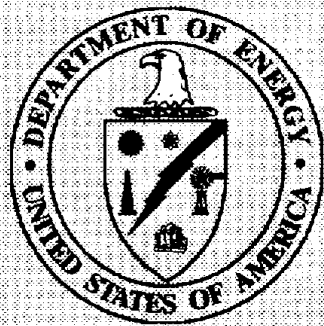


LETTER REPORT

U.S. Department of Energy's
Purchase Card Programs –
Lessons Learned



FEBRUARY 2002

U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL
No. 101OP001



Department of Energy

Washington, DC 20585

February 26, 2002

MEMORANDUM FOR THE DEPUTY SECRETARY

FROM:

Gregory H. Friedman
Gregory H. Friedman
Inspector General

SUBJECT:

INFORMATION: Letter Report on "U.S. Department of Energy's Purchase Card Programs – Lessons Learned" (Case No. I01OP001)

Along with many agencies of the Federal Government and numerous private sector entities, the Department of Energy (Department) has adopted the purchase card concept as a means of simplifying its small purchase procedures and improving cash management. In recent years, the Office of Inspector General (OIG) has conducted a number of investigations and reviews of this program. We have, as part of our efforts in this area, confirmed allegations of purchase card misuse and identified programmatic weaknesses that have left the Department potentially vulnerable to abusive practices. The purpose of this letter report is to summarize the findings of the OIG to date and to present a series of "lessons learned" which can be used to improve the integrity and performance of the Department's purchase card programs.

BACKGROUND

In 1998, the General Services Administration established the SmartPay program, which includes a master umbrella contract that encompasses purchase card, travel card and fleet card services for the Federal Government. The SmartPay program (one of the purchase card programs used by the Department) is designed to allow Federal and contractor employees to make expedited purchases using Government-issued credit cards. As of Fiscal Year 2001, the Department's purchase card activity through the SmartPay program reached dollar volumes exceeding \$219 million.

Since 1998, the OIG has conducted 20 reviews at 11 different sites involving instances in which Federal or contractor employees allegedly misused Government purchase cards to acquire goods and services for personal use. Approximately half of the reviews were prompted by referrals of information from Department or contractor management. As a result of the reviews, we found that employees misused Government purchase cards to acquire home improvement items, hunting equipment and accessories, electronics, lawn equipment and power tools.

During the course of our reviews, the OIG identified a number of complex schemes, which were devised to facilitate the misuse of the purchase cards, including:



(1) generating fraudulent invoices to mask the nature of actual purchases; (2) making ghost purchases; (3) providing kickbacks to suppliers who agreed to participate in “quid pro quo” schemes; (4) circumventing Department policies and procedures by allowing employees to approve their own purchase card transactions; and, (5) acquiring goods for personal use that were delivered to non-Department locations. The cases evolving from these schemes, a number of which have already been prosecuted, have resulted in incarceration, criminal and civil fines, financial settlements, and disciplinary actions.

LESSONS LEARNED

Taken together, our findings suggest that the Department’s system of safeguards and controls over its purchase card programs needs to be strengthened. These safeguards, intended to ensure the integrity of the programs, have not functioned effectively in a number of instances. We have identified four key “lessons learned” which can, in our judgment, be used to significantly improve the operation and performance of the purchase card programs:

1. Independent Receipt and Acceptance. Comprehensive guidelines that clearly delineate and segregate duties with respect to approval of purchases; receipt, reconciliation and acceptance of goods and services; and certification of monthly purchase card statements are essential in reducing purchase card misuse and abuse. During the course of our reviews, we found that an independent receipt and acceptance of goods and services, and independent documented certification of purchase card statements, were not occurring at some sites. For example, an OIG assessment of two contractors at the Department’s Idaho Operations Office disclosed that the contractors’ existing operational safeguards over purchase cards and the changes made to operational safeguards were not sufficient to prevent, or promptly detect, the loss of Government assets. Specifically, we found that contractor employees used Government funds to purchase property for personal or non-contract use. We also found that contractors neither segregated responsibility for processing and recording purchase card transactions, nor required the periodic comparison of control records to assets. Instead, the contractors’ internal control procedures assigned data entry, reconciliation, and document retention responsibilities to the cardholder. In addition, procedures did not require approving officials to review purchase receipts when approving reconciled statements. Nor did the procedures require a physical verification of property to purchase documentation by someone other than the purchaser. As a result of our work, Department management stated that it would require the contractor to make improvements to its internal controls regarding segregation of duties and responsibilities.

Further, a separate investigation of contractor employees at the Idaho Operations Office also revealed that an independent receipt and acceptance of goods and services was not occurring. Specifically, a contractor project manager misused a purchase card to purchase property for personal or non-contract use totaling \$85,000. The project manager also allowed a co-worker to charge \$13,000 of unallowable purchases on the manager’s purchase card. As a result of our work, both the manager and the co-worker

were terminated and subsequently pled guilty to one-count violations of Theft of Government Property.

2. Unallowable Non-reimbursable Purchases. Clearly delineating unallowable and non-reimbursable items in credit card policies and cardholder guidelines would, in our judgment, result in more efficient and effective use of Government purchase cards. During our review of the purchase card program at the Department's Ohio Field Office, we noted that one of the contractors did not provide adequate guidance to employees on unallowable items. The OIG found that the contractor incurred and claimed credit card charges that were unallowable and, thus, non-reimbursable under the terms of the contract. The unallowable items included employee morale and recognition purchases, items given to employees as safety incentives, and photos and memorabilia for community involvement and charitable activities. As a result, the contractor reimbursed the Department about \$42,000 in unallowable costs.

Another example involved a contractor at a national laboratory that billed unallowable credit card costs to the Department through its general overhead account. Numerous laboratory employees used Government purchase cards improperly with the apparent knowledge of contractor management. The OIG issued a report to Department management and as a result, the laboratory reimbursed the Department \$61,200 for unallowable procurement card charges.

In another instance, a Department grantee's principal investigator, and his family, made unauthorized charges on a Government-issued purchase card and telephone calling card. The principal investigator was charged and pled guilty to a misdemeanor, and was ordered to pay \$8,800 in restitution. The grantee returned over \$19,000 to the Department for unallowable costs associated with the grant.

3. Adherence to Policies and Procedures. More aggressive steps are needed to assure compliance with established policies and procedures. Further, enhanced monitoring of the transactions may eliminate or deter the misuse of the Government purchase card. Our reviews disclosed instances of non-adherence to purchase card policies and procedures. Department policy, for instance, states that a cardholder will not "split" purchases in order to fall within the single purchase limit. These types of purchases circumvent cardholder single transaction limits or avoid competition requirements. During the OIG reviews, a number of procurement transactions involving "split purchases" were identified at various sites. For example, during OIG work within the Office of Environmental Management (EM), the OIG observed that EM did not adhere to prescribed policy by making purchases that appeared to have been split to avoid Government purchase card limits and competition requirements. It was noted that EM was provided with Internet hosting services through methods that may not have met competition requirements. EM neither formally justified nor performed a cost benefit analysis prior to contracting for the outside Internet hosting provider, an action that could potentially increase web-hosting costs by over \$770,000 over the projected remaining life of the system. As a result of our review, management began to develop management controls to resolve the identified issues.

We also found examples of non-adherence to policies and procedures at one of the national laboratories. Specifically, we found that: (1) some laboratory employees were not identifying personal property items purchased with credit cards as U.S. Government property, as required by contract; (2) an office equipment vendor manipulated General Services Administration contract pricing to expedite equipment sales, thus circumventing the contractor's credit card policy; (3) a laboratory employee used a credit card to pay for over \$200,000 in training expenses, thus circumventing the laboratory's credit card policy to a single vendor, having the effect of a sole-source procurement; and, (4) laboratory employees used credit cards to procure numerous similar items from a variety of different vendors that could have been competitively procured in a larger volume from fewer sources and at a potentially lower cost.

We also identified instances in which contractor employees did not comply with established policies and procedures regarding approval authority. Department purchase card guidelines require, in part, that an approving official authorize and approve purchases made by the cardholder. In one investigation, a contractor manager provided his password identification so the purchaser could reconcile and approve her own purchase card transactions. In this case, the manager was reprimanded for non-adherence to the policy. The employee was terminated and additional sanctions are pending.

4. Inadequate Purchase Card Safeguards. A system is needed that provides a full accounting of the number of cardholders, cardholder status, and spending limitations. This system is vital in establishing program accountability. Department guidelines do not have specific criteria regarding the control of the number of purchase cards issued, and the Department does not appear to have an accurate accounting of the number of cardholders. During our work, we found that some Department contractors and grantees established separate accounts with financial institutions other than those listed under the SmartPay's Bank of America task order for Department purchase cards. The separate accounts included purchase cards issued through companies such as Rocky Mountain Bank Card System, Citibank, and Bank One. However, Department officials were unable to provide a comprehensive list of Department contractors who participate with other financial institutions to obtain Government purchase cards. Department officials provided the OIG with a list of SmartPay purchase cardholders since 1999. We compared the list to cardholder information obtained during OIG work at a national laboratory and found that the SmartPay list identified 14 cardholders at the laboratory, while our work identified approximately 300 cardholders. Thus, it appears that centrally available Department information significantly understated the availability and use of purchase cards by Department and contractor employees.

Our work also revealed other examples of abuse resulting from inadequate safeguards. One example involved a Department employee who used a Government purchase card for \$11,200 in non-official purchases. The employee had four different Government credit cards, three of which were authorized. The Department was unaware that a fourth card was inadvertently mailed to the employee. In addition, the employee submitted fraudulent invoices to the Government to conceal the purchases.

CONTINUING OIG WORK

In an effort to be of further assistance to the Department, we have also initiated a proactive evaluation of purchase card transactions to further identify potential indicators of fraud, waste or abuse. Concurrently, we are performing an audit of Sandia National Laboratories' Procurement Purchase Card Program.

CONCLUSION

It is clear that the potential programmatic benefits resulting from a purchase card program are significant. However, abuse of the purchase card could render the program ineffective and, potentially, lead to its termination. We believe that the lessons learned identified in this report provide a useful guide to assist the Department in reducing the misuse of purchase cards and in maximizing the effectiveness of the purchase card concept.

MANAGEMENT COMMENTS

During the course of our review, we shared a draft copy of the report with the Director, Office of Management, Budget and Evaluation/Chief Financial Officer (CFO). The CFO agreed with the report and indicated that it is the Department's intent to ensure that the Department and its contractors have adequate purchase card controls in place to provide reasonable assurance against abuse or misuse of purchase cards. The CFO also stated that the Department has initiated and will continue to implement very aggressive measures to combat purchase card abuse and misuse. The CFO's comments are provided verbatim at Appendix II of the report.

Attachments

cc: Under Secretary for Energy, Science and Environment
Administrator, National Nuclear Security Administration
Director, Office of Management, Budget and Evaluation/Chief Financial Officer

APPENDIX I

OFFICE OF INSPECTOR GENERAL REPORTS RELATED TO PURCHASE CARD PROGRAMS

- *Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Bechtel BWXT Idaho, LLC Under Department of Energy Contract No. DE-AC07-99ID13727, October 2001*
- *Credit Card Usage at the Ohio Field Office and the Fernald and Miamisburg Environmental Management Project, March 1999*
- *Integrated Planning, Accountability, and Budgeting System-Information System, June 2001*
- *Inspection of Lawrence Livermore National Laboratory Credit Card Usage and Property Management Concerns, February 2001*

**Department of Energy**

Washington, DC 20585

FEB 20 2002

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF ENERGY**FROM:****BRUCE M. CARNES**
BMC
**DIRECTOR, OFFICE OF MANAGEMENT, BUDGET
AND EVALUATION/CHIEF FINANCIAL OFFICER****SUBJECT:****Draft Letter Report on "U.S. Department of Energy's Purchase
Card Programs - Lessons Learned (Case No. I01OP001)**

Thank you for the opportunity to comment on your Draft Letter Report on "U.S. Department of Energy's Purchase Card Programs - Lessons Learned (Case No. I01OP001). I appreciate the "lessons learned" provided by the report, and intend to apply them. Notwithstanding the fact that many of the problems cited in the report seem to be isolated to specific locations, it is my intention to ensure that, at all its sites, the Department and its contractors have adequate controls in place to provide reasonable assurance against abuse or misuse of purchase cards. I would like to share with you the steps that we have already taken, and will take, to accomplish this objective.

Following disclosures last summer regarding problems in the Department of Defense's use of travel and purchase cards, we undertook an assessment of the Department of Energy's (DOE's) current policies, procedures and practices regarding their use, as well as a comprehensive review of purchase card usage at Headquarters. We also conducted some preliminary benchmarking on the internal policies used by other Federal agencies.

In summary, we found that, in general, DOE's contracting activities have established and implemented local procedures in conformance with Department-wide policies on the use of purchase cards contained in the DOE Acquisition Guide. The policies and procedures contain checks and balances to ensure independent approval of each purchase. Further, we found that, generally, purchase card users are properly trained, that monthly statements are reviewed and approved by specifically designated approving officials, that personal property purchased using the purchase card is received independently of the purchaser, and is properly recorded into the property system at the sites. Our review did, however, identify three DOE contracting activities which were not complying with one or more aspects of our policies. They are being brought into compliance.

Our initial benchmarking with other Federal agencies indicated that DOE has established guidelines for appropriate usage of purchase cards that are among the most comprehensive in the Federal Government. Nonetheless, a critical examination of those policies, including a comparison against the concerns raised by GAO in the conduct of its DoD audit, indicated that certain improvements could be made. For example, our

policies need to be revised to specifically address the monitoring of rebates paid by the purchase card provider.

As part of our assessment, we completed a review of each purchase card transaction by DOE Headquarters cardholders since 1998. The most significant finding from this review was that a small number of purchase card holders had at some time during this period split a purchase in order to exceed transactional dollar limitations. You identified this finding in your report. For your information, the purchase cards for these employees were subsequently suspended. Additionally, we have canceled a number of purchase cards where we found that there was insufficient need.

The instances of fraudulent practices identified in your report derive mostly from the activities of contractor employees. As you know, the use of purchase cards is a standard industry practice and is engaged in by many government contractors. DOE has, however, permitted its major facility management contractors to obtain purchase cards through the GSA Smart Pay program. Contractors who make use of purchase cards are also required to have defined policies and procedures for use, including appropriate checks and balances. Contractors are further required to perform periodic compliance reviews of purchase card usage. Inappropriate acquisitions under cost reimbursement contracts may result in, among other things, a disallowance of costs for reimbursement.

Building on these steps we have already taken as well as your suggestions, I intend to take the following additional actions under the leadership of Richard Hopf:

1. Provide a copy of your final report to the heads of DOE component organizations and major facility contractors requiring that their management attention be focused on the areas discussed in their report
2. Complete our benchmarking exercise and make any necessary changes to our policies and procedures
3. Provide a standard process for both Federal/Contractor program transaction review
4. Expand our transactional review to DOE field elements and major contractors
5. Ensure field compliance with all new policy and procedure requirements by the conduct of periodic reviews
6. Assess the extent that additional controls would have impacted the abusive situations identified in your report and ensure their adoption
7. Complete our assessment of contractor policies and procedures for the use and control of purchase cards

8. Adopt a minimum set of usage/control expectations for contractor policy and procedures
9. Assess and eliminate unnecessary credit card issuance at DOE field sites (Please note that there are approximately 5,400 purchase card holders under the DOE Smart Pay account, not 9,200 as stated in your report. This includes both Federal as well as contractor card holders. The higher figure may represent that cards issued over the history of the program, not the number extant at a given point in time.)

I have also asked Rick Sweeney to initiate a comprehensive review of policies and procedures governing the use of purchase cards with the objective of identifying areas where improvements can be made to help preclude abuse or misuse of purchase cards. This review will encompass Field and contractor purchase card programs. Special attention will be given to the need for additional controls that would help prevent the types of abuses described in the report. My staff has already requested, received, and begun reviewing Federal and contractor policies and procedures. Policies and procedures will be strengthened as appropriate.

I have also instructed my staff to initiate a Department-wide review of purchase card programs at the Department's Federal and contractor sites to help ensure that policies and procedures are not being ignored or circumvented. This review will commence during the next few months and will focus on problem areas identified in your report as well as those identified by auditors at the Department of Defense. We have already gathered data from each site, developed a comprehensive review guide, and begun identifying a statistically valid sample for review.

I believe that the actions outlined above will help strengthen controls over the Department's and its contractors' purchase card programs. My staff will coordinate review efforts with your Office with the objective of providing the best possible deterrent to abuse of the purchase card programs.

As recognized in the General Accounting Office's Standards for Internal Control in the Federal Government, controls can provide reasonable, but not absolute assurance against fraud, waste and abuse. Instances of collusion and other acts to circumvent control are normally discovered through tips provided by conscientious personnel or citizens through conduits such as the IG hotline. I am pleased that such actions are being reported to the Department's hotline so that offenders can be caught and prosecuted. This is a tremendous deterrent to others who might be planning similar schemes.

If you have any questions regarding this response, please call me on 64171 or Rick Sweeney, Director, Office of Program Liaison and Financial Analysis, on 32551. Thank you again for the opportunity to comment on the Draft Report.

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