



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL



Spending Taxpayer Dollars

Ineffective Oversight of Purchase Cards Resulted in Improper Purchases at EPA OIG

Report No. 15-B-0014

November 10, 2014



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Report Contributors:

Eileen Collins
Janet Kasper
Madeline Mullen

Abbreviations

CMM	Contracts Management Manual
DIG	Deputy Inspector General
EPA	U.S. Environmental Protection Agency
OIG	Office of Inspector General

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At a Glance

Why We Did This Review

The Office of Inspector General (OIG) issued a report on the U.S. Environmental Protection Agency's (EPA's) purchase card program, *Ineffective Oversight of Purchase Cards Results in Inappropriate Purchases at EPA*, on March 4, 2014. The Deputy Inspector General requested that OIG's Office of Audit conduct this audit to determine whether OIG purchased items that should not have been purchased or did not comply with either EPA or OIG policies.

This report addresses the following OIG goal:

- *Be responsible stewards of taxpayers dollars.*

Send all inquiries to our public affairs office at (202) 566 2391 or visit www.epa.gov/oig.

The full report is at: www.epa.gov/oig/reports/2014/20141110-15-B-0014.pdf

Ineffective Oversight of Purchase Cards Resulted in Improper Purchases at EPA OIG

What We Found

The EPA OIG needs to improve and comply with internal controls for purchase cards. Our review of 48 high risk transactions found that 46 transactions had internal control weaknesses or recordkeeping issues.

Reviews of \$62,012 in OIG purchases found that \$36,488 met the definition of improper purchases.

We did not find any fraudulent or prohibited transactions. Purchases totaling \$36,488 were improper, as defined by Office of Management and Budget Circular A-123, because they were outside the cardholder's authority or should not have been made under administrative requirements. This does not mean that items purchased with the cards could not have been purchased if proper procedures were followed. Internal control weaknesses included:

- Availability of funding not verified prior to placing order.
- Approving official prior approval not obtained.
- Third party verification by other than cardholder or approving official not provided.

Internal control weaknesses occurred in part because the OIG purchase card procedure is not consistent with the EPA's Contracts Management Manual. As a result, EPA OIG purchase card holders and approvers who rely on the OIG purchase card procedure are unaware what is required to comply with EPA policies. When internal controls are not followed, it increases the risk of fraudulent, prohibited and improper purchases.

Recommendations

We recommend that the Deputy Inspector General:

1. Update the OIG purchase card procedure.
2. Issue a memorandum and meet with OIG purchase cardholders and approving officials to discuss the results of this audit.
3. Verify that OIG cardholders and approving officials completed the EPA mandatory supplemental purchase card training.
4. Appoint an OIG acquisition professional who has purchase card authority.
5. Update the procedure on firearms and law enforcement equipment.
6. Institute follow-up actions to hold individuals accountable for improper purchases identified in the audit.
7. Conduct an assessment of compliance with the revised OIG purchase card procedure 6 months after it is issued.

The OIG agreed with all of the recommendations and provided corrective actions and completion dates to address all of the draft report's recommendations.



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

OFFICE OF
INSPECTOR GENERAL

November 10, 2014

MEMORANDUM

SUBJECT: Ineffective Oversight of Purchase Cards Resulted in
Improper Purchases at EPA OIG
Report No. 15-B-0014

A handwritten signature in black ink, appearing to read "Kevin L. Christensen".

FROM: Kevin Christensen, Acting Assistant Inspector General
Office of Audit

TO: Charles Sheehan, Deputy Inspector General

At your request, we conducted an audit of the Office of Inspector's General (OIG) purchase card transactions to determine whether the OIG purchased items that should not have been purchased or did not comply with either U.S. Environmental Protection Agency or OIG policies. We did not find that OIG cardholders made any fraudulent or prohibited purchases. However, when internal controls are not followed, it increases the risk of fraudulent, prohibited and improper purchases.

The office responsible for implementing the audit recommendations included in this report is the OIG's Office of Chief of Staff.

Action Required

In response to the draft report, and during the exit conference, you provided corrective actions that addressed the recommendations and established milestone dates. Therefore, a response to the final report is not required.

We will post this report to our website at <http://www.epa.gov/oig>.

U.S. Environmental Protection Agency

Office of Inspector General

Ineffective Oversight of Purchase Cards Resulted in Improper Purchases at EPA OIG

Report No. 15-B-0014
November 10, 2014f

Reason for Review

The Deputy Inspector General (DIG) requested that the Office of Inspector General's (OIG's) Office of Audit conduct this audit to determine whether the OIG purchased items that should not have been purchased or did not comply with either U.S. Environmental Protection Agency (EPA) or OIG policies.

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Scope and Methodology

- ❑ Performed fieldwork from April 15, 2014, to August 27, 2014.
- ❑ Conducted assignment in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.
- ❑ Reviewed EPA and OIG policies, procedures and manuals relevant to purchase cards.
- ❑ Selected and reviewed documentation for 48 high risk transactions the OIG made from October 1, 2012, through April 9, 2014, for review (this included three convenience checks).

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The Act

- ❑ The Government Charge Card Abuse Prevention Act of 2012 was signed into law on October 5, 2012. The Act is designed to prevent abuse of government charge cards. The law requires agencies to take appropriate adverse personnel actions for employees who violate purchase card guidelines or make erroneous, improper or illegal purchases.
- ❑ Requires periodic (annual) assessments of agency purchase card and convenience check programs.

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Contracts Management Manual

- ❑ The EPA provides cardholders with the authority to make purchases using the governmentwide commercial purchase card, under a policy established in Contracts Management Manual (CMM) Section 13.3.
- ❑ The CMM identifies transactions that are prohibited, are restricted, or require special prior approvals. For example, some transactions are restricted to acquisition professional cardholders rather than program office cardholders. These transactions include terms, specifications, statements of work or advanced payment (CMM 13.3.5.4(B)).

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Contracts Management Manual (cont.)

The EPA provides certain OIG employees with the authority to use purchase cards. The letter giving employees authority to use the purchase card requires compliance with the CMM.

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OIG Procedures

- ❑ Relevant OIG procedures reviewed include:
 - OIG Procedure 011, OIG Purchase Card Procedure (discussed further on slide 14).
 - OIG Procedure 317, Office of Inspector General Training and Development Guidance Procedures.
 - OIG Procedure 204, Firearms and Law Enforcement Equipment.

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What is an Improper Purchase?

- ❑ Office of Management and Budget Circular A-123, Appendix B, defines an improper purchase as any purchase that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative or other legally applicable requirements. An improper purchase may include any of the following purchases:
 - Made for an ineligible recipient or an ineligible service.
 - Fraudulent.
 - Services not received.
 - Incorrect amount.
 - Made in the absence of available funding.
 - Made outside of the cardholder's purchasing authority.

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Results

- ❑ **We did not find fraudulent or prohibited transactions.**
- ❑ We found that of \$62,012 in purchases, \$36,488 in purchases were improper because they were:
 - Made outside of the cardholder's authority.
 - Not in compliance with administrative requirements.
- ❑ In addition, other internal control and recordkeeping deficiencies were identified.

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Internal Control Deficiencies

Deficiency Note: Transactions may have more than one deficiency, so the total number of transactions exceeds 48.	Number of transactions
Availability of funding not verified prior to placing order	33
Restricted transaction not made by acquisition professional cardholder	15
Approving official prior approval not obtained	11
Third party verification by other than cardholder or approving official not provided	11
Purchase card log either not reviewed and approved timely or not reviewed and approved by approving official	7

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Internal Control Deficiencies (cont.)

Deficiency	Number of transactions
Records not retained (purchase card log, receipts)	4
Cardholder did not have authority to make OIG purchases with card	4
Special prior approvals not obtained	3
Required or priority sources not utilized (available on General Services Administration Advantage for lower price)	3
Closer scrutiny not conducted (clothing, novelty items and non-monetary awards)	3

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Internal Control Deficiencies (cont.)

Deficiency	Number of transactions
Sales tax not recovered (U.S. government purchases are tax exempt)	2
Purchase of law enforcement equipment not listed in OIG policy	2

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Recordkeeping Issues

- ❑ Cardholders did not always maintain required documentation. However, upon request, either the cardholders or the OIG team were able to obtain the documentation, with a few exceptions as noted in the previous table. Such documentation included third party verification, receipts, etc.
- ❑ Approving officials did not always provide a date when:
 - Pre-approving a purchase.
 - Signing the purchase card log.
- ❑ We did not include these as internal control deficiencies.

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How Did This Happen?

- ❑ Although OIG Purchase Card Procedure 011 references the CMM, it is not consistent. The OIG procedure:
 - Does not identify when the availability of funding should be verified.
 - Does not require approving official prior approval, use of purchase card logs or third party verification for training.

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How Did This Happen? (cont.)

- ❑ The OIG Purchase Card Procedure 011 does not explain:
 - Restricted transactions and when an acquisition professional cardholder must be involved.
 - Transactions requiring closer scrutiny or additional “special” prior approvals, i.e., the EPA’s facilities manager approval.

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How Did This Happen? (cont.)

- ❑ OIG cardholders and their approving officials rely on the OIG procedure rather than the CMM.
- ❑ Changes to the OIG purchase card procedure were issued in an email but the procedure was not updated. The OIG training procedure was updated to reflect the email changes. The training and purchase card procedures now contradict each other.
- ❑ OIG cardholders and approving officials did not recognize or understand when transactions are restricted and need to be made by an acquisition professional cardholder.

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How Did This Happen? (cont.)

- ❑ Purchase card internal controls have not been emphasized in OIG as evidenced by misconceptions:
 - Approving officials seemed confused about acquisition professionals.
 - One cardholder said that a restricted transaction was okay because the dollar amount was within the card limit.
 - Cardholders did not understand or request clarification about special approvals such as facilities manager.

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Why Is This Important?

- ❑ Review of the EPA's purchase card transactions identified similar issues to those found in OIG.
- ❑ The percentage of improper purchases is over half of the transaction dollars.
- ❑ OIG should lead by example in accountability for responsible use of government funds.

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Recommendations

We recommend that the EPA OIG Deputy Inspector General:

1. Update OIG Procedure 011 to be consistent with CMM 13.3. The procedure should include a requirement that all approvals be in electronic format.
 - DIG Response and OIG Evaluation:
 - The DIG agreed with this recommendation. Procedure 011 will be revised to be consistent with the CMM 13.3 by March 31, 2015. The OIG will also require use of the new automated system and the electronic purchase card log.
 - We concur with this corrective action. When implemented, the corrective action should address this recommendation.

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Recommendations

2. Issue a memorandum and meet with OIG cardholders and approving officials to discuss the results of this audit.
 - DIG Response and OIG Evaluation:
 - The DIG agreed with this recommendation. A memorandum will be distributed requiring cardholders and approving officials to comply with CMM 13.3 and to use the new automated system and electronic purchase card log. Outreach sessions will be conducted to discuss audit results. Corrective actions will be completed by November 15, 2014.
 - We concur with these corrective actions. An outreach session was conducted on October 29, 2014, to discuss audit results. When implemented, the corrective actions should address this recommendation.

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Recommendations

3. Verify that OIG cardholders and approving officials completed the EPA mandatory supplemental purchase card training by September 13, 2014.
 - DIG Response and OIG Evaluation:
 - The DIG agreed with this recommendation. Office of Chief of Staff will reach out to the EPA to obtain a list of cardholders and approving officials who have completed the training. The anticipated date for completion is October 31, 2014.
 - Office of Chief of Staff indicated on October 29, 2014, that all OIG cardholders and approving officials have completed the training. This corrective action addressed the recommendation.

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Recommendations (cont.)

4. Appoint an OIG acquisition professional who has purchase card authority to perform restricted transactions.
- DIG Response and OIG Evaluation:
 - The DIG agreed with this recommendation. An acquisition professional who has purchase card authority will be appointed to perform restricted purchases by November 30, 2014.
 - We concur with this corrective action. When implemented, this corrective action should address the recommendation.

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Recommendations (cont.)

5. Update OIG Procedure 204 to include a process for approving the purchase of items not specifically listed in the procedure.
 - DIG Response and OIG Evaluation:
 - During the exit conference, the DIG agreed that the Procedure 011 revision will include a requirement for documenting the bona fide need for purchase of all items. The DIG determined that Procedure 011 was the appropriate place to address the issue of purchase of law enforcement equipment. The completion date for Procedure 011 is March 31, 2015.
 - We concur with this corrective action. When implemented, this corrective action should address the recommendation.

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Recommendations (cont.)

6. Institute follow-up actions to hold individuals accountable and, if necessary, recover the funds used for improper purchases identified in this audit.
 - DIG Response and OIG Evaluation:
 - During the exit conference, the DIG agreed with this recommendation and stated that letters will be issued to individuals and approving officials where there was a violation of OIG and EPA procedures. The anticipated completion date is November 30, 2014.
 - We concur with this corrective action. When implemented, this corrective action should address the recommendation.

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Recommendations (cont.)

7. Conduct an assessment of compliance with the revised OIG purchase card procedure 6 months after it is issued.
 - DIG Response and OIG Evaluation:
 - The DIG agreed with this recommendation and will conduct an assessment of compliance with the revised OIG procedure during the fiscal year 2016 biennial purchase card review. The anticipated completion date is September 30, 2016.
 - We concur with this corrective action. When implemented, this corrective action should address the recommendation.

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Status of Recommendations and Potential Monetary Benefits

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date	Claimed Amount	Agreed-To Amount
1	19	Update OIG Procedure 011 to be consistent with CMM 13.3. The procedure should include a requirement that all approvals be in electronic format.	O	Deputy Inspector General	03/31/15		
2	20	Issue a memorandum and meet with OIG cardholders and approving officials to discuss the results of this audit.	O	Deputy Inspector General	11/15/14		
3	21	Verify that OIG cardholders and approving officials completed the EPA mandatory supplemental purchase card training by September 13, 2014.	C	Deputy Inspector General	10/31/14		
4	22	Appoint an OIG acquisition professional who has purchase card authority to perform restricted transactions.	O	Deputy Inspector General	11/30/14		
5	23	Update OIG Procedure 204 to include a process for approving purchase of items not specifically listed in the procedure.	O	Deputy Inspector General	03/31/15		
6	24	Institute follow-up actions to hold individuals accountable and, if necessary, recover the funds used for improper purchases identified in this audit.	O	Deputy Inspector General	11/30/14	\$36	
7	25	Conduct an assessment of compliance with the revised OIG purchase card procedure 6 months after it is issued.	O	Deputy Inspector General	09/30/16		

¹ O = Recommendation is open with agreed-to corrective actions pending.
 C = Recommendation is closed with all agreed-to actions completed.
 U = Recommendation is unresolved with resolution efforts in progress.

Response to Draft Report



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

OFFICE OF
INSPECTOR GENERAL

OCT 06 2014

MEMORANDUM

SUBJECT: Response to Office of Inspector General Draft Report of Audit OA-FY14-0235, *EPA OIG Needs to Comply With EPA Purchase Card Policies to Avoid Improper Purchases*, August 27, 2014

FROM: Charles Sheehan
Deputy Inspector General

TO: Kevin Christensen, Acting Assistant Inspector General
Office of Audit

The Office of Inspector General (OIG) for the U.S. Environmental Protection Agency (EPA) has reviewed Draft OIG audit OA-FY14-0235 and provides the following information in response to the audit recommendations.

Recommendation 1—Update OIG Procedure 011 to be consistent with the EPA’s Contract Management Manual (CMM) 13.3. The procedure should include a requirement that all approvals be in electronic format.

Deputy Inspector General (DIG) Response: The OIG agrees with this recommendation and by March 31, 2015, OIG’s Office of Chief of Staff (OCOS) will revise Policy and Procedure 011, *OIG Purchase Cards*, to be consistent with CMM 13.3. The OIG will also require use of the new automated system and the electronic purchase card log.

Recommendation 2—Issue a memorandum and meet with OIG cardholders and approving officials to discuss the results of this audit.

DIG Response: The OIG agrees with this recommendation. By October 15, 2014, OCOS will develop and distribute a memorandum (signed by the Inspector General) to notify Assistant Inspectors General about policy and procedures that require all OIG purchase cardholders and approving officials to comply with CMM 13.3, and to use the new automated system and electronic purchase card log. By November 15, 2014, OCOS will conduct outreach sessions for all purchase cardholders and approving officials to discuss audit results.

Recommendation 3—Ensure OIG cardholders and approving officials have completed the EPA’s mandatory supplemental purchase card training by September 13, 2014.

DIG Response: The OIG agrees with this recommendation. Tracking purchase card training is an EPA-owned system, and the OIG does not have access. OCOS will reach out to the EPA for a listing of completions. Anticipated completion date is October 31, 2014.

Recommendation 4—Ensure the OIG has an acquisition professional who has purchase card authority to perform restricted transactions.

DIG Response: The OIG agrees with this recommendation and by November 30, 2014, OCOS will appoint an acquisition professional who has purchase card authority to perform restricted purchases.

Recommendation 5—Update OIG Procedure 204 to include a process for approving the purchase of items not specifically listed in the procedure.

DIG Response: The OIG does not agree with this recommendation. Inclusion of the process for purchase card approval in OIG Procedure 204 is not appropriate because the purpose of that directive is management of the assets, not their purchase. The agency CMM covers the process for purchase cards and OIG management action on recommendation 1 to this report will cover implementation of the CMM.

Recommendation 6—Institute follow-up actions to hold individuals accountable and, if necessary, recover the funds used for improper purchases identified in this audit.

DIG Response: The OIG agrees with the intent of this recommendation. Purchase cardholders and approving officials have been guided by OIG Policy and Procedure 011, *OIG Purchase Cards*, which needs to be updated to follow agency policy and procedures (see Recommendation 1). The flaw in Policy and Procedure 011 was a significant reason why improper payments were identified by the audit. Under these circumstances, additional follow-up actions to hold individual cardholders accountable are not appropriate. Instead, by March 31, 2015, the OIG will include in its revised Policy and Procedure 011, a requirement to hold purchase cardholders and approving officials responsible when requirements in the revised directives are not followed. In addition, the outreach sessions conducted as part of corrective action for Recommendation 2 will include information about the specific payments the audit identified as improper. These sessions will be conducted by November 15, 2014.

Recommendation 7—Conduct an assessment of compliance with the revised OIG purchase card procedure 6 months after it is issued.

DIG Response: The OIG agrees with this recommendation and, led by OCOS, plans to complete an assessment of compliance with the revised OIG purchase card policy and procedure during the fiscal year 2016 biennial purchase card review. Anticipated completion date is September 30, 2016.

cc: Assistant Inspectors General

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Deputy Inspector General
Counsel to the Inspector General
Chief of Staff, Office of Inspector General
Assistant Inspector General for Audit
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