

Use of Government Credit Cards

Department of Transportation

Report Number: FI-2001-095
Date Issued: September 24, 2001



Memorandum

U.S. Department of
Transportation

Office of the Secretary
of Transportation

Office of Inspector General

Subject: **ACTION**: Report on Use of
Government Credit Cards, DOT
FI-2001-095

Date: September 24, 2001

From: Alexis M. Stefani 
Assistant Inspector General for Auditing

Reply To
Attn Of:

To: Assistant Secretary for Administration
Federal Aviation Administrator

This report presents the results of our audit of the Department of Transportation (DOT) Government credit card program. The Government credit card program is used to simplify and streamline the small purchase procurement process. DOT spends about \$317 million annually using Government non-travel credit cards and convenience checks that are charged on these credit cards. The Assistant Secretary for Administration has overall responsibility for the credit card program within DOT except for the Federal Aviation Administration (FAA), which is exempt from DOT acquisition regulations. In FAA, the Director of Acquisitions has the overall responsibility.

Our audit objectives were to determine whether: (1) purchases using Government credit cards were reasonable, valid, and received; (2) internal controls over the credit card program were adequate; and (3) credit cards were used in accordance with established policies.

RESULTS IN BRIEF

We reviewed 785 credit card and convenience check transactions totaling about \$1.2 million for purchases made by FAA, U.S. Coast Guard, and other DOT Operating Administrations. Generally, we found purchases were reasonable, valid, and received. However, internal controls were weak concerning verification of purchases, splitting purchases to avoid credit card limits, and performing reviews of credit card usage within FAA. We also found three instances of fraud using DOT credit cards, including one that occurred because the card number was stolen, and violations of DOT policy and internal control procedures.

- **Verification of Purchases.** We found 75 transactions totaling \$68,000 for which approving officials had not verified, as required, that purchases were authorized. Although additional testing of receipts revealed no inappropriate

purchases, the lack of review by approving officials creates a control weakness over credit card transactions. We found this policy violation occurred across the Department. Based on our statistical sample,¹ we estimate about 8,500 instances (about 9 percent) of this policy violation occurred in Fiscal Year (FY) 2000 at selected FAA and Coast Guard locations.

This type of policy violation contributed to two cases previously identified by our Office of Investigations of fraudulent use of Government credit cards totaling \$138,000. The approving officials in these cases had not reviewed the cardholders' monthly statements and supporting documentation to verify that the purchases were authorized. We also identified fraudulent transactions on an FAA account, however, these charges resulted when the card number was stolen and used by someone other than the authorized cardholder.

- **Split Purchases.** We found 13 transactions totaling \$106,000 that violated DOT and FAA policies against splitting purchases to avoid cardholders' single purchase credit limits. This violation occurred primarily at FAA (10 of the 13 split purchases). Based on our statistical sample, we estimate about 1,900 instances (about 2 percent) of this policy violation occurred in FY 2000 at selected FAA and Coast Guard locations. For example, an FAA purchase of computer equipment totaling \$21,000 was split into three transactions by three different cardholders to avoid the \$10,000 single purchase credit limit on each card. All 13 transactions had supervisor approval.
- **FAA's Follow-up Reviews.** FAA, a major user of credit cards with over \$126 million in transactions, has not performed the required internal follow-up reviews on credit card usage since 1998. FAA was conducting monthly reviews of convenience checks. These reviews are required to ensure purchases are authorized and policies are being followed. The other DOT Operating Administrations were conducting follow-up reviews and found similar policy violations as we found in our audit.
- **Disciplinary or Other Actions.** Actions taken were inconsistent when cardholders or approving officials violated policies. For example, both an FAA cardholder and the approving official were formally disciplined for splitting a purchase by using more than one convenience check. However, no action was taken against the approving officials or cardholders for the other split purchases we identified.

To correct the internal control weaknesses and policy violations identified, we recommend that the Assistant Secretary for Administration and the FAA Administrator issue memoranda to cardholders, approving officials, and reviewing

¹ Our statistical sample consisted of 100 transactions from about 96,000 transactions at selected FAA and Coast Guard offices.

officials that reiterate and emphasize credit card policies regarding cardholder and approving official responsibilities, split purchase prohibition, and the performance of periodic follow-up reviews of purchases. Because these weaknesses and policy violations are similar to those in our prior audit report and to clearly establish accountability, we also are recommending that DOT and FAA develop and communicate guidance concerning disciplinary and other corrective actions which may be taken when policy violations occur. DOT and FAA agreed with our recommendations and are taking corrective actions.

BACKGROUND

The use of Government credit cards is intended to streamline the small purchase procurement process by eliminating or reducing the number of procurement requests, purchase orders, or vendor payments issued. The Government credit card program also includes the use of convenience checks when Government credit cards are not accepted. For all DOT agencies except FAA, the Senior Procurement Executive in the Office of the Assistant Secretary for Administration has overall responsibility for the program, which is operated under contract with Bank of America. In FAA, the Director of Acquisitions has the overall responsibility.

The Transportation Acquisition Manual (TAM) provides the policies, procedures, and general guidelines for the credit card program, but recommends that the Operating Administrations develop internal policies and procedures. FAA, which is exempt from the TAM, has issued its own credit card policies and procedures that parallel the TAM.

As Table 1 shows, the Coast Guard and FAA account for 93 percent of the 812,000 charges to credit cards in FY 2000.

Table 1
FY 2000 Credit Card Activity

Agency	Cardholders	Number of Transactions	Amount (millions)
Coast Guard	8,900	480,000	\$158
FAA	7,700	271,000	126
All Other	1,200	61,000	33
Total	17,800	812,000	\$317

Selected cardholders also are authorized to write convenience checks on their credit card accounts. The 812,000 transactions include about 3,400 convenience checks totaling \$2.2 million.

SCOPE AND METHODOLOGY

This audit included 785 credit card and convenience check transactions totaling \$1.2 million made during FY 2000. These transactions were made by cardholders in 9 of 11 Operating Administrations² and the Office of the Secretary, including the Office of Inspector General. This audit did not include any other credit card programs, such as travel, or fleet credit cards used for gasoline and other purchases for Government vehicles.

Initially, we statistically identified 770 transactions from the universe of 812,000 transactions made in FY 2000. We reviewed 100 from about 96,000 transactions in selected FAA and Coast Guard offices in Atlanta, Georgia; Baltimore, Maryland; Chicago, Illinois; New York, New York; Seattle, Washington; and Washington, D.C. Based on the results of our review of the 100 transactions, we were able to project, at the 95-percent confidence level with a margin of error of less than 6 percent, the total number of approving official verification of purchase and split-purchase policy violations in FY 2000 at those locations. We also augmented the statistical sample with 328 nonstatistically selected transactions at those locations.

To identify instances of fraud or serious abuse in the credit card program, we nonstatistically selected another 285 transactions having one or more of the following characteristics: (1) purchases within 10 percent of the single transaction limit, (2) yearend purchases, (3) purchases on weekends, (4) purchases in even dollar amounts, (5) multiple purchases to the same vendor, or (6) multiple purchases on the same day or over consecutive days to the same vendor. We selected transactions having this sixth characteristic to identify cardholders who were splitting purchases. These 285 transactions were in the above locations and Atlantic City, New Jersey. Our Office of Investigations is reviewing other transactions from these analyses. We also nonstatistically selected and reviewed 72 convenience check transactions totaling about \$131,000.

For the 785 transactions, we interviewed the appropriate cardholders, approving officials, agency program coordinators, finance and procurement personnel, vendors, and officials from Bank of America. We also reviewed supporting documentation including credit card statements, invoices, receipts, receiving reports, and other pertinent documentation to determine whether purchases were made in accordance with established policies and whether adequate support existed for the purchases. We also independently inventoried or verified the receipt of 50 purchases. We obtained an understanding of the design of the internal controls and tested the controls. Because of inherent limitations in any internal control structure, abuses may occur and not be detected.

² The two Operating Administrations not included were the Bureau of Transportation Statistics and the Saint Lawrence Seaway Development Corporation.

We conducted the audit from February to July 2001. The audit was conducted in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States.

PRIOR AUDIT COVERAGE

On November 4, 1997, we issued a report (MA-1998-004) on DOT's Government credit card program, which identified these problems: approving officials were not performing required reviews of documentation; cardholders were splitting purchases; and follow-up periodic reviews were not conducted. We recommended that the Department reemphasize the requirement for approving officials to review supporting documentation for cardholder purchases and provide the necessary guidance for Operating Administrations to conduct periodic follow-up reviews. The Assistant Secretary for Administration took action to implement our recommendations.

ANALYSES AND RESULTS

We reviewed 785 credit card and convenience check transactions totaling about \$1.2 million, and identified instances of these policy violations and internal control weaknesses: (1) approving officials were not verifying that purchases were authorized; (2) cardholders' were splitting single purchases into multiple transactions to avoid credit card limits; and (3) FAA was not conducting periodic follow-up reviews of transactions. As Table 2 shows, approving officials' failure to verify purchases occurred across the Department, but split purchases were primarily at FAA.

**Table 2
Government Credit Card
Control Weaknesses and Policy Violations**

Problem ^{a/}	Number of Transactions			
	FAA	Coast Guard	Other Agencies	Total
Approving Officials Not Verifying Purchases	21	29	25	75
Split Purchases	10	2	1	13
Totals	31	31	26	88

^{a/} The policy violations regarding follow-up reviews were not transaction-related and are not included in these statistics.

Verification of Purchases

For 75 transactions totaling about \$68,000, we found that the approving officials had not reviewed the corresponding cardholder statements to verify that the purchases were authorized. Although additional testing of receipts revealed no inappropriate purchases, the lack of review by approving officials creates a control weakness over credit card transactions. We found this policy violation occurred across the Department. Based on our statistical sample, we estimate about 8,500 instances (about 9 percent) of this policy violation occurred in FY 2000 at selected FAA and Coast Guard locations. The TAM and FAA policies require approving officials to verify that purchases were authorized.

This type of policy violation contributed to two cases previously identified by our Office of Investigations of fraudulent uses of Government credit cards. In one case, an FAA cardholder used the credit card to purchase computer software and other items costing over \$80,000 for a personal business. Another FAA cardholder made numerous unauthorized charges (a home stereo system and a new engine for his car) totaling more than \$58,000 on his Government credit card. Had the approving officials reviewed the cardholders' monthly statements and asked for supporting documents, the misuse of the card to purchase nongovernment items should have been detected.

As part of our nonstatistical sample to identify instances of fraud, we identified seven purchases totaling about \$15,000 made on an FAA cardholder account that appeared to be inappropriate purchases. For example, two purchases each for \$1,908 were made from Circuit City and a third for \$1,295 from a jewelry store. Our review disclosed that Bank of America noticed the unusual activity and had already notified FAA. (The monthly credit card statement had not yet been received by the cardholder.) FAA and Bank of America investigated and determined that the card number had been stolen. Bank of America closed the account and reversed all the fraudulent charges. In this case, the bank's established controls resulted in timely recognition of the fraudulent activity.

Split Purchases

We found 13 transactions totaling about \$106,000 that violated DOT and FAA policies against splitting purchases. We found this violation occurred primarily at FAA (10 of the 13 split purchases). Based on our statistical sample, we estimate about 1,900 instances (about 2 percent) of this policy violation occurred in FY 2000 at selected FAA and Coast Guard locations. The TAM and FAA policies specifically prohibit dividing or splitting a single purchase into two or more transactions to avoid a cardholder's single transaction purchase limitation. All 13 transactions occurred with the approving officials' knowledge as indicated by their verbal statements to us or their approval of the cardholders' monthly credit card statements. For example, an FAA purchase of computer equipment totaling \$21,000 was split into three transactions by three different cardholders because each cardholder had a \$10,000 single purchase credit limit.

Testing of Receipts

For transactions involving the above violations of policy or internal control procedures, we performed additional tests on 50 transactions to independently confirm that the goods or services had actually been received and that they were for legitimate Government business. We selected these purchases to satisfy ourselves that they were not subject to fraud or abuse, such as being purchased for an individual's personal use. Examples of the items that we verified include a laptop computer, fax machine, attendance at a safety seminar, and child car seats (used by FAA in fire hazard tests). We confirmed that all 50 purchases were received and were for authorized purposes.

FAA Follow-up Reviews

FAA, a major user of credit cards with over \$126 million in transactions, has not performed the required internal follow-up reviews on credit card usage since 1998. FAA was conducting monthly reviews of convenience checks. During our audit, FAA stated it is in the process of standardizing its requirements for monitoring credit card usage and plans to perform the follow-up reviews later this year. Follow-up reviews are to consist of an independent official (other than the approving official) reviewing a sample of credit card transactions to determine that purchases and services were authorized and that cardholders and approving officials followed policies and procedures.

The TAM also requires periodic follow-up reviews, and we found that the other Operating Administrations were conducting the follow-up reviews. These follow-up reviews identified instances of policy violations similar to the violations we found in our audit. Periodic follow-up reviews are an effective internal control to ensure cardholders and approving officials are properly using credit cards and complying with established policies. The policy violations and fraud discussed previously in this report demonstrate the negative effects when follow-up reviews of credit card transactions are not conducted.

Disciplinary or Other Actions

When cardholders or approving officials violate policies, the actions taken were inconsistent. For example, an FAA cardholder and the approving official were formally disciplined for splitting a purchase by using more than one convenience check. However, no action was taken against the cardholders or approving officials for the other split purchases we identified. Neither the TAM nor FAA policies provide procedures or guidance as to the disciplinary or other corrective actions that may be taken when violations occur. The cardholders and approving officials should be held accountable when they violate DOT or FAA purchase card policies.

RECOMMENDATIONS

We recommend that the Assistant Secretary for Administration and the FAA Administrator:

1. Issue memoranda to cardholders, approving officials, and reviewing officials that reiterate and emphasize credit card policy regarding cardholder and approving official responsibilities, split purchase prohibition, and the performance of periodic follow-up reviews of purchases.
2. Develop and communicate guidance concerning disciplinary and other corrective actions which may be taken when policy violations occur. To clearly establish accountability, the guidance should require cardholders and approving officials to acknowledge that they have read, understand, and will comply with DOT or FAA policies on use of Government credit cards.

MANAGEMENT RESPONSES

A draft of this report was provided to the Assistant Secretary for Administration and the FAA Administrator on August 29, 2001. Both agreed with our recommendations and provided comments. The complete text of DOT and FAA comments are in Appendices 1 and 2, respectively. We considered their comments in preparing this report.

DOT Comments

Recommendation 1. Concur. The Senior Procurement Executive (SPE) will prepare guidance for distribution to all cardholders and approving officials that reiterates and emphasizes Government purchase card policy regarding cardholder and approving official responsibilities, and split purchase prohibitions. The SPE will reiterate and reemphasize to all Heads of Contracting Activities their responsibility to conduct periodic follow-up reviews of purchases. The guidance will be completed no later than February 28, 2002.

Recommendation 2. Concur. The Office of Human Resource Management will issue the guidance on disciplinary and corrective action that may be taken when violations of Government purchase card policy occur. A mechanism to establish accountability, by requiring cardholders and approving officials to acknowledge that they have read, understand, and will comply with DOT policy on the use of the Government purchase card, will be incorporated in the SPE guidance. The Office of Human Resource Management will issue its guidance by March 15, 2002.

FAA Comments

Recommendation 1. Concur. The Director of Acquisitions will prepare and issue a memorandum to all current and future cardholders/convenience check writers, approving officials and reviewing officials that will reiterate and emphasize the credit card policies regarding cardholder and approving official responsibilities and prohibiting split purchases. The memorandum will be issued not later than October 15, 2001. The Chief of the Contracting Office for each acquisition office within the region, center, and headquarters will be requested to issue a similar memorandum. FAA headquarters will modify the cardholder training to place special emphasis in these areas. The cardholder training materials were modified on September 14, 2001.

The FAA headquarters' Agency Program Coordinator will perform internal audits of the credit card program on a regular basis in 12-18 month intervals. FAA will initiate the next internal audit not later than March 1, 2002.

Recommendation 2. Concur. FAA believes it is already in compliance. Disciplinary actions for theft, fraud or intentional misuse of a credit card by an employee have been imposed based on the applicable penalties outlined in the FAA Personnel Manual, as well as penalties and or legal charges. However, FAA headquarters will restate and emphasize in the forthcoming memorandum the enforcement actions to be taken when credit card policy violations occur.

A certification sheet will be included with the forthcoming memorandum to cardholders, approving officials, and reviewing officials requesting that they review and sign the certificate validating that they have received training, read, understand and will comply with the FAA purchase card policies. The purchase card training will be modified to include a copy of the memorandum and certificate to be signed before the participants leave the training session. FAA will retain all signed certificates.

OFFICE OF INSPECTOR GENERAL COMMENTS

Actions taken and planned by DOT and FAA are reasonable.

We appreciate the courtesies and cooperation of DOT and FAA representatives. If you have questions, please call me at (202) 366-1964 or John Meche at (202) 366-1496.

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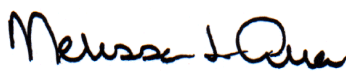


**U.S. Department of
Transportation**
Office of the Secretary
of Transportation

Memorandum

Subject: ACTION: Response to Revised Draft Report
on Use of Government Credit Cards, DOT

Date: September 19, 2001

From: 
Melissa J. Allen
Assistant Secretary for Administration

Reply to
Attn. of:

To: John L. Meche
Deputy Assistant Inspector General for Financial,
Information Technology, and Departmentwide Programs

Thank you for the opportunity to review and comment on the subject draft report. We are pleased to note that the Office of Inspector General (OIG), overall, found credit card purchases made by the Operating Administrations (OAs) to be reasonable, valid, and received. Unfortunately, as noted in the report, the OIG also found three instances of fraud (including one involving a stolen card number), and a relatively small number of violations of credit card policy and internal control procedures. We generally concur with the report's recommendations and will continue to work with OA officials to further strengthen program management and address the issues identified in the report. Our goal is one hundred percent compliance with the Department's policy, and no incidents of fraud. We are pleased to note that the Department's credit card program has earned high rebates from the contractor, Bank of America, due to the program's extremely low fraud rate. We will take all appropriate actions to achieve full compliance with applicable policy and eliminate any deficiencies identified in the report.

Recommendations and Responses

Recommendation 1: Issue memoranda to cardholders, approving officials, and reviewing officials that reiterates and emphasizes credit card policy regarding cardholder and approving official responsibilities, split purchase prohibition, and the performance of periodic follow-up reviews of purchases.

Response: Concur. The Senior Procurement Executive (SPE) will prepare guidance for distribution to all cardholders and approving officials that reiterates and emphasizes government purchase card policy regarding cardholder and approving official responsibilities, and split purchase prohibitions. Further, the SPE will reiterate and emphasize to all Heads of Contracting Activities (HCAs), their responsibility to conduct periodic follow-up reviews of purchases.

The guidance to the cardholders and approving officials, and the SPE's communiqué to the HCAs will be completed no later than February 28, 2002.

Recommendation 2: Develop and communicate guidance concerning disciplinary and other corrective actions which may be taken when policy violations occur. To clearly establish accountability, the guidance should require cardholders and approving officials to acknowledge that they have read, understand, and will comply with the Department of Transportation (DOT) or Federal Aviation Administration policy on the use of Government credit cards.

Response: Concur. The Office of Human Resource Management will issue the guidance on disciplinary and corrective action that may be taken when violations of Government purchase card policy occur. A mechanism to establish accountability, by requiring cardholders and approving officials to acknowledge that they have read, understand, and will comply with DOT policy on the use of the Government purchase card, will be incorporated in the guidance the SPE will issue in response to recommendation #1 above. As stated above, the distribution of the SPE's guidance will be completed by February 28, 2002. The Office of Human Resource Management will issue its guidance by March 15, 2002.

If you have any questions, please contact Teresa King on (202) 366-4960 for further information.



U.S. Department
of Transportation

**Federal Aviation
Administration**

Memorandum

Subject: **INFORMATION**: Revised Draft Report on Use
of Government Credit Cards, DOT

Date: September 12, 2001

From: Assistant Administrator for Financial Services
and Chief Financial Officer

Reply to
Attn. of:

To: Deputy Assistant Inspector General for
Financial, Information Technology, and
Departmentwide Programs

In response to your memorandum, dated August 29, we are providing the following comments to your recommendations. We have also provided additional comments.

OIG Recommendations: We recommend that the Assistant Secretary for Administration and the Federal Aviation Administration (FAA) Administrator:

1. Issue memorandum to cardholders, approving officials, and reviewing officials that reiterates and emphasize credit card policies regarding cardholder and approving official responsibilities, split purchase prohibitions, and the performing of periodic follow-up reviews of purchases.

FAA Response: Concur. The Director of Acquisitions, ASU-1, will prepare and issue a memorandum to all current and future cardholders/convenience check writers, approving officials and reviewing officials that will reiterate and emphasize the credit card policies regarding cardholder and approving official responsibilities and prohibiting split purchases. In addition, FAA headquarters will modify the cardholder training to place special emphasis in these areas during future cardholder training sessions. The memorandum to cardholders/convenience check writers, approving officials and reviewing officials will be prepared and issued not later than October 15. The cardholder training materials will be modified not later than September 14.

The FAA headquarters' Agency Program Coordinator (APC) will perform internal audits of the credit card program on a regular basis in 12-18 month intervals. We will initiate the next internal audit of the credit card program not later than March 1, 2002.

The Chief of the Contracting Office (COCO) for each acquisition office within the region, center, and headquarters has the responsibility of managing its own credit card program and establishing its own internal processes for issuing the purchase cards and monitoring the program. However, we will request that all region and center COCOs issue a similar memorandum as well as establish the additional corrective actions that FAA headquarters will take.

2. Develop and communicate guidance concerning disciplinary and other corrective actions that may be taken when the policy violations identified in this report or other policy violations occur. To clearly establish accountability, the guidance should require cardholders and approving officials to acknowledge that they have read, understand, and will comply with Department of Transportation or FAA policy on use of Government credit cards.

FAA Response: Concur. The FAA believes it is already in compliance with this recommendation. Disciplinary actions for theft, fraud or intentional misuse of a credit card by an employee have been imposed based on the applicable penalty(s) outlined in FAA Personnel Manual (FAPM) Letter (LTR) 2635, Conduct and Discipline, as well as penalties and or legal charges brought upon by the financial institution throughout FAA's regions and centers. However, FAA headquarters will restate and emphasize the enforcement actions to be taken when credit card policy violations occur in the forthcoming memorandum to all current cardholders, approving officials and reviewing officials. Also, a certification sheet will be included with the forthcoming ASU-1 memorandum to cardholders, approving officials, and reviewing officials requesting that they review and sign the certificate validating that they have received training, read, understand and will comply with the FAA government purchase card policies.

In addition, the purchase card training will be modified for cardholders, approving officials and reviewing officials to include a copy of the memorandum and certificate to be signed before the participants leave the training session stating that they have received training, read, understand and will comply with the FAA government purchase card policies. The APC will be responsible for retaining all signed certificates.

Additional Comments:

Results in Brief (page 1)

1. The purpose of this change is to clearly reflect the Modal Administrations your audit represents.

Suggest para 1, sentence 1 should read: We reviewed 785 credit card and convenience check transactions totaling about \$1.2 million which represent usage by the FAA, U.S. Coast Guard, and purchases made for other Operating Administrations. Generally, we found purchases....

2. The purpose of this change is to clarify that the internal follow-up reviews that were not conducted since 1998 did not include the convenience checks since the FAA did not use these checks until June 2000. Monthly reviews are being conducted on all convenience check transactions.

FAA's Follow-up Reviews (page 2) should read: FAA, a major user of credit cards with...reviews since 1998. The required internal follow-up was on credit card usage and not the convenience checks since FAA did not start the use of these checks until June 2000. Since January, FAA conducts a monthly review of convenience check usage reports and forwards a copy of the report under the signature of the Chief Financial Officer (CFO) to the Center Directors and Regional Administrators. A Convenience Check Report Form is submitted to the CFO monthly on all questionable transactions.

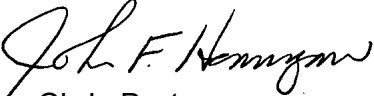
3. The purpose of this change is to make sure the number of transactions accurately reflects what FAA issued for FY 2000.

Last para, 2nd sentence (page 3): Your Activity chart should reflect the fact that during FY 2000 (the period of your audit), the FAA issued a total of 1,104 convenience checks in the dollar amount of \$515,734.

Analyses and Results (page 5)

4. The purpose of this change is to again reflect the Modal Administrations the audit represents.

Para. 1, sentence 1 should read: We reviewed 785 credit card and convenience check transactions totaling about \$1.2 million which represent usage by the FAA, U.S. Coast Guard, and purchases made for other Modal Administrations, and identified instances...follow-up reviews of transactions.


for Chris Bertram