



OFFICE OF INSPECTOR GENERAL
U.S. Department of Energy

INFORMATION REPORT

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**ACTIONS TAKEN BY WESTERN AREA
POWER ADMINISTRATION TO ADDRESS
INTERNAL REVIEW FINDINGS ON ITS
DESERT SOUTHWEST REGION'S USE OF
GOVERNMENT PURCHASE CARDS**



Department of Energy
Washington, DC 20585

March 13, 2017

**MEMORANDUM FOR THE ADMINISTRATOR OF THE WESTERN AREA POWER
ADMINISTRATION**

Sarah B. Nelson

FROM: Sarah B. Nelson
Assistant Inspector General
for Audits and Administration
Office of Inspector General

SUBJECT: INFORMATION: Information Report on “Actions Taken by Western Area Power Administration to Address Internal Review Findings on its Desert Southwest Region’s Use of Government Purchase Cards”

BACKGROUND

Western Area Power Administration’s (Western) Desert Southwest Region (Desert Southwest) sells more than 10.3 billion kilowatt-hours of Federal hydroelectric power to wholesale customers in Arizona, southern California, and other portions of the Southwest. Desert Southwest operates and maintains more than 40 substations and 3,100 miles of transmission lines. Desert Southwest uses Government Purchase Cards (GPC) to make small purchases, not to exceed \$3,500, to support its mission and daily operations.

In December 2014, Western’s Office of Internal Audit and Compliance (Internal Audit) and Office of Procurement issued an internal review report on “*Internal Control Weaknesses in the Desert Southwest Region’s Purchase Card Program.*” The report found that weaknesses in the overall control environment contributed to potentially fraudulent or improper transactions, including almost 2,500 transactions by 74 cardholders, totaling approximately \$1.9 million, requiring further review by region officials. Internal control weaknesses identified, included ineffective annual management reviews required by Western; inadequate reviews by approving officials; inadequate controls over the issuance and spending limits of GPCs; and lack of training, supporting documentation, and property accountability. Due to the seriousness of the issues identified in the internal review report, we initiated a review to determine the status of corrective actions taken by Western and its Desert Southwest Region in response to the report. Our review was limited to identifying the actions taken to date and did not evaluate the effectiveness of the actions.

STATUS OF CORRECTIVE ACTIONS

We found that Desert Southwest had taken numerous actions to address the issues identified in the internal review. In addition, Western's Headquarters had taken specific actions to address issues identified with Desert Southwest's use of GPCs as well as actions to improve the overall Western-wide GPC Program. However, continual monitoring of GPC activities will be crucial to ensure compliance with regulations, policies, and procedures.

Corrective Actions Taken By Desert Southwest

In response to the internal review report, Desert Southwest officials, in conjunction with officials at Western's Headquarters office:

- Reduced the overall number of cardholders at Desert Southwest from 65 in July 2014 to 20 in September 2016, and suspended a number of cardholder accounts for failure to comply with GPC policies and procedures.
- Issued a memorandum in August 2014, prior to the issuance of the internal review report, that provided guidance on the use of the GPC and approving officials' responsibilities.
- Referred a number of Desert Southwest cardholders and approving officials for potentially fraudulent GPC transactions, beginning in January 2015, to the Office of Inspector General, Office of Investigations.
- Provided GPC training to a subset of employees in August 2016 and we were informed that an additional GPC training session was provided in July 2015.
- Finalized formal disciplinary actions for the misuse of the GPC and improper approval of transactions in May and June 2016 on two cardholders and one approving official, and in September 2016, identified the potential need for disciplinary actions on three additional cardholders.
- Performed self-assessments of goods and services purchased with Desert Southwest GPCs in March and April 2016; ultimately reporting improvements in the GPC activities and identifying no significant issues with the transactions reviewed.
- Completed, in September 2016, a review of questionable transactions identified by the 2014 internal review for cardholders that were still employed at Desert Southwest.

Corrective Actions Taken Western-Wide

Western's Headquarters had taken and planned specific actions to address weaknesses identified with Desert Southwest's use of GPCs, as well as improve the overall Western-wide GPC Program. Specifically:

- In August 2014, while the Desert Southwest internal review was in progress, Western's Head of the Contracting Activity sent an email to Western managers notifying them that several instances of improper use of the GPC had been identified and stressed the importance of cardholder and approving officials fulfilling their obligations under the GPC Program.
- In March 2015, Western officials requested that the Agency Program Coordinator for the Department of Energy's GPC Program block Department-prohibited Merchant Category Codes, such as motorcycle dealers, which were found not to be blocked during the 2014 Desert Southwest internal review.
- In February 2016, Western-wide GPC policies and procedures were issued to supplement and clarify the Department's existing policies and procedures, and formal training was held at Desert Southwest on the new policies and procedures.

Additionally, in February 2016, Western's Internal Audit and Office of Procurement issued a capping report on "*Internal Control Weaknesses in Western Area Power Administration's Purchase Card Program.*" This report summarized five separate reports issued on the GPC Program between December 2014 and October 2015 for Western's Headquarters and its four regional offices – Desert Southwest, Rocky Mountain, Upper Great Plains, and Sierra Nevada. The capping report noted approximately \$6.8 million in GPC transactions that required further review by regional and headquarters officials. In January 2017, Western officials stated that all GPC transactions that required further review by regional and headquarters officials had been completed. The report also noted that Western had ineffective annual management reviews; non-existent internal controls in some cases; and that the majority of the GPC Program areas tested were non-compliant with established policies and procedures.

To address weaknesses identified in the capping report, formal recommendations were made to Western's Chief Operating Officer, who is also the Head of the Contracting Activity, in conjunction with the Director of Procurement. The Chief Operating Officer responded with a corrective action plan. We confirmed that several recommendations had already been addressed, including the designation of a GPC Organizational Program Coordinator in May 2016, whose primary responsibility is to manage and oversee Western's GPC Program; evaluation of monthly cycle GPC credit limits to determine if they should be reduced; and standardization of a Western-wide purchase card transactions log template which was completed in February 2016. In addition, in November 2016, Internal Audit provided us a status report that identified other recommendations as being completed such as establishing mandatory, Western-wide training that will include information on the penalties for the misuse of the GPC; formalizing efforts to reduce infrequently used GPC accounts across Western to minimize credit exposure; and ensuring that a business case analysis is conducted for all new requests to open GPC accounts as well as changes to existing accounts. In response to our draft report, Western officials informed us that as of January 2017, all recommendations from their internal review reports had been closed and additional actions, such as the development of a GPC Program frequently asked questions document and updates to Western-wide GPC policies and procedures were taken. We did not confirm the completion of all these actions.

Western's GPC Organizational Program Coordinator, with authority from the Director of Procurement, was also in the process of making improvements to the management and oversight

of the Western-wide GPC Program as well as addressing open recommendations noted in the capping report. Specifically, a Western official informed us that the Organizational Program Coordinator had begun the process to:

- Conduct quarterly and annual reviews of the GPC transactions at each region using a data mining/sampling and testing methodology developed by Internal Audit.
- Design and implement procedures to ensure compliance with the Department requirement to review all new cardholder files within 3 months of activation.

In addition, Western hired a contractor in June 2016 to conduct a lessons learned analysis of the internal reviews conducted on Western's GPC Program by Internal Audit and the Office of Procurement. Western officials informed us that they reviewed the results in December 2016, and the results were being leveraged for process improvement efforts. Finally, Internal Audit announced a followup review on Western's GPC Program in January 2017.

IMPACT AND PATH FORWARD

Because Western's actions to address GPC concerns were ongoing or recently implemented during the course of our review and Internal Audit planned on conducting a followup review, we did not expand our work to determine the effectiveness of the corrective actions in addressing the identified weaknesses. Given that significant internal control weaknesses were identified in Desert Southwest's GPC Program as well as across Western's entire GPC Program, we suggest that the Administrator ensure continued oversight of the GPC Program.

Attachment

cc: Deputy Secretary
Chief of Staff

OBJECTIVE, SCOPE, AND METHODOLOGY

OBJECTIVE

The purpose of this review was to provide a status of corrective actions taken by Western Area Power Administration (Western) and its Desert Southwest Region (Desert Southwest) in response to the internal review of Desert Southwest's use of Government Purchase Cards (GPC).

SCOPE

The review was performed between September 2016 and March 2017. We conducted the review at Western's Headquarters Office in Lakewood, Colorado, and Desert Southwest in Phoenix, Arizona. Our scope included a review of actions taken before and after the issuance of the December 2014 internal review report on "*Internal Control Weaknesses in the Desert Southwest Region's Purchase Card Program*" issued by Western's Office of Internal Audit and Compliance (Internal Audit) and Office of Procurement. To provide a comprehensive review of all corrective actions taken to address issues noted by Internal Audit and the Office of Procurement on Desert Southwest's use of GPCs, our scope included consideration of actions taken on a Western-wide basis. The review was conducted under Office of Inspector General project number A16DN063.

METHODOLOGY

To accomplish our objective, we:

- Reviewed relevant internal GPC review reports on Western's GPC Program issued by Internal Audit and the Office of Procurement.
- Interviewed Western and Desert Southwest officials to obtain an understanding of steps taken to mitigate and correct issues identified in the internal GPC review.
- Reviewed documentation to support actions taken by Western officials to improve the Western-wide GPC Program as well as that of the Desert Southwest.
- Determined the implementation status of recommendations noted in Western's Internal Audit and Office of Procurement's capping report on "*Internal Control Weaknesses in Western Area Power Administration's Purchase Card Program*."

Management waived an exit conference on January 13, 2017.

FEEDBACK

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