



U.S. Department of Energy
Office of Inspector General
Office of Inspections and Special Inquiries

Inspection Report

Selected Purchase Card Transactions at the
Nevada Site Office

INS-O-06-01

November 2005



Department of Energy
Washington, DC 20585

November 22, 2005

MEMORANDUM FOR THE MANAGER, NEVADA SITE OFFICE

FROM:

A. K. Walter
Alfred K. Walter
Assistant Inspector General
for Inspections and Special Inquiries

SUBJECT:

INFORMATION: Inspection Report on "Selected Purchase Card Transactions at the Nevada Site Office"

BACKGROUND

The Office of Inspector General established a Purchase Card Task Force to proactively review purchase card expenditures under the General Services Administration (GSA) SmartPay program, which allows Department of Energy and contractor employees to make micro-purchases using Government furnished credit cards. While convenient, programs of this type are inherently vulnerable to misuse and thus require close and continuing management attention to protect against potentially fraudulent or abusive purchases.

As a part of this task force initiative, we reviewed purchase card transactions by Bechtel Nevada that were processed through the Bank of America during the period March through September 2004. The objective of our review was to determine if internal controls regarding Bechtel Nevada's purchase card program were adequate to ensure purchases were proper and in compliance with applicable guidelines.

RESULTS OF INSPECTION

We determined that internal controls over Bechtel Nevada's purchase card program could be improved. Specifically, we found: 1) purchase card transactions were not always reviewed and approved by designated approving officials, resulting in some cardholders self-approving their purchases; 2) purchase cardholders and approving officials were not completing biennial refresher training within required timeframes; 3) Bechtel Nevada did not reconcile the monthly Bank of America statements with Bechtel Nevada's internal purchase card financial records, resulting in an overpayment of \$16,515 to the Bank of American over a two-year period; and 4) the purchase card policy implemented by Wackenhut Services, Inc., which participates in Bechtel Nevada's purchase card program, is not consistent with the Bechtel Nevada purchase card policy.

In addition, we observed that Bechtel Nevada pays taxes to the State of Nevada on purchase card transactions, such as gross receipts and use taxes, even though the Federal Government is exempt from paying these taxes. We made six recommendations to management designed to improve internal controls over Bechtel Nevada's purchase card program.



MANAGEMENT REACTION

Management generally agreed with our recommendations. Additionally, management cited a United States Supreme Court decision, the *United States v. New Mexico et al*, 455 U.S. 720, 120 S.Ct. 1373 (1981), as validating the right of states to tax the purchases of the Department's management and operating contractors. We found management's comments to be responsive to our recommendations.

Attachment

cc: Chief of Staff
Director, Policy and Internal Controls Management (NA-66)
Director, Office of Internal Review (CF-1.2)

SELECTED PURCHASE CARD TRANSACTIONS AT THE NEVADA SITE OFFICE

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Overview

INTRODUCTION AND OBJECTIVE

The Office of Inspector General (OIG) established a Purchase Card Task Force to proactively review purchase card expenditures under the General Services Administration (GSA) SmartPay program, which allows Department of Energy (DOE) and contractor employees to make micro-purchases using Government furnished credit cards.

As part of this initiative, we conducted a review of purchase card transactions by Bechtel Nevada cardholders between March and September 2004. Bechtel Nevada is the management and operating contractor for DOE's Nevada Site Office. Purchase card transactions are processed by Bechtel Nevada through the Bank of America.

The objective of our review was to determine if internal controls regarding Bechtel Nevada's purchase card program are adequate to ensure purchases are proper and comply with applicable guidelines.

The OIG has recently issued several reports concerning purchase card transactions by DOE and contractor personnel. These reports are listed in Appendix B.

OBSERVATIONS AND CONCLUSIONS

We concluded that internal controls over Bechtel Nevada's purchase card program could be improved. Specifically, we found:

- Purchase card transactions were not always reviewed and approved by designated approving officials, resulting in some cardholders self-approving their purchases;
- Purchase cardholders and approving officials were not completing biennial refresher training within required timeframes;
- Bechtel Nevada did not reconcile the monthly Bank of America statements with Bechtel Nevada's internal purchase card financial records, resulting in overpayments of \$16,515 to the Bank of America over a two-year period; and
- The purchase card policy implemented by Wackenhut Services, Inc., which participates in Bechtel Nevada's purchase card program, is not consistent with the Bechtel Nevada purchase card policy.

In addition, we observed that Bechtel Nevada pays taxes to the State of Nevada on purchase card transactions, such as gross receipts and use taxes, even though the Federal Government is exempt from paying these taxes.

Details of Findings

PURCHASE CARD TRANSACTION REVIEW

We found that Bechtel Nevada purchase card transactions were not always reviewed and approved by designated approving officials, resulting in some purchase cardholders self-approving their purchases. We learned that some cardholders self-approved transactions because approving officials were not always available to approve the transactions. We noted that, for the cardholders we interviewed, there was no alternate approving official to approve purchases in the absence of the approving official.

“DOE Guidelines and Operating Procedures for the Use of the GSA SmartPay Purchase Card” (DOE Guidelines) state that approving officials must review and sign the monthly bank “Statements of Account” to ensure that statements have supporting documentation and are complete, accurate, and reflect only authorized purchases. DOE Guidelines also state that both the cardholder and approving official must review and approve the monthly statements on a timely basis.

In contrast to DOE Guidelines, Bechtel Nevada requires weekly review and approval of purchase card transactions. Bechtel Nevada’s Purchase Card Administrator advised that approving officials are not required to approve the monthly “Statements of Account.” Instead, Bechtel Nevada requires each cardholder to reconcile their transactions electronically on a weekly basis and subsequently submit a Transaction Approval Report (TAR) to their approving official for review and approval.

We found that the Bechtel Nevada process did not identify some purchases that were self-approved by cardholders. Specifically, 3 of the 15 cardholders we interviewed had self-approved a total of 100 transactions totaling \$41,550. For example:

- One cardholder self-approved 15 transactions totaling \$10,536, of which \$9,500 was for gift certificates to be used as awards for employees. The cardholder self-approved the transactions over a four-month period because the assigned approving official had been terminated. An approving official subsequently approved the cardholder’s TARs after we identified the questionable transactions during our review. Bechtel Nevada’s Purchase Card office, which is responsible for the overall management and oversight of the Purchase Card Program, was not aware that the cardholder’s TARs had not been reviewed until after we requested information related to the specific transactions;

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- A second cardholder self-approved 84 transactions totaling \$30,637 for construction and building maintenance related supplies. The cardholder did not submit TARs on a weekly basis, as required by Bechtel Nevada's policy. As an example, on August 4, 2004, the cardholder provided the approving official TARs covering the period April 14, 2004, through August 4, 2004; and
 - A third cardholder self-approved a transaction totaling \$377 for computer supplies. The cardholder acknowledged self-approving the transaction when the approving official was not available.

Self-approved transactions by Bechtel Nevada cardholders went undetected because the Purchase Card office lacked internal controls to ensure that designated approving officials reviewed and approved all purchase card transactions. Specifically, we noted that the approving officials did not have electronic access to the internal purchase card system. Also, the Purchase Card office had not conducted reviews to verify that approving officials were reviewing and approving transactions, as required by DOE Guidelines. Although we determined that the purchase card transactions were reasonable and necessary, without an approving official's review and approval, opportunities existed for abuses to occur. The Purchase Card office was unaware that approving officials were not reviewing and approving the TARs on a weekly basis; therefore, there was no verification that the purchases made were, in fact, reasonable and necessary.

TRAINING

We found that several purchase cardholders and approving officials were not completing their biennial refresher training within required timeframes. After reviewing training records, we determined that 10 of the 15 cardholders and 4 of the 11 approving officials we interviewed had not completed their biennial refresher training in a timely manner.

Bechtel Nevada requires that all purchase cardholders and approving officials initially receive computer-based training and complete biennial refresher training every two years thereafter.

The Purchase Card Administrator acknowledged that several cardholders and approving officials were past due for their biennial refresher training. We were advised, however, that the Purchase Card office was in the process of finalizing updates to the training module and that the necessary training would be provided shortly. The Purchase Card Administrator also acknowledged that several

cardholders are “struggling” with the purchase card process, policies, and procedures and that although the computer-based training is adequate, the Purchase Card office plans to conduct hands-on and/or group training in the near future.

**ACCOUNTS
PAYABLE SYSTEM**

We found that Bechtel Nevada did not reconcile the monthly Bank of America statements with their internal purchase card financial records, resulting in overpayments to the bank totaling \$16,515 over a two-year period. The Accounts Payable Department at Bechtel Nevada is responsible for submitting a monthly payment to the Bank of America for the purchase card account.

An accountant in the Accounts Payable Department informed us that the Bank of America had erroneously applied Bechtel Nevada’s gas card payments to the purchase card account on seven occasions beginning in March 2003. We were advised that the Accounts Payable Department was aware of the discrepancies between the Bank of America statements and Bechtel Nevada’s internal purchase card financial records, and that attempts were made to resolve the discrepancies with the Bank of America, but to no avail. A management official advised us that due to the inaccuracy of the Bank of America statement, Accounts Payable used the Bechtel Nevada internal purchase card financial records for payments. We were further advised that after Bechtel Nevada reconciled the statement and the internal report, they determined that the internal report was also inaccurate, which resulted in the overpayment.

Bechtel Nevada took immediate corrective action following our inquiry into the overpayment. A senior accountant informed us that the \$16,515 overpayment was reconciled and recovered from the Bank of America. Bechtel Nevada has taken steps to ensure that overpayments do not occur in the future.

**WACKENHUT
SERVICES,
INCORPORATED**

We found that the purchase card policy implemented by Wackenhut Services, Inc. (Wackenhut) is not consistent with the Bechtel Nevada purchase card policy.

In December 2001, Bechtel Nevada and Wackenhut signed a Memorandum of Understanding regarding purchase card services, whereby both parties agreed to utilize the Bechtel Nevada credit card system. In accordance with the Memorandum of Understanding, purchase card services would be provided by Bechtel Nevada and all Wackenhut purchase card actions were to comply with Bechtel Nevada’s purchase card policy. However, we

identified the following areas where Wackenhut's policy is not consistent with Bechtel Nevada's purchase card policy:

- Wackenhut cardholders and approving officials are not required to have Authorization Letters on file;
- The Wackenhut Logistics Maintenance Specialist can purchase items for stock replenishment without completing a requisition worksheet; and
- Wackenhut cardholders can purchase sensitive items such as binoculars and portable computers with their purchase cards.

OBSERVATION

We observed that Bechtel Nevada is paying taxes (such as gross receipts and use taxes) to the State of Nevada on purchase card transactions, even though the Federal Government is exempt from paying these taxes. DOE Guidelines require purchase cardholders to inform merchants that purchases made with Federal Government purchase cards are exempt from taxes.

Bechtel Nevada does not require its cardholders to claim the Government's tax-exempt status when using their Government purchase cards. Bechtel Nevada's policy states that cardholders are to pay taxes on all purchases because Bechtel Nevada is not a tax-exempt entity. Bechtel Nevada officials estimated that \$470,000 was paid in taxes for Fiscal Year 2004. We were advised by the Accounts Payable Department that Bechtel Nevada has been paying taxes to the State of Nevada on all Government credit card purchases since 1998.

In 1994, GSA requested a ruling on the taxability of purchase card transactions from the Nevada Department of Taxation. The state ruled that purchases by Federal employees are tax exempt. However, we were advised that Bechtel Nevada has taken the position that although its employees were acting as an agent for DOE when using Government purchase cards, its employees are not Federal employees. Therefore, Bechtel Nevada decided to pay state and local sales tax when making purchases with Government purchase cards.

We discussed this matter with the DOE Purchase Card Program Coordinator. The Coordinator advised us that according to a GSA Purchase Card representative, "all purchases made with a Government purchase card are tax exempt."

RECOMMENDATIONS

We recommend that the Manager, Nevada Site Office, ensure that Bechtel Nevada:

1. Strengthens internal controls by assuring all purchase card transactions are reviewed and approved by a designated approving official;
2. Assigns a designated approving official and an alternate approving official to each cardholder;
3. Conducts required biannual refresher training for purchase cardholders and approving officials on a timely basis;
4. Reconciles its internal purchase card financial records with the monthly Bank of America statement, and takes immediate action to resolve discrepancies; and,
5. Ensures that Wackenhut purchase cardholders, consistent with the Memorandum of Understanding, adhere to Bechtel Nevada's purchase card policies and procedures.

We recommend that the General Counsel, National Nuclear Security Administration:

6. Determine whether Bechtel Nevada, as an agent for the Federal Government, should be paying taxes to the State of Nevada for purchases made with Government purchase cards.

**MANAGEMENT
COMMENTS**

Management generally agreed with our recommendations. Additionally, management cited a United States Supreme Court decision, the *United States v. New Mexico et al*, 455 U.S. 720, 120 S.Ct. 1373 (1981), as validating the right of states to tax the purchases of DOE management and operating contractors. Management's comments are included in Appendix C.

**INSPECTOR
COMMENTS**

Management's comments are responsive to our recommendations. We revised the report, as appropriate, to address management's comments.

Appendix A

SCOPE AND METHODOLOGY

We reviewed purchase card transactions by Bechtel Nevada that were processed through the Bank of America during the period March through September 2004. From our review, we identified 257 questionable purchase card transactions. Based on these transactions, we initiated a review to determine if internal controls provided reasonable assurance that improper purchases would not occur, or would be detected in the normal course of business.

We interviewed Federal and Bechtel Nevada staff associated with the Purchase Card Program at the Nevada Site Office, including 15 cardholders and 11 approving officials. We identified and evaluated Federal policies and procedures, and relevant Bechtel Nevada guidance. We also obtained supporting transaction documentation from selected cardholders to determine if there had been any misuse of Government purchase cards. We reviewed the transaction documentation for: (1) adherence to purchase card limits; (2) adherence to rules for competition; and (3) reasonableness and business purpose/need.

Also, pursuant to the “Government Performance and Results Act of 1993,” we examined performance measurement processes as they relate to purchase cards.

This inspection was conducted in accordance with the “Quality Standards for Inspections” issued by the President’s Council on Integrity and Efficiency.

Appendix B

PRIOR PURCHASE CARD REPORTS

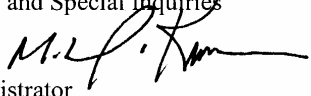
- Letter Report on “Oak Ridge Operations Office Purchase Card Transactions,” Report No. INS-L-05-03, March 24, 2005;
- “The Department’s Federal Purchase Card Program at Headquarters,” DOE/IG-0675, February 2005;
- “Los Alamos National Laboratory’s Purchase Card Program Corrective Actions,” DOE/IG-0644, April 2004;
- “Sandia National Laboratories Procurement Card Program,” Report No. WR-B-02-03, August 2002; and
- “U.S. Department of Energy’s Purchase Card Programs - Lessons Learned,” Report No. I01OP001, February 2002.



Department of Energy
National Nuclear Security Administration
Washington, DC 20585
October 5, 2005



MEMORANDUM FOR Alfred K. Walter
Assistant Inspector General
for Inspections and Special Inquiries

FROM: Michael C. Kane 
Associate Administrator
for Management and Administration

SUBJECT: Comments to Draft Inspection Report on Purchase
Card Transactions at Nevada; S05IS028; 2005-
34255

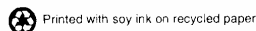
The National Nuclear Security Administration (NNSA) appreciated the opportunity to have reviewed the Inspector General's (IG) draft inspection report, "Purchase Card Transactions at the Nevada Site Office." We understand that the IG conducted this inspection to determine if internal controls regarding Bechtel Nevada's purchase card program are adequate to ensure purchases are proper and comply with applicable guidelines.

Based on their inspection, the IG concluded that the Internal Controls over the program could be improved and subsequently made five recommendations for the improvement of the program. NNSA generally agrees with the five Internal Controls recommendations and the Site Office has already directed the contractor to develop and implement corrective actions. Additionally, the IG made a recommendation related to the current practice of the contractor paying taxes to the State of Nevada when acting as an agent of the Federal Government.

The Supreme Court of the United States holding in *United States v. New Mexico, et al.*, 455 U.S. 720, 102 S.Ct. 1373 (1981) validated the right of states to tax the purchases of DOE M&O contractors. Therefore, Bechtel Nevada is obligated to pay Nevada sales and use taxes on purchases subject to such taxes. The NNSA General Counsel has concurred in this response thereby meeting the intent of the recommendation.

Should you have any questions related to this response, please contact Richard Speidel, Director, Policy and Internal Controls Management.

cc: Kathleen Carlson, Manager, Nevada Site Office
Robert Braden, Senior Procurement Executive
Karen Boardman, Director, Service Center



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