



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

Ineffective Oversight of Purchase Cards Results in Inappropriate Purchases at EPA

**Statement of Janet Kasper
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Office of Inspector General
U.S. Environmental Protection Agency**

**Before the House Oversight and Government Reform
Committee, Subcommittee on Government Operations
U.S. House of Representatives**

October 14, 2014

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Good afternoon, Chairman Mica, Ranking Member Connolly and members of the subcommittee. I am Janet Kasper, Director of Contracts and Assistance Agreement Audits at the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA). Thank you for inviting me to appear before you today. I appreciate the opportunity to submit a statement for the hearing record about our recent assessment of the agency's purchase card program. This report addresses the agency's theme of "embracing EPA as a high performing organization."

Promoting economy, efficiency, effectiveness, and the prevention and detection of fraud, waste, and abuse through the independent oversight of the programs and operations of the EPA and the U.S. Chemical Safety and Hazard Investigation Board is the mission of our OIG.

BACKGROUND

The government purchase card program was established more than 30 years ago to streamline the federal acquisition processes by providing a low-cost, efficient vehicle for obtaining goods and services directly from vendors. The General Services Administration (GSA) administers the governmentwide purchase card program. GSA contracts with several banks, including J.P. Morgan Chase, the bank the EPA uses to provide purchase cards to its employees.

The Government Charge Card Abuse Prevention Act of 2012 was enacted on October 5, 2012. It is designed to prevent recurring waste, fraud and abuse of government charge cards. The law requires agencies to take appropriate personnel actions for employees who violate purchase card guidelines or make erroneous, improper or illegal purchases. Under the law, the OIG is to look for:

- Potentially illegal, improper or erroneous uses of purchase cards.
- Any patterns of such uses.
- Categories of purchases that could be made by means other than purchase cards in order to better aggregate purchases and obtain lower prices.

Office of Management and Budget Circular A-123, Appendix B, Improving the Management of Government Charge Card Programs, established minimum requirements and best practices for agency purchase card programs. In addition, Appendix B requires that each agency develop and maintain written policies and procedures for the appropriate use of government purchase cards.

EPA PURCHASE CARD PROGRAM

In fiscal year (FY) 2012, the EPA had 2,071 employees who were assigned purchase cards. Of those, 1,370 were active cardholders who transacted more than \$29 million in purchases. In addition, the EPA's 309 convenience check writers wrote more than 1,000 checks totaling more than \$500,000. The bank contract provides refunds based on annual net volume of sales as well as prompt payment, and the EPA estimated that FY 2012 refund dollars totaled \$350,900. Some employees have cards only for emergency response purposes.

Within the EPA, the Office of Acquisition Management, within the Office of Administration and Resources Management, is responsible for administering the purchase card program and serves as the liaison between cardholders and the contracted bank. The EPA purchase card team establishes policies and training requirements. It oversees set up and cancellation of accounts and provides ongoing advice to cardholders and approving officials. In addition, the team conducts purchase card oversight to ensure that the program is operating in accordance with applicable guidance.

AUDIT OF EPA PURCHASE CARD PROGRAM

In March 2014, the EPA OIG issued Report No. 14-P-0128, *Ineffective Oversight of Purchase Cards Results in Inappropriate Purchases at EPA*. We had conducted an audit based on a requirement in the *Government Charge Card Abuse Prevention Act of 2012* that states the Inspector General is to conduct periodic assessments of the agency's purchase card program to identify risks of illegal, improper or erroneous purchases. The objectives of our audit were to determine whether the EPA:

- Has sufficient controls to identify potentially illegal, improper and erroneous use of purchase cards.
- Is analyzing purchase card transactions to identify purchases that could be made by other means to obtain lower prices.

We evaluated the EPA's purchase card and convenience check internal controls by interviewing purchase cardholders, approvers and management responsible for oversight. We used a focused sampling plan and tested the effectiveness of internal controls through review of transactions selected. In total, we reviewed 80 of 67,000 purchase card transactions that occurred during FY 2012. In selecting transactions for review, we focused on atypical transactions and transactions that may have a higher risk. We used this risk-based approach rather than a statistical sample to identify cases of illegal, improper or erroneous purchases as emphasized by the Government Charge Card Abuse Prevention Act of 2012.

EPA DID NOT PROVIDE EFFECTIVE OVERSIGHT

Overall, we found that the EPA's oversight is not effective – because of inattention to EPA policies by cardholders, approving officials and the purchase card team – to ensure that purchase cardholders and approving officials comply with internal control procedures. Of \$152,602 in transactions we sampled, we found \$79,254 of prohibited, improper and erroneous purchases.

This lack of compliance indicates a continued risk of prohibited, improper and erroneous purchases.

Although cardholders must evaluate each purchase request to ensure that it complies with federal and agency acquisition rules, in many transactions, they did not. The approving official is responsible for conducting personal and detailed reviews of cardholders' transactions to ensure compliance with all applicable regulations, policy, special approvals and purchase card procedures; however, the approving official frequently did not provide the required oversight.

Specifically, the internal control oversight issues that we identified in one or more transactions were:

- Cardholders did not verify receipt of the purchased items.
- Cardholders did not obtain approval before making the purchase.
- Transactions were not funded prior to purchase.
- Purchase logs were not reviewed by the approving official.
- Policies related to restricted transactions that require purchases be made by an acquisition professional were not followed.
- Required sources were not used.
- Cardholders and approvers did not apply closer scrutiny to transactions such as clothing, entertainment and light refreshments.
- Records were not maintained.
- Prohibited transactions were approved and purchased.

There were some transactions that, in our opinion, were more egregious. We found that the required closer scrutiny was not performed when purchasing food for an awards recognition ceremony. EPA policies allow for the purchase of light refreshments, but not meals, for an award recognition ceremony. Light refreshments, as defined in EPA policy and GSA regulation, include coffee, tea, soft drinks, donuts, bagels, fruit, pretzels, cookies, chips or muffins, but do not include all elements of a meal. For one transaction we reviewed, food and beverages called "light refreshments" amounted to four different appetizers, chicken tenderloin, fresh fruit, pasta salad, cookies, soft drinks and punch. The total cost was \$2,900, just under the purchase card \$3,000 per-transaction limit.

In 13 (or 15 percent) of the 80 transactions we reviewed, valued at \$21,465, cardholders did not follow requirements related to restricted transactions. EPA policy identifies certain transactions as restricted for purchase only by acquisition professional cardholders. Cardholders who were not acquisition officials purchased such items. For example, in three instances, cardholders who were not acquisition professionals purchased gym memberships that required pre-payment for services totaling \$2,867. Two of those purchases were for family memberships, and not just the EPA employee.

It is important that approving officials review the logs the purchase cardholders prepare to document transactions. Our audit found that approving officials did not review purchase card logs for 14 (or 18 percent) of the 80 sampled transactions, valued at \$22,402. For one

transaction, the approving official incorrectly believed it was unnecessary to perform a quarterly review because he had approved the purchase in advance. Consequently, he was unaware that the funder and cardholder amended his prior approval to purchase an additional item for \$805 for personal use. The EPA is now investigating the extent of the situation to determine what action should be taken.

WEAKNESSES IN EPA OVERSIGHT

Internal controls, policies and procedures are critical tools for helping to ensure the efficiency and integrity of purchase card programs by eliminating charge card misuse, fraud, and other forms of waste and abuse. Purchase card program managers are responsible for ensuring that policies and procedures are carried out effectively. The EPA's oversight was not effective in ensuring that purchase cardholders and approving officials complied with internal controls. The EPA's internal controls did not prevent prohibited, improper and erroneous purchases.

The Government Charge Act envisioned agencies using effective systems, techniques and technologies to prevent or identify illegal, improper or erroneous purchases. At the time of our review, the Office of Acquisition Management reviewed purchase card records for transactions that had been split in order to be below the purchase card threshold of \$3,000 per transaction, transactions that were declined by the credit card company, and transactions for employees that were no longer with the agency.

EPA policy requires approving officials to have standard operating procedures in place. However, some of those procedures were inconsistent with federal and EPA policies. For example, one office's procedure classified lab/testing supplies, as well as furniture and computer purchases as routine and therefore did not require prior approval from the approving official. Another office's policy did not require prior approval for the purchase of training by the cardholder's approving official.

To ensure compliance with purchase card policies, the EPA requires program offices to conduct reviews, including testing of transactions, every two years. In 2010, half of the agency's program offices did not conduct these reviews. Since the biennial review process was not followed, corrective actions and improvements to internal controls did not occur, and weaknesses continued to occur from 2008 to 2012.

EPA ACTION TO ADDRESS WEAKNESSES

The EPA agreed to take action to address all of the findings and recommendations in our report. Some of the improvements we have already seen include:

- Stopping the purchase of gift cards until the agency can assess its policy on the use of gift card and gift certificates for employee recognition.
- Requiring all purchase cardholders and approving officials to take a training class focused on the issues identified in the audit report and the proper handling of purchase card transactions.
- Implementing an automated system for documenting and approving purchase card transactions. This will allow the EPA to conduct more oversight of specific transactions

since information will be available electronically in an EPA-wide database, instead of in decentralized manual records.

- Changing the training requirement for purchase cardholders and approvers from every 3 years to every 2 years.

The EPA planned to complete implementation of many of the corrective actions by September 30, 2014. The OIG is required to report to Congress by January 31 of each year on the status of the EPA's implementation of recommendations related to purchase cards. Our next report will include updated information on the status of the EPA's implementation of all corrective actions relative to its purchase card program.

CONCLUSION

In conclusion, 75 of 80 (94 percent) reviewed transactions were not in compliance with EPA policies. The total sample value was \$152,602, of which the OIG identified \$79,254 as prohibited, improper and erroneous purchases. These transactions represented purchases of gym memberships, food, hotel space, and split purchases intended to stay under the \$3,000 threshold for using a purchase card. These transactions were undetected by the EPA's approving officials and purchase card team. Improved purchase card oversight potentially saves money by reducing prohibited, improper and erroneous purchases, which would be especially helpful in the current budget environment.

During the past year the OIG has started to publish reports on its own compliance with laws, regulations, and procedures to improve transparency. As part of this effort, the OIG initiated a detailed audit of its own internal controls over purchase cards. The audit includes testing of OIG purchase card transactions to determine whether any were fraudulent or did not comply with EPA or OIG policies. We plan to make that report public very soon.

Mr. Chairman, this concludes my prepared statement. I would like to thank this subcommittee for your continuing support of the OIG's mission and your robust interest our work. I will be pleased to answer any questions you or the subcommittee members may have.

Biography of Director for Contracts and Assistance Agreement Audits Janet Kasper



Janet Kasper is the Director of Contracts and Assistance Agreement Audits at the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA). She has held this position since September 2006. As director, Ms. Kasper supervises audits of the EPA's management of contracts and assistance agreements, compliance with the Improper Payments Elimination and Recovery Act of 2010, and financial audits of grant recipients.

Ms. Kasper began her career as an auditor with EPA OIG in 1986. During that time, Ms. Kasper has conducted numerous audits of EPA programs. Ms. Kasper is the recipient of Gold and Silver medals for her work at EPA OIG, along with Awards for Excellence from the Council of the Inspectors

General for Integrity and Efficiency, Institute of Internal Auditors, and Association of Government Accountants.

Ms. Kasper earned a bachelor degree in accounting from Trinity Christian College and a master's degree in business administration from the University of Illinois at Chicago. Ms. Kasper is a certified public accountant and a certified fraud examiner.

Ms. Kasper is a native of the Chicago area and resides in Crete, Illinois.