pcard office of purchases that appeared improper.

- Property management reviewed exception reports to identify potential accountable assets purchased via Pcards that had been marked as received but were not entered in the property management system.

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Internal Control Weaknesses (cont'd)

However, during our review, we noted two weaknesses in the design of the controls over the Pcard program that increased the risk of improper purchases.

- **Segregation of Duties**: The Pcard administrator and her assistant were also cardholders.
  - As Pcard administrators, they were responsible for monitoring and enforcing cardholder compliance with Pcard policies. The Pcard administrator was also responsible for taking disciplinary actions such as warnings, suspensions, and/or card cancellations.

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Internal Control Weaknesses (cont'd)

- The Pcard administrator was the primary contact with the bank, and thus had authority to order new cards and request credit-limit increases.

- This situation created a conflict of interest between the cardholder and program oversight roles, elevating the risk that spending improprieties would not be detected.

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Internal Control Weaknesses (cont'd)

- **Transaction Documentation:** During our testing of a nonstatistical selection of transactions, we identified several transactions that lacked key supporting documentation to verify specifically what was purchased and the related cost.
  - GAO's *Standards for Internal Control in the Federal Government* states that transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination.
  - Out of 148 transactions reviewed, we found 12 (9 percent) totaling $21,834 that lacked sufficient documentation such as an invoice, credit receipt, or other sales documentation necessary to fully validate the dollar amount, quantity, and nature of the items purchased.

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Internal Control Weaknesses (cont'd)

- Without such documentation, the laboratory did not have sufficient independent evidence of the description and quantity of what was purchased and/or the price paid.

- This lack of documentation is partly due to PNNL policy. Although lab policy requires each transaction to be supported, it does not specifically require cardholders to request or retain the sales receipts or invoices. A lab official informed us that the Pcard office will allow packing slips or order forms in lieu of such documents if a reviewer can reasonably validate the quantity and items purchased. However, packing slips typically do not show the costs of the items purchased, and order forms do not represent confirmation of goods actually purchased and received. While lab officials stated they emphasize to cardholders that receipts are the preferable form of evidence, they acknowledged that the current policy does not clearly specify this.

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Improper, Wasteful, and Questionable Purchases

We also identified improper, wasteful, and questionable transactions totaling $104,250 indicating additional areas where controls could be improved. As discussed below, most of these related to split purchases. Based on our review of a statistical sample of potential split purchases, we estimate that $777,766 of total fiscal year 2002 and the first half of fiscal year 2003 purchase transactions were actual split purchases.[5]

Improper Purchases: We identified 39 transactions totaling $97,938 of improper purchases, which we defined as purchases that violated the DOE contract or lab policy. These included the following:

[5]Our population of 211 potential split purchases had a total value of over $1,794,477. We are 95 percent confident that the total dollar value of actual split purchases was between $462,787 and $1,092,745.

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Improper, Wasteful, and Questionable Purchases (cont'd)

- Split purchases: PNNL's Pcard policy prohibits splitting purchases into more than one transaction to circumvent single purchase limits. Using data mining techniques, we identified 211 potential split purchases—that is, groups of two or more similar transactions that potentially were split to circumvent single purchase limits. In the statistical sample of 27 of these potential split purchases consisting of 75 total transactions, we found 10 were in fact improper split purchases consisting of 21 transactions totaling $81,448. Based on these results, we estimate that $777,766 of total fiscal year 2002 and the first half of fiscal year 2003 purchase transactions were split purchases.

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Improper, Wasteful, and Questionable Purchases (cont'd)

- For example, a cardholder with a $10,000 limit made two separate purchases of hardware totaling $14,929. Supporting documents indicated that the orders were placed on the same date with the same vendor. Both orders were received the same day.

- Reviewing officials had approved the monthly statements containing these split purchases, indicating some approving officials were not fully aware of the split purchase policy.

- While PNNL's internal controls (central receiving and Pcard office staff) had previously discovered two of these split purchases totaling $13,558, it had not detected the other eight. According to PNNL officials, up until October 2003, the computer program which the Pcard office was using to monitor cardholder activity for compliance was not effective in detecting split purchases.

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Improper, Wasteful, and Questionable Purchases (cont'd)

- Unauthorized purchase actions: We also identified seven transactions totaling $7,956 that were placed against cardholders' accounts by someone other than the cardholders.
  - PNNL policy prohibits the use of Pcards by anyone other than the cardholder. Although cardholders may have delegates to help them perform some of their purchasing responsibilities such as reconciling transactions, delegates may not place orders for the cardholders.
  - We reviewed a nonstatistical selection of 25 Pcard transactions that occurred while cardholders were on leave or after they retired from or terminated employment with PNNL. While most turned out to be proper purchases (e.g., cardholder placed order prior to leaving but was not charged by the vendor until after they left), we identified seven transactions where the orders were placed by the cardholders' delegates during their absence.

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Improper, Wasteful, and Questionable Purchases (cont'd)

- In all of these instances, the cardholders had preexisting accounts with the vendors from whom the purchases were made. For example:
  - Two transactions totaling $2,009 were placed by a cardholder's delegate for services related to an on-going building improvement project. The vendor charged the cardholder's account on file.
  - Two other transactions totaling $5,158 were placed by a delegate to purchase a computer, two printers, and peripherals. The order appeared to have been placed by someone accessing the cardholder's account on the lab's internal online ordering system.
- While all of the purchases appeared to be for legitimate purposes, the ability for someone other than the cardholder to make purchases against their account increases the vulnerability of fraud, waste, or abuse.

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Improper, Wasteful, and Questionable Purchases (cont'd)

- Unallowable and Pcard-prohibited purchases: In the nonstatistical selection of 148 transactions, we identified 11 transactions totaling $8,534 that were improper because they were unallowable under the contract or were prohibited from being purchased with a Pcard.
  - Six of these transactions totaling $1,472, which related to unallowable food and personal items, had been discovered by PNNL's internal reviews. These were repaid to DOE by the lab.
  - Some of the remaining five transactions totaling $7,062 included
    - One transaction of $2,866 for graphics services. PNNL policy prohibits the use of Pcards to purchase services over $2,500.
    - One transaction totaling $1,277 for catering services that were unallowable at the time of purchase.
    - Two transactions totaling $1,360 for gifts or mementos.

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Improper, Wasteful, and Questionable Purchases (cont'd)

Wasteful Purchases: Out of 148 transactions, we also identified 3 transactions totaling $693 that we determined to be wasteful—that is, were excessive in cost compared to other available alternatives and/or were of questionable need.

- We considered them excessive in cost when compared to available alternatives that would meet the same basic needs, or of questionable need when they appeared to be items that were a matter of personal preference or convenience, were not part of the usual and necessary equipment for the work the employees were engaged in, and/or did not appear to benefit DOE. These consisted of the following:

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Improper, Wasteful, and Questionable Purchases (cont'd)

- One $413 oversized, laptop-carrying case with wheels. PNNL management concluded that this purchase was reasonable because it was made to accommodate a staff member with an injury and who had a need for frequent business travel. However, this purchase appears excessive given that comparable oversized, laptop-carrying cases with wheels could be purchased for around $100.

- A $72 transaction for Hawaiian leis given to graduates of a management development program, and $208 for tablecloths purchased for use while serving meals to training participants. We questioned the business need for these items.

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Improper, Wasteful, and Questionable Purchases (cont'd)

- **Questionable Purchases**: We also identified four transactions totaling $5,619 that we classified as questionable because there was insufficient documentation to determine what was actually purchased, how many items were purchased, the cost of the items purchased, and whether the purchase was reasonable. Some of these included the following:

  - Two of these transactions totaling $5,575 were for the purchase of $75 and $100 gift certificates from Barnes and Noble. They were issued to staff to allow them to purchase training materials for staff development. However, they did not require the staff to provide any subsequent receipts to ensure that the gift certificates were used for their intended purpose. As such, PNNL management agreed to make a cost correction for the total amount even though they believed that some purchases may have been appropriate.

  - One transaction was for a $25 gift certificate originally purchased for award purposes. PNNL records indicate that the certificate was used to purchase office supplies instead, but no receipt was provided to support how the gift card was ultimately spent.

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Improper, Wasteful, and Questionable Purchases (cont'd)

- Purchases of gift cards are particularly risky because they can be used like cash. Unlike purchases made with a Pcard, which appear on a monthly billing statement to be approved by an approving official and supported by receipts, purchases made with a gift card have no such subsequent audit trail. Consequently, if the gift cards are lost, stolen, or misused, there is no means for determining how they were spent.

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Improper, Wasteful, and Questionable Purchases (cont'd)

- These instances of improper, wasteful, and questionable transactions may be attributable, in part, to inadequate training of cardholders, reviewing officials, and cardholder delegates on the Pcard policy.
  - During our scope of review, only new cardholders received formal Pcard training. There were no refresher training courses offered for cardholders. Additionally, there were no requirements for approving officials or cardholder delegates to attend initial or refresher Pcard training.
  - Because purchasing requirements often change, adequate training on the proper use of the Pcard for all parties involved in the purchasing process is essential. While updates to Pcard policies were sent to cardholders and made available via an internal Web site, without formal training and refresher courses, Pcard policies and changes are more likely to be forgotten or overlooked.

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Improper, Wasteful, and Questionable Purchases (cont'd)

While the $104,250 of improper, wasteful, and questionable transactions is relatively small compared to the approximately $44 million in lab purchase card activity during the review period, it demonstrates vulnerabilities from weak controls that could be exploited to a greater extent. In addition, because we only tested a small portion of the transactions we identified that appeared to have a higher risk of fraud, waste, or abuse, there may be other improper, wasteful, and questionable purchases in the remaining untested transactions.

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Property Management

GAO's *Standards for Internal Control in the Federal Government* requires establishing physical control to secure and safeguard vulnerable assets. Such assets should be periodically counted and compared to control records. PNNL policy requires that controlled and sensitive property be tagged with bar-code property numbers and tracked in the property management system.

- In our review of 148 transactions, there were 19 transactions for the purchase of 32 accountable assets totaling $52,753.
  - PNNL property management recorded all but three of the assets totaling $4,700 in its property management system.
  - According to PNNL officials, this occurred because a new staff member in property management erroneously sent the cardholders government property ownership tags instead of bar-code tags with assigned inventory numbers.

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Recent Policy and Procedural Changes

- PNNL management has been responsive to recent Pcard reviews and has implemented or is in the process of implementing several changes in its Pcard policies and procedures to address audit concerns. Many of these changes are the result of recent internal audits and other reviews of the Pcard program, including ours.
  - Beginning in January 2003, the Pcard office began receiving a monthly report of all personnel status changes such as organizational assignments, leave of absences, terminations, and retirements. Prior to this date, it was left up to the cardholder to notify the Pcard office of any changes in status.
  - In January 2003, the lab cancelled the Pcard administrator's Pcard account.

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Recent Policy and Procedural Changes (cont'd)

- In June 2003, the lab revised its list of Pcard-prohibited purchases. Among the new items prohibited from being purchased with a Pcard were gifts, gift certificates, decorations and party favors, food and beverages, and tablecloths.

- In July 2003 PNNL implemented new Pcard training requirements for cardholders, approving officials, and delegates (cardholders' backups).

  - New cardholders, approving officials, and delegates are required to take the initial Pcard training course and successfully complete a test.

  - Every 2 years, cardholders, approving officials, and delegates must successfully complete a Web-based recertification training course. This training reemphasizes the lab's policies on split purchases, authorized users of Pcards, restricted and prohibited items, and consideration of best value in making purchases. In addition, the training reemphasizes the criteria for determining accountable assets and the requirement to notify property management if such assets are purchased.

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Recent Policy and Procedural Changes (cont'd)

- The cardholder's or approving official's failure to successfully complete the required training will result in the suspension of the cardholder's Pcard. The delegate's failure to successfully complete the required training will result in the suspension of the delegate's Pcard duties.

- The internal audit group performed a review of cell phone practices. As a result of their review, the following changes took effect in September 2003:

  - Cardholders were prohibited from using Pcards to purchase cellular phones and services.

  - The lab assigned a centralized unit the responsibility for procuring cellular phone services. It also required the lab's managers to periodically review their staff members' cellular phone bills for proper telephone use.

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Recent Policy and Procedural Changes (cont'd)

- According to PNNL officials, in October 2003, PNNL's internal audit group began training Pcard office staff on a new software program to perform data mining techniques to better detect improper and wasteful purchases, such as split purchases. According to the Pcard program manager, this includes performing key word searches to find items and vendors that could be considered high-risk purchases. Identified purchases are further reviewed for allowability and/or prohibited use of the Pcard.

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Conclusions

PNNL has established a system of internal controls over its Pcard program and property management functions to help prevent and detect improper purchases and safeguard assets. However, our testing indicated that additional enhancements to strengthen these controls are needed. To its credit, the lab has been responsive to recent audit findings and, as a result, has made some significant changes to its Pcard policies and procedures. While these are positive steps, it will be important for lab management to monitor compliance with these new policies and procedures and to periodically assess their effectiveness in helping minimize improper and wasteful purchases.

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Recommendations

We recommend that the Secretary of Energy direct the Pacific Northwest National Laboratory's Director to take the following three actions to strengthen internal controls over the purchase card program and reduce the lab's vulnerability to improper, wasteful, and questionable purchases.

- Cancel purchase card accounts for cardholders who also perform oversight functions over the purchase card program to help ensure appropriate independence and separation of duties between these functions.

- Establish policies and procedures requiring that purchasers maintain a copy of the detailed sales receipt, invoice, or other independent support showing the description, quantity, and price of individual items purchased.

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Recommendations (cont'd)

- Require approving officials, during their review of cardholder transaction documentation, to ensure that the cardholders obtained a sales receipt or invoice to support each purchase, and that the cardholder obtained and documented any required preapprovals before purchase.

- We also recommend that the Secretary of Energy direct the DOE contracting officer for the lab to review the improper, wasteful, and questionable items we identified to determine whether any of these purchases should be repaid to DOE.

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Agency Comments

- We met with laboratory and local DOE officials to obtain their oral comments on a draft of this briefing. They generally agreed with our findings and recommendations and indicated that the lab has taken or will take action to address the issues identified.

- For example, lab officials indicated that while the practice has been to provide the most complete source documentation available, they agreed to formalize the requirement and plan to work with the contracting officer to establish the most complete level of documentation required to support Pcard transactions. They also indicated they would emphasize this and other requirements during training. In addition, the lab cancelled the Pcard administrator's assistant's Pcard effective June 7, 2004.

- The lab also provided technical and clarifying comments, which we incorporated as appropriate.

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