



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL



Financial Management

Risk for EPA's Fiscal Year 2016 Purchase Card and Convenience Check Program Warrants an Audit

Report No. 17-P-0113

February 14, 2017



Report Contributors:

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Abbreviations

EPA	U.S. Environmental Protection Agency
FY	Fiscal Year
OIG	Office of Inspector General
OMB	Office of Management and Budget
PNET	PaymentNet®

Cover photo: A sample government purchase card. (U.S. General Services Administration)

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At a Glance

Why We Did This Review

The Government Charge Card Abuse Prevention Act of 2012 requires the Inspector General of each executive agency to conduct periodic assessments of its agency's purchase card and convenience check program. The assessments are conducted to identify and analyze risks of illegal, improper or erroneous purchases and payments. The assessments are used to determine the scope, frequency and number of audits of purchase card or convenience check transactions. The Office of Management and Budget Memorandum M-13-21 later clarified "periodic" to be at least annually.

Our objective was to assess the risk of illegal, improper and erroneous purchases made through the U.S. Environmental Protection Agency's (EPA's) purchase card and convenience check program and determine the nature, timing and extent of testing necessary.

This report addresses the following EPA goal or cross-agency strategy:

- *Embracing EPA as a high-performing organization.*

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Risk for EPA's Fiscal Year 2016 Purchase Card and Convenience Check Program Warrants an Audit

What We Found

We assessed that the risk for the EPA's purchase card and convenience check program is high enough to warrant an audit because of noncompliance with existing controls. Our risk assessment noted the following concerns:

Our assessment determined that the EPA's purchase card and convenience check program risk is high enough to warrant an audit.

- None of the 18 transactions reviewed complied with all 14 internal controls tested.
- Two of the 18 transactions, totaling \$14,985, were for fitness memberships improperly paid for in advance.
- The agency blocked high-risk Merchant Category Codes that would cause the transactions to be declined, but this internal control did not work.
- The Office of Acquisition Management did not document regular reviews of individual card holder transaction reports.
- Other instances of noncompliance, which did not affect the risk of illegal, improper and erroneous purchases but are nonetheless being reported, include the following:
 - The EPA did not review all rebate information for accuracy.
 - Rebates received by the agency were returned to the originating office from which funds were spent but not necessarily the original appropriation.
 - The agency did not have a specific policy regarding the number of purchase cards.

On November 17, 2016, the EPA sent out an email reminder to agency card holders and approving officials on recordkeeping requirements, which systems to use, and when the information is to be entered or uploaded to those systems. The email also reminded card holders of the requirement for timely cost allocation.

Because we conducted a risk assessment, we do not have recommendations. Since we found noncompliance with internal controls, a full audit will be conducted for fiscal year 2017 in lieu of a risk assessment.



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

THE INSPECTOR GENERAL

February 14, 2017

MEMORANDUM

SUBJECT: Risk for EPA's Fiscal Year 2016 Purchase Card and Convenience Check Program
Warrants an Audit
Report No. 17-P-0113

FROM: Arthur A. Elkins Jr.

A handwritten signature in black ink, appearing to read "Arthur A. Elkins Jr.", is written over the printed name.

TO: Donna Vizian, Acting Assistant Administrator
Office of Administration and Resources Management

David Bloom, Acting Chief Financial Officer
Office of the Chief Financial Officer

This is our report on the subject risk assessment conducted by the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA). The project number for this risk assessment was OA-FY16-0229. This report represents the opinion of the OIG and does not necessarily represent the final EPA position.

Because this report contains no recommendations, you are not required to respond to this report. However, if you submit a response, it will be posted on the OIG's public 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

The Office of Inspector General (OIG) conducted a fiscal year (FY) 2016 risk assessment of the U.S. Environmental Protection Agency's (EPA's) purchase card and convenience check program, as required by the Government Charge Card Abuse Prevention Act of 2012 and Office of Management and Budget (OMB) Memorandum M-13-21. Our objective was to assess the risk of illegal, improper and erroneous purchases made through the agency's purchase card and convenience check program and determine the nature, timing and extent of testing necessary.

Background

The Government Charge Card Abuse Prevention Act of 2012, enacted October 5, 2012, requires the Inspector General of each executive agency to conduct periodic assessments of its agency's purchase card or convenience check programs. The assessments are conducted to identify and analyze risks of illegal, improper or erroneous purchases and payments. The assessments are used to determine the scope, frequency and number of audits of purchase card or convenience check transactions. OMB M-13-21, issued September 6, 2013, clarified "periodic" to be annually, at a minimum.

According to EPA reports, for the first 9 months of FY 2016, the EPA had a total of 38,928 purchase card and convenience transactions totaling \$19,048,218.

The EPA OIG has issued several reports on purchase cards and convenience checks:

- On March 4, 2014, the EPA OIG issued a report, *Ineffective Oversight of Purchase Cards Results in Inappropriate Purchases at EPA*, Report No. [14-P-0128](#). The report found that the EPA did not provide effective oversight to ensure that purchase card holders and approving officials comply with internal control procedures. Of \$152,602 in sampled transactions, \$79,254 was for prohibited, improper and erroneous purchases. The OIG made seven recommendations, involving regular transaction reviews, training, agencywide standard operating procedures, and revisions to the Contracts Management Manual. The EPA reported that all corrective actions were completed.
- On March 29, 2016, the EPA OIG issued a report, *EPA's Fiscal Year 2015 Purchase Card and Convenience Check Program Assessed as Low Risk*, Report No. [16-P-0124](#), assessing the risk as low. This was based on the EPA's recently strengthened internal controls. The OIG made no recommendations.

Responsible Offices

The Office of Acquisition Management, within the EPA's Office of Administration and Resources Management, is responsible for implementing and overseeing the EPA's purchase card and convenience check program. The EPA's Office of the Chief Financial Officer is responsible for the distribution of bank rebates, and provides support for financial aspects of the program.

Scope and Methodology

We conducted this risk assessment from July through November 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the work 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.

To assess the risk for the EPA's purchase card and convenience check program, we performed the following:

- Reviewed applicable laws and EPA purchase card policies and procedures.
- Followed up on the March 2014 EPA OIG audit recommendations for EPA purchase cards.
- Judgmentally selected 18 transactions, totaling \$48,345, and obtained documentation from PaymentNet® (PNET), the vendor bank's system, and the EPA's Acquisition System. We tested the effectiveness of 14 internal controls of *EPA's Acquisition Guide* and *EPA's Agency-wide Purchase Card Standard Operating Procedures, PNET Purchase Card Automation Process*. We conducted follow-up with the Office of Acquisition Management for missing documentation. We selected three transactions from each of the following transaction groups:
 - At large, based upon review of vendor names.
 - Blocked Merchant Category Codes.¹
 - Restricted transactions (based upon vendor name).
 - Transactions \$3,500 or above.
 - Third-party processors.
 - Convenience checks.

¹ Merchant Category Codes are the four-digit codes used to identify types of business a merchant conducts (such as gas stations, restaurants, airlines). The EPA blocked certain codes to prevent transactions considered to be high risk.

- Interviewed EPA staff and management involved with purchase card oversight, as well as those involved with purchase card rebates.

Results of Risk Assessment

We assessed that the risk of illegal, improper and erroneous purchases for the EPA's purchase card and convenience check program is high enough to warrant an audit because of noncompliance with existing internal controls. OMB Circular A-123, Appendix B, prescribes policies and procedures to maintain internal controls to reduce the risk of fraud, waste and error in the government charge card program.

Tested Transactions Did Not Comply With Internal Controls

As a result of the transaction testing, we found that none of the 18 transactions complied with all tested internal controls. For example, one transaction did not comply, or compliance could not be verified, with the following tested internal controls:

- Approving official did not give prior approval as required.
- Records were not placed in PNET as required.
- An acquisition professional card holder was not used for a restricted transaction as required.
- Cost was not allocated within 10 days of receipt as required.
- The transaction was not reviewed by the card holder within 10 days of posting as required.

Two of the 18 transactions tested, totaling \$14,985, were advance payments for fitness memberships.² Comptroller General Decision B-288013, dated December 11, 2001, notes advance payment of fitness memberships prior to the employees' use of the facilities, when the government could have requested monthly invoices, violates the advance payment provisions of 31 United States Code, Section 3324.

Three of the 18 transactions tested were to vendors whose Merchant Category Codes were blocked by the EPA. The EPA blocked certain Merchant Category Codes to prevent transactions considered to be high risk, as those transactions require closer scrutiny. To complete the purchase, card holders must submit supporting documentation for review and override. According to the card holders involved, only one of the three tested transactions was declined by the bank as intended and, subsequently, required the card holder to request an override from

² Comptroller General Decision B-240371, dated January 18, 1991, states that appropriated funds can be used to establish health fitness programs, but the purchase of fitness club memberships for the use of employees on a continuing basis should be undertaken only when all other resources have been considered and rejected, and when employee use of the program will be carefully monitored as part of a bona fide preventive program related to health.

the EPA Office of Acquisition Management. As a result, we concluded that the internal control of blocking Merchant Category Codes does not work.

Review of Card Holder Transaction Reports Not Documented

The EPA Acquisition Guide states that the Purchase Card Team regularly reviews individual card holder transaction reports. A Purchase Card Team member explained, that on a weekly basis, she reviews individual card holder transactions when she receives notices of lapsed training or when card holders call with questions. She will tell the card holders when documents are missing, but these reviews are not documented.

Other Noncompliance

We noted other instances of noncompliance that did not affect the risk of illegal, improper and erroneous purchases, but we are nonetheless reporting them.

Not All Rebate Information Is Reviewed for Accuracy

The Government Charge Card Abuse Prevention Act of 2012 requires safeguards and internal controls for the management of purchase cards. One of these required safeguards/internal controls pertains to rebates and refunds. The act requires that rebates and refunds based on prompt payment, sales volume or other actions be reviewed for accuracy and properly recorded as a receipt to the EPA. We found the agency was not reviewing all of the rebate information for accuracy. Specifically, the agency was not reviewing the sales volume amount, sales refund rate, and productivity refund rebate adjustment percentage to determine whether the numbers used by the bank in determining the refund amounts were accurate.

Rebates Are Returned to Offices, Not Necessarily to Appropriations

The Treasury Financial Manual, Section 4530, Agency Refunds, states refunds must be returned to the appropriation or account from which the purchase was made that generated the refund (unless statutory authority allows refunds to be used for other purposes). The EPA did return rebates to the responsible planning implementation office from which the transactions were paid. The responsible planning implementation offices decide, at least annually, which appropriations they want rebates to be returned to—not necessarily to the original appropriation. The EPA's rebate process does not include a step to assure that rebates are returned to original appropriations as required.

Agency Did Not Have a Policy Regarding Number of Purchase Cards

The Government Charge Card Abuse Prevention Act of 2012 requires agencies to have specific policies regarding the number of purchase cards issued by various components; and categories of component organization, credit limits of various

categories of card holders, and categories of employees eligible to be issued purchase cards. The EPA did not have a specific policy. The EPA has a moratorium on the issuance of new purchase card and convenience check accounts, with some exceptions. According to the EPA, new account requests are reviewed to determine that new account is justified and mission critical.

Action Taken by the Agency

On November 15, 2016, we informed the agency of noncompliance with the tested internal controls. On November 17, 2016, the agency reminded card holders and approving officials in an email of the recordkeeping requirements, including timeframes for updating information and uploading documentation into PNET or the EPA Acquisition System. In addition, the email reminded card holders of the requirement for timely cost allocation.

Conclusion

In accordance with the requirements of the Government Charge Card Abuse Prevention Act of 2012, we determined that the EPA's compliance with internal controls was lacking. As a result, we plan to conduct an audit of the purchase card and convenience check program for FY 2017.

Distribution

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