



Pension Benefit Guaranty Corporation

*Office of Inspector General*

Evaluation Report

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**Controls Related  
to the  
Purchase Card Program**

***June 7, 2005***

2005-14/PA0007



# Pension Benefit Guaranty Corporation

Office of Inspector General

1200 K Street, N.W., Washington, D.C. 20005-4026

June 7, 2005

TO: Robert Herting  
Director, Procurement Department

From: Luther Atkins *Luther L Atkins*  
Assistant Inspector General for Audits

Re: Final Evaluation Report – Purchase Card Program

The Office of Inspector General (OIG) conducted a preliminary evaluation of PBGC's purchase card program. The purpose of our evaluation was to gather enough information to gain an understanding of the program, its processes and controls in place to reduce the risk of fraud, abuse, or misuse. With the increased attention being paid to this type of program within government, we consider purchase cards to be a high-risk area within PBGC, not due to the materiality of dollars involved but because of its potential for fraud or abuse, high-profile public interest, and increased congressional scrutiny.

To further highlight the latter, legislation has been introduced in Congress, the "Purchase Card Waste Elimination Act of 2005". This legislation calls for the Office of Management and Budget (OMB) to direct agencies to better train their cardholders and more effectively analyze their spending data. Both of these areas were covered in this our review and the results are presented in the attached report.

This report was provided to PBGC Management for comments. PBGC agreed with the findings and recommendations. A copy of their comments is under Agency Comments.

We want to thank you and your staff for their cooperation and assistance provided to the OIG staff during the conduct of this evaluation.

**CONTROLS RELATED TO THE PURCHASE CARD PROGRAM**

**REPORT 2005-14/PA-0007**

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## **INTRODUCTION**

As a follow-up to the Management Advisory Letter issued in August 2001, the Office of Inspector General (OIG) conducted a preliminary review (survey) of the Pension Benefit Guaranty Corporation (PBGC) purchase card program. This review was performed using a risk-based approach to evaluate the controls related to the purchase card program. The program is a high-risk program not due to its materiality in dollars, but in its potential for fraud or abuse, high-profile public interest, and heightened congressional scrutiny.

PBGC uses the Government's International Merchant Purchase Authorization Card (I.M.P.A.C., hereafter the "Card") for various purchases, including micro-purchases. A micro-purchase is the acquisition of supplies or services that do not exceed \$2,500 and do not require specific contract clauses, provisions, or representations. PBGC contracted on September 22, 1998 with US Bank (Bank) for agency Cards. For the twelve month period reviewed, there were 53 cardholders with a combined authority to purchase about \$15 million of goods and services. Actual card expenditures for this period were about \$2.2 million. Only 12 of the 53 Cardholders have single purchase authority above \$2,500.

In 2001 we reported there were 38 cardholders with a combined authority of \$7.5 million and actual expenditures of about \$1.14 million.

## **RESULTS IN BRIEF**

The controls established for the Card are important to prevent unauthorized use, excessive purchases, and potential fraud. When PBGC does not document exceptions to the controls, it is vulnerable to misuse and abuse of the Card and to financial liability.

From our review, we identified areas for improvement in PBGC's management of the purchase card program and employee's use of the Card that we summarized in two main categories as follows:

- Oversight of the program at all levels of participation to better monitor departments' expenditures and maintain documentation; and
- Training for individuals in the use and the approval of purchase card transactions.

Because the purchase card program has grown since its inception, we recommend that PBGC reassess the policies and procedures governing card use and strengthen its training and oversight related to the program to reduce the risk of fraud or misuse.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

We reviewed the purchase card program and use of the Card to provide PBGC management with information concerning the effectiveness and efficiency of the operational system of controls. Specifically, our objectives were to:

- Determine if the program controls were in place and operating as intended; and
- Determine if additional audit work is needed to provide PBGC management with a more detailed report related to any identified irregularities or weaknesses in the program's controls.

To obtain an updated understanding of the process since the OIG review performed in 2001, the OIG obtained and analyzed 12 months, September 2003 to August 2004, of transactions (3,701 with total expenditures of \$2,178,518.92) from the Bank. Based on the results of that analysis:

- We reviewed any identified anomalies or significant transactions;
- We selected 3 departments based on the high dollar amount and transaction activity (\$998,115.65 or 46% of total for period) for which we reviewed the actual invoices, Bank statements, and supporting documentation for the use in payment of transactions;
- We interviewed three Approving Officials and five of the Cardholders from the above departments who had the highest dollar amount and/or activity, walking through their understanding of program controls and Card use; and
- We reviewed the Procurement Department's documentation supporting the program.

We conducted our evaluation in accordance with the *Quality Standards for Inspections* January 2005 by the President's Council on Integrity and Efficiency Executive Council on Integrity and Efficiency.

#### **PURCHASE CARD PROGRAM OVERVIEW**

The Procurement Department (PD) has oversight responsibility of the purchase card program including:

- Establishing policy for Card use;
- Approving department directors' requests for Cardholders;
- Acting as PBGC's official liaison with the Bank;
- Providing written delegation to Cardholders and Approving Officials; and
- Approving changes to the Card's limitations for a particular Cardholder.

PD has a program coordinator<sup>1</sup> who is PBGC's contact with the Bank. Under the program, department directors or their delegated designees contact PD with the names of Cardholders and Approving Officials and their purchase and approval limits. PD submits to the Bank the paperwork setting single purchase limits, 30-day spending limits and acceptable merchant codes.<sup>2</sup> The Bank issues a Card in the PBGC employee's name. PD provides training to Cardholders prior to the release of the Card and provides a documented delegation of authority setting Cardholder and Approving Official spending and transaction limits.

The Bank sends a monthly invoice to the designated billing office in the Financial Operations Department (FOD), the responsible Cardholder and Approving Official. The Cardholder's invoice lists each purchase, amount, date charged, merchant's name and address, and the Approving Official. The Cardholder reviews the invoice, matches purchases to their

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<sup>1</sup> Program coordinator is defined by contract as the individual that may be designated by the ordering agency/organization to perform task order contract administration within the limits of delegated authority.

<sup>2</sup> Merchant codes are contractor-assigned categorization of business types. They are used as a control to identify the types of businesses who provide goods and/or services that employees are authorized to purchase with the Card. Cardholders are blocked from using cards at business types that are not authorized (e.g., medical facilities or airports).

documentation, and assigns a code to each purchase that directs FOD to the correct departmental obligation. The Cardholder signs the invoice and forwards it with the supporting documentation to the Approving Official, who reviews, approves with a signature, and transmits the approved invoice to FOD for payment.

### **PROGRAM CONTROLS AND OIG FINDINGS**

Implementation of the purchase card program has allowed PBGC to replace much of the purchase order process, thereby reducing PD workload by transferring the procurement of purchases below \$2,500 and some above \$2,500 to the various departments. This results in a transaction cost savings and a less costly payment process for PBGC.

All studies completed to date show that using the Card instead of the purchase order process results in savings. However, without the implementation and operation of proper controls the program is subject to inefficiencies that increase the risk of waste and fraud.

Part 13 of the Federal Acquisition Regulations (FAR) encourages agency heads to delegate purchase card authority. FAR further states that an agency "shall develop procedures for use and control of the Card" (FAR § 13.301(b)). Though the Card could be used for a variety of purchase categories, the majority of PBGC purchases are in the micro-purchase range. In addition to the government-wide regulations in the FAR, two documents control PBGC employees' Card use:

- "Pension Benefit Guaranty Corporation Policy for Use of the Government's I.M.P.A.C. Purchase Card" that describes the authority, purpose, and the specific responsibilities covered under the program; and
- "Government Commercial Purchase Card Service Guidelines/Procedures" that covers implementation of the Policy.

PBGC has implemented a system of controls to promote the effective and efficient use of purchase cards while also identifying responsibilities for training and oversight to better comply with the implemented controls. However, weaknesses in the control structure were found and for the purposes of this report we have categorized the exceptions into two major areas: oversight and training.

#### **Oversight**

PBGC has defined controls for the request, approval, issuance, and use of the Card. A summary of such controls are as follows:

- Cards are issued by PD to PBGC employees specifically designated by their department to exercise purchasing authority through the use of the Card;
- Specific limits on the Cards are requested by the departments and must be approved by PD prior to Card issuance;
- Policy dictates that the Contracting Officer issue a memo with the level of procurement the individual is authorized to procure or approve;
- The Card is inscribed with the name of the employee and is to be used only by that employee for official purchases in compliance with PBGC policy, guidelines, and the GSA government Commercial Credit Card Services contract;

- Each Cardholder has an Approving Official, appointed by PD, who monitors the activities of the Cardholder and is required to review and approve each transaction on the monthly billing statement; and
- Oversight of the program is being handled by a PD program coordinator.

We found the purchase card program oversight provided by PBGC to be insufficient and not appropriately effective. PD is responsible for the oversight of the program and to make sure controls are in place to promote the proper use and approval for Card purchases. Examples of our findings are as follows:

- Letters of appointment were not issued to some replacement Approving Officials;
- Program coordinator reassigned Approving Officials and changed spending limits without documented approval of the Contracting Officer;
- Documentation in PD was inconsistent. Most changes and cancellations in our sample had some documentation while the remainder had none;
- Excessive single purchase limits (SPL) and monthly limits did not correspond with actual expenditures:
  - One Department had five cardholders with SPL ranging from \$20,000 to \$50,000 even though only a few transactions were above the \$2,500 threshold;
  - One Cardholder had a SPL of \$50,000, a monthly limit of \$275,000, and an annual limit of \$3,300,000, yet actual expenditures for our review period totaled about \$281,000 with no single purchase above \$7,572;
  - One Department had four Cardholders with one having only ten transactions during our review period; and
  - One Department Cardholder had an authorized monthly spending limit of \$100,000, annually \$1,200,000 but during our review period had three transactions totaling \$711.52.
- Invoices were signed by cardholders and approved by individuals without authority:
  - One approving official was transferred to another Department in PBGC. Another individual signed the invoices for a year before signature authority was transferred; and
  - Though our review identified 53 Cardholders, there were really only 52. A Cardholder who had left PBGC in June 2003 did not have the Card cancelled until January 2004. For seven months the Card continued to be billed for valid pager payments, invoices signed by another Cardholder, and authorized for payment by the Approving Official; and
- PD has no effective way to determine when an Approving Official or Cardholder has left PBGC or transferred to another position.

### **Training**

During our review we noted that some of the Cardholders interviewed indicated that their last training related to Card use or responsibilities was conducted in 1989 when they were issued their Card. The most recent Cardholders identified training that consisted of a 30 – 45 minute discussion with the program coordinator and the receipt of an information packet. The packet contains PBGC policy and guidelines and FAR Part 13 on simplified acquisitions, but not FAR Part 8 – Required Sources of Supplies or Services. In general, the FAR in Part 13 makes Part 8 applicable to both micro-purchases and simplified acquisitions (see FAR §§ 13.003 (a)(1) and 13.201(e)). This is also highlighted in PBGC's guidance.

Improvements to strengthen the training related to the purchase card program and the use of the Card need to be implemented. Based on the results of our analysis and interviews we found that Cardholders and Approving Officials did not know the basic controls related to the program and Card use. Examples of deficiencies that can be related to training are as follows:

- Two of three Approving Officials never received training on the requirements related to their approval function;
- Not one Cardholder or Approving Official was aware of the FAR Part 8 requirements, even though it is required in FAR 13 and referenced in PBGC policy. Consequently, we found little use of required sources;
- Splitting of purchases to avoid exceeding single purchase limits was a common occurrence;
- Proper and/or supporting documentation was not retained;
- Requirements for purchases above the micro-purchase limit was not known;
- Approving Officials certified invoices without reviewing supporting documentation;
- Where purchases of computer hardware/software or furniture were found, not one Cardholder had documented authorizations from OIT or FASD;
- Questionable transactions were made due to management direction in lieu of following established requirements; and
- Cardholders were not aware they were legally responsible for purchases.

### **Recommendations**

Some of the examples above are a violation of the FAR, while others are a breakdown of controls. Current PBGC policy and guidance appears to focus on purchases of \$2,500 or less. Guidance for any purchase above this amount does not exist or was not made available to us during this phase of our review. We believe the majority of the above issues would be addressed and minimized going forward if oversight and training related to the purchase card program were enhanced and strengthened. As reported in the OIG Report issued in August 2001, PBGC needs to exercise its oversight responsibility and communicate more effectively with the Cardholders, Authorizers, Department Directors, and their designees.

We recommend PBGC consider the following improvements to its existing system of controls to reduce the risk of waste and fraud with this program.

- Improve the training program to address all management personnel, including Department Directors, in addition to Approving Officials and Cardholders. (PD-35)
- Develop and implement policy and guidance for 1) purchases above the \$2,500 micro-purchase limit, and 2) changes to initial Card issuance, including authority and responsibility to make the changes. (PD-36)
- Establish a process whereby all Cardholders and Approving Officials are reviewed at least annually, verifying such items as spending limits, number of cards assigned and actual card usage. (PD-37)
- Identify, document, and make available the requirements for documentation to support purchases and approvals including retention. (PD-38)

## APPENDIX



Pension Benefit Guaranty Corporation  
1200 K Street, N.W., Washington, D.C. 20005-4026

To: Luther Atkins, Assistant Inspector General For Audit  
Office of Inspector General

MAY 27 2005

From: Robert Herting, Director  
Procurement Department

*Bob Herting*

Subject: OIG Draft Report, dated April 14, 2005, entitled Controls Related to the Purchase Card Program

Thank you for the opportunity to comment on the draft report. Purchase cards are designed to promote efficient use of government resources and we are pleased that your report noted that PBGC has implemented a system of controls to promote the effective and efficient use of purchase cards. We understand that we can further improve our existing controls by implementing the recommendations contained in the report and we will do so. In discussions subsequent to the presentation of the initial draft report, it is our understanding that you agreed to revise and consolidate the recommendations when presented in the final report. Therefore, we have prepared a response for each of the following agreed-upon recommendations:

OIG Recommendation:

Improve the training program to address all management personnel, including Department Directors, in addition to Approving Officials and Cardholders.

Response:

We will work to improve the training program and will target the appropriate audience in presenting the updated training materials. Target date for completion is January 31, 2006.

OIG Recommendation:

Develop and implement policy and guidance for 1) purchases above the \$2,500 micro-purchase limit, and 2) changes to initial Card issuance, including authority and responsibility to make the changes.

Response:

We will update our guidance to better address these considerations. We plan on developing our guidance, obtaining the necessary approvals, and disseminating the guidance by December 31, 2005.

OIG Recommendation:

Establish a process whereby all Cardholders and Approving Officials are reviewed at least annually, verifying such items as spending limits, number of cards assigned and actual card usage.

Response:

We have already implemented procedures to ensure that these considerations are addressed at least annually.

OIG Recommendation:

Identify, document, and make available the requirements for documentation to support purchases and approvals including retention.

Response:

We will update our guidance in this area and will make it available via the corporate intranet. We will study factors relating to the appropriate period of record retention in this area, make a determination regarding the record retention period, and will supplement our guidance to address this area. We plan on completing this effort by October 31, 2005.

Please feel free to call me at ext. 3320 should you have questions regarding this memorandum.