



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

Operating efficiently and effectively

EPA's Purchase Card and Convenience Check Program Controls Are Not Effective for Preventing Improper Purchases

Report No. 18-P-0232

August 20, 2018



Report Contributors:

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Madeline Mullen
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Abbreviations

CIGIE	Council of the Inspectors General on Integrity and Efficiency
EPA	U.S. Environmental Protection Agency
FY	Fiscal Year
GAGAS	Generally Accepted Government Auditing Standards
GAO	U.S. Government Accountability Office
OIG	Office of Inspector General
OMB	Office of Management and Budget
PNET	PaymentNet®

Cover Images: Computer, photographic and laboratory accessories are typical items bought with EPA purchase cards and convenience checks.
(General Services Administration, EPA and EPA OIG images)

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At a Glance

Why We Did This Project

The U.S. Environmental Protection Agency's (EPA's) Office of Inspector (OIG) conducted this audit after a risk assessment determined that the risk was high enough to warrant an audit.

Our objective was to determine whether EPA internal controls over its purchase card and convenience check program are adequate to prevent and detect material illegal, improper and erroneous purchases.

This report addresses the following:

- *Operating efficiently and effectively.*

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Listing of [OIG reports](#).

EPA's Purchase Card and Convenience Check Program Controls Are Not Effective for Preventing Improper Purchases

What We Found

EPA internal controls were not effective. Cardholders, approving officials, the purchase card team, and EPA program offices were not providing oversight needed to achieve compliance with internal controls. Although cardholders and approving officials must ensure that each purchase request complies with federal and agency acquisition and appropriation rules, in most transactions, they did not.

Ineffective oversight at the EPA contributed to improper purchases totaling \$57,017 from sampled transactions.

Recommendations and Planned Agency Corrective Actions

We made a total of 11 recommendations, including 10 to the Assistant Administrator for Administration and Resources Management and one to the Deputy Administrator.

Highlights from the 10 recommendations to the Assistant Administrator for Administration and Resources Management include requests for the agency to (1) conduct an assessment and determine how to enhance controls, reduce confusion and achieve compliance; (2) determine whether adding language about cardholder and approving official responsibilities to performance standards would be beneficial and improve compliance; (3) implement preventive controls that would stop transactions that do not have required approvals or funding; (4) fully implement and increase the use of detective controls; and (5) issue guidance regarding penalties for noncompliance and the process for suspending cardholder privileges due to noncompliance.

One recommendation requested that the EPA Deputy Administrator issue an agencywide memorandum to emphasize compliance with federal and EPA requirements for purchase card and convenience check transactions.

The EPA agreed to take corrective actions on all 11 recommendations and provided planned completion dates. The agency's planned corrective actions and completion dates meet the intent of the recommendations. All recommendations are resolved with corrective actions pending.



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

THE INSPECTOR GENERAL

August 20, 2018

MEMORANDUM

SUBJECT: EPA's Purchase Card and Convenience Check Program Controls
Are Not Effective for Preventing Improper Purchases
Report No. 18-P-0232

FROM: Arthur A. Elkins Jr.

A handwritten signature in black ink, reading "Arthur A. Elkins Jr.", is placed to the right of the "FROM:" field.

TO: Henry Darwin, Acting Deputy Administrator

Donna Vizian, Principal Deputy Assistant Administrator
Office of Administration and Resources Management

This is our report on the subject audit conducted by the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA). The project number for this audit was OA-FY18-0045. This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends. This report represents the opinion of the OIG and does not necessarily represent the final EPA position. Final determinations on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

The Office of the Administrator is responsible for all offices within the EPA, including program offices that handle purchase card and convenience check transactions. The Office of Acquisition Management within the EPA's Office of Administration and Resources Management is responsible for implementing and overseeing the agency's purchase card and convenience check program.

In accordance with EPA Manual 2750, your office provided acceptable corrective actions and milestone dates in response to OIG recommendations. All recommendations are resolved and no final response to this report is required. However, if you submit a response, it will be posted on the OIG's website, along with our memorandum commenting on your response. Your response should be provided as an Adobe PDF file that complies with the accessibility requirements of Section 508 of the Rehabilitation Act of 1973, as amended. The final response should not contain data that you do not want to be released to the public; if your response contains such data, you should identify the data for redaction or removal along with corresponding justification.

We will post this report to our website at www.epa.gov/oig.

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Purpose

Our objective was to determine whether U.S. Environmental Protection Agency (EPA) internal controls over its purchase card and convenience check program are adequate to prevent and detect material illegal, improper and erroneous purchases.

Background

The Government Charge Card Abuse Prevention Act of 2012 states the following about Inspector General responsibilities:

The Inspector General of each executive agency shall—(1) conduct periodic assessments of the agency purchase card or convenience check programs to identify and analyze risks of illegal, improper, or erroneous purchases and payments in order to develop a plan for using such risk assessments to determine the scope, frequency, and number of periodic audits of purchase card or convenience check transactions.

Office of Management and Budget Memorandum M-13-21 determined that, at a minimum, periodic risk assessments are to be performed on an annual basis.

The EPA's Office of Inspector General (OIG) issued EPA OIG Report No. [14-P-0128](#), *Ineffective Oversight of Purchase Cards Results in Inappropriate Purchases at EPA*, on March 4, 2014. That report was the OIG's first purchase card report. Of \$152,602 in sampled transactions, \$79,254 were prohibited, improper or erroneous purchases. Prohibited purchases included meals for an awards-recognition ceremony, and gym memberships for EPA employees and their families. The EPA reported that corrective actions for all seven recommendations were complete as of December 10, 2014.

On December 20, 2016, we notified the EPA that we would participate in a Council of the Inspectors General on Integrity and Efficiency (CIGIE) purchase card cross-cutting project led by the U.S. Department of Agriculture OIG. The EPA OIG examined purchase card transactions for the first two quarters of fiscal year (FY) 2017. Those results will be consolidated into a CIGIE report on the government purchase card initiative.

EPA OIG Report No. [17-P-0113](#), *Risk for EPA's Fiscal Year 2016 Purchase Card and Convenience Check Program Warrants an Audit*, was issued February 14, 2017. In that report, we assessed the risk for the EPA's purchase card and convenience check program was high enough to warrant an audit because of noncompliance with existing controls. On October 11, 2017, we notified the EPA that we were beginning the audit.

Responsible Offices

The Office of the Administrator is responsible for all offices within the EPA, including program offices that handle purchase card and convenience check transactions. The Office of Acquisition Management within the EPA's Office of Administration and Resources Management is responsible for implementing and overseeing the agency's purchase card and convenience check program. However, the Office of Acquisition Management does not supervise staff responsible for purchase card or convenience check transactions within EPA program offices.

Scope and Methodology

We conducted this audit from November 2017 through June 2018, in accordance with generally accepted government auditing standards (GAGAS), except for independence standards regarding two of the 75 EPA OIG transactions. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objective.

For two of the 75 EPA OIG transactions, we used the GAGAS "conceptual framework" to identify and evaluate threats to independence, and to apply safeguards to reduce the threats to an acceptable level. The "conceptual framework" assists auditors in maintaining independence of mind and in appearance. We cited noncompliances in each of the two OIG transactions, and non-purchase cardholders completed the audit work.

The EPA reported 80,917 purchase card transactions and 458 convenience check transactions totaling \$41,175,877 and \$241,078, respectively, in FY 2017. These purchases were made by 1,145 different purchase cardholders and convenience check account holders. To answer our objective, we reviewed the following information that includes the applicable law; requirements established by the U.S. Government Accountability Office (GAO) and the Office of Management and Budget (OMB); and EPA policy and procedures:

- Government Charge Card Abuse Prevention Act of 2012.
- *Standards for Internal Control in the Federal Government*, GAO-14-704G, September 2014.
- *Management's Responsibility for Enterprise Risk Management and Internal Control*, OMB Circular A-123, July 15, 2016.
- *Improving the Management of Government Charge Card Programs*, OMB Circular A-123, Appendix B, January 15, 2009.
- *EPA Acquisition Guide*, Section 13.3.1, *Using the Government-wide Commercial Purchase Card*, December 2015.
- The EPA's *Agency-Wide Purchase Card Standard Operating Procedures Payment Net (PNET) Purchase Card Automation Process*.

The EPA OIG also participated in the CIGIE cross-cutting project to analyze government purchase card transactions. We determined that the CIGIE transactions and methodology should be incorporated into our audit of the EPA's purchase card and convenience check program.

The CIGIE information technology committee had created weighted algorithms to determine high-risk transactions. According to CIGIE methodology, the following categories of transactions merited closer review:

- Prohibited Merchant Category Codes.
- Questionable Merchant Category Codes.
- Cardholder Exceeded Single-Purchase Limit.
- Split Transaction.
- Sales Tax Transaction.
- Holiday Transaction.
- Weekend Transaction.
- Unauthorized Third-Party Merchants.
- Closed Account Activity.

We used these algorithms to identify 23 sample purchase card transactions for each of the first three quarters of FY 2017.

In addition, we judgmentally selected a sample of six convenience check transactions for review, each of which was \$2,000 or above. As a result, the total sample was 75 transactions involving 70 cardholders and 67 approving officials, as shown in Table 1. The value of all sampled transactions was \$58,128.26.

Table 1: EPA transactions sampled

Transaction type	1 st Qtr. FY 2017	2 nd Qtr. FY 2017	3 rd Qtr. FY 2017	Total
Purchase card	23	23	23	69
Convenience check	2	2	2	6
Total				75

Source: OIG samples.

Each transaction was reviewed for compliance with 16 EPA policy and procedure requirements.

We interviewed staff within the Office of Acquisition Management and obtained documents from PaymentNet® (PNET), the EPA's acquisition system, and cardholder files. After reviewing sampled transaction documents, we emailed and interviewed cardholders and approving officials as needed. We also followed up on the March 2014 EPA OIG audit recommendations for EPA purchase cards.

Results

Purchase Card Users Must Comply with Federal and EPA Requirements

Relevant law, policy, procedures and guidance include the following:

- The Government Charge Card Abuse Prevention Act of 2012 requires executive agencies to use “effective systems, techniques and technologies to prevent or identify illegal, improper or erroneous purchases.” The act also requires agencies to have policies about the number of purchase cards.
- *Standards for Internal Control in the Federal Government*, GAO-14-704G, September 2014, states that:
 - Management should use quality information to achieve objectives and address risks.
 - Management should identify and respond to risks for achieving objectives.
- *Management’s Responsibility for Enterprise Risk Management and Internal Control*, OMB Circular A-123, July 15, 2016, notes that it is management’s responsibility to continuously monitor, assess and improve internal control effectiveness. Further, management should identify and correct control deficiencies.
- *Improving the Management of Government Charge Card Programs*, OMB Circular A-123, Appendix B, January 15, 2009, prescribes policies and procedures for internal controls to reduce government charge card risks of fraud, waste and error.
- The *EPA Acquisition Guide*, Section 13.3.1, *Using the Government-wide Commercial Purchase Card*, December 2015, establishes policy for using governmentwide commercial purchase cards at the EPA. The guidelines detail requirements for approvals, special approvals, closer scrutiny, mandatory sources and strategic sourcing.
- The EPA’s *Agency-Wide Purchase Card Standard Operating Procedures Payment Net (PNET) Purchase Card Automation Process* states that effective August 1, 2015, all purchase card transactions are required



A computer hard drive is a typical item bought through one of the sampled purchase card transactions. (EPA OIG photo)

to be documented in PNET. Failure to document transactions in PNET results in suspension of purchase card privileges until PNET is updated.

EPA Internal Controls Were Not Effective

Although the EPA implemented numerous internal controls for its purchase card and convenience check program in response to the 2014 EPA OIG audit report, we found that the agency's internal controls were not effective to prevent and detect material illegal, improper or erroneous purchases. Cardholders, approving officials, the purchase card team, and program offices were not providing oversight needed to achieve compliance with internal controls.

Although cardholders must ensure that each purchase request complies with federal and agency acquisition and appropriation rules, in most transactions, they did not. Approving officials are responsible for ensuring compliance with all applicable regulations, policies, procedures and special approvals; however, they often did not. Table 2 notes that each of the 69 purchase card and six convenience check transactions sampled had at least one noncompliance.

Table 2: Tested transactions

Type	Compliant	Noncompliant
Purchase cards	0	69
Convenience checks	0	6

Source: OIG analysis of tested transactions.

Purchase Card Noncompliances

Numerous noncompliances were noted for each of the FY 2017 quarters tested. Some transactions did not comply with multiple requirements, as noted in Table 3.

Table 3: Purchase card noncompliances for 69 transactions

No.	Internal control issues	1st Qtr. FY 2017	2nd Qtr. FY 2017	3rd Qtr. FY 2017	Total
1	Not approved by approving official in PNET by the 28th of the month.	17	19	15	51
2	All supporting documentation not in PNET as required.	15	16	12	43
3	Missing justification for not using mandatory sources.	8	9	10	27
4	Missing third-party verification for goods received.	6	10	10	26
5	Missing required purchase log.	10	8	8	26
6	Missing/inadequate approving official approval prior to purchase.	6	7	9	22
7	Purchases were not declined for blocked merchant category codes.	7	5	8	20
8	Third-party payment processing procedures were not followed.	7	3	5	15

No.	Internal control issues	1st Qtr. FY 2017	2nd Qtr. FY 2017	3rd Qtr. FY 2017	Total
9	Fund availability was not verified prior to placing the order.	5	7	1	13
10	Sales taxes paid without justification.	2	0	1	3
11	Other (one or fewer instances per quarter).	3	3	2	8

Source: OIG analysis of tested transactions (23 per quarter).

The following transactions illustrate a variety of noncompliances:

- **\$1,100 transaction to purchase a wireless projector.** The cardholder did not obtain information technology approval for the purchase, did not justify why mandatory sources were not used, did not document that funds were available, did not obtain third-party verification from the property utilization officer, and the approving official did not approve the transaction in PNET by the 28th of the month.
- **\$1,347 transaction to purchase computer memory.** The cardholder did not maintain all supporting documentation in PNET, did not document justification for not using mandatory sources, paid sales taxes on items purchased and did not document a justification for paying the sales tax, and did not create and maintain a purchase log in PNET. In addition, the approving official did not approve the transaction in PNET by the 28th of the month.
- **\$3,125 transaction to purchase laboratory chemicals.** The cardholder not obtain approval from the approving official prior to placing the order and did not consolidate two similar transactions that exceeded the single-purchase limit.
- **\$1,442 transaction to purchase editing services.** Although restricted to an acquisition professional, the cardholder—not an acquisition professional—did not comply with mandatory verification steps for vendors using third-party payment processing services. In addition, the approving official did not approve the transaction in PNET by the 28th of the month.

Convenience Check Noncompliances

The six convenience check transactions that we reviewed had similar noncompliance issues. For example, in three transactions, funding availability was not verified prior to the cardholder's involvement. Table 4 notes that in four transactions, not all of the supporting documentation was placed in PNET as required.

Table 4: Convenience check noncompliances for six transactions

No.	Internal control issues	1 st Qtr. FY 2017	2 nd Qtr. FY 2017	3 rd Qtr. FY 2017	Total
1	Missing approval from an approving official prior to purchase.	1	2	2	5
2	Not approved by approving official in PNET by the 28th of the month.	2	2	1	5
3	All supporting documentation not in PNET as required.	2	1	1	4
4	Fund availability not verified prior to placing the order.	1	0	2	3
5	Restricted transaction requiring an acquisition professional.	0	0	2	2
6	Missing third-party verification for goods received.	0	1	0	1
7	Tax identification not obtained at time of purchase.	0	1	0	1
8	Missing required purchase log.	0	1	0	1
9	Unable to determine whether training officer approval was provided.	0	0	1	1
10	Unable to determine total price of purchase.	0	0	1	1

Source: OIG analysis of tested transactions (two per quarter).

In the case of a \$2,000 training transaction, the dates of purchase, funding and training approval were unknown. Also, it was a restricted transaction that should have been made by an acquisition professional, and the approving official approved the transaction late in PNET.



Computer accessories like this docking station are typical items obtained through one of the sampled purchase card transactions. (EPA OIG photo)

EPA Has Not Implemented Proactive Controls

Despite the EPA's control efforts, oversight is weak. The purchase card team, which is responsible for administering the EPA purchase card program, does not have enough staff to implement effective proactive and detective controls. Instances of cardholder noncompliance primarily resulted from ineffective training and/or a lack of monitoring and control activities. Also, the EPA does not have a specific policy to address the appropriate number of cardholders needed to make purchases in compliance with EPA policy and procedures.

The following transactions note specific causes of noncompliance related to the purchased goods and services.

Goods

- **Computer keyboards.** The cardholder did not know that documenting a justification for not using mandatory sources is required.
- **Laboratory supplies.** The cardholder did not know that the vendor used a third-party payment processing service when the order was placed.
- **Laboratory supplies.** The approving official did not think that PNET was required and did not know about its relevance to the EPA.
- **Remote garage door opener.** The cardholder was not aware that documenting a justification for not using a mandatory source is required.

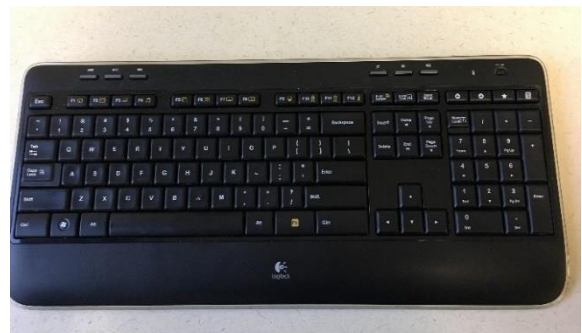
Services

In one training course transaction, the approving official did not approve the transaction in PNET because the official did not know approval was required by the 28th of the month. In another training course transaction, the cardholder was unaware of the mandatory steps for vendors using third-party payment processing services, including the process for purchase orders. A third example involved a training course where the cardholder did not validate the transaction in PNET to notify the approving official of the need to review and approve. A fourth example involved a training course and a convenience check holder who was only involved at the end of the process.

Ineffective Oversight Increases Risk and Results in Improper Purchases

Ineffective oversight contributes to risks of illegal, improper and erroneous purchases. Even though the OIG did not identify any fraudulent or illegal transactions, all sampled transactions were noncompliant with at least one internal control. Also, none of the 75 reviewed transactions were in complete compliance with EPA requirements. The total sample value was \$58,128, of which \$57,017 represented improper transactions.

We defined improper transactions as purchases that, although intended for government use, were made contrary to and despite the EPA's written purchase guide and procedure requirements. We did not include as improper transactions, instances where post-purchase administrative



Computer keyboards are also common items obtained through one of the sampled purchase card transactions. (EPA OIG photo)

requirements (such as placing documents in PNET, starting a purchase log or obtaining third-party verification after the purchase) were not met. The following examples of noncompliance were deemed improper:

- Cardholder did not obtain pre-approval.
- Cardholder did not obtain funding in advance.
- Cardholder did not use mandatory or strategic sources.
- Cardholder did not follow steps for third-party processors.
- Cardholder split transactions that would have exceeded the micro-purchase level.
- Purchase was not made by an acquisition professional cardholder as required.
- Special approval by an Information Management Officer was not obtained for information technology equipment purchases.
- Merchant Category Code blocking did not work.

The total dollar amounts for improper purchase card and convenience check transactions are found in Table 5.

Table 5: Dollar value of improper purchases by quarter

FY 2017 quarter	Improper purchase amounts
1 st Qtr.	\$16,858.37
2 nd Qtr.	18,315.77
3 rd Qtr.	21,843.22
Total	\$57,017.36

Source: OIG analysis of tested purchase card and convenience check transactions.

Conclusion

In response to our discussion document, the EPA agreed with and committed to several actions summarized in the 11 recommendations that accompany this report.

The EPA also completed several actions. The agency issued “Flash Notices” during January 2018 and April 2018 to cardholders and approving officials to remind them that they are required to consider the available EPA-mandated, strategic-sourcing contracts and mandatory sources. The agency provided training on purchase card requirements to the Office of Acquisition leadership in April 2018. In addition, the agency developed draft purchase card training slides to address issues identified in this audit.



Laboratory supplies are typical items obtained through one of the sampled purchase card transactions. (EPA OIG photo)

Recommendations

We recommend that the Assistant Administrator for Administration and Resources Management:

1. Conduct an assessment and determine how to enhance controls, reduce confusion and achieve compliance.
2. Determine whether adding language about cardholder and approving official responsibilities to performance standards would be beneficial and improve compliance.
3. Implement preventive controls that would stop transactions that do not have required approvals or funding.
4. Fully implement and increase the use of detective controls, such as regular transaction reviews for purchase card and convenience check compliance.
5. Issue guidance regarding penalties for noncompliance and the process for suspending cardholder privileges due to noncompliance.
6. Revise guidance for strategic and mandatory sources to provide a simple road map for programs, cardholders and approving officials.
7. Enforce the requirement for convenience check account holders and their approving officials to be involved in convenience check transactions from the beginning of the order process.
8. Provide detailed training on EPA purchase card guidance, policy and expectations to cardholders and approving officials.
9. Take steps to rectify purchases made without prior funding approval.
10. Implement a policy regarding the appropriate number and categories of purchase cardholders.

We recommend that the Deputy Administrator:

11. Issue an agencywide memorandum to emphasize compliance with federal and EPA requirements for purchase card and convenience check transactions.

Agency Comments and OIG Evaluation

In its response to our draft report, the EPA concurred with all 11 recommendations and provided acceptable high-level corrective actions with estimated completion dates.

In response to Recommendation 1, which recommended that the EPA conduct an assessment and determine how to enhance controls, the Office of Administration and Resources Management will establish a work group to conduct an assessment and brainstorm how to enhance controls, reduce confusion and achieve compliance. Within the same timeframe, the EPA will issue a memorandum to resource officials requiring them to enhance controls and achieve compliance. The agency's response meets the intent of Recommendation 1.

For Recommendation 2, we recommended that the EPA determine whether it would be beneficial to add language about cardholder and approving official responsibilities to performance standards. The EPA referred to existing *EPA Acquisition Guide* language to include purchase card responsibilities in performance appraisals. The EPA stated that within 30 days of the response, the agency's purchase card team will issue a reminder E-Blast notice regarding the existing *EPA Acquisition Guide* language. The agency's response meets the intent of Recommendation 2.

In response to Recommendation 3, which recommended that the EPA implement preventive controls, the EPA stated that the agency will address corrective actions through the work group formed in response to Recommendation 1. With the Office of Administration and Resources Management's work group assessment, and the implementation of preventive controls that will stop transactions from occurring without required approvals or funding, the planned corrective actions meet the intent of the Recommendation 3.

For Recommendations 1, 2 and 3, the EPA provided an estimated completion date of October 5, 2018.

In response to Recommendation 4, which recommended that the EPA implement detective controls, the agency stated that the Office of Acquisition Management will increase transaction reviews for purchase card and convenience check compliance. Also, the Office of Acquisition Management is hiring additional staff and will be able to increase review frequency. The agency's response meets the intent of Recommendation 4. The EPA provided an estimated completion date of September 30, 2018.

For Recommendation 5, we recommended that the EPA issue guidance regarding penalties for noncompliance. The EPA referred to guidance related to cardholder noncompliance and abuse, and stated that the Office of Administration and Resources Management will explore revisions to the *EPA Acquisition Guide* for

additional actions that could be taken against noncompliant cardholders and approving officials. The Office of Administration and Resources Management committed in a separate email response to include the additional actions in the *EPA Acquisition Guide*. The agency's response meets the intent of Recommendation 5. The EPA provided an estimated completion date of October 5, 2018.

Recommendation 6 involved a request for the EPA to revise its guidance for strategic and mandatory sources. The EPA responded that it issued reminders about strategic sourcing on January 11 and April 11, 2018. Also, the EPA referred to recent *EPA Acquisition Guide* changes regarding strategic sources, and stated that the Office of Administration and Resources Management will add information on "Priorities for Use of Mandatory Government Sources and Use of Other Mandatory Sources" to training and guidance materials. The agency's response meets the intent of Recommendation 6. The EPA provided an estimated completion date of December 31, 2018.

For Recommendation 7, we recommended that the EPA enforce the requirement that convenience check account holders and approving officials be involved from the beginning of the order process. The EPA responded that the purchase card team will send out an E-Blast notice and revise the supplemental training to include a dedicated segment for convenience check requirements and internal controls. All cardholders, convenience check writers and approving officials will be required to complete the training in the 1st quarter of FY 2019. In conjunction with the Office of Acquisition Management's increased transaction compliance reviews noted in Recommendation 4, we determined that the intent of Recommendation 7 has been met.

Recommendation 8 asked the EPA to provide detailed training on EPA purchase card guidance, policy and expectations to cardholders and approving officials. The purchase card team began to revise the supplemental training to address training issues raised in the report. All cardholders and approving officials will be required to complete the training in the 1st quarter of FY 2019. The agency's response meets the intent of Recommendation 8.

For Recommendations 7 and 8, the EPA provided an estimated completion date of October 5, 2018, for communication; and December 31, 2018, for completion of the training.

In response to Recommendation 9, which recommended that the EPA take steps to rectify purchases made without prior funding approval, the EPA agreed to investigate transactions with funds availability issues and take appropriate actions. The agency's response meets the intent of Recommendation 9.

For Recommendation 10, we asked the EPA to implement a policy for the appropriate number and categories of purchase cardholders. The EPA agreed to analyze the number of cardholders to determine the appropriateness for the number

of transactions in each office. The Office of Administration and Resources Management committed to implement a policy or guidance. The agency's response meets the intent of Recommendation 10.

For Recommendations 9 and 10, the EPA provided an estimated completion date of December 31, 2018.

Recommendation 11 involved a request for the EPA to issue an agencywide memorandum to emphasize compliance. The EPA stated that the Deputy Administrator will issue a memorandum to senior leaders to emphasize compliance with federal and EPA requirements for purchase card and convenience check transactions. The agency's response meets the intent of Recommendation 11. The EPA provided an anticipated completion date of September 30, 2018.

Status of Recommendations and Potential Monetary Benefits

RECOMMENDATIONS

Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date	Potential Monetary Benefits (in \$000s)
1	10	Conduct an assessment and determine how to enhance controls, reduce confusion and achieve compliance.	R	Assistant Administrator for Administration and Resources Management	10/5/18	
2	10	Determine whether adding language about cardholder and approving official responsibilities to performance standards would be beneficial and improve compliance.	R	Assistant Administrator for Administration and Resources Management	10/5/18	
3	10	Implement preventive controls that would stop transactions that do not have required approvals or funding.	R	Assistant Administrator for Administration and Resources Management	10/5/18	
4	10	Fully implement and increase the use of detective controls, such as regular transaction reviews for purchase card and convenience check compliance.	R	Assistant Administrator for Administration and Resources Management	9/30/18	
5	10	Issue guidance regarding penalties for noncompliance and the process for suspending cardholder privileges due to noncompliance.	R	Assistant Administrator for Administration and Resources Management	10/5/18	
6	10	Revise guidance for strategic and mandatory sources to provide a simple road map for programs, cardholders and approving officials.	R	Assistant Administrator for Administration and Resources Management	12/31/18	
7	10	Enforce the requirement for convenience check account holders and their approving officials to be involved in convenience check transactions from the beginning of the order process.	R	Assistant Administrator for Administration and Resources Management	12/31/18	
8	10	Provide detailed training on EPA purchase card guidance, policy and expectations to cardholders and approving officials.	R	Assistant Administrator for Administration and Resources Management	12/31/18	
9	10	Take steps to rectify purchases made without prior funding approval.	R	Assistant Administrator for Administration and Resources Management	12/31/18	
10	10	Implement a policy regarding the appropriate number and categories of purchase cardholders.	R	Assistant Administrator for Administration and Resources Management	12/31/18	
11	10	Issue an agencywide memorandum to emphasize compliance with federal and EPA requirements for purchase card and convenience check transactions.	R	Deputy Administrator	9/30/18	\$152*

* The potential monetary benefits amount represents the amount of improper purchases we found extrapolated for 2 years.

¹ C = Corrective action completed.

R = Recommendation resolved with corrective action pending.

U = Recommendation unresolved with resolution efforts in progress.

Agency Response to Draft Report

JUL 13 - 2018

MEMORANDUM

SUBJECT: Revision to Agency Response to Office of Inspector General Draft Report No. OA-FY18-0045 “EPA Needs to Improve Oversight of Its Purchase Card and Convenience Check Program,” dated June 5, 2018

FROM: Donna J. Vizian, Principal Deputy Assistant Administrator

TO: Michael Petscavage, Director
Contract and Assistance Agreement Directorate
Office of Audit and Evaluation

Thank you for the opportunity to respond to the issues and recommendations in the subject audit report. For those report recommendations which the agency agrees, we have provided high-level intended corrective actions and estimated completion dates. For those report recommendations which the agency does not agree, we have explained our position and/or proposed alternatives to recommendations. For recommendation 11, the Deputy Administrator will issue a memo to agency senior leaders emphasizing compliance with federal and EPA requirements for purchase card and convenience check transactions.

If you have any questions for the Office of Administration and Resources Management regarding this response, please contact Celia M. Vaughn, Chief of Staff, Office of Acquisition Management, at (202) 564-1047.

Attachment

cc: John Showman

Kimberly Patrick

Pam Legare

Celia Vaughn

Raoul D. Scott, Jr.

Michael Petscavage

Eileen Collins

Madeline Mullen

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AGENCY'S RESPONSE TO REPORT RECOMMENDATIONS

No.	Recommendation	Assigned to:	High-Level Intended Corrective Actions	Estimated Completion by Quarter and FY
1	Conduct an assessment and determine how to enhance controls, reduce confusion and achieve compliance.	OARM	OARM/OAM concurs with the recommendation. Within the next 90 days from this response, OARM will establish a work group consisting of representatives from the OAM/Purchase Card Team, Card Holders, and Approving Officials to conduct an assessment on the information from this audit and brainstorm how to enhance controls, reduce confusion, and achieve compliance with existing federal and agency purchase card regulations and guidance documents. Within the same time period, and using the results from the work group, OARM will issue a formal memorandum to the Senior Resource Officials (SROs) and Junior Resource Officials (JROs) requiring them to enhance more control, reduce confusion, and achieve compliance. As the controls are in place, it is the responsibility of the Cardholder (CH) to carry them out along with the Approving Official (AO).	October 5, 2018
2	Determine whether adding language about cardholder and approving official responsibilities to	OARM	OARM/OAM concurs with the recommendation and OAM has already taken action. OAM has performed an assessment of whether or	October 5, 2018 for the communication

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	performance standards would be beneficial and improve compliance.		not adding language related to card holder and approving official responsibilities to their performance standards would be beneficial and improve compliance. As a result, EPAAG 13.3.1.6 (e)(6)(ii), states that “OAM strongly recommends that CHs have an element in their performance appraisals covering their purchase card responsibilities so they can be evaluated on their performance in using the card”. However, to further emphasize the point, within 30 days of this response, OAM’s Purchase Card Team (PCT) will issue a reminder E-Blast Notice to the SROs, the JROs, and AOs regarding the existing EPAAG recommendation. We will suggest some elements cardholder supervisors may include in a cardholder’s performance standards for the upcoming fiscal year.	
3	Implement preventive controls that would stop transactions that do not have required approvals or funding.	OARM	This issue will be addressed in the response to recommendation #1 above within 90 days of this response	October 5, 2018
4	Fully implement and increase the use of detective controls, such as regular transaction reviews for purchase card	OARM	OARM concurs with the recommendations. OAM will increase the conduct of transaction reviews for purchase card and convenience check	September 30, 2018

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	and convenience check compliance.		compliance. Also, OAM is currently in the process of hiring additional support/ resources for various functions including the Purchase Card Program. Once the new hires are on board and have been trained, OARM will be able to further increase transaction review frequency.	
5	Issue guidance regarding penalties for noncompliance and the process for suspending cardholder privileges due to noncompliance.	OARM	OARM concurs with the recommendation and already has guidance that addresses the penalties for noncompliance in EPAAG 13.3.1.17 (a)(1), (2), (3), & (4). These four paragraphs are very specific as to the potential actions that can be taken against the card holder for noncompliance and abuse. In addition, OARM has already included in the revised Purchase Card Supplemental Training information regarding penalties for noncompliance and the process for suspension of card holder privileges due to noncompliance. To bring additional awareness of this issue to the purchase card community, OARM will explore revision(s) to the language in EPAAG to address and will include potential additional actions that could be taken against a card holder or approving official for noncompliance and/or abuse.	October 5, 2018

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6	Revise guidance for strategic and mandatory sources to provide a simple road map for programs, cardholders and approving officials.	OARM	OARM/OAM concurs with the recommendation. On January 11, 2018, OAM sent out a Purchase Card Program reminder that cardholders are required to consider the available EPA-mandated strategic sourcing contracts prior to using vendors such as AMAZON, and that waiver submission is required if a cardholder believes that another source is in the best interest of EPA. Again, on April 11, 2018, OAM issued an E-Blast Notice to the purchase card community to remind them of the same. In addition, the E-Blast provided clear instructions regarding waiver requests which are submitted to the Business Analysis and Strategic Sourcing Branch for approval or disapproval. Most recently, on May 24, 2018, OARM released EPAAG Change Notice No. 18-03 announcing revision to EPAAG Subsection 8.0.100 Mandatory Requirements for Use of Common Contract Solutions Agency policy regarding the required use of Common Contract Solutions, formerly titled “Requirements for Use of Strategic Sourced Solutions”. These changes were made to make it easier to comply	

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			with the policy and clarify the procedures. OARM/OAM will also add information on Priorities for Use of Mandatory Government Sources and Use of Other Mandatory Sources to training and guidance materials.	December 31, 2018
7	Enforce the requirement for convenience check account holders and their approving officials to be involved in convenience check transactions from the beginning of the order process.	OARM	OARM/OAM concurs with the recommendation. The PCT will prepare and send out an E-Blast Notice to the purchase card community informing check writers and approving officials that in order for a convenience check to be used, they must be involved at the beginning/planning phase of the ordering process and not at the end. To address the concerns raised in the audit and achieve compliance with internal controls, the revised Purchase Card Supplemental Training Course will include a dedicated instructional segment that emphasizes convenience check writing requirements and internal controls. Also, OAM discussed this finding during the OAM Leadership meeting in April 2018 for the managers to remind cardholders who are on their staff about this requirement. OAM will require ALL Cardholders/convenience	October 5, 2018 for the communication

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			check account holders and Approving Officials to complete the updated Purchase Card Supplemental Course in FY-2019, 1st quarter.	December 31, 2018 (for CH & AO to complete the training)
8	Provide detailed training on EPA purchase card guidance, policy and expectations to cardholders and approving officials.	OARM	OARM/OAM concurs with the recommendation. As a result of this draft audit, the OARM has proactively started revising the Purchase Card Supplemental Training Course to address training issues raised in the report. OAM expects to finalize this training by August 2018. The training course will be available on the EPA Skillport site. This training will also be available live as part of the OAM Acquisition Workforce Training Plan and Course Catalog. OAM will also require all Cardholders and Approving Officials to complete the updated Purchase Card Supplemental Course in FY-2019, 1st quarter.	October 5, 2018 December 31, 2018 (for CH & AO to complete the training)
9	Take steps to rectify purchases made without prior funding approval.	OARM	OARM/OAM concurs with the recommendation. For the thirteen (13) incidents of purchase card and three (3) incidents of convenience check internal control lapses, OAM would need to identify the exact transactions, and further investigate the facts and circumstances of the purchases (e.g., whether or	

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			not funds were in fact available or whether vendors were paid) in order to take appropriate action. EPAAG 13.3.1.15 Financial Issues Related to Purchase Card, item (a) states that the before placing orders, cardholders must coordinate with their Funds Control Officer (FCO) to ensure funds are available. EPAAG 13.3.1.6 (d) states that FCOs are to certify to the availability of funds, ensure that the financial transaction complies with agency financial policy and procedures, and that all of the accounting data is accurate and complete. However, it also states that the method for funding purchase card orders will vary according to established office procedures, and that any method is acceptable as long as the cardholder ensures funds are available before making a purchase. OAM agrees to conduct fact-finding and investigation on the transactions cited with funds availability verification issues and take the appropriate action(s) deemed necessary.	December 31, 2018
10	Implement a policy regarding the	OARM	OARM/OAM concurs with this recommendation and will analyze the number of	December 31, 2018

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	appropriate number and categories of purchase cardholders.		cardholders per program office to determine if it is appropriate and in proportion to the recorded number of purchase card transactions for that office, and will implement a policy or guidance.	
11	Issue an agencywide memorandum to emphasize compliance with federal and EPA requirements for purchase card and convenience check transactions.	OA, Deputy Administrator	The Deputy Administrator will issue a memo to agency senior leaders emphasizing compliance with federal and EPA requirements for purchase card and convenience check transactions.	September 30, 2018

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