Office of Inspector General
Audit Report

ACTIONS NEEDED TO ENFORCE CONTROLS OVER PURCHASE CARDS

Department of Transportation

Report Number: FI-2013-116
Date Issued: July 25, 2013

Memorandum

U.S. Department of Transportation
Office of the Secretary
of Transportation
Office of Inspector General

Subject: <u>ACTION</u>: Actions Needed to Enforce Controls over Purchase Cards
Department of Transportation
Report Number FI-2013-116

Date: July 25, 2013

From: Louis C. King
Assistant Inspector General for Financial and
Information Technology Audits

Reply to
Attn. of: JA-20

To: Senior Procurement Executive, DOT
Federal Aviation Administrator

During fiscal years 2010 and 2011,[1] Department of Transportation (DOT) employees used credit cards issued to them through the Department's Purchase Card Program to make over 450,000 purchases valued at approximately $277 million. Employees are authorized to use these cards for Government purchases of services, supplies, and construction. Federal regulations require departments to establish policies and procedures to minimize purchase card misuse. However, in 2010, the Federal Aviation Administration (FAA) notified OIG that an FAA cardholder was using her purchase card to make unauthorized purchases. An OIG investigation revealed control weaknesses related to management oversight and non-compliance with policies and procedures for card use that resulted in fraudulent purchases totaling over $123,000.[2]

We initiated this audit to evaluate Departmentwide internal controls over purchase cards. Our primary objective was to assess the adequacy of the controls in place to prevent and detect erroneous[3] purchases made with DOT-issued purchase cards. Furthermore, early in our review, we identified issues regarding one FAA cardholder's purchase of computers. Consequently, we expanded our audit to

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[1]This period includes purchases made from October 1, 2009 to March 31, 2011.
[2]September 27, 2010 Press Release, "FAA Employee Pleads Guilty to Stealing $123,774 from the U.S. Government," available at www.oig.dot.gov.
[3]OMB A-123, Appendix B "Improving the Management of Government Charge Card Programs" defines an erroneous purchase as any purchase that should not have been made or was made in an incorrect amount.

assess the effectiveness of FAA's controls for recording information technology (IT) and other accountable property[4] in the Agency's inventory system.

To conduct our work, we selected two statistical samples. The first sample consisted of 413 purchases from a universe of 727,510 which allowed us to project the total amount of erroneous purchases made by the Department. The second sample consisted of 44 Dell computer purchases which allowed us to project the total amount of Dell computer purchases made at the Mike Monroney Aeronautical Center (MMAC) that were not recorded in the inventory system within 30 days of receipt. We conducted this audit in accordance with generally accepted Government auditing standards. Exhibit A provides details on our scope and methodology.

RESULTS IN BRIEF

DOT designed adequate controls to prevent and detect erroneous purchases in the purchase card program. However, cardholders and approving officials did not always adhere to these controls.[5] We identified eighty-four, or 20.3 percent, of the 413 purchases in our sample, totaling over $254,000, made by cardholders who did not follow the prescribed controls. Specifically, cardholders did not receive approval prior to card use; received approval for purchases from approving officials that were not authorized to approve their purchases; did not verify fund availability prior to purchases; and allowed other individuals to use their cards. Cardholders also split purchases to circumvent single purchase limits, paid incorrect amounts, and bought items not included in purchase requests. Lastly, cardholders and approving officials did not take required purchase card training. Based on statistical sampling, we estimate that $58 million of $277 million in purchases that DOT cardholders made between October 1, 2009, and March 31, 2011 did not comply with the prescribed controls.[6]

FAA personnel did not always promptly record accountable property acquired with a purchase card into the Agency's inventory tracking system. We reviewed a statistical sample of 44 out of 153 purchases for 224 Dell computers or servers made at MMAC, and found that 72 of the 224 computers acquired were either not recorded promptly or not recorded at all in FAA's property system. Untimely recording of accountable property acquired with purchase cards increases the risk of loss or theft of these assets. This improper recording occurred, in part, because

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[4]FAA's Personal Property Process & Procedure Guide defines accountable property as having a useful life of two or more years, costing more than $5,000 and/or sensitive to loss, theft, or misuse.
[5]We did not find any instance in which a cardholder made purchases for personal use.
[6]We estimate with 90 percent confidence that the amount of purchases made without following prescribed controls is $58 million, approximately 20.8 percent of a universe of $277 million. Our estimate has a precision of 1.4 million (0.5 percent of the universe), meaning that our 90 percent confidence limits range from $56 million to $59 million or 20.3 percent to 21.3 percent.

FAA's controls for receiving and tracking IT property acquired with purchase cards do not require an approving official to verify that property has been received prior to approving the purchase. Furthermore, cardholder and property delegates[7] did not always follow the control procedures. Based on statistical sampling, we estimate that approximately $246,000, or 28 percent of $878,000 worth of Dell computers purchased by MMAC cardholders between October 1, 2009, and March 31, 2011, were not recorded in the inventory system within 30 days of receipt, as required by FAA property policy.[8] We also reviewed the purchase of 525 digital cameras[9] and found that more than 350 were not recorded in FAA's property system, as required.

We are making recommendations to strengthen controls for the prevention and detection of erroneous purchases and to assist FAA with its accounting for IT and other accountable property that employees acquire with purchase cards.

BACKGROUND

The General Services Administration's SmartPay® Program established contracts with several banks to issue purchase cards to Federal employees through departments' card programs. Purchase card programs provide the Government with financial and cash management control over low-dollar value, high-volume procurements, and provide payment methods consistent with agencies' policies for larger transactions. Annually, DOT employees make approximately 300,000 purchases with these cards—primarily for supplies and services—totaling about $200 million. DOT's Working Capital Fund (WCF)[10] employees also regularly use the cards to make contract payments for copier and other services.

OMB Circular A-123, Appendix B, prescribes policies and procedures to Federal agencies for maintaining internal controls that reduce the risk of fraud, waste, and error in their purchase card programs. It also requires agencies to develop policies consistent with the Circular to minimize erroneous purchases. Agency Program Coordinators (APC) at each DOT OA serve as the points of contact for their cardholders and approving officials, and are responsible for ensuring proper use of purchase cards in accordance with established policy.

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[7]Property Delegates are responsible for the administration, use, accountability, and control of accountable property within their custodial area, including entering accountable property into AITS.

[8] Our $246,000 estimate has a precision of +/- $88,000 at the 90 percent confidence level.

[9]According to FAA purchase card guidance, non-disposable digital cameras are considered sensitive and pilferable and should be recorded in the property system.

[10]A component of the Office of the Secretary. It was established to provide common administrative services to DOT operating administrations.

All OAs except FAA follow DOT's Transportation Acquisition Manual (TAM), Appendix B. FAA's policy and controls for purchase card use are outlined in the Agency's Acquisition Management System (AMS) policy manual. Both manuals outline program responsibilities for cardholders and their approving officials, and specify particular procedures to ensure efficient program oversight. See Exhibit B for details regarding DOT's and FAA's purchase card policies.

FAA's AMS also outlines procedures for tracking, receiving, and recording accountable property purchased with cards. This property includes computers and non-disposable digital cameras, both of which must be recorded in FAA's Automated Inventory Tracking System (AITS) by a designated property delegate.

CARDHOLDERS DID NOT ALWAYS FOLLOW PRESCRIBED CONTROLS

Properly designed internal controls over purchase cards were in place, but cardholders and approving officials did not always comply with these controls. We estimate that cardholders made $58 million in purchases without following the prescribed controls. These purchases included: purchases by FAA cardholders that had not obtained or documented proper pre-approval, or verified fund availability, were made by someone other than the FAA cardholders, and for items that FAA cardholders did not include on the purchase requests; purchases at FAA and NHTSA that were approved by officials without authority over the cardholders; split purchases; and purchases in incorrect amounts. Lastly, cardholders and approving officials did not complete required purchase card program refresher training.

Cardholders Made an Estimated $58 Million in Purchases without Adhering to DOT Policy

Within our sample of 413 purchases, we found 84, or 20.3 percent, that were made without following controls set forth by DOT policy. DOT's TAM, FAA's AMS and other policy prescribe specific controls, procedures and/or requirements to prevent and detect erroneous payments, acquisition of unnecessary items, loss or theft of assets, and unfunded purchases. Table 1 summarizes purchases in our statistical sample that did not conform to policy by policy violation. It also shows that cardholders made over $254,000 in such purchases. Based on our sample, we estimate that cardholders did not follow policy when making approximately $58 million in purchases out of a total of $277 million made between October 1, 2009, and March 31, 2011.

Table 1. Purchases Made with Policy Violations

Administrative Purchase Card Policy Violation	DOT's WCF	FAA	Other OAs	Total
Pre-approval was not documented or requests omitted key information		$93,310.91		$93,310.91
Persons other than cardholders' approving officials granted pre-approval for purchases		52,187.32	$12,873.24	65,060.56
Purchases were made without prior verification of funds availability		47,019.34		47,019.34
Purchases were made by persons other than cardholders		25,093.48		25,093.48
Purchases were split to avoid exceeding single purchase limits		10,398.36	1,654.31	12,052.67
Purchases were made in incorrect amounts (including payment of sales taxes)	$7,716.58	90.00	621.10	8,427.68
Cardholders purchased items not indicated on the purchase request		3,303.03		3,303.03
Total	**$7,716.58**	**$231,402.44**	**$15,148.65**	**$254,267.67**

Source: OIG analysis of DOT data.

FAA Cardholders Did Not Document or Obtain Pre-Approvals

FAA requires cardholders to obtain prior approval from their designated approving officials before making purchases. It further requires approving officials to approve the justification and amount of each purchase and continually monitor internal controls to ensure that prior approvals have been obtained. Designating approving officials' review and pre-approval of purchase requests reduces the risk that cardholders will purchase unnecessary items. At FAA, cardholders made over $93,000 in purchases without pre-approval from their approving officials, and some purchase requests lacked information such as signatures and dates to substantiate the pre-approval. For example:

- An FAA cardholder purchased 10 laptop computers with a total purchase value of $22,496 without documented pre-approval. The cardholder stated that the request to purchase these computers was communicated verbally by a supervisor.[11]

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[11]This sample item was the basis for our expanded scope. We also noted that the cardholder did not document funds availability and the purchase was one of three purchases split to circumvent the cardholder's single purchase limit. The cardholder also could not provide signed shipping documents that demonstrated that the computers were received.

- In August 2010, an FAA cardholder purchased 20 computer software licenses at a cost of $9,440 without a pre-approved purchase request. The cardholder received the required approval in October 2010, nearly 2 months later.

- An FAA cardholder purchased almost $5,000 worth of cabling. The written purchase request did not provide a justification for the purchase, and did not identify who signed as the approving official or the date on which it was signed.

Persons Other than Designated Approving Officials Pre-Approved Purchases by FAA and NHTSA Cardholders

FAA and NHTSA policies require cardholders to obtain prior approval from the designated approving officials for each individual purchase card transaction. However, at both FAA and NHTSA, individuals other than the cardholders' designated approving officials provided pre-approval for 16 purchases totaling over $65,000. For example:

- An FAA cardholder made five purchases of aircraft or flight simulator rentals for training purposes totaling $6,395, without approval from the designated approving official.

- At NHTSA's Vehicle Research and Test Facility, five unauthorized employees granted approval for six purchases totaling about $13,000.

FAA Cardholders Made Purchases without Verification of Funds Availability

FAA's AMS requires funds certification officers to verify funds availability prior to purchases. Approving officials are responsible for ensuring that cardholders obtain funds certification for purchases. Funds certification helps to assure that cardholders are not obligating funds that are not available and prevent potential instances of non-compliance with the Antideficiency Act.[12] At FAA, cardholders made over $47,000 in purchases without prior verification that funds were available. For example:

- An FAA cardholder purchased computer cases for $15,399, but did not prepare a purchase request or document funds availability.

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[12]The Antideficiency Act, 31 U.S.C. § 1341, prohibits Federal employees from making or authorizing expenditures from, or creating or authorizing an obligation under, any appropriation or fund in excess of the amount available in the appropriation or fund unless authorized by law. We did not identify any instances of noncompliance with this Act.

- Another FAA cardholder purchased a Program Management Certification course for $3,000. The training request did not show that funds were available prior to the purchase.

FAA Cardholders Also Allowed Other People to Use Their Purchase Cards

FAA's AMS restricts disclosure of purchase card account numbers, and prohibits anyone other than the cardholder from using the purchase card. In addition, an FAA official confirmed that contractors are not authorized to use employees' purchase cards. However, two FAA cardholders allowed contractors to use their purchase cards to make over $25,000 in purchases. For example:

- A contractor was granted access to an FAA cardholder's account number and purchased ten computers totaling $18,017. The contractor made the purchase request, the cardholder's approving official approved it, and a second contractor used the cardholder's account to place the order. The cardholder was not involved at any point in the purchasing process.

- Another FAA cardholder allowed a contractor to use his purchase card on two separate occasions. The contractor used the card to pay $5,109 to ship aviation equipment and $1,966 to ship coaxial cables to Saipan.

Cardholders Split Purchases to Circumvent Their Single Purchase Limits

OMB Circular A-123, Appendix B, the TAM, and FAA's guidance prohibits cardholders from splitting a purchase into several smaller ones to avoid a single purchase limit (SPL). These limits ensure that cardholders do not purchase items in excess of their purchase authorities. In the event a requested purchase exceeds the limit, cardholders are directed to contact their approving officials to request a purchase limit increase, and the approving officials to inform the APC that the cardholder needs an increase. At FAA and FTA, cardholders made over $12,000 in split purchases to avoid exceeding their SPL. For example:

- An FAA cardholder with a $10,000 SPL made two purchases on the same day in the amounts of $7,605 and $4,327 totaling $11,932 which exceeded the cardholder's SPL by $1,932.[13]

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[13] As depicted in Table 1, our results included just the $4,327 purchase. The $7,605 purchase was not in our statistical sample of 413 purchases.

- An FTA cardholder with a $3,000 SPL split a purchase request for office supplies totaling $4,691 into two purchases.

We also found no evidence that during their monthly reviews of card purchases, approving officials detected incidents of multiple purchase transactions from one vendor on the same day that exceeded SPLs.

Cardholders Paid Incorrect Amounts

DOT cardholders are responsible for verifying that purchases on their monthly account statements are only for goods and services received. Furthermore, approving officials are responsible for ensuring that cardholders reconcile their monthly statements. Lastly, the TAM directs cardholders to verify that sales taxes have not been charged and to request a credit from vendors if taxes have been charged. If a cardholder does not adhere to these controls, Government funds may be used unnecessarily. Four cardholders made purchases in incorrect amounts and two others paid sales taxes on purchases. For example:

- A WCF cardholder procured fare media for distribution as part of the Federal Transit Benefit Program and did not verify that the amount received was accurately invoiced. As a result, the vendor was overpaid $7,200.

- The Saint Lawrence Seaway Development Corporation (SLSDC) and the Canadian St. Lawrence Seaway Management Corporation agreed to split the cost of printed invitations for a reception hosted by both corporations. SLSDC, however, paid the full invoiced amount of $1,218 and did not request the $609 reimbursement until after our review.

- An FAA cardholder paid $90 sales tax on a $2,000 rental of air conditioning equipment.

FAA Cardholders Purchased Items that They Did Not Include on Their Purchase Requests

FAA requires approving officials to ensure that items actually purchased are the same as those approved in purchase requests. This process prevents the use of funds for acquisition of unnecessary items. At FAA, cardholders purchased items valued at over $3,000 that they did not include on their purchase requests or exceeded their authorized quantities. For example:

- An FAA cardholder purchased two air conditioning units for $844—in excess of the $500 funding authorization—because he had learned of a store selling the units at a good price. He did not amend his purchase request, confirm availability of funds, or verify that there was a bona fide need for the second unit.

- An FAA employee had authorization to purchase tools for $1,061. The vendor offered a $144 discount on the order, and the employee purchased additional items in order to spend the entire approved amount, but did not amend the purchase request to obtain approval for the additional items.

Cardholders and Approving Officials Did Not Satisfy Purchase Card Refresher Training Requirements

Ninety-seven out of 231 cardholders covered by our sample, or 42 percent, and 22 of 67 approving officials, or 33 percent, did not satisfy the required purchase card refresher training. Furthermore, cardholders that had not completed refresher training made $169,000 in purchases that did not follow policy (66 percent of the total amount we identified).

All purchase cardholders and approving officials are required to complete initial purchase card training. According to OMB, training helps card managers and cardholders understand their roles and responsibilities, and keeps cardholders informed of program changes and updates. DOT's TAM directs OAs to develop training for prospective cardholders and approving officials, and requires refresher training every year. FAA's AMS requires refresher training every 2 years. We did not identify a requirement or a mechanism established for either DOT or FAA approving officials and APCs to verify that cardholders and approving officials meet their refresher training requirements.

FAA PERSONNEL DID NOT ALWAYS PROMPTLY RECORD ACCOUNTABLE PROPERTY

FAA cardholders and property delegates at MMAC did not always follow FAA policy for recording accountable property purchased with purchase cards in FAA's inventory tracking system. They either did not promptly record the property or did not record it at all in AITS. We reviewed a statistical sample of 44 out of 153 purchases, and found that 72 of 224 computers or servers were not promptly recorded (i.e., within 30 days) in FAA's property system, and of the 72, 16[14] were not recorded at all.

For example:

- A cardholder could not provide proof that ten purchased laptops, valued at over $22,000, had been received. These laptops were not recorded in AITS until eight months after the purchase. FAA has accounted for all but one of these laptops.

- Another cardholder purchased three servers for almost $6,000 each, but had not recorded them in AITS at the time of our review. The cardholder stated that he was not aware that servers were considered accountable property.

- A laptop was purchased for $1,500 by one cardholder, for another FAA employee. This employee did not have the laptop, but did have two others at his desk. None of the three computers were recorded in AITS.

Using statistical sampling, we project that approximately $246,000 worth, or 28 percent, of Dell computers acquired with purchase cards at MMAC from October 1, 2009, to March 31, 2011 were not recorded in the property system within 30 days of receipt. At the time of our review, FAA did not know the location of 15 computers. With Agency property managers, we were able to locate all but three laptops.

In addition to computer purchases, we reviewed purchases of non-disposable digital cameras, which according to FAA policy are considered sensitive and pilferable and are to be recorded in AITS. Between February 2010 and June 2010, a cardholder purchased 525 digital cameras for aviation inspectors. The vendor shipped the cameras directly to the inspectors located at numerous locations. We were informed by an MMAC Property Manager that only 166 of the 525 cameras had been recorded in AITS.

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[14]Though we found no record in AITS, we did locate all but one of these computers.

FAA's Property Process and Procedure Guide states that property purchases should be recorded in the tracking system within 30 days of receipt. However, cardholder's do not receive training regarding this requirement, and FAA's purchase card policy does not identify this requirement. Timely recording decreases the likelihood that accountable property such as computers or cameras will be lost or stolen.

CONCLUSION

Purchase cards add flexibility and efficiency to the procurement of supplies and services. Strong internal controls must be in place to protect this high volume of transactions from fraud, waste and abuse. While DOT succeeded in developing suitable internal controls over the purchase card process, it was not as successful in ensuring that purchase cardholders and approving officials comply with these controls. Until DOT takes the necessary actions to enforce compliance, it will be unable to prevent erroneous purchases made by cardholders and decrease the risk that Government property will be lost or stolen.

RECOMMENDATIONS

We recommend that DOT's Senior Procurement Executive and FAA's Manager, Acquisition Policy and Oversight:

1. Re-iterate to approving officials and purchase cardholders that:

    a. purchases must be authorized and pre-approved (if required by the OA), and the determination must be documented;
    b. only designated approving officials can pre-approve purchases (if required by the OA);
    c. funds certification must take place prior to a purchase being made, and the determination must be documented;
    d. only approved cardholders are authorized to make purchases;
    e. purchases should not be split to circumvent SPL;
    f. monthly cardholder statements should be reviewed for accuracy and that sales tax should not be paid;
    g. only approved items and quantities should be purchased; and
    h. Purchase card program refresher training is required on an annual (DOT) or bi-annual (FAA) basis.

2. Implement enforcement remedies for violations of purchase card procedures.

3. Revise purchase card policy to require Agency Program Coordinators to: a) verify that purchase cardholders have completed applicable refresher training requirements, and b) develop procedures to have cardholder privileges suspended when the requirement has not been met.

4. Evaluate and revise cardholder and approving official purchase card training to include the acquisition of accountable property and applicable recording requirements.

5. Coordinate with FAA's Executive Manager, Aviation Logistics Organization to:

   a. Revise purchase card policy to require the approving official to verify that accountable property purchased is accurately recorded in the property system, prior to granting purchase final approval.
   b. Continue efforts to locate and account for the remaining digital cameras, not already recorded in AITS, and within 30 days, provide a report to OIG detailing the results of this effort.
   c. Work with cardholders and property delegates to locate, and record the physical locations of the three laptop computers that OIG could not locate, and within 30 days, provide a report to OIG detailing the results of the search.

AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

We provided OST with a draft of this report on April 25, 2013, and we received written comments dated June 4, 2013. The complete response is included as an appendix to this report. While OST concurred with all five recommendations, some of the statements OST made in its response indicate that it does not plan to take actions that would fully address our concerns. Specifically:

- OST asserts that the vast majority of findings identified in Table 1 are administrative issues that have likely been resolved. We disagree. As noted in one of our examples, an FAA employee purchased 10 computers without any evidence that an appropriate official approved the transaction—a clear internal control failure, not an administrative issue. Furthermore, OST did not provide evidence that this or other internal control failures have been adequately addressed.

- OST stated that "some of the issues identified do not meet the definition of erroneous payments." While it provides the Saint Lawrence Seaway payment as an example, OST leaves out two key facts: (1) SLSDC made the payment for the entire billed amount, including the amount corresponding to the

Canadian government, and (2) we identified the error, not SLSDC. Because SLSDC paid an amount it did not owe and had no plans to collect it, the amount met the definition of an erroneous payment.

Finally, FAA stated that it considers recommendation 5c resolved; however, it has not provided sufficient evidence that it has located the three laptops that an FAA official noted in December 2012 could not be found on FAA's network. FAA contends that it provided evidence of property record entries for the three computers on January 2, 2013. However, to consider the recommendation closed, we require FAA to provide evidence that it has physically located the missing computers.

ACTIONS REQUIRED

DOT's planned actions for recommendation 1 to 4, 5a and 5b are responsive and we consider these recommendations resolved but open pending completion of the planned actions. For recommendation 5c, we are requesting that the Agency provide additional information on its planned actions, as detailed above. In accordance with Department of Transportation Order 8000.1C, we request this information within 30 days. All corrections are subject to follow-up provisions in DOT Order 8000.1C.

We appreciate the courtesies and cooperation of Department of Transportation and Federal Aviation Administration officials during this audit. If you have any questions concerning this report, please call me at (202) 366-1407 or George Banks, Program Director at (410) 962-1729.

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cc: FAA Manager, Acquisition Policy and Oversight
        FAA Executive Manager, Aviation Logistics Organization

EXHIBIT A. SCOPE AND METHODOLOGY

We conducted this audit between April 2011 and April 2013 in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our primary objective for this audit was to assess the adequacy of controls in place to prevent and detect erroneous purchases made using DOT-issued purchase cards. We interviewed APCs, approving officials, and cardholders concerning the purchases in our sample. We asked questions on procedures, approvals, and policies to reduce the risk of fraud, waste, abuse, and errors in the purchase card program.

We tested the effectiveness and implementation of procedures to prevent and detect erroneous purchases by reviewing purchase card transactions made between October 1, 2009, and March 31, 2011. Specifically, we determined if cardholders: (1) obtained pre-approval, when required; (2) received purchase approval from their designated approving officials; and (3) verified funds availability prior to purchase. We also reviewed purchases to determine if cardholders: (1) allowed unauthorized individuals to use the purchase card; (2) split purchases to circumvent single purchase limits; (3) made purchases in incorrect amounts or paid sales tax; and (4) purchased items not indicated on purchase requests. We also reviewed training documentation to determine if cardholders satisfied applicable DOT and FAA program refresher training requirements.

Our statistical sample testing was based upon a file received from US Bank with 727,510 purchase card transactions made between October 2009 and March 2011 that totaled $277 million. We selected a two-stage stratified probability proportional to size sample with replacement to estimate the amount of erroneous purchases. We first summarized purchase amounts by city. For Stage 1, we stratified the universe of 595 cities into 2 strata: Stratum 1 had Washington, DC and Oklahoma City. Both cities were included in the Stage 1 sample. Stratum 2 had all other 593 cities from which we selected a sample of 18 cities with probability proportional to the transaction amount. Because two cities, Washington DC and Oklahoma City, were selected twice, our actual total sample size reduced from 20 to 18. For Stage 2, we stratified each city by purchase amount and selected either a census (all) or samples with probability proportional to purchase amount from each stratum for a total sample of 438 purchases. Eighteen purchases were selected twice which reduced the actual sample size to 413 unique purchases with a net amount of $21 million.

Erroneous purchases were determined based upon OMB's definition of an "improper" or "erroneous" purchase as a purchase that should not have been made under statutory, contractual, administrative, or other legally applicable requirements. We tested for administrative compliance consistent with the following criteria: (1) OMB A-123, Appendix B, (2) DOT's Transportation Acquisition Manual, Appendix B, and (3) FAA's Acquisition Management System, Section T3.2.6 Purchase Card Program.

Based upon our initial sample testing and multiple exceptions noted regarding a higher dollar purchase of computers, we expanded our audit scope to assess the effectiveness of FAA's accountability controls to accurately record information technology (IT) including accountable property purchase card acquisitions into the inventory system. We subset the original US Bank file with 727,510 cardholder purchases made between October 2009 to March 2011 with a total amount of $277 million to only include Dell purchases from MMAC in Oklahoma City that were over $900. We selected a stratified probability proportional to size sample with replacement to estimate the amount of at risk purchases due to the fact that they were not promptly recorded in AITS. We stratified the universe into 3 strata based on purchase amount and selected either a census (all) or a sample with probability proportional to purchase amount for a total sample of 51 purchases. Seven purchases were selected twice which reduced the actual sample size to 44 unique purchases with a net amount of $356 thousand.

A subsequent review included additional purchases (e.g. computer laptops, desktops, and non-disposable digital cameras). We applied purchase card criteria (FAA AMS T3.2.6) applicable to accountable property, and FAA's Personal Property Process and Procedure Guide, V2. As with the statistically selected accountable property purchases, we performed existence testing with respect to 25 additional units, a total of 249.

Exhibit A. Scope and Methodology

EXHIBIT B. ADMINISTRATIVE PURCHASE CARD POLICIES AND PROGRAM MANAGEMENT OVERSIGHT CONTROLS

Administrative Policy or Oversight Control	DOT Transportation Acquisition Manual, Appendix B	FAA Acquisition Management System, T3.2.6
A cardholder must obtain and document pre-approval from their designated approving official before making a purchase.*	Not Required	Required
Only the designated approving official should grant pre-approval for cardholder purchases, when pre-approval is required. *	Not Required	Required
A cardholder must verify funds availability before making a purchase.	Required	Required
Only authorized cardholders are permitted to make purchases with the card.	Required	Required
A cardholder should not split a single transaction into two or more transactions to circumvent his / her single purchase limit.	Required	Required
Cardholders and approving officials are required to ensure purchases are made in the correct amount, and sales taxes have not been paid.	Required	Required
Cardholders should only purchase items identified on the pre-approved purchase request.	Not Required	Required
Cardholders and approving officials are required to complete initial & refresher purchase card training.**	Required	Required

* Not required by DOT TAM. Required by NHTSA Internal Procedures.
** DOT TAM requires annual refresher training. FAA AMS requires bi-annual training.

Exhibit B. Administrative Purchase Card Policies and Program Management Oversight Controls

EXHIBIT C. MAJOR CONTRIBUTORS TO THIS REPORT

Name	Title
George Banks	Program Director
Mark Rielly	Project Manager
Brian Frist	Senior Analyst
Lakarla Lindsay	Senior Auditor
Gary Fishbein	Senior Auditor
Scott Williams	Auditor
Petra Swartzlander	Senior Statistician
Megha Joshipura	Statistician
Susan Neil	Writer-Editor

Exhibit C. Major Contributors to This Report.

APPENDIX. AGENCY COMMENTS

U.S. Department of Transportation	**Assistant Secretary for Administration**	1200 New Jersey Ave., SE Washington, DC 20590

Office of the Secretary
of Transportation

June 4, 2013

MEMORANDUM TO: Calvin Scovel III
                                          Inspector General

FROM:

Brodi Fontenot
Assistant Secretary for Administration

SUBJECT: Management Response to OIG Draft Report on the Use of
                                          Purchase Cards

The Department's implementation of the Government Purchase card program has been sound, generated considerable savings to the taxpayers, and is subject to continuous oversight to ensure that it is used only for appropriate purchases.

Purchase Card Use at DOT Reduced Government Costs

The sound implementation of the purchase card program at DOT generated savings to the American public and reduced the cost of government in several ways. First, the use of the card generates administrative savings, through reductions in the staff requirements to run procurement operations and reduced administrative burdens. Based on an independent third party estimate, the use of the government purchase card reduced administrative costs for DOT by $22.9 million in fiscal year (FY) 2012. Secondly, throughout its implementation, the Department has refined its payment system to ensure that payments are made timely. These timely payments resulted in the Department receiving $2.8 million in purchase card rebates during FY 2012, further reducing costs to taxpayers.

DOT Purchase Card Program Is Highly Effective

While relegated to a tiny footnote in the OIG draft report, it is important to highlight one of the OIG's primary findings - the OIG, "*did not find any instance in which a cardholder made purchases for personal use*." This most significant statement is a result of the extensive controls in the program that are constantly being refined and enhanced, with new techniques such as the data mining described below, that were put in place after the sample period. We also note that the vast majority of findings identified in table 1 of the report were administrative issues that have likely been resolved through the enhanced training put in place since the period of the audit. In addition, the audit did not identify any inappropriate purchases, a Governmentwide issue during the early years of the purchase card program, which was also absent from the OIG's findings about DOT's implementation in this report. Finally, some of the issues identified in the report, do not fit the definition of erroneous purchases, such as the $609 transaction for which the Saint Lawrence Seaway Development Corporation was reimbursed by the government of Canada and the $7,716 transaction for which the Department was reimbursed in a different manner than the OIG had envisioned; however, reimbursement was achieved, during regular program operations.

Extensive and Effective Controls in Place to Ensure Appropriate Use

The Department and its purchase card vendors apply extensive, highly effective controls to actively review purchase card activity and ensure propriety. All transactions under the DOT purchase card will be subject to two separate data mining tools when Master Card implements its system in July. During 2012, US Bank, at the Department's direction, initiated the first of these systems to enhance the Department's ability to prevent and detect fraud, ensure compliance with purchase requirements, and identify potential split purchases, among other criteria. Further, one hundred percent of transactions at merchants that have been identified as posing a high risk for an inappropriate use of a government purchase card, for example a transaction at a high-end department store, are reviewed by the Department's Agency Program Coordinator (APC). There are additional routine screens that are provided to APCs throughout the Department, including one hundred percent of transactions with line item detail. In addition, some operating administrations conduct a review of one hundred percent of transactions, such as the Office of the Secretary (OST). These offices routinely review and take action on transactions where sales taxes may have been inadvertently applied to transactions as well. Finally, purchase card leadership in OST routinely conducts random transaction reviews throughout the Department, to provide a second level review and additional oversight of purchase card transactions.

We recognize that thorough training for APC's is the vital link between appropriate behavior and ensuring correct transactions. The purchase card program has worked hard to ensure APCs are fully and appropriately trained throughout the Department. In FY 2012, one hundred percent of APCs completed training across the Department.

Appendix. Agency Comments

FAA Committed to Proper Management of Purchase Card Program

We note that over 90 percent of the OIG report findings relate to purchases made by FAA cardholders. The FAA is committed to the proper management and use of the purchase card program and the accurate recording of property. With the number of actions and amount of funding expended through the program each year, the need for proper and effective internal controls, training and oversight is critical to address any risk this program may introduce to FAA. FAA notes that while the report was generated based on transactions that occurred between October 2009 and March 2011, it has taken considerable action to further refine its implementation of the program, along with property management, training and oversight since 2011.

As the largest element of the Department's purchase card program and while subject to its own procurement requirements, FAA has taken a multi-faceted approach to actively reviewing purchase card activity. In cooperation with OST and US Bank, the FAA also deployed a data mining tool in January 2011, to monitor transaction activity daily, allowing the agency to quickly respond to activity that violates established rules. Along with random sample reviews, the formation of a standards oversight plan and the establishment of a database to track findings, the FAA can now respond quickly to individual violations while also monitoring spending and compliance trends.

FAA deployed an online refresher course during the first quarter of FY 2011 detailing purchase card program roles and responsibilities, which each cardholder and approving official was required to complete by April 2011. Beginning January 2011, the agency specifically tracks all cardholder and approving official training in FAA's eLearning Management System (eLMS), updates applicable training records monthly, and suspends the authority of personnel not complying with training requirements. As the standard tracking system for all FAA training, eLMS provides full visibility of current training status and future training requirements to program users.

RECOMMENDATIONS AND RESPONSES

Following are the recommendations included in the OIG draft report. Responses are provided from the Office of the Senior Procurement Executive (OSPE), which manages the purchase card program throughout the Department, with the exception of the FAA, and from FAA. Inasmuch as FAA operates under its own procurement authority, using its own guidance, we have included responses to all recommendations from both entities, with the exception of number 5, directed specifically to FAA.

Recommendation 1: Re-iterate to approving officials and purchase cardholders that:

    a. purchases must be authorized and pre-approved (if required by the OA), and the determination must be documented;
    b. only designated approving officials can pre-approve purchases (if required by the OA);
    c. funds certification must take place prior to a purchase being made, and the determination must be documented;

d. only approved cardholders are authorized to make purchases;

e. purchases should not be split to circumvent SPL;

f. monthly cardholder statements should be reviewed for accuracy and that sales tax should not be paid;

g. only approved items and quantities should be purchased; and

h. Purchase card program refresher training is required on an annual (DOT) or bi-annual (FAA) basis.

OSPE Response: Concur. OSPE will issue a memo reiterating to card holders and approving officials the recommendations (a) through (e) and (g) and (h). With regard to sales tax in item (f), the memo will also reiterate the importance of ensuring that vendors are aware that purchase card transactions with the Federal government should not be assessed state and local sales taxes. This memorandum will be issued by August 1, 2013.

FAA Response: Concur. FAA distributed a message, which was also provided to the OIG, to all approving officials and cardholders on May 6, 2013 detailing each element in this recommendation. Based on this action, FAA requests this recommendation to be closed.

Recommendation 2: Implement enforcement remedies for violations of purchase card procedures.

OSPE Response: Concur. OSPE will review existing enforcement policies and ensure that they are adequately documented. OSPE will ensure that remedies for violations are clear and provide updated information to ensure clarity. These actions will be completed by October 1, 2013.

FAA Response: Concur. FAA documented the management and oversight of its purchase card program in the "*FAA Purchase Card Management Plan*." FAA will review this document and revise as necessary to ensure enforcement and violation standards are adequately documented. FAA will also establish a corresponding risk management plan detailing how the program will mitigate internal and external risks to systems and core processes. Both documents will be finalized by June 30, 2013.

Recommendation 3: Revise purchase card policy to require Agency Program Coordinators to: a) verify that purchase cardholders have completed applicable refresher training requirements, and b) develop procedures to have cardholder privileges suspended when the requirement has not been met.

OSPE Response: Concur: OSPE will review and update current policy to ensure that card holder refresher training is verifiable and card privileges are suspended until verified. OSPE intends to complete this action by October 1, 2013.

FAA Response 3a: Concur. FAA will ensure policy is revised to reflect this request. Since January 2011 FAA has leveraged eLMS to track and manage purchase card refresher training for every cardholder and approving official, which is documented in the "*FAA Purchase Card Management Plan*." As an additional measure, the purchase card program office is providing oversight to ensure the training requirements are met and suspensions of

authorities occur if not met. The Acquisition Management System (AMS) Procurement Guidance T3.6.1 will be revised to document that the National Purchase Card Program Manager is responsible for verifying through eLMS reporting that each cardholder and approving official completes applicable refresher training requirements. The AMS will be revised by July 31, 2013.

FAA Response 3b: Concur. FAA purchase card oversight is currently documented in the "*FAA Purchase Card Management Plan*," including processes governing noncompliance with required training requirements. FAA will review the plan to ensure procedures are adequately documented and revise as necessary by June 30, 2013.

Recommendation 4: Evaluate and revise cardholder and approving official purchase card training to include the acquisition of accountable property and applicable recording requirements.

OSPE Response: Concur. OSPE will instruct OAs to update their purchase card training to ensure it includes clear direction for card holders that acquire accountable property to review, and be familiar with, OA specific property training and requirements. This direction will be included in the memorandum referenced in response to recommendation 1, which will be completed by August 1, 2013.

FAA Response: Concur. FAA will review both its online and instructor-led purchase card training to verify the management and recording of accountable property is properly addressed. The review and revision of curriculum for both courses will be completed by September 30, 2013.

Recommendation 5: The OIG recommended that FAA:

a. Revise purchase card policy to require the approving official to verify that accountable property purchased is accurately recorded in the property system, prior to granting purchase final approval.

b. Continue efforts to locate and account for the remaining digital cameras, not already recorded in AITS, and within 30 days, provide a report to OIG detailing the results of this effort.

c. Work with cardholders and property delegates to locate, and record the physical locations of the three laptop computers that OIG could not locate, and within 30 days, provide a report to OIG detailing the results of the search.

FAA Response 5a: Concur. Acquisition Policy and Oversight and the Aviation Logistics Organization will collaboratively review and revise current AMS Policy and Guidance to require evidence that property purchased is accurately recorded in the property system prior to the approving official final approving a transaction. The AMS will be revised by July 31, 2013.

Appendix. Agency Comments

FAA Response 5b: Concur. FAA will continue efforts to locate the remaining digital cameras, and provide the OIG with a report detailing results by June 30, 2013.

FAA Response 5c: Concur. FAA located and properly recorded the three laptop computers OIG could not locate, and provided the OIG with the evidence of the property record entries on January 2, 2013. FAA considers this recommendation complete and request it be closed.

Appendix. Agency Comments