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**U.S. OFFICE OF PERSONNEL MANAGEMENT  
OFFICE OF THE INSPECTOR GENERAL  
OFFICE OF AUDITS**

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# Final Audit Report

## **AUDIT OF THE U.S. OFFICE OF PERSONNEL MANAGEMENT'S PURCHASE CARD PROGRAM**

Report Number 4A-OO-00-16-046

July 7, 2017

**--CAUTION--**

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# EXECUTIVE SUMMARY

## *Audit of the U.S. Office of Personnel Management's Purchase Card Program*

Report No. 4A-OO-00-16-046

July 7, 2017

### **Why Did We Conduct the Audit?**

The objective of our audit was to determine if the Office of Procurement Operations' (OPO) internal controls for purchase cards were effectively developed and implemented to prevent and detect purchase card fraud, misuse, or abuse.

### **What Did We Audit?**

The Office of the Inspector General completed a performance audit on the U.S. Office of Personnel Management's (OPM) purchase card program. Our audit fieldwork was conducted from August 10, 2016, through March 6, 2017, at OPM headquarters, located in Washington D.C.

### **What Did We Find?**

We determined that OPO needs to strengthen its controls over its Purchase Card Operation's processes. Our audit identified five areas requiring improvement, as follows:

1. Of the 164 active purchase cards in OPM at the time of our audit, we found that 23, which had been issued to a former agency program coordinator, were not immediately canceled when the employee separated from OPM. Five of the cards were used for purchases, totaling \$54,212, by unauthorized users.
2. For Agency Reporting, we found that OPO could not provide documentation to support the \$238,400 outstanding balance reported in Table 19 of OPM's fiscal year (FY) 2015 Agency Financial Report. In addition, OPO's FY 2016, third quarter (April 1 through June 30, 2016) statistical report was incomplete.
3. OPO had not blocked, in JPMorgan Chase's PaymentNet, seven merchant category codes for items that were restricted or prohibited from being purchased with a Government purchase card. None of the restricted and prohibited codes were used during the scope of the audit.
4. Training records for purchase card program participants were either outdated or incomplete.
5. We found no evidence that cardholders were using their Government purchase card to purchase items that did not represent a legitimate business need; however, OPO's internal controls need improvement in the areas of: transaction documentation retention; payment of sales taxes; and reallocating and approving transactions in OPM's financial system.



**Michael R. Esser**  
*Assistant Inspector General for Audits*

# ABBREVIATIONS

<b>AFR</b>	<b>Agency Financial Report</b>
<b>CBIS</b>	<b>Consolidated Business Information System</b>
<b>FY</b>	<b>Fiscal Year</b>
<b>GAO</b>	<b>U.S. Government Accountability Office</b>
<b>GSA</b>	<b>U.S. General Services Administration</b>
<b>MCC</b>	<b>Merchant Category Codes</b>
<b>NFR</b>	<b>Notification of Findings and Recommendations</b>
<b>OCFO</b>	<b>Office of the Chief Financial Officer</b>
<b>OMB</b>	<b>U.S. Office of Management and Budget</b>
<b>OPM</b>	<b>U.S. Office of Personnel Management</b>
<b>OPO</b>	<b>Office of Procurement Operations</b>
<b>The Charge Card Act</b>	<b>The Government Charge Card Abuse Prevention Act of 2012</b>

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# I. BACKGROUND

This final audit report details the findings, conclusions, and recommendations resulting from our performance audit of the U.S. Office of Personnel Management's (OPM) purchase card program. The audit was performed by OPM's Office of the Inspector General, as authorized by the Inspector General Act of 1978, as amended.

The Federal Acquisition Regulations Part 13.301, authorizes the use of government-wide commercial purchase cards for making and/or paying for purchases of supplies, services, or construction. Government-wide commercial purchase cards may be used to:

- Make micro-purchases<sup>1</sup>,
- Place a task or delivery order, or
- Make payments, when the contractor agrees to accept payment by the card.

A third party financial institution issues cards to approved employees. Charges made on the card by the employee authorize the third party financial institution to make immediate payment to the vendor for approved purchases. The Government reimburses the third party financial institution at a later date for its payment to the vendor. Since 2007, JPMorgan Chase has been OPM's third party financial institution card issuing bank under the U.S. General Services Administration's (GSA) SmartPay 2 program.<sup>2</sup> OPM's purchase card program's intent is to save the Government time, money and resources by limiting its involvement in the payment process of its frequent purchase of products and services. The program provides OPM with financial management controls over low dollar, high volume procurements, and serves as a payment tool for large transactions.

## **PROGRAM PARTICIPANTS**

OPM's purchase card program is administered by the Office of Procurement Operations (OPO), under the oversight of the Director of Contracting. OPO provides oversight and administrative assistance for the purchase card program throughout OPM at the agency level, as follows:

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<sup>1</sup> Micro-purchases are acquisitions of supplies or services using simplified acquisition procedures, the aggregate amount of which does not exceed the micro-purchase threshold. The micro-purchase threshold is \$3,500.

<sup>2</sup> GSA SmartPay2 is the name of the Federal government's purchase, travel, and fleet charge card program. Each Federal agency issued a task order to one of the three card-issuing banks (Citibank, JPMorgan Chase, and U.S. Bank) contracted with the Federal government to provide purchase, travel, and fleet card services.

**Director of Contracting:** Possesses overall authority for the purchase card program. The Director is responsible for approving cardholder applications, delegating purchase card authority to prospective cardholders, and ensuring effective management and oversight of the purchase card program.

**Agency Program Coordinator:** Responsible for effectively managing card issuance and providing oversight of the agency's purchase card program to ensure compliance with all authoritative guidance. The agency program coordinator is also the primary liaison between OPM and JPMorgan Chase.

**Support Personnel:** Analysts who assist in conducting contract file reviews during OPO's quarterly transaction reviews.

The Office of the Chief Financial Officer (OCFO) provides financial support for the purchase card program. The OCFO is responsible for processing purchase card information (e.g., purchase card number and card expiration date) into the Consolidated Business Information System<sup>3</sup> (CBIS), assisting with issues and inquiries related to CBIS, and issuing reports to cardholders and approving officials for transactions requiring reallocation and approval within CBIS.

Numerous individuals are also involved in the purchase card program at the program level, including:

**Purchase Cardholder:** The individual who is issued and authorized to use a purchase card bearing the cardholder's name, for the sole purpose of acquiring authorized OPM purchases. The cardholder must reconcile and reallocate transactions in CBIS to confirm that the transaction is valid, resolve or dispute billing or transaction problems, and maintain records for reconciliation.

**Approving Official:** The approving official is the individual, typically a supervisor, responsible for verifying and approving the purchase cardholder's transactions in CBIS. An approving official can be assigned to one or more purchase cardholders in their office. The approving official also verifies that the cardholder reallocates and accepts transactions in CBIS.

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<sup>3</sup> CBIS is OPM's financial management system that aids in the management of the agency's financial resources, including management of the general ledger, accounts payable, and purchasing.

## **POLICIES AND PROCEDURES**

OPO is regulated by the Government Charge Card Abuse Prevention Act of 2012 (the Charge Card Act) and the U.S. Office of Management and Budget (OMB) Circular A-123, Appendix B (OMB A-123). The Charge Card Act requires all Federal agencies to establish and maintain safeguards and internal controls, while OMB A-123 set the policies and procedures used to maintain internal controls that reduce the risk of fraud, waste, and error in the Government charge card programs. OMB A-123 also establishes statistical reporting requirements and suggested best practices for card use.

To provide guidance to purchase card program participants on purchase card usage and roles and responsibilities, the following documents have been issued:

*Contracting Policy 13.301 Revision 4*, dated July 2, 2014 (Contracting Policy), specifically, discusses:

- Responsibilities of all program participants, including purchase cardholders, approving officials, agency program coordinators, and the Director of Contracting;
- Conditions for using purchase cards;
- Spending limits;
- Convenience check usage;
- Training requirements;
- Unauthorized purchase card use;
- OPM Standards of Conduct;
- Record keeping;
- Cancellation of purchase cards;
- Reviews and audits of purchase card transactions;
- Administrative actions taken for card misuse; and

- Templates to be used by program participants, to include but not limited to the purchase card transaction log, convenience check transaction log, and simplified acquisition checklist.

*OPM's Purchase Card Management Plan* is a section of *OPM's Charge Card Management Plan*<sup>4</sup> and outlines the policies and procedures for the management of the purchase card program and specifically addresses personnel management; training; and risk management.

*OPM's Financial Management Manual*, Chapter 11, provides purchase card guidance to be followed by purchase cardholders, including cardholder account set-up and procedures for reallocating and approving transactions in CBIS.

## **AUDITS AND REVIEWS**

OPO conducts quarterly purchase card transaction reviews to detect card misuse, abuse, and fraud. OPO's review process is designed to review at least one transaction for every cardholder each year. At a minimum, purchases below the micro-purchase threshold will be reviewed at least twice a year (two quarters), and purchases above the micro-purchase threshold at least once a year (one quarter). Convenience check reviews are also conducted once a year (one quarter). The reviewer of convenience checks must be independent of the agency program coordinator.

OPO uses the purchase card transaction and convenience check reviews for the semi-annual Joint Purchase Card Violation Report<sup>5</sup>. OPO had not completed a review of convenience checks for the scope of our audit, October 1, 2015 through June 30, 2016.

## **REPORTING**

OPO reports purchase card data in the following reports:

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<sup>4</sup> The Charge Card Management Plan is required by OMB Circular A-123 Appendix B. Each agency must develop and maintain written policies and procedures for the appropriate use of charge cards consistent with the requirements of the guidance. Agencies must submit a copy of their plan to the OMB MAX website on an annual basis, and no later than January 31 of each calendar year.

<sup>5</sup> The Charge Card Act mandates the submission of a semi-annual Joint Purchase Card Violation Report for agencies with more than \$10 million in purchase card spending for the prior FY. The report describes confirmed violations involving misuse of a purchase card following the completion of an agency or the Office of the Inspector General's review and summary description of all adverse personnel actions and punishment taken in response to each violation.



- OPM's *Agency Financial Report*: OPO annually reports the percentage of the total outstanding balances that are 61 or more days old in OPM's Agency Financial Report;
- *Quarterly OMB Statistical Report*: OPO quarterly reports statistical purchase card data to OMB; and
- OPO's *Narrative Report*: OPO annually reports narrative purchase card information to OMB regarding the current process for monitoring delinquencies, independent reviews conducted on the program, and methods to detect fraud misuse and abuse.

### **PREVIOUS OFFICE OF THE INSPECTOR GENERAL REPORTS**

In FY 2001, the OIG conducted an audit of Internal Controls over OPM's purchase card program. <sup>6</sup> The final report was issued in 2002 and all recommendations from the previous audit have been closed.

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<sup>6</sup> OPM-Office of the Inspector General Audit Report Number 4A-CA-00-02-018.

## II. OBJECTIVE, SCOPE, AND METHODOLOGY

### OBJECTIVE

The objective of our audit was to determine whether OPO's internal controls over purchase cards were effectively developed and implemented to prevent and detect purchase card fraud, misuse, or abuse.

The recommendations included in this final report address the objective.

### SCOPE AND METHODOLOGY

We conducted this performance audit in accordance with generally accepted government auditing standards as established by the Comptroller General of the United States. These 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 objective.

The scope of our audit covered the purchase card program's policies and procedures and purchase card transactions from October 1, 2015, through June 30, 2016. A total of 14,867 transactions, totaling \$7,969,765, were processed by 139 purchase cardholders from October 1, 2015, through June 30, 2016. We performed our audit fieldwork from August 10, 2016, through March 6, 2017, at OPM headquarters, located in Washington, D.C.

To accomplish our audit objective noted above, we:

- Interviewed OPO personnel;
- Reviewed training certificates and other documentation provided to ensure that training requirements were met for the sampled agency program coordinators, approving officials, and purchase card holders;
- Sampled and tested purchase card transactions to determine if the transactions were properly reallocated and authorized in CBIS, adequately documented, and were for legitimate business purposes;
- Analyzed Merchant Category Codes (MCC) to determine if any restricted MCC were processed and if cardholders have access to restricted MCC;

- Reviewed OPM's *Purchase Card Management Plan* and its fiscal year (FY) 2016 third quarter *Quarterly OMB Statistical Report* to determine if OPO was in compliance with mandated reporting requirements; and
- Performed an analysis on the necessity and number of purchase cards.

In planning our work and gaining an understanding of the internal controls over OPM's purchase card program, we considered, but did not rely on, OPO's internal control structure to the extent necessary to develop our audit procedures. These procedures were analytical and substantive in nature. We gained an understanding of management procedures and controls to the extent necessary to achieve our audit objective. The purpose of our audit was not to provide an opinion on internal controls but merely to evaluate controls over OPM's purchase card program.

Our audit included such tests and analysis of OPO's records; documented policies and procedures; transactional data; and other applicable information, as we considered necessary under the circumstances. The results of our tests indicate that with respect to the items tested, OPO needs to strengthen controls over the purchase card program.

In conducting our audit, we relied to varying degrees on computer-generated data. To assess the reliability of computer-processed data obtained from PaymentNet<sup>7</sup>, we looked for obvious errors in accuracy and completeness, interviewed OPO officials who were knowledgeable about the data, and directly tested data against supporting documentation. We determined that the data was sufficiently reliable for the purpose of achieving our audit objective. We did not evaluate the effectiveness of the general application controls over computer-processed performance data.

In order to accomplish our audit objectives, we selected a number of samples from the universe of purchase card transactions from October 1, 2015, through June 30, 2016. Sample sizes were designed to verify adherence to the various processes tested.

### *Purchase Card Transactions*

In order to verify that purchase card transactions were properly documented, reallocated and authorized, and were for a legitimate business purpose we used Microsoft Excel and an OPM statistician to select the following random and judgmental samples:

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<sup>7</sup> JPMorgan Chase's purchase card account management system used by OPO to order new cards, assign merchant category codes, cancel cards, modify spending limits, review transactions, and generate management reports.

- Randomly selected a statistical sample of 100 transactions below the micro-purchase threshold, totaling \$52,719, out of 12,803 transactions totaling \$5,860,805;
- Randomly selected a statistical sample of 50 transactions above the micro-purchase threshold, totaling \$448,692, out of 175 transactions totaling \$1,582,287;
- Randomly sampled 20 convenience check transactions totaling \$10,741, out of 1,409 transactions totaling \$366,006;
- Judgmentally selected 35 transactions, totaling \$36,836, out of 162 transactions, totaling \$136,529, which were related to purchases from vendors of travel related items, food and beverage, and electronics; and
- Judgmentally selected 10 transactions, totaling \$20,874, out of 18 transactions, totaling \$34,850, which we identified as sets of potential split transactions. To identify potential split transactions and select our sample, we reviewed all transactions from October 1, 2015, through June 30, 2016, and created a universe of transactions that met the following criteria:
  - the total of the transactions exceeded the micro-purchase threshold of \$3,500 and the cardholder's single purchase limit;
  - the transactions' dates are within two days of each other;
  - the transactions are by the same cardholder; and
  - the transactions are with the same vendor.

### Training

We used Microsoft Excel to test a random sample of purchase card program participants to determine if training requirements were met. Specifically:

- 33 out of 139 purchase card holders;
- 25 out of 65 approving officials;
- All 3 agency program coordinators; and

- All 13 warranted<sup>8</sup> purchase cardholders.

The results from the random statistical samples were projected to the population. The results from the remaining samples were not projected to the population.

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<sup>8</sup> Purchase cardholders that are allowed to make single purchases above the micro-purchase threshold.

# III. AUDIT FINDINGS AND RECOMMENDATIONS

The sections below detail the results of our audit on OPM’s purchase card program.

## 1. Cancellation of Purchase Cards

OPO did not immediately cancel purchase cards when an employee separated from the agency.

Of the 164 active purchase cards in OPM at the time of our audit, we found that 23, which had been issued to a former agency program coordinator<sup>9</sup>, were not immediately canceled when the employee separated from OPM on April 3, 2012. OPO canceled all of the purchase cards after we notified them that the cards were still showing as active on the *Cardholder Profile Report*. Specifically, OPO canceled 5 cards on May 11, 2016, which was 1,032 work days after the separation date, and the remaining 18 cards were canceled on June 20, 2016, which was 1,059 work days after the employee’s separation date.

Additionally, we noted that five of the cards were used in FY 2015 for eight purchases, totaling \$54,212, by other OPM employees. OPO provided documentation for five of the eight purchases which represented a legitimate business need; however, they were made by an unauthorized person after the cardholder separated from the agency. OPO could not provide supporting documentation, including who made the purchases, for the remaining three purchases, which totaled \$15,600.

**Transactions totaling \$54,212 were made by unauthorized users.**

Public Law 112-194 Section 1909 (a)(12)(A) requires OPM to cancel the purchase card of an employee who “ceases to be employed by the agency, immediately upon termination of the employment of the employee ... .”

OPM’s Contracting Policy 13.301 Revision 4, Section 8.10, *Safeguarding the Purchase Card*, limits the use of purchase cards to only the cardholder.

The U.S. Government Accountability Office’s (GAO) *Standards for Internal Control in the Federal Government, Principle 10 – Design Control Activities*, advises management to limit “access to resources and records to authorized individuals, and assigns and maintains

<sup>9</sup> OPM’s normal practice is to issue one purchase card per cardholder. In this instance, the agency program coordinator was issued 23 purchase cards that were for 23 different program offices within OPM to be used for purchases that exceeded the \$3,500 micro-purchase limit.

accountability for their custody and use. Management may periodically compare resources with the recorded accountability to help reduce the risk of errors, fraud, misuse, or unauthorized alteration.” Additionally, management is advised to “clearly [document] internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination.”

As a result of the purchase cards not being immediately cancelled when the employee separated from OPM, transactions totaling \$54,212 were made by unauthorized users. Separated employees’ purchase card accounts that remain active provide an increased risk for abuse or misuse of the purchase card and subsequently agency resources.

### **Recommendation 1**

We recommend that OPO perform verification and validation activities, such as utilizing available agency employee separation reports, to ensure that separated employees’ purchase cards are immediately cancelled.

### **OPO’s Response:**

*OPO concurs with the recommendation. “agency reports and cardholder data captured by the bank has been utilized by OPO in appropriately conducting verification and validation activities. ... Additionally, OPO has been working with the Authorizing Officials (AOs) to ensure they contact OPO when a cardholder has separated from the agency. ... OPO also plans to setup formal training events to be provided to AOs and account holders, which will further emphasize this requirement.”*

## **2. Agency Reporting**

### **A. Agency Financial Report**

OPO could not provide documentation to support the \$238,400 outstanding balance reported in Table 19 - Purchase Cards, in the FY 2015 Agency Financial Report (AFR), as illustrated below:

**TABLE 19 - Purchase Cards**

(\$ in Thousands)	September 2015	September 2014
Outstanding Balance	\$238.4	\$735.2
Outstanding more than 61 days	\$0.0	\$0.0
% outstanding more than 61 days (OPM)	0.00%	0.00%
% outstanding more than 61 days (Government wide)	0.19%	0.38%

The GAO’s *Standards for Internal Control in the Federal Government*, principle 10, advises that management “clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. Documentation and records are properly managed and maintained.” *Principle 13 - Use Quality Information/ Relevant Data from Reliable Sources*, states “Management should use quality information to achieve the entity’s objectives.” More specifically, that “[m]anagement obtains relevant data from reliable internal and external sources in a timely manner based on the identified information requirements. Relevant data have logical connection with, or bearing upon, the identified information requirements. Reliable internal and external sources provide data that are reasonably free from error and bias and faithfully represent what they purport to represent.”

Without proper documentation to support the purchase card data reported in OPM’s FY 2015 AFR, there is a risk that the data may be erroneous.

**Recommendation 2**

We recommend that OPO improve policies and procedures over its purchase card reporting process to ensure that data is supported and accurately reported.

**OPO’s Response:**

*OPO concurs with the recommendation. OPO Acquisition, Policy, and Innovation has begun documenting all of its policies and procedures. This includes a complete update of CP [Contracting Policy] 13.301, Revision 4. “Regarding data call preparation and delivery efforts, the revised policy will include program requirements to provide annual updates to the agency charge card management plan, semi-annual OIG violations reporting, and quarterly statistical reporting.”*



### **Recommendation 3**

We recommend that OCFO verify and validate purchase card information prior to reporting it in the AFR to ensure the integrity of the data reported.

#### **OPO's Response:**

*OPO and OCFO concur[s] with the recommendation. "OPO in collaboration with OCFO has since obtained a greater understanding of the purchase card program data associated with the AFR and is now in a position to verify and validate the purchase card information prior to reporting and to better document the reporting process going forward. OCFO will update, as appropriate, its procedures to document due diligence in ascertaining the validity of the data reported."*

### **B. Statistical Reporting**

OPO's FY 2016, third quarter (April 1 through June 30, 2016) statistical report is incomplete. We found that 2 out of 16 requirements were not reported. Specifically, OPO did not report the:

- Number of purchase cardholders with contracting warrants above \$3,500, and
- Number of purchase cardholders with transaction limits of \$3,500 or more that do not hold contracting warrants.

OPO does not have documented policies and procedures outlining how to prepare their OMB statistical report. When OPO assumed responsibility of the purchase card program in October 2015, management decided that the reports should remain consistent with the prior quarterly reports submitted to OMB.

OMB requires agencies to report statistical purchase card information on a quarterly basis.<sup>10</sup> By not reporting on all the requirements, users of OPO's statistical reports are not obtaining a complete picture of the purchase card program.

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<sup>10</sup> OMB Circular A-123, Appendix B (January 2009), Section 5.3.1, pages 17 through 18, requires agencies to report 16 statistical data elements.

### **Recommendation 4**

We recommend that OPO immediately ensure that all OMB statistical reporting requirements are met, starting with their FY 2017 third quarter statistical report.

### **Recommendation 5**

We recommend that OPO develop and implement policies and procedures for creating the quarterly OMB statistical report. At a minimum, the policies and procedures should include a discussion of all the statistical data elements required by OMB.

### **OPO's Response:**

*OPO concurs with both recommendations. "OPO has since updated the structure and format of the quarterly statistical report, covering all required response areas, and that format has been used in the fourth quarter of fiscal year 2016 and first and second quarters of fiscal year 2017. ... Agency specific procedures regarding quarterly statistical reporting, which supplement A-123 guidance, are in development."*

### **3. Merchant Category Codes**

We found that OPO had not blocked, in JPMorgan Chase's PaymentNet, seven merchant category codes<sup>11</sup> for items that were restricted<sup>12</sup> or prohibited<sup>13</sup> from being purchased with a Government purchase card. We analyzed all 14,867 transactions, totaling \$7,969,765, from October 1, 2015, through June 30, 2016, and found that none of the restricted and prohibited codes were processed during the scope of the audit.

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<sup>11</sup> Merchant category codes are established by the card issuing bank and are assigned to vendors as a means to identify the merchant type. Each cardholder account is set up with default merchant category codes that will allow the processing of transactions that fall under the specified merchant category code. If a transaction is attempted with any merchant that is categorized by a merchant category code blocked by OPO, the transaction will be electronically denied at the point of attempted purchase.

<sup>12</sup> Restricted items that can only be purchased with an Agency Program Coordinator authorized override.

<sup>13</sup> Prohibited items that cannot be purchased with a Government purchase card.

### *Merchant Category Codes*

Prohibited	8651 Transaction with political organizations 9211 Court costs, alimony, and child support 9222 Fines 9223 Bail and bond payments 9311 Tax payments
Restricted	5921 Package stores, Beer, Wine, Liquor 7276 Tax Preparation

OPO could not determine how and when the restricted and prohibited merchant category codes were added to the group of allowable merchant category codes, as the codes were established before they assumed responsibility of the purchase card program. Furthermore, OPO does not have documented policies and procedures for reviewing and updating allowable merchant category codes, which can be used by purchase cardholders.

OPO's *Prohibited Items List*<sup>14</sup> prohibits purchase cardholders from purchasing 16 specific items, which include but are not limited to:

- Cash advances;
- Betting casino gaming chips, and off-track betting;
- Transactions with political organizations;
- Court costs, alimony, and child support;
- Fines;
- Bail and bond payments; and
- Tax payments.

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<sup>14</sup> OPO compiled a comprehensive list of items that cannot be purchased with a Government purchase card based on GAO's *Principles of Federal Appropriations Law* and United States Code Titles 5 and 31.

OPM's Purchase Card Management Plan, Section 4.4, *Appropriate Authorization Controls Establishment*, dated January 2016, states that merchant category codes "are established by the card network and are assigned to vendors as a mean to identify the merchant type. Each cardholder account is set up with default MCC that will allow the processing of transactions that fall under the specified MCC. The network blocks certain MCC to restrict the ability of particular charges, [to include]:

- 4411 -- Cruise Lines;
- 5861 -- Furriers and Fur Shops;
- 5813 -- Bars, Cocktail Lounges, Discotheques, etc.;
- 5921 -- Package Stores, Beer, Wine, Liquor;
- 5944 -- Clock, Jewelry, Watch, and Silverware Stores;
- 7273 -- Dating and Escort Services;
- 7276 -- Tax Preparation Service; and
- 7297 -- Massage Parlors."

The GAO's *Standards for Internal Control in the Federal Government, principle 10 - Design Control Activities*, advises that management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks. More specifically, that "[m]anagement establishes activities to monitor performance measures and indicators. These may include comparisons and assessments relating different sets of data to one another so that analyses of relationships can be made and appropriate actions taken. Management designs controls aimed at validating the propriety and integrity of both entity and individual performance measures and indicators."

By purchase cardholders having access to merchant category codes that are restricted and/or related to prohibited items, there is an increased likelihood that unauthorized charges could be processed, resulting in misuse of Government funds.

## **Recommendation 6**

We recommend that OPO strengthen its oversight over merchant category codes accessible by purchase cardholders, to include developing and implementing policies and procedures for performing periodic reviews of merchant category codes, and eliminating cardholder's access to all restricted and prohibited codes from JPMorgan Chase's PaymentNet banking system.

### **OPO's Response:**

*OPO concurs with the recommendation. "OPO now periodically reviews the MCC listing to ensure that it is consistent with the agency charge card management plan, and that no new codes which may present risk to the agency program have been introduced. ... OPO has collaborated with the bank in appropriately updating its list of restricted MCCs. This list now complies with the agency charge card management plan and is continually reviewed. Additionally, OPO efforts in reviewing codes and in collaborating with the bank to potentially restrict certain unallowable MCCs is being documented, and will be referenced within the updated CP 13.301 Revision 4, to be completed in fiscal year 2017 with a formal, agency-wide release date at the commencement of fiscal year 2018."*

## **4. Training**

We randomly selected 61 out of 139 purchase card program participants to determine if initial and refresher training requirements were met. Specifically, we found that:

- 3 out of 61 purchase card program participants completed GSA SmartPay Purchase Account Agency Program Coordinator instead of the GSA SmartPay Account Holder training as refresher training.
- 10 out of 61 purchase card program participants did not have documentation to support completion of training.
- 23 out of 61 purchase card program participants completed initial training *after* being appointed as a purchase card program participant, or refresher training more than three years after the last refresher training.

**Training records were  
outdated and  
incomplete.**

Details of our review were provided to OPO separate from this report.

Due to poor monitoring and oversight, purchase card participants took incorrect training and training records for purchase card program participants were outdated or incomplete.

OMB's Circular No. A-123, Appendix B, January 2009, Section 3.4, requires all purchase card program participants to be "trained prior to appointment" and to take refresher training at least every three years.

OPM's *Purchase Card Management Plan*, January 2016, Section 3.2, *Cardholders*, requires purchase cardholders and their approving officials to complete the GSA Smartpay Purchase Card Training modules for account holders. Section 3.3, *Agency/Organization Program Coordinators*, requires agency program coordinators to take GSA Smartpay Purchase Card Training modules for agency program coordinators. Furthermore, Section 3.4, *Record Keeping*, requires OPO to "maintain and retain copies of the training certifications for three years."

OPM's Contracting Policy 13.301, Revision 4, Section 8.18, dated July 2, 2014, states that a purchase card is cancelled "if the cardholder leaves OPM, misuses the card, does not follow [Federal Acquisition Regulation] requirements and OPM policies, or transfers to a different program office." Failure to complete required refresher training should have led to suspension of the purchase card account or suspension of oversight responsibilities.

*Attachment 2* of the Contracting Policy requires applicants for new purchase cards to submit the following six items before receiving a purchase card:

- Purchase card request form,
- Responsibility acknowledgement form,
- GSA SmartPay Purchase Card Training certificate,
- Section 508 Micro Purchase Training certificate,
- CBIS module training certificates and accounting string, and
- Justification of purchase card need.

Without adequate training and the absence of documents to support that purchase card program participants have been trained, there is an increased risk that there are purchase card program

participants who have not been properly trained in the proper usage of the purchase card. Individuals not properly trained can lead to an increase in card misuse and abuse and failure to comply with requirements of the purchase card program.

### **Recommendation 7**

We recommend that OPO have all three purchase card program participants that took the GSA SmartPay Purchase Account Agency Program Coordinator training course immediately take the GSA SmartPay Account Holder training course or suspend their oversight duties until training is completed.

### **Recommendation 8**

We recommend that OPO implement controls to ensure that purchase card program participants receive all required training on the appropriate use, controls, and consequences of abuse before appointment to their position, and receive refresher training every three years. Documentation should be maintained to support the completion of initial and refresher training.

### **Recommendation 9**

We recommend that OPO suspend purchase card accounts and oversight duties of purchase card program participants that are not in compliance with refresher training requirements.

### **OPO's Response:**

*OPO concurs with recommendations 8, 9, and 10. "OPO has spent extensive time securing referenced training certifications from all purchase cardholders and AOs and in properly organizing and filing them ... OPO has put cardholders and AOs on notice that training certifications not received in a timely manner will result in account suspensions ... updated certification information has allowed OPO to create a tracking instrument which is routinely updated. This tracking mechanism allows OPO to effectively oversee cardholders and AOs and in particular their required training."*

## **5. Controls over Purchase Card Transactions**

Controls over purchase card transactions, such as transaction documentation retention and reallocating and approving transactions in OPM's financial system, need improvement to reduce the risk of fraud, waste, and abuse. For the transactions sampled and reviewed, we found no evidence that cardholders were abusing their Government purchase card privileges for

personal or inappropriate use. Details of our review were provided to OPO separate from this report; however, areas of improvement are discussed below.

**A. Purchase Card Transactions**

We selected a random statistical sample of 150 purchase card transactions. Specifically, we selected 100 transactions below the micro-purchase threshold, totaling \$52,719, and we selected 50 transactions above the micro-purchase threshold, totaling \$448,692.

For each transaction, we reviewed documentation to determine if the transaction file was complete, the transaction was reallocated by the cardholder and approved by the approving official in CBIS, and to determine if the purchase was for a legitimate business purpose, as required by Contracting Policy 13.301. The results of our test work are outlined in Table 1.

<b>Table 1: Review of Purchase Card Transactions</b>				
	<b>Below Micro-Purchase Threshold</b>		<b>Above Micro-Purchase Threshold</b>	
<b>Attributes<sup>15</sup></b>	<b>Transactions</b>	<b>Total Dollar Value</b>	<b>Transactions</b>	<b>Total Dollar Value</b>
Transaction documentation incomplete <sup>16</sup>	49	\$28,523	27	\$285,901
Transaction not approved by approving official	13	\$10,192	10	\$161,155

For the transactions reviewed, we found no evidence that the transactions were not for legitimate business purposes.

**B. Questionable Transactions**

We judgmentally selected 35 purchase card transactions, totaling \$36,836, which were related to purchases from vendors of electronics, food and beverages, and travel related items. For each transaction, we reviewed documentation to determine if the transaction file was complete, the transaction was reallocated by the cardholder and approved by the

<sup>15</sup> The results in the table for each attribute tested are independent of each other.

<sup>16</sup> The transaction was missing one or more attributes as required by Contracting Policy 13.301, Revision 4, Section 8.5, dated July 2, 2014.



approving official in CBIS, and if the purchase was for a legitimate business purpose, as required by Contracting Policy 13.301. The results of our test work are outlined in Table 2.

Table 2: Questionable Transactions		
Attributes <sup>15</sup>	Transactions	Total Dollar Value
No support documentation provided	5	\$4,370
Transaction documentation incomplete <sup>16</sup>	25	\$28,330
Transaction not approved by approving official	2	\$94

For the transactions reviewed, we found no evidence that the transactions were not for legitimate business purposes.

### C. Split Transactions

We judgmentally selected 10 purchase card transactions, totaling \$20,874, to determine if the transactions were split. Additionally, for each transaction, we reviewed documentation to determine if the transaction file was complete, the transaction was reallocated by the cardholder and approved by the approving official in CBIS, and to determine if the purchase was for a legitimate business purpose, as required by Contracting Policy 13.301. The results of our test work are outlined in Table 3.

Table 3: Split Transactions		
Attributes <sup>15</sup>	Transactions	Total Dollar Value
No support documentation provided	7	\$16,495
Transaction documentation incomplete. <sup>16</sup>	3	\$4,379
Transaction not approved by approving official.	2	\$7,000

Of the three transactions that we were able to review, we did not find that the transactions were split. To make our determination, we reviewed the items purchased to identify any

similarities between the items and the purpose for the purchased items. Additionally, we found no evidence that the transactions were not for legitimate business purposes.

**D. Convenience Check Transactions**

We selected a random sample of 20 convenience check transactions, from 4 convenience check writers, totaling \$10,741. For each convenience check transaction, we reviewed documentation to determine if the transaction file was complete, the transaction was reallocated by the cardholder and approved by the approving official in CBIS, and to determine if the purchase was for a legitimate business purpose, as required by Contracting Policy 13.301. The results of our test work are outlined in Table 4.

<b>Table 4: Convenience Check Transactions</b>		
<b>Attributes<sup>15</sup></b>	<b>Transactions</b>	<b>Total Dollar Value</b>
No support documentation provided	5	\$6,051
Transaction documentation incomplete. <sup>16</sup>	5	\$422
Transaction not approved by approving official.	4	\$1,195

For the transactions reviewed, we found no evidence that the transactions were not for legitimate business purposes.

For all purchase card and convenience check transactions that we sampled, for sections A through D, we were not able to verify that the transactions were reallocated in CBIS because the OCFO did not provide sufficient documentation for us to make the determination.

OPO stated that historically, reviews of purchase card transactions were not enforced which led to cardholders and approving officials not being held accountable for the purchases that were made.

OPM's Contracting Policy 13.301, Revision 4, Section 8.5, dated July 2, 2014, states the cardholders must maintain the following six documents:

- Purchase card or convenience check transaction log;

- Evidence demonstrating the price paid is reasonable;
- Copy of receipt or other documentation received from the supplier;
- Memorandums or notes authorizing the purchase;
- Copy of the bank account invoice or CBIS record print out; and
- Explanatory material for unusual situations.

Section 8.12 of the Contracting Policy, and OPO's Prohibited Items List, details items that cardholders cannot purchase, to include, but not be limited to: cash advances; rental or lease of motor vehicles when the cardholder is on travel status; purchase of meals, drinks, entertainment, or lodging at hotels or motels when the cardholder is on travel status; and personal purchases.

OPM's Memorandum, *Guidelines on Food at Meetings and Conferences*, dated April 18, 2012, states that as a "general principle of appropriation law, food is a personal expense for all Federal employees and, as such, may not be purchased using appropriated funds. The same is true for snacks and refreshments ... This general prohibition arises out of 5 U.S.C [Section] 5536, which prohibits an employee from receiving compensation beyond the pay and allowances fixed by law." The guideline goes on to explain that appropriated funds can be used to purchase food and beverages for training, "where the agency determines that the provision of meals is necessary to achieve the objectives of the training program." For meetings and conferences, appropriated funds can be used if the "meal is a necessary part of a formal meeting or conference." For award ceremonies, appropriated funds can be used if the ceremony is conducted to "present awards that are covered by the Incentive Awards Act, 5 U.S.C. [Section] 4501 – 4506." Finally, for cultural awareness ceremonies, appropriated funds can be used if it is "incidental" to the ceremony, and is intended to "make the audience aware of the cultural or ethnic history being celebrated ... ."

OPM's Contracting Policy 13.301, Revision 4, Section 8.14 (c), dated July 2, 2014, states cardholders must process reallocations of purchase and convenience check transactions in CBIS. Section 8.15 of the Contracting Policy states approving officials must review and approve transactions in CBIS. The transactions should be reallocated and approved within 30 days of the transaction posting date in CBIS. Furthermore, the Anti-Deficiency Act (31 U.S.C Section 1341(a)(1)(A)) prohibits Federal employees from "[making] or [authorizing] an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation."

Lastly, Section 8.21 of the Contracting Policy states that, “Cardholders must retain all records and documentation pertaining to a completed purchase transaction for a period of [three] years after payment for the goods and services. If a cardholder leaves his or her program office, the cardholder's program office is responsible for maintaining the purchase card records.”

Based on our projection of the sample results for the transactions below and above the micro-purchase threshold in Table 1, we are 95 percent confident that the true percentage of transactions in the population that were not adequately documented is at least 39.3 percent, accounting for a total dollar value of \$4,676,251. Furthermore, we are 95 percent confident that the true percentage of transactions in the population that were not properly authorized was at least 6.5 percent, accounting for a total dollar value of \$1,892,684.

The 17 unsupported transactions identified in Table 2, 3, and 4, totaling \$26,916, provides an increased risk for abuse or misuse of the purchase card and subsequently agency resources. Additionally, delays or failure to reallocate purchase card transactions can cause problems with budget execution and increase the risk of Anti-Deficiency Act violations.

### **Recommendation 10**

We recommend that OPO ensure that cardholders and/or program offices maintain documentation supporting transactions in accordance with purchase card policies and procedures.

### **OPO's Response:**

*OPO concurs with the recommendation. “To date, OPO efforts in ensuring every account holder is developing and maintaining a proper file for ALL transactions completed has been enforced through both routine and random transaction file reviews as required by CP 13.301, Revision 4, Section 8(22) Monitoring and Oversight. Where transaction files have been requested and could not be produced, accounts can and have been suspended, per CP 13.301, Revision 4, Section 8(19), Review and Audit. ... Additionally, OPO is preparing agency specific training associated with transaction file review findings and the recommendations ... .”*

### **Recommendation 11**

We recommend that OPO strengthen its oversight and monitoring of purchase card transactions, to include but not be limited to, verifying that transactions are reallocated by cardholders and approved by approving officials in OPM's financial system.

#### **OPO's Response:**

*OPO concurs with the recommendation. "OPO now reviews unallocated/unapproved reports provided for by the bank on a monthly basis, determines which transactions are 30/60/90 days past due, and in turn reaches out to the cardholders and AOs on these transactions. ... In an attempt to better manage and oversee the program and those specific transaction functions referenced within this recommendation, OPO has collaborated more with OCFO, the owner of the agency CBIS financial system."*

### **Recommendation 12**

We recommend that OPO provide documentation for the 17 unsupported transactions identified in Tables 2, 3, and 4.

#### **OPO's Response:**

*OPO concurs with the recommendation. "OPO is in the process of securing the referenced 17 unsupported transaction files ... ."*

# APPENDIX



Office of  
Procurement Operations

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT  
Washington, DC 20415

April 28, 2017

MEMORANDUM FOR:

[REDACTED]  
Chief, Internal Audits Group

JUAN  
ARRATIA

Digitally signed by JUAN  
ARRATIA  
Date: 2017.04.28  
15:19:03-0400'

FROM:

Juan Arratia  
Senior Procurement Executive, Office of Procurement  
Operations

SUBJECT:

Draft Report on the Audit of the U.S. Office of Personnel  
Management Purchase Card Program  
4A-OO-00-16-046

Thank you for providing OPM the opportunity to respond to the Office of the Inspector General (OIG) draft report, Audit of the U.S. Office of Personnel Management Purchase Card Program, 4A-OO-00-16-046, dated March 31, 2017.

Since the reorganization of the Office of Procurement Operations (OPO) in September 2015 and Acquisition, Policy, and Innovation formally taking control of the oversight and management responsibilities of the agency purchase card program starting fiscal year 2016, critical improvement efforts were developed and have since been initiated. We recognize that even the most well run programs benefit from external evaluations and we appreciate your input as we continue to enhance our program.

## **RESPONSES TO THE DRAFT REPORT RECOMMENDATIONS**

### **Recommendation 1**

We recommend that OPO perform verification and validation activities, such as utilizing available agency employee separation reports, to ensure that separated employees' purchase cards are immediately cancelled.

### **Management Response:**

**We concur.** Specifically as represented within the draft report, available information, such as agency reports and cardholder data captured by the bank has been utilized by OPO in appropriately conducting verification and validation activities. For example, in ensuring that an account associated with a separated employee is immediately cancelled, OPO regularly requests

Report No. 4A-OO-00-16-046

the agency’s separation report which can be validated against the list of current account holders as represented by the bank. OPO periodically obtains the separation report from the Office of Human Resources (OHR) through the Office of the Chief Information Officer (OCIO). In the event an account holder with an active account is identified on the separation report, their account is immediately cancelled. OPO continues to work with OHR/OCIO representatives in securing the aforementioned separation report on a more frequent basis. To date receipt has been inconsistent, and often requires several requests from OPO.

Additionally, OPO has been working with the Authorizing Officials (AOs) to ensure they contact OPO when a cardholder has separated from the agency. This line of communication also allows OPO to cancel an account in a timely manner, which often occurs prior to the receipt of the most up to date OHR separation report. OPO also plans to setup formal training events to be provided to AOs and account holders, which will further emphasize this requirement. A copy of CP 13.301 has been provided to all account holders and is available to all OPM employees through the agency website.

**Recommendation 2**

We recommend that OPO provide documentation, including the individual(s) responsible for making the purchases, for the three unsupported transactions, totaling \$15,600.

**Management Response:**

**We do not concur.** OPO performed an exhaustive search of both paper and electronic files and has been unable to locate transaction files associated with the three FY 2015 transactions represented within the draft report. From the limited information that we do have we were able to determine that all of the purchases were made under an allowable Merchant Category Code (9399 - Gov’t Services Not Elsewhere Classified). Limited available details associated with the subject transactions, which we were able to obtain through JPMC’s online charge card management system, PaymentNet, are provided below.

Tran Date	Post Date	Merchant	MCC	Debit Amount	Tran Type
05/14/2015	05/15/2015	OPM-HRS-EMDC	9399	\$3,450.00	Purchase
06/01/2015	06/02/2015	OPM-HRS-EMDC	9399	\$5,650.00	Purchase
08/13/2015	08/14/2015	OPM-HRS-EMDC	9399	\$6,500.00	Purchase
				<b>\$15,600.00</b>	

Development and maintenance of transaction files is of critical importance and remains an area of required improvement across the agency. To date, OPO efforts in ensuring every account holder is developing and maintaining a proper file for ALL transactions completed has been enforced through both routine and random transaction file reviews as required by CP 13.301, Revision 4, Section 8(22) Monitoring and Oversight. Where transaction files have been requested and could not be produced, accounts can and have been suspended, CP 13.301, Revision 4, Section 8(19), Review and Audit.

Based on CP 13.301, Revision 4, Section 8(22), Monitoring and Oversight, micro-purchase

transactions are to be reviewed at least twice each fiscal year and transactions above the micro-purchase threshold at least once each fiscal year. Additionally, convenience check transactions are to be reviewed as needed, but at least once annually. In an effort to provide increased oversight of the program and to better detect card misuse, abuse, and fraud, OPO has increased the frequency and quantity of transaction file reviews being performed. Purchase card transaction reviews are performed on a quarterly basis for both micro-purchase transactions and transactions above the micro-purchase threshold. The review process is designed to ensure that at least one transaction is reviewed for every cardholder each fiscal year. Additional reviews may also be performed on an ad hoc basis, as outlined within CP 13.301, Revision 4, Section 8(22), Monitoring and Oversight.

We believe that our ability to review a larger quantity of transaction files will drive, over time, superior file development and maintenance. Recent improvement efforts in this area, as referenced above, are a positive step in the right direction. However, OPO is not currently staffed to increase the quantity and frequency of files reviewed beyond its recent improvement efforts in this area. The ability of OPO to review a higher quantity of transaction files would increase the quality and consistency of transaction files developed and maintained while reducing the overall risk to the agency of, for example, absent or incomplete transaction files.

### **Recommendation 3**

We recommend that OPO improve policies and procedures over its purchase card reporting process to ensure that data is supported and accurately reported.

### **Management Response:**

**We concur.** As it specifically pertains to the OIG finding associated with this Recommendation 3, OPO was able to verify and validate the referenced annual financial report (AFR) data in question. The information came from the General Services Administration (GSA), Center for Charge Card Management. The above GSA team is responsible for data management of the charge card programs across numerous agencies. OPO was able to confirm with GSA that the data provided to the Office of the Chief Financial Officer (OCFO) to be included within the AFR was accurate, and that similar data is routinely collected and can be reported on a monthly basis. OPO is also able to reconcile that monthly data provided by GSA to the PaymentNet “Transaction Detail Report”, which further validates the accuracy of the data reported on the AFR.

Since formally taking over the management and oversight of the agency purchase card program, OPO Acquisition, Policy, and Innovation has begun documenting all of its policies and procedures. Such documentation efforts had not previously been made within the agency’s office supporting the purchase card program. This includes a complete update of the above referenced CP 13.301, Revision 4, to be completed in fiscal year 2017 with a formal, agency-wide release date at the commencement of fiscal year 2018. Additionally, the updated CP 13.301 will incorporate procedural documents associated with the transaction file review process. Regarding data call preparation and delivery efforts, the revised policy will include program requirements to provide annual updates to the agency charge card management plan, semi-annual OIG violations reporting, and quarterly statistical reporting. Many of these process documents are currently in



draft form and were shared with the OIG team during the subject audit.

The development and implementation of policies and procedures associated with the successful management and oversight of the agency purchase card program requires a sufficient level of resources. The absence of those resources in the past has made such efforts impossible. Although OPO is focusing more intently on this critical agency requirement, resourcing constraints continue to inhibit the ability to develop and consistently implement necessary policies and procedures while managing and overseeing all other aspects of the purchase card program.

#### **Recommendation 4**

We recommend that OCFO verify and validate purchase card information prior to reporting it in the AFR to ensure the integrity of the data reported.

#### **Management Response:**

**We concur.** OCFO and OPO agree with this recommendation. OPO in collaboration with OCFO has since obtained a greater understanding of the purchase card program data associated with the AFR and is now in a position to verify and validate the purchase card information prior to reporting and to better document the reporting process going forward. OCFO will update, as appropriate, its procedures to document due diligence in ascertaining the validity of the data reported.

#### **Recommendation 5**

We recommend that OPO immediately ensure that all OMB statistical reporting requirements are met, starting with their FY 2017 third quarter statistical report.

#### **Management Response:**

**We concur.** The statistical report delivered in the third quarter of fiscal year 2016 followed the format and structure consistently used in all prior reporting periods. OPO acknowledges that the format used previously was incomplete, and did not appropriately represent the number of cardholders with warrant authority above the micro-purchase threshold as well as the number of cardholders absent warrant authority but with transaction limits above the micro-purchase threshold. OPO has since updated the structure and format of the quarterly statistical report, covering all required response areas, and that format has been used in the fourth quarter of fiscal year 2016 and first and second quarters of fiscal year 2017. Referenced statistical reports can be found on the Office of Management and Budget (OMB) MAX.gov website

#### **Recommendation 6**

We recommend that OPO develop and implement policies and procedures for creating the quarterly OMB statistical report. At a minimum, the policies and procedures should include a discussion of all the statistical data elements required by OMB.

#### **Management Response:**

**We concur.** Please reference OPO response above, associated with Recommendation 3. Since formally taking over the management and oversight of the agency purchase card program, OPO Acquisition, Policy, and Innovation has begun documenting all of its policies and procedures. This includes a complete update of the above referenced CP 13.301 Revision 4, to be completed in fiscal year 2017 with a formal, agency-wide release date at the commencement of fiscal year 2018. Additionally, the updated CP 13.301 will incorporate procedural documents associated with the transaction file review process. Regarding data call preparation and delivery efforts, the revised policy will include program requirements, to provide annual updates to the agency charge card management plan, semi-annual OIG violations reporting, and quarterly statistical reporting. Many of these process documents are currently in draft form and were shared with the OIG team during the subject audit.

The development and implementation of policies and procedures associated with the successful management and oversight of the agency purchase card program requires a sufficient level of resources. The absence of those resources in the past has made such efforts impossible. Although OPO is focusing more intently on this critical agency requirement, resourcing constraints continue to inhibit the ability to develop and consistently implement necessary policies and procedures while managing and overseeing all other aspects of the purchase card program. Procedures and requirements associated with OMB quarterly statistical reporting are stated within the OMB A-123, Appendix B circular. Agency specific procedures regarding quarterly statistical reporting, which supplement A-123 guidance, are in development.

### **Recommendation 7**

We recommend that OPO strengthen its oversight over merchant category codes accessible by purchase cardholders, to include developing and implementing policies and procedures for performing periodic reviews of merchant category codes, and eliminating cardholder's access to all restricted and prohibited codes from J.P. Morgan Chase's PaymentNet banking system.

### **Management Response:**

**We concur.** Since OPO Acquisition, Policy, and Innovation formally took control of the oversight and management responsibilities of the agency purchase card program in fiscal year 2016, and through the OIG audit efforts detailed within this draft report, a greater understanding of the restricted merchant category codes (MCCs) has been obtained. OPO now periodically reviews the MCC listing to ensure that it is consistent with the agency charge card management plan, and that no new codes which may present risk to the agency program have been introduced. For example, OPO efforts in routinely reviewing MCCs enabled its ability to restrict the 9999 Convenience check code. That particular MCC was not a code identified by the OIG as being restricted. However, all cardholders had access to the subject code, and not all cardholders have the authority to write convenience checks. The 9999 convenience check code now has its own grouping, which can only be accessed by cardholders with convenience check authority.

OPO has collaborated with the bank in appropriately updating its list of restricted MCCs. This list now complies with the agency charge card management plan and is continually reviewed. Additionally, OPO efforts in reviewing codes and in collaborating with the bank to potentially

restrict certain unallowable MCCs is being documented, and will be referenced within the updated CP 13.301 Revision 4, to be completed in fiscal year 2017 with a formal, agency-wide release date at the commencement of fiscal year 2018.

### **Recommendation 8**

We recommend that OPO have all three purchase card program participants that took the GSA SmartPay Purchase Account Agency Program Coordinator training course immediately take the GSA SmartPay Account Holder training course or suspend their oversight duties until training is completed.

### **Management Response:**

**We concur.** OPO has spent extensive time securing referenced training certifications from all purchase cardholders and AOs and in properly organizing and filing them. Because of those efforts, which had not been conducted previously, training certification information is up to date. Specifically, this includes all 98 active cardholders and 52 AOs. In properly managing the agency purchase card program, OPO has put cardholders and AOs on notice that training certifications not received in a timely manner will result in account suspensions, as represented within CP 13.301, Revision 4, Section 8(14)(c), Reconciling and Accepting Transactions. In addition to the required training referenced above, OPO is preparing agency specific training associated with transaction file review findings and the recommendations reflected in this draft audit report. Training is scheduled to commence fiscal year 2017.

### **Recommendation 9**

We recommend that OPO implement controls to ensure that purchase card program participants receive all required training on the appropriate use, controls, and consequences of abuse before appointment to their position; and receive refresher training every three years. Documentation should be maintained to support the completion of initial and refresher training.

### **Management Response:**

**We concur.** Since OPO Acquisition, Policy, and Innovation assumed the management responsibilities of the agency purchase card program, it has ensured that all new cardholder applicants and their AOs have completed and submitted all required forms and training certificates before receiving a delegation of purchase card authority. Also, as explained above in the OPO Recommendation 8 response, OPO has spent extensive time securing referenced training certifications from all prior existing purchase cardholders and AOs and in properly organizing and filing them to ensure reliable records are maintained. Because of those efforts, which had not been conducted previously, training certification information is up to date across the agency and can more easily be managed. Specifically, as it pertains to this recommendation, updated certification information has allowed OPO to create a tracking instrument which is routinely updated. This tracking mechanism allows OPO to effectively oversee cardholders and AOs and in particular their required training.

Additionally, in properly managing the agency purchase card program, OPO has put cardholders

and AOs on notice that training certifications not received in a timely manner will result in account suspensions, as represented within CP 13.301, Revision 4, Section 8(14)(a), Maintaining Cardholder Privileges. To supplement the required training referenced above, OPO is preparing agency specific training associated with transaction file review findings and the recommendations reflected in this draft audit report. Training is scheduled to commence fiscal year 2017.

### **Recommendation 10**

We recommend that OPO suspend purchase card accounts and oversight duties of purchase card program participants that are not in compliance with refresher training requirements.

### **Management Response:**

**We concur.** As explained above in the OPO Recommendations 8 and 9 responses, OPO has spent extensive time securing referenced training certifications from all purchase cardholders and AOs and in properly organizing and filing them to ensure reliable records are maintained.

Because of those efforts, which had not been conducted previously, training certification information is up to date across the agency and can more easily be managed. Specifically, as it pertains to this recommendation, updated certification information has allowed OPO to create a tracking instrument which is routinely updated. This tracking mechanism allows OPO to effectively oversee cardholders and AOs, and in particular, their required training.

Additionally, in properly managing the agency purchase card program, OPO has put cardholders and AOs on notice that training certifications not received in a timely manner will result in account suspensions, as represented within CP 13.301, Revision 4, Section 8(14)(a), Maintaining Cardholder Privileges. Very recently, OPO has suspended accounts where transaction file detail had not been provided in response to quarterly transaction file reviews. Account suspension is an available tool documented within the established CP 13.301, Revision 4, which had not been utilized in the past. As in the case of the transaction file reviews, OPO will, as necessary, exercise its ability to suspend accounts where required training has not been completed in a timely manner.

### **Recommendation 11**

We recommend that OPO ensure that cardholders and/or program offices maintain documentation supporting transactions in accordance with purchase card policies and procedures.

### **Management Response:**

**We concur.** As explained above in the OPO Recommendation 2 response, the development and maintenance of transaction files is of critical importance and remains an area of required improvement across the agency. To date, OPO efforts in ensuring every account holder is developing and maintaining a proper file for ALL transactions completed has been enforced through both routine and random transaction file reviews as required by CP 13.301, Revision 4, Section 8(22) Monitoring and Oversight. Where transaction files have been requested and could not be produced, accounts can and have been suspended, per CP 13.301, Revision 4, Section 8(19), Review and Audit.

Based on CP 13.301, Revision 4, Section 8(22), Monitoring and Oversight, micro-purchase

transactions are to be reviewed at least twice each fiscal year and transactions above the micro-purchase threshold at least once each fiscal year. Additionally, convenience check transactions are to be reviewed as needed, but at least once annually. In an effort to provide increased oversight of the program and to better detect card misuse, abuse, and fraud, OPO has increased the frequency and quantity of transaction file reviews being performed. Purchase card transaction reviews are performed on a quarterly basis for both micro-purchase transactions and transactions above the micro-purchase threshold. The review process is designed to ensure that at least one transaction is reviewed for every cardholder each fiscal year. Additional reviews may also be performed on an ad hoc, random basis as outlined within CP 13.301, Revision 4, Section 8(22), Monitoring and Oversight.

We believe that our ability to review a larger quantity of transaction files will drive, over time, superior file development and maintenance. Recent improvement efforts in this area, as referenced above, are a positive step in the right direction. However, OPO is not currently staffed to increase the quantity and frequency of files reviewed beyond its recent improvement efforts in this area. The ability of OPO to review a higher quantity of transaction files would increase the quality and consistency of transaction files developed and maintained while reducing the overall risk to the agency of, for example, absent or incomplete transaction files.

Additionally, OPO is preparing agency specific training associated with transaction file review findings and the recommendations reflected in this draft audit report. Topics associated with constant transaction file review findings will be presented during these training events, supported by examples which appropriately apply Federal and CP 13.301 Revision 4 requirements. Training is scheduled to commence fiscal year 2017.

### **Recommendation 12**

We recommend that OPO strengthen its oversight and monitoring of purchase card transactions, to include but not limited to, verifying that transactions are reallocated by cardholders and approved by Approving Officials in OPM's financial system.

### **Management Response:**

**We concur.** Since OPO Acquisition, Policy, and Innovation formally took control of the oversight and management responsibilities of the agency purchase card program in fiscal year 2016, and through the OIG audit efforts detailed within this draft report, which included collaboration with OCFO, the owner of the CBIS financial system at OPM where reallocation efforts are executed, a greater understanding of the reallocation process has been obtained. OPO now reviews unallocated/unapproved reports provided for by the bank on a monthly basis, determines which transactions are 30/60/90 days past due, and in turn reaches out to the cardholders and AOs on these transactions. This type of review had not previously been performed within the agency supporting the purchase card program. In accordance with CP 13.301, Revision 4, Section 8(14)(c), Reconciling and Accepting Transactions, OPO is able to suspend the accounts of those cardholders that do not comply with the policy guidelines for transaction reallocation.

In an attempt to better manage and oversee the program and those specific transaction functions referenced within this recommendation, OPO has collaborated more with OCFO, the owner of the agency CBIS financial system. OPO and OCFO efforts in better managing transaction reallocations were introduced at the end of last fiscal year 2016 and have continued into this fiscal year 2017. Although collaboration with OCFO has offered greater insight into the transaction reallocation process, such teamwork has not alleviated recognized resourcing constraints which continue to inhibit OPO's ability to develop and consistently implement necessary policies and procedures while managing and overseeing all other aspects of the purchase card program.

### **Recommendation 13**

We recommend that OPO provide documentation for the 17 unsupported transactions identified in Tables 2, 3, and 4.

### **Management Response:**

**We concur.** OPO is in the process of securing the referenced 17 unsupported transaction files represented within OIG Notification of Findings and Recommendations (NFR) #6 and as further detailed within this draft audit report. Several cardholders have provided transaction files which are being reviewed in accordance with CP 13.301, Revision 4. As represented in this response, OPO has recently suspended accounts where transaction file detail had not been provided in response to quarterly transaction file reviews. Account suspension is an available tool documented within the established CP 13.301, Revision 4, which had not been utilized in the past. As in the case of the previous transaction file reviews, OPO will, as necessary, exercise its ability to suspend accounts of cardholders that do not provide transactions files selected for review in a timely manner.

In reconciling the 17 unsupported transaction files reflected within this draft report, OPO recognized cardholders with accounts already in a state of suspension, directly associated with prior quarterly reviews. In the event OPO cannot secure the transaction files requested by the OIG in support of this audit by the time OPO delivers its response herein, account suspension or even account termination will be exercised as detailed within CP 13.301, Revision 4.

### **CONCLUSION**

The findings documented, as a part of the subject audit and the subsequent recommendations detailed within this draft report, are extremely beneficial to OPO in progressing its management and oversight efforts supporting the agency purchase card program. Numerous corrective actions are already underway, several of which have been successfully completed. Although OPO is focusing more intently on this critical agency requirement, resourcing constraints continue to inhibit the ability to develop and consistently implement necessary policies and procedures while managing and overseeing all other aspects of the purchase card program.

OPO appreciates the opportunity to respond to the draft findings and recommendations. If you have any questions regarding our response, please contact [REDACTED] at [REDACTED] or [REDACTED]@opm.gov.

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## **TECHNICAL COMMENTS**

Suggested revisions to OIG draft report, Audit of the U.S. Office of Personnel Management Purchase Card Program, 4A-OO—00-16-046, dated March 31, 2017.

Overall the Office of Procurement Operations (OPO) is in agreement with the recommendations presented in this draft report. In an attempt to strengthen the final document, we recognized several areas where suggested revisions would more accurately reflect the data and circumstances presented, thereby ensuring a complete report suitable for public release. Those areas are provided below for further consideration.

### **Deleted by OIG Not Relevant to Final Report**

**Page 8 of the draft audit report; please consider replacing “The cardholder must reallocate and accept transactions in CBIS....” with “The cardholder must reconcile and reallocate transactions in CBIS....” as it more accurately reflects the process and those purchase card transaction efforts conducted within CBIS.**

**Page 3 of the draft audit report; please consider updating the bullets reflected under “Contracting Policy 13.301, Revision 4, dated July 2, 2014 (Contracting Policy), specifically discusses:” For example, the policy also includes valuable templates, like the Purchase Card Transaction Log, Convenience Checks Transaction Log, and Simplified Acquisition Checklist as attachments.**

**Page 3 Footnote #4; please consider replacing the first sentence. The “purchase card management plan” is not also known as the “charge card management plan”. The purchase card is just one aspect of the agency’s charge card management plan, which also addresses the agency travel card and fleet card programs.**

### **Deleted by OIG Not Relevant to Final Report**

**Page 4 of the draft audit report; please consider updating the bullets reflected under “OPO reports purchase card data in the following reports:” For example, we provide reporting responses in support of OMB A-123 to include the Charge Card Management Plan, and bullet 2, should state “Quarterly OMB Statistical Report” which is the official name.**

**Page 5 of the draft audit report; please consider replacing “was” with “were” in the sentence starting “A total of 14,867 transactions, totaling \$7,969,765, was processed by 139.....”**

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**Page 5 of the draft audit report; please consider updating bullet #5 under “To accomplish our audit objectives noted above, we:” with the appropriate document titles, “purchase card management plan as a part of the agency Charge Card Management Plan,” and “Quarterly OMB Statistical Report”**

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