



U.S. Department of Energy
Office of Inspector General
Office of Audits and Inspections

INSPECTION REPORT

Review of Controls Over the Department's
SmartPay2 Purchase Card Program at
Selected Department Sites

DOE/IG-0932

January 2015



Department of Energy
Washington, DC 20585

January 29, 2015

MEMORANDUM FOR DEPUTY UNDER SECRETARY FOR MANAGEMENT AND
PERFORMANCE

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FROM: Rickey R. Hass
Deputy Inspector General
for Audits and Inspections
Office of Inspector General

SUBJECT: INFORMATION: Inspection Report on "Review of Controls Over the
Department's SmartPay2 Purchase Card Program at Selected
Department Sites"

BACKGROUND

The General Services Administration's (GSA) SmartPay2 Program provides purchase cards to Government agencies, including the Department of Energy. The Department, through GSA, has contracted with JPMorgan Chase Bank to provide purchase cards to Federal and contractor personnel to pay for supplies and services. The Office of Acquisition and Project Management is responsible for managing the Department's Purchase Card Program. The Department's Agency Program Coordinator oversees 18 Federal program offices and 16 contractor sites within the Department's Purchase Card Program, with expenditures of approximately \$143 million during fiscal years (FYs) 2011 and 2012. Office of Management and Budget (OMB) Circular A-123, Appendix B, *Improving the Management of Government Charge Card Programs*, requires that the Department establish internal controls to reduce the risk of fraud, waste and error in Government charge card programs.

The *Government Charge Card Abuse Prevention Act of 2012* mandates that agency Inspectors General conduct periodic assessments of their agency's purchase card program to identify and analyze risks of illegal, improper or erroneous purchases and payments. We initiated this inspection to determine whether the Department's internal controls were effective in detecting illegal, improper or erroneous purchases and payments.

RESULTS OF INSPECTION

We determined that the Department's development and implementation of policies and procedures related to the SmartPay2 Program were generally consistent with established guidance. Specifically, we found that the Department's Purchase Card Management Plan for FYs 2011 through 2012 was consistent with prescribed policies and procedures identified in OMB Circular A-123. Beyond basic monitoring requirements, we also noted that the

Department implemented additional data mining capabilities, thereby enhancing its ability to continuously monitor all transactions, a practice that eliminated the need for manual spot checking of credit card transactions during monthly billing cycles.

While the Department's controls over its Purchase Card Program appear to be relatively robust, our testing did reveal several opportunities for improvement. Our examination of a combined statistical and judgmental sample of 356 transactions at 2 selected Department sites revealed a few issues at 1 or both sites in the areas of unauthorized use and prohibited transactions and statement reconciliation (see Attachment 2, Transaction Review Results). Our review of transactions identified:

- Three instances of unauthorized use of the purchase cards by multiple individuals and six prohibited purchases at the National Renewable Energy Laboratory (NREL); and
- No unauthorized transactions or prohibited transactions at the Environmental Management Consolidated Business Center (EMCBC) site; however, we noted that 59 percent (45 of 76) of the EMCBC Statements of Account lacked dates of reconciliation by cardholders or approving officials. We also observed that one statement was missing the approving official's signature.

These issues occurred, in part, because of inadequate training, relaxed oversight of purchasing and inadequate reconciliation activities at the particular organizations involved. We noted that NREL cardholders and approving officials had not completed required initial or refresher training. EMCBC's Organizational Program Coordinator informed us that due to the volume of documents that need to be reviewed, statements with missing signatures and dates were overlooked, resulting in payments being made without approval.

Unauthorized Use and Prohibited Transactions

Although the Department had established procedures and policies to assist in eliminating unauthorized use of purchase cards and prohibited transactions, we noted, in some instances, that the controls could be strengthened. Specifically, we identified instances of unauthorized use of purchase cards by individuals and prohibited purchases at NREL.

Unauthorized Users

Contrary to NREL operating procedures, 3 of the 47 NREL cardholders interviewed allowed others to use their purchase card or account number. One cardholder admitted to "being sloppy about letting other individuals have access to his purchase card information" because it was convenient. A second cardholder stated that when an item needed to be ordered, he would either place the order or give his purchase card number to one of five other coworkers (nonpurchase cardholders) to make these work-related purchases. We were unable to ascertain the number of times this cardholder allowed others to use his card; however, he indicated that it routinely occurred. The third cardholder stated that while on vacation, he received an e-mail from either his supervisor or an employee asking to use his purchase card. Our review of selected transactions for all three employees did not reveal any inappropriate purchases. When we

discussed the issue of unauthorized purchase card use with the Organizational Program Coordinator, he indicated that he was not aware that cardholders were allowing others to use their cards. The Organizational Program Coordinator stated that cardholders were not allowed to share their purchase cards and have been trained to keep their purchase cards in their possession at all times.

Prohibited Transactions

Department guidance required that cardholders receive written Organizational Program Coordinator approval prior to using third-party payment merchants, such as vendors who allow PayPal as a method of payment, or the purchase would be considered prohibited. The use of such third-party payees circumvents the Department's oversight and monitoring mechanism. Specifically, since the third-party payee does not identify the merchant, the Visa IntelliLink system is unable to determine if the merchant should be blocked and does not provide specific details regarding the purchases, thereby hindering data mining capabilities.^{1, 2} In addition, transactions made with a third-party payment merchant are identified as high-risk because of the potential for prohibited transactions. In spite of this requirement, we found that cardholders at one site used a third-party payer.

Specifically, we noted that cardholders at NREL were using a third-party payee, PayPal, without seeking required prior written Organizational Program Coordinator approval. We identified six transactions relating to laboratory supplies and professional services totaling approximately \$9,300 in which NREL cardholders used PayPal without appropriate approval. We noted that although Department policy allowed the Organizational Program Coordinator to approve third-party payee transactions, it also requires the Coordinator to first consider using other vendors that accept purchase cards as a form of payment.

Statement Reconciliation

During our review we found administrative errors in the reconciliation process at EMCBC in which dates and one signature were omitted on Statements of Account.³ According to Department guidance, the reconciliation process required the approving official's review and approval of individual cardholders' monthly Statements of Account within 30 days of receipt. The review should include an assessment of supporting documentation for completeness, accuracy and assurance that only authorized purchases were made. After the approving official reviewed the Statements of Account, they were required to promptly sign and date the statements to acknowledge completion of the task and approval of the purchases.

¹ Visa IntelliLink is an electronic system that provides the Department an automated visibility into cardholder spending, such as the ability to identify any potential for misuse and noncompliant transactions resulting from fraud or out-of-policy spending. The 14 Visa IntelliLink rules data mining system established sophisticated rules designed to help detect and deter misuse and identify high-risk transactions, such as prohibited or questionable purchases, small dollar value purchases, split transaction, etc.

² Blocked Merchant codes identify approximately 100 categories of merchants from which purchase cardholders are prohibited from making purchases. These categories include, but are not limited to, airlines, travel, children stores, liquor stores, pawnshops and financial institutions.

³ Statements of Account include monthly transactions for individual purchase cardholder accounts.

We reviewed 76 EMCBC Statements of Account and found that 59 percent (45 of 76) were not signed and dated by cardholders or approving officials, resulting in 48 errors. Specific examples included the following:

- The approving official did not sign in 1 instance and did not date the statements in 13 instances; and
- The cardholder did not date the statements on 34 occasions.

We noted that the statements were processed for payment and ultimately retained by the Organizational Program Coordinator as records of transaction and payment even though they lacked evidence of timely and accurate approval.

Contributing Factors and Potential Impact

We noted that NREL cardholders and approving officials had not completed the required initial or refresher training. We found that although all of the 47 cardholders interviewed completed initial cardholder training, none completed the required biannual refresher training. Further, we found that none of the 26 approving officials interviewed completed initial or refresher training for approving officials. Subsequent to our site visit, NREL management instituted corrective action by incorporating purchase card training into the NREL Learning Management System (LMS) to ensure training for cardholders and approving officials. The LMS is an automated system that identifies required training courses, such as purchase cards. Further, LMS tracks the records and sends a reminder notification when refresher training is due to be completed. Timely completion of required training is managed through e-mail notices to the employees and their managers, and delinquent notices are generated for all overdue training.

The LMS has enhanced NREL's ability to maintain compliance with the training requirements with ongoing reviews. In particular, we found that NREL administered the required initial training for 18 of the 26 approving officials interviewed and the biannual refresher training for all cardholders interviewed. Also as a result of our site visit, NREL has revised the new cardholder orientation, initial and biannual refresher purchase card training to specifically enhance and reinforce the requirements to secure and safeguard the purchase card and the purchase card account number. NREL's new training also includes specific information and test questions to reinforce cardholders' and approving officials' knowledge of these requirements.

The EMCBC Organizational Program Coordinator informed us that required signatures and dates documenting an approving official review and approval were overlooked due to the volume of the monthly statements and supporting documentation being reviewed. Failure to reconcile, review and approve statements may increase the risk that the Department will incur unauthorized expenses. In the cases identified, we were unable to determine if the approving official approved the transactions, if the transactions were approved in a timely way or if adequate supporting documentation was available prior to payment.

In response to our draft report, EMCBC senior officials informed us that cardholders and approving officials have been reminded to sign and date statements each month. Any unsigned or undated statements for EMCBC's administrative office will be returned for signature and date.

Undated monthly statements received from off-site vendors will be dated by the Organization Program Coordinator with the receipt date, and unsigned statements will be returned to the approving official and cardholder to be signed, dated and resubmitted to the Organization Program Coordinator.

RECOMMENDATIONS

To address the issues we identified in this report, we recommend that the Director, Office of Management ensure that:

1. NREL cardholders and approving officials complete and track the required initial and biannual training to assist cardholders with making informed purchases of approved supplies and services;
2. NREL employees adhere to requirements for adequately protecting their purchase cards; and
3. EMCBC cardholders and approving officials submit statements with required signatures and dates to the Organizational Program Coordinator and that the Organizational Program Coordinator provides verification of the statements, for accuracy and completeness, in a timely manner.

MANAGEMENT RESPONSE

Management concurred with our recommendations and implemented corrective actions. We found management's comments and implemented corrective actions to be responsive to our report findings and recommendations. Management's formal comments are included in Attachment 3.

Attachments

cc: Deputy Secretary
Director, Office of Management
Director, Office of Acquisition and Project Management
Manager, Environmental Management Consolidated Business Center Cincinnati Office
Director, National Renewable Energy Laboratory
Director, National Laboratory Oversight Office

OBJECTIVE, SCOPE AND METHODOLOGY

OBJECTIVE

The objective of this inspection was to determine if the Department of Energy's (Department) internal controls were effective in detecting illegal, improper or erroneous purchases and payments.

SCOPE

This performance-based inspection was performed from August 2013 through January 2015 at the Department's Office of Management in Washington, DC, the Environmental Management Consolidated Business Center (EMCBC) in Cincinnati, Ohio, and the National Renewable Energy Laboratory (NREL) in Golden, Colorado. Fiscal years (FY) 2011 and 2012 purchase card transactions were reviewed during this inspection. During this period, EMCBC and NREL completed 46,353 transactions totaling \$22,323,646. The inspection was conducted under Office of Inspector General Project Number S13IS013.

METHODOLOGY

To accomplish the inspection objective, we:

- Reviewed Federal, Department, and local policies and procedures related to the Purchase Card Program;
- Conducted a risk assessment of Federal and contractor sites that are part of the Department's Purchase Card Program;
- Used computer-generated statistical sampling to select a sample size to test internal controls and data mining activities and identify potentially fraudulent or questionable purchases;
- Reviewed and analyzed 150 transactions totaling approximately \$69,000 identified by computer-generated statistical sample, and 206 transactions totaling approximately \$238,000 judgmentally selected from FYs 2011 and 2012 transactions for both EMCBC and NREL (See Attachment 2); and
- Conducted interviews with Department, Federal, and contractor officials associated with the Purchase Card Program.

This inspection was conducted in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*, dated January 2012. Those standards require that we plan and perform the inspection to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions and observations based on our inspection objective. We believe the evidence obtained provides a reasonable basis for our conclusions and observations based on our inspection objective. Accordingly, the inspection

included tests of controls and compliance with laws and regulations to the extent necessary to satisfy the inspection objective. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our inspection. Finally, we relied on computer-processed data, to some extent, to satisfy our objective. We confirmed the validity of such data, when appropriate, by conducting interviews and analyzing source documents. Also, we assessed the Department's SmartPay2 Purchase Card Program compliance with the *Government Performance and Results Modernization Act of 2010* and found that performance measures had, in general, been established and effectively implemented.

The Office of Acquisition and Project Management waived the exit conference.

TRANSACTION REVIEW RESULTS

We reviewed 356 judgmental and statistical transactions totaling approximately \$307,000 and the supporting documentation (credit card statements, purchase logs, receipts, and invoices, etc.). Computer-generated statistical sampling was used to select 150 transactions totaling approximately \$69,000 from the results of the Department of Energy's 14 Visa IntelliLink rules data mining system of high-risk transactions. The 206 judgmental transactions, totaling approximately \$238,000, were selected to identify potentially fraudulent or questionable purchases not identified by the computer-generated statistical sample.

FISCAL YEARS 2011 & 2012	Total	Environmental Management Consolidated Business Center	National Renewable Energy Laboratory
Transactions	46,353	3,412	42,941
Spending	\$22,323,646	\$679,103	\$21,644,543
Transactions Reviewed	356	144	212
Transactions Reviewed Spending	\$306,616.36	\$76,969.43	\$229,646.93
Computer-Generated Sample Transactions	150	75	75
Computer-Generated Sample Spending	\$68,534.04	\$25,910.70	\$42,623.34
Judgmental Sample Transactions	206	69	137
Judgmental Sample Spending	\$238,082.32	\$51,058.73	\$187,023.59

Note: All judgmental transactions were selected using the results of the Department of Energy's 14 Visa IntelliLink rules data mining system of high-risk transactions. All statistical transactions were selected using computer-generated statistical sampling to systematically test the 14 Visa IntelliLink rules data mining activities to identify potentially fraudulent or questionable purchases.

MANAGEMENT COMMENTS



Department of Energy
Washington, DC 20585

January 8, 2015

MEMORANDUM FOR RICKEY R. HASS

DEPUTY INSPECTOR GENERAL
FOR AUDITS AND INSPECTIONS
OFFICE OF INSPECTOR GENERAL

FROM:

PAUL BOSCO
DIRECTOR
OFFICE OF ACQUISITION AND
PROJECT MANAGEMENT

A handwritten signature in blue ink, appearing to read "PBosco", is written over the printed name "PAUL BOSCO".

SUBJECT:

Consolidated Audit Responses to the November 2014 Draft
Inspection Report, "Review of Controls over the Department's
SmartPay2 Purchase Card Program"

Thank you for the opportunity to comment on the subject draft report. Below please find the consolidated audit responses from the National Renewable Energy Laboratory (NREL) and the Environmental Management Consolidated Business Center (EMCBC).

The Office of the Under Secretary for Management and Performance, S-3, and the Office of Management, MA-1, concurred with the following responses.

The following comments are being submitted by NREL.

Inspector General Recommendation 1: NREL Cardholders and Approving Officials complete and track the required initial and biannual training to assist cardholders with making informed purchases of approved supplies and services.

Management Response: Concur

Corrective Action: Since the time of the audit, NREL has verified that training is current for all Cardholders and Approving Officials. In April 2014, NREL completed the biannual refresher training for Cardholders and Approving Officials. On a continuing basis, initial training is required prior to the issuance of a purchase card. Training records are retained by the NREL Organizational Point of Contact and in NREL's electronic training system. NREL has incorporated purchase card training into the NREL Learning Management System (LMS). The LMS is an automated system that allows required



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training courses to be assigned to an employee for completion, tracks the records and sends a reminder notification when a refresher training is due to be completed. Timely completion of required training is managed through email notices to the employees and their managers. Delinquent training notices are generated for all overdue training. The LMS has enhanced NREL's ability to maintain compliance with training requirements with ongoing reviews by NREL's Organizational Point of Contact using reports generated by course, individual name, and training completion status.

Inspector General Recommendation 2: NREL Employees adhere to requirements for adequately protecting their purchase cards.

Management Response: Concur

Corrective Action: NREL management has increased the emphasis on appropriate behavior and will continue to reinforce the importance of adequately protecting purchase cards and appropriate use. Since the time of the audit, NREL has reviewed and revised the new cardholder orientation, initial and biannual refresher purchase card training. Revisions have been made to specifically enhance and reinforce the requirements to secure and safeguard the purchase card and the purchase card account number. NREL training includes specific information and test questions to reinforce Cardholders and Approving Officials knowledge of these requirements.

The following comments are being submitted by EMCBC.

Inspector General Recommendation 3: EMCBC Cardholders and Approving Officials submit statements with required signatures and dates to the Organizational Program Coordinator and that the Organizational Program Coordinator provides verification of the statements, for accuracy and completeness, in a timely manner.

Management Response: Concur

Corrective Action: EMCBC Organizational Program Coordinator has taken action to more carefully review all Statements of Account to ensure signatures and dates are included for cardholders and Approving Officials. The EMCBC Organizational Program Coordinator will return statements to cardholders and Approving Officials to date the statements if she finds they are not dated. These actions have already been implemented as of November 2014.

FEEDBACK

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Office of Inspector General (IG-12)
Department of Energy
Washington, DC 20585

If you want to discuss this report or your comments with a member of the Office of Inspector General staff, please contact our office at (202) 253-2162.