

Mr. Robert Burton
Office of Federal Procurement Policy
Office of Management and Budget
Washington, DC 20503

Dear Mr. Burton:

Enclosed are the Department of Energy's reports on the reviews of our purchase and travel card programs with accompanying remedial action plans in response to the Director, Office of Management and Budget's April 18, 2002, Memorandum for Heads of Departments and Agencies on Use of Government Purchase and Travel Cards. The reports were prepared by review teams that I chartered to evaluate these programs.

The Department takes its fiduciary responsibilities for the proper administration of its purchase card program very seriously. It is not enough simply to issue policies and procedures. Rather, the Office of Management, Budget and Evaluation/Chief Financial Officer has taken a proactive approach to addressing potential vulnerabilities in the Department's purchase card program.

The Department began a comprehensive evaluation of its purchase card program last summer coincident with the General Accounting Office (GAO) report on purchase card activities at the Department of Defense and related Congressional hearings. We took seriously the concerns raised at the time and have used the program weaknesses identified by GAO as a foundation for assessing our own activities, beginning with a review of all purchase card holder files at Headquarters. In November 2001, the Department conducted a survey of its contracting activities to determine the extent of compliance with established policies and procedures. As a result of this survey, we made several changes to the policies and procedures to strengthen our purchase card program.

In March 2002, I directed that a comprehensive review of purchase card transactions be conducted at both Federal and management and operating contractor sites. This included the development and deployment of a comprehensive review guide that addresses all aspects of the purchase card transaction cycle, the development of a statistically valid sample of purchase cardholder files, and the selection of cardholder accounts for detailed examination to determine the adequacy of policies, procedures, and internal controls to prevent abuses such as those found by the Inspector General at the Department of Energy and by GAO at other agencies. To date, reviews at six sites, both Federal and contractor, have been completed, and the enclosed report provides the results of those reviews and the remedial actions we plan to take.

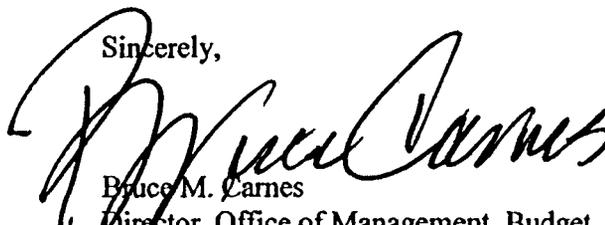
Based on the review results, the Department is revising its policies and procedures to specifically improve internal controls for those areas where deficiencies were found. In those instances where the Inspector General had previously identified individuals (primarily contractor employees) who abused their purchase card privileges, those individuals have either been fired or resigned and prosecuted under applicable criminal laws. Where appropriate, the Department is debarring those individuals. Amounts expended by those employees for improper purposes have either been recovered or disallowed.

Using the knowledge gained at the six sites already reviewed, the Department is making refinements to its review guide and will complete reviews at additional Federal and contractor sites later this summer.

I also commissioned a team to review our travel card program policies, procedures and internal controls and evaluate their adequacy for preventing abuse. The Department's review covered over **40** percent of active cardholders. Results indicated that the Department had a less than **2** percent delinquency rate for travel cards at the time of our review, which is among the lowest in the Federal Government. However, we **also** noted open accounts for individuals who had departed or transferred, instances of apparent travel card misuse for charges not associated with official travel, inadequate control procedures for some aspects of our program, and failure to follow established procedures. Based on review results, the Department **has** taken immediate action to update our Federal travel cardholder inventory by canceling or transferring over 750 travel card accounts identified with employees that had previously departed or transferred from the Department. The Department has already incorporated improvements to policies aimed at strengthening controls over the travel card program into a new travel order and anticipates issuance of the final document in the near future. We are also investigating the instances of apparent misuse of travel cards identified during the review **and** will follow up with appropriate action, including disciplinary action.

If you have **any** questions regarding the Department's report, please contact **me** at 202-586-4171. My staff contact is Rick Sweeney and he can be reached at 301-903-2551.

Sincerely,

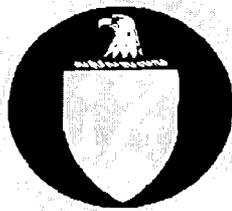


Bruce M. Carnes
Director, Office of Management, Budget
and Evaluation/Chief Financial Officer

Enclosures

U.S. Department of Energy

Report on Review of Purchase Card Program



June 2002

Purchase Card Review Team
Office of Management, Budget and
Evaluation/Chief Financial Officer

U. S. Department of Energy
Report on Purchase Card Program
June 2002

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Executive Summary

This report presents the results of the Purchase Card Review Team's assessment of the Department's purchase card program. Our objective was to review policies, procedures and internal controls and to evaluate their adequacy for preventing abuses such as those found by the Inspector General at the Department of Energy and by the General Accounting Office (GAO) at other agencies; identify significant control weaknesses that may exist; and develop an action plan for correcting noted deficiencies.

Approximately 14,000 Federal and management and operating contractor employees had purchase cards for either all or part of the period under review. Of the 14,000, there were 2,400 Federal employees and 5,000 contractor employees with purchase cards under the General Services Administration (GSA) SmartPay Program. The remaining 6,600 contractor employees held purchase cards under their own contracts with credit card organizations.

The review included policies, procedures and controls for administering the purchase card program and for making related payments. Our review team (hereinafter referred to as the "team"), examined records for selected purchase cardholders' transactions during fiscal year 2001 at six sites. The sites selected were a representative sample of those sites using purchase cards comprising Headquarters, three Field sites and two contractor locations (one contractor using the SmartPay program and another using its own purchase card program). Statistically valid sampling was used in selecting the specific cardholder accounts to be reviewed. Our review sample included 240 Federal cardholders and 167 contractor cardholders with activity consisting of about 6,800 transactions for the sample period.

During the review, the team found instances of inadequate control procedures and failure to follow established procedures. For example, the team found inadequate controls to ensure that only employees with a bona fide need had purchase cards. In addition, the team found instances of failure to follow controls requiring that only cardholders make purchases with the card; incomplete documentation maintained by cardholders in support of purchases made; purchases made without the required prior authorization; cardholder spending limits exceeded; split transactions to bypass spending limits, and prohibited or restricted items being purchased. The team also found that some purchased property was not tagged and inventoried. The team has 33 recommendations for improving the Department's purchase card program.

A summary of the team's recommendations include:

- Strengthening guidelines for Federal and contractor programs and determining whether the Department should discontinue allowing contractors to use the Government's SmartPay purchase card system (Section A),
- Improving controls over issuance and cancellation of purchase cards (Section B),
- Enforcing requirements for reviewing and approving cardholder statements (Section C),
- Providing training for Approving Officials and cardholder refresher training (Section D),
- Improving and enforcing controls over cardholder spending limits (Section E),

- Enforcing and improving controls over documentation and authorization of purchases and for preventing purchases of prohibited items (Section F),
- Improving and enforcing financial controls to ensure proper payments (Section G),
- Improving and enforcing property accountability for purchase card acquisitions (Section H),
- Managing rebates from credit card organizations (Section I),
- Institutionalizing periodic reviews of purchase card programs (Section J), and,
- Ensuring adequate segregation of duties to help prevent fraud and abuse (Section K).

Departmental Actions

Based on review results, the Department is revising its guidelines to specifically improve internal controls for those areas where deficiencies were found and taking steps to ensure that they are followed. We have initiated a comprehensive review of Federal employee cardholders to determine the appropriateness of their delegations and individuals' need for the cards. We are requiring that Approving Officials be trained and that refresher training be provided to Approving Officials and cardholders at least bi-annually. We are also requiring that rebates be verified.

With respect to contractors, we are also developing procedural guidelines to require that contractors' purchase card systems have adequate internal controls and procedures and will ensure that they are implemented. In those few instances where the Inspector General had previously identified individuals (primarily contractor employees) who abused their purchase card privileges, the individuals have resigned or been fired. In addition, they were prosecuted under applicable criminal laws. Amounts they expended for improper purchases have been determined unallowable for reimbursement. The Department will continue to take this aggressive posture.

The improvements to our policies and procedures will be conveyed to cardholders through refresher training and will be available on a web site. Approving Officials will also be made aware of current policies and procedures through training and access to the web site. To ensure that sites follow policies, guidelines, and internal controls and to verify that reforms are effective, we are requiring annual reviews of the purchase card program at each site.

Finally, during this fiscal year, we plan to conduct a Department-wide review of purchase cards at additional Federal and contractor sites to ensure that internal controls are adequate and followed and improved guidelines are being implemented. Review results will be evaluated to identify additional need for improvement in our policies, procedures and internal controls. The appendix contains our remedial action plan.

Introduction

Background

This report presents the results of our review of the Department's purchase card program. The Department of Energy operates Purchase Card programs in accordance with General Services Administration (GSA) guidelines. Our major management and operating (cost-reimbursement) contractors are permitted to either establish purchase card programs under the GSA "Smart Pay" contract utilized by the Department or establish their own purchase card programs.

The Department reimburses the costs of goods and services purchased by contractors with purchase cards whether the contractors use SmartPay or their own purchase card program. These costs are reimbursed in the same manner as other allowable costs of our management and operating contractors. Contractor costs are audited by the Department's Inspector General, generally annually, for allowability under the contract. Costs would be disallowed (and therefore not reimbursed) if they were expressly disallowable costs under the Federal Procurement Regulations, if they were disallowable under the terms of the contract, or if they were determined to be unreasonable and therefore unallowable. The Contracting Officer makes the final determination as to allowability of costs.

Objective

The objective of our review was to examine policies, procedures and internal controls and to evaluate their adequacy for preventing abuses such as those found by the Inspector General at the Department of Energy and by the General Accounting Office (GAO) at other agencies; identify significant control weaknesses that may exist; and develop an action plan for correcting noted deficiencies.

Scope and Methodology

Approximately 14,000 Federal and management and operating contractor employees had purchase cards during the period of review. Of the 14,000, there were 2,400 Federal employees and 5,000 contractors with purchase cards under the GSA SmartPay Program. The remaining 6,600 contractors held purchase cards under their own contracts with credit card organizations.

We reviewed a representative sample of sites using purchase cards comprising Headquarters, Field and contractor locations. The sample included one contractor using the SmartPay program and another using its own purchase card program. The sample consisted of 240 Federal cardholders whose activity totaled 3,461 transactions and 167 contractor cardholders with activity consisting of 3,311 transactions. Valid statistical samples were used in selecting the specific cardholder accounts to be reviewed. The table on the following page shows details of cardholder records sampled.

Purchase Cardholder Accounts Sampled at Six Sites

Organization	Number of Cardholders at time of Review	No. of Cardholders Sampled	Total Dollars By Purchase Card FY 2001	Total Purchase Card Transactions FY 2001	Dollar Amount of Transactions Sampled	Number of Transactions Sampled
Federal Site	33	21	\$732,138	626	\$83,240	167
Contractor Site	128	65	\$10,376,125	19,908	\$852,630	1,246
Federal Site	538	113	\$13,640,651	39,309	\$1,260,301	2,422
Federal Site	37	31	\$357,415	1,203	\$81,423	299
Contractor – Non SmartPay	295	106	\$17,880,594	34,286	\$1,234,551	2,065
Federal Site	250	75	\$21,989,312	17,183	\$830,980	573
Totals	1,281	411	\$64,976,235	112,515	\$4,343,125	6,772

The team reviewed policies and procedures for administering the program and for making related payments. The team also evaluated controls over issuance and cancellation of cards, use of cards, documentation of transactions, authorization and approval of transactions, review of cardholder transactions, training for cardholders and officials who approved cardholder statements, financial controls, property controls, controls over rebates, and segregation of duties. The team specifically examined records for selected purchase cardholders' transactions during fiscal year 2001.

Detailed Review Results

During the review, the team found instances of inadequate control procedures and failure to follow established procedures. The team identified 33 recommendations for improving management of the purchase card program. Our remedial action plan is included as an appendix. Details of our review findings and related recommendations follow.

A. Guidelines for Federal and Contractor Purchase Card Programs

The Headquarters Office of Procurement and Assistance Management maintains procedures for the Department's SmartPay programs, "Guidelines and Operating Procedures for the Use of the GSA SmartPay Purchase Card" (hereinafter referred to as Departmental guidelines). Contractors using SmartPay are subject to the contractual conditions negotiated by GSA with the credit card organization. About 2,400 Federal employees and 5,000 contractor employees held purchase cards under the SmartPay Program. The Departmental guidelines are applicable to contractors using SmartPay but state that contracting activities may "revise the content to reflect their specific circumstances." The team believes that this constraint needs to be more definitive in conveying that the internal control requirements contained in the guide are not optional, and that any modifications must not reduce the level of control.

The Department's contractors may also elect to establish their own purchase card programs instead of using the SmartPay program. In these instances, GSA and Departmental guidelines do not apply, thereby leaving the level of internal control up to the contractors. About 6,600 contractor employees held purchase cards under their organization's own contracts with credit card organizations. These are programs administered by the contractors through independent contracts with credit card organizations. Purchases made under these programs are reimbursed by the Department as are those made by contractors using SmartPay. The team believes that all contractors managing and operating facilities for the Department should be required to follow Departmental guidelines or have at least equivalent controls for their purchase card programs.

The team recommends that:

- A1. Headquarters Office of Procurement and Assistance Management, in conjunction with General Counsel, determine whether current policy that allows contractors to use the SmartPay program should be revised to require all contractors to establish and use their own purchase card programs and take appropriate action based on the determination.
- A2. Headquarters Office of Procurement and Assistance Management modify Departmental guidelines in accordance with recommendations made throughout this report and clearly indicate that the guidelines are applicable to all Federal and contractor SmartPay programs and that any deviations must not reduce the level of controls in place. In addition, the guidelines must clearly state the Federal responsibility for ensuring that contractor purchase card programs meet the standards established in the guidelines.

- A3. Headquarters Office of Procurement and Assistance Management issue guidelines setting internal control criteria by which contractor purchase card systems will be measured for approval by contracting officers. These standards should require a level of internal controls equal to or better than the Department's internal controls for the Federal purchase card program.

B. Issuance, Control, and Cancellation of Cards

Inventory of Cardholders

The Department's inventory of purchase cardholders for the SmartPay Program is developed from a database called EAGLS that is maintained by the credit card organization used by the Department. Departmental guidelines did not require maintenance and periodic update of all Federal and contractor cardholders in the EAGLS system. In addition, EAGLS did not include purchase cardholders within the Bonneville Power Administration (BPA) since they use a different credit card organization under a GSA contract. It also did not include cardholders at those contractors' sites with their own purchase card contracts; therefore, the inventory maintained at Headquarters was not all-inclusive.

The team also noted that Departmental guidelines required that Purchase Cards be destroyed 30 days prior to the release date (of an employee) or as soon as the event is known if within 30 days. The team found that there was no assurance that the purchase cards had actually been destroyed, that the cards were cancelled by the credit card organization, or that the inventory of cardholders was updated. The team noted that some cardholders were listed as having purchase cards during the period we included in the review but did not have cards. The Department needs to maintain and periodically update a complete inventory of Federal and contractor purchase cardholders (SmartPay and non-SmartPay) to ensure that only those individuals with valid, active purchase cards can acquire goods and services for which the Department pays either directly or through reimbursement to our contractors.

Bona Fide need for Purchase Cards

Currently, neither Departmental nor local guidelines include controls to limit the number of cardholders to the minimum necessary to effectively carry out the Department's missions. While there is not necessarily a "right number" of cardholders, steps should be taken to ensure that only those employees with bona fide need are issued cards, and that cardholder inventories are reviewed periodically to ensure the continuing need for cards. The team noted that 100 cardholders at the six sites reviewed had no transactions for the three months included in our sample. This would seem to indicate that these cards might be used very infrequently, if at all. Departmental guidelines should require activities to periodically review their list of purchase cardholders to determine whether a bona fide need exists for each card. Where the need does not exist, purchase card authority should be terminated and the cards destroyed and cancelled. Where cards are needed and used, but infrequently, the Department needs to consider whether it should utilize a feature that enables the card to be deactivated during periods it is not needed and then reactivated as needed. This would reduce the Department's risk.

Controlling Use of Cards

Under Departmental guidelines, each cardholder must have purchasing authority evidenced by either a Delegation of Authority or a Contracting Officer's Certificate of Appointment. A Certificate of Appointment is a formal written Contracting Officer warrant that is issued by the Head of the Contracting Activity to a cardholder, stating any limitations on the scope of authority to be exercised. It is used when purchase cardholders' single purchase authority exceeds the \$2,500 micro-purchase limit. A Delegation of Authority is a formal written delegation of purchasing authority that is issued by the Head of the Contracting Activity or designee to a cardholder with single purchase limit authority up to \$2,500. Cardholders may use their purchase cards to acquire goods and services within established single purchase and monthly spending limits. They are required to maintain physical custody of the purchase card at all times. The cardholder must not allow anyone else to use the purchase card or account number. A violation of this trust may require that the card be withdrawn from the cardholder with the possibility of disciplinary action. Approving Officials are responsible for reviewing and approving proposed purchase card purchases except those having prior authorization. The team noted deviations from the prescribed procedures at four of the six sites reviewed.

Cardholders with More Than One Purchase Card

The team found that some cardholders held more than one purchase card. We were informed that this practice is sometimes used to keep track of purchases of particular items or purchases for specific activities; however, this presents a greater risk of fraud or abuse. A single cardholder could have several cards with high spending and purchase limits, thereby negating the control aspect of these limits. The team believes that this practice needs to be reevaluated in light of the risk it poses.

The team recommends that:

- B1. Headquarters Office of Procurement and Assistance Management maintain and periodically update an inventory of all Federal and contractor purchase cardholders under the SmartPay program. Also, they should require that contractors not under the SmartPay program maintain, periodically update, and provide to Headquarters, an inventory of all contractor purchase cardholders working on the Department's contracts.
- B2. Headquarters Office of Procurement and Assistance Management modify Departmental guidelines to establish controls that limit the number of cardholders to the minimum necessary to effectively carry out the Department's missions.
- B3. Headquarters Office of Procurement and Assistance Management establish a requirement for the Department and its management and operating contractors to obtain and cancel purchase cards for employees as part of the formal employee separation process.

- B4. Headquarters Office of Procurement and Assistance Management require periodic reviews of accounts of cardholders who have no transactions for a specified period (e.g. 3 or 6 months) to validate the continued need for the purchase card.
- B5. Headquarters Office of Procurement and Assistance Management revoke purchase cards, and require contractors to revoke purchase cards, in those instances where: cards were issued to non-employees; employees permitted others to use their cards; employees have not provided supporting documentation on time with appropriate approvals for making payments; and employees have otherwise violated their agreements.
- B6. Headquarters Office of Procurement and Assistance Management review and update records to ensure all active cardholders have been issued delegations and/or warrants as appropriate.
- B7. Headquarters Office of Procurement and Assistance Management determine the feasibility of deactivating and reactivating purchase cards for those users who only occasionally need purchase cards.
- B8. Headquarters Office of Procurement and Assistance Management modify Departmental guidelines to limit each purchase cardholder to one card unless prior approval for more than one card is approved by the Head of the Contracting Activity.

C. Approving Officials

Approving Officials are individuals delegated approving authority by the Head of the Contracting Activity (HCA). They are responsible for reviewing the monthly Statement of Account for each cardholder under their cognizance to ensure that purchases are made in accordance with all regulatory and procedural guidance. Their review of cardholder statements is a primary internal control to ensure that purchases made by cardholders are in accordance with existing policy.

Review and Approval of Cardholder Statements

The team found that Approving Officials had not signed cardholder statements -- thereby leaving doubt as to whether they had reviewed the statements -- at five of the six sites reviewed. In those cases where Approving Officials did review statements, there was not always indication or documentation of the level of review and feedback provided to the cardholder regarding possible discrepancies or failure to follow procedures for authorization, documentation, etc. The review of cardholder statements by Approving Officials is a primary internal control to ensure that purchases made by cardholders are in accordance with existing policy and adequately documented.

Ratio of Cardholders to Approving Officials

The team found several instances where Approving Officials were responsible for reviewing and approving 20 or more cardholder statements each month. Departmental guidelines do not establish a maximum ratio of cardholders to Approving Officials; however, the team believes that Departmental guidelines should establish the maximum ratio of cardholders to Approving Officials consistent with good internal controls.

The team recommends that:

- C1. Headquarters Office of Procurement and Assistance Management reemphasize Approving Officials' responsibilities for reviewing and approving cardholder statements.
- C2. Headquarters Office of Procurement and Assistance Management establish a maximum ratio of cardholders per approving official.

D. Training

Departmental policy requires minimum levels of training for cardholders based on the amount of their purchase limits. The team noted that none of the six sites reviewed required refresher training for cardholders. In addition, the team found instances where it had not been documented that cardholders had received initial training on the use of purchase cards. Some active cardholders received their training more than 6 years ago. Training on the proper use of purchase cards protects both the individual cardholder and the Department by ensuring that the cardholder is aware of the policies and prohibitions associated with use of the purchase card. The need for initial training as well as refresher training is evidenced by the discrepancies found during our review of purchasing controls.

The team also found that Approving Officials were not always trained in their duties and responsibilities. The team believes that formal training and refresher training should be required for Approving Officials in light of the discrepancies found during the review, many of which may have been identified for correction by Approving Officials.

The team recommends that:

- D1. Headquarters Office of Procurement and Assistance Management modify Departmental guidelines to require periodic refresher training for all cardholders to help cardholders stay abreast of current policies and procedures and periodically follow up to ensure that cardholders receive refresher training.
- D2. Headquarters Office of Procurement and Assistance Management modify Departmental guidelines to require initial and refresher training for Approving Officials to ensure that they are kept aware of current policies and procedures.

- D3. Headquarters Office of Procurement and Assistance Management identify a training course for Approving Officials and complete such training for all Approving Officials.
- D4. Headquarters Office of Procurement and Assistance Management periodically follow up to ensure that Approving Officials receive initial and refresher training.

E. Cardholder Purchase Limits

Cardholder purchase limits are used to control the dollar amount of purchases that can be made using purchase cards. There are two types of individual cardholder limits used: (1) Single Purchase Limit which identifies the maximum dollar limit for each purchase and the type(s) of purchase (by activity/merchant code) that may be made; and, (2) Monthly Spending Limit which is the maximum dollar amount authorized to be spent by the cardholder within a 30-day period.

The team found that some cardholders were assigned only a single purchase limit and not a monthly spending limit by the requesting organization. In addition, the team was informed that a monthly spending limit of \$999,000 was routinely assigned to cardholders when a monthly spending limit was not specified by their organization. As a result, individuals who were not assigned a specific monthly limit had the ability to purchase up to \$999,000 in goods and services in a month. This subjects the Department to unnecessary risk. The team also noted that cardholders sometimes had limits exceeding their need based on historical usage. The table below shows the numbers of cardholders for the sites reviewed categorized by their monthly spending limit.

Monthly Spending Limits for Cardholders at Sites Reviewed		
Monthly Card Limit	Population Number of Cards	Sample Number of Cards
I. Above \$100K	337	87
II. \$25K to \$100K	754	184
III. \$10K to \$25K	235	71
IV. Under \$10K	307	69
Totals	1633	411

The team believes that monthly spending limits should be assigned to all cardholders and that limits should be commensurate with organizational requirements.

The team recommends that:

- E1. Headquarters Office of Procurement and Assistance Management establish a requirement to periodically review and adjust cardholders' spending limits to ensure that limits are maintained at the minimum necessary to carry out Departmental missions.

F. Purchasing Controls

The team noted that purchasing controls, designed to ensure that purchase cards are used only in accordance with guidelines, were not always followed. The team noted cases of inadequate

documentation to support purchases made, instances where cardholders purchased prohibited items, instances where cardholders exceeded their spending limits, cases where transactions were split to avoid exceeding spending limits, and examples where taxes were paid on purchases although the Federal government is exempt from paying taxes.

Inadequate Documentation of Purchases

Cardholders are required to maintain supporting documentation showing that purchases were authorized, that taxes were not paid, that items were received, etc. The documentation is also used to validate the amounts billed on the cardholders' monthly statements. The team found a substantial number of instances of inadequate documentation to support purchase card acquisitions at all six sites reviewed. Specifically, the team found instances where there was no receipt for the items purchased, no written approval for purchasing automated data processing equipment from the division that manages such purchases, and no approval from the managing office approving subscription purchases as required. Without adequate documentation, Approving Officials and other reviewers cannot determine whether: items were purchased in accordance with prescribed policy and procedures; items purchased were prohibited items; or items were actually received by the Department.

Authorization of Purchases

All purchases must be authorized in advance, except those having prior authorization. The team found problems in this area at three of the six sites reviewed. At a contractor site, we noted that cardholders who had been granted signature authority could authorize their own purchases. The team also found instances where cardholders did not obtain prior authorization to buy items.

Purchase Limits and Split Transactions

The review disclosed that a small percentage of cardholders had exceeded spending limits at one Federal and one contractor site reviewed. In addition, at these same sites, cardholders split transactions to avoid exceeding their single purchase limit. Cardholder limits are useful in that they help minimize the amount of risk to the Department and help activities keep expenditures within their budget.

Prohibited Purchases and Support Services

The team noted a small number of instances of prohibited or restricted purchases being made at three of the six sites reviewed. Purchase cards were used to pay for workstation alterations without prior approval as required by the guidelines. Prohibited items such as lodging and food were also purchased with purchase cards instead of travel cards. Our review also identified a significant amount of support service activities purchased by cardholders. While there are requirements that must be met when procuring support services with purchase cards, Departmental guidelines do not provide specific guidance in this area.

Payment of Taxes

Each Departmental purchase card is embossed with the notice: "U.S. GOVT TAX EXEMPT." The cardholder must inform the merchant prior to placing the telephone order or making an over the counter purchase, that the purchase is exempt from all state or local taxes, including sales taxes. The team noted instances where small dollar amounts of taxes were paid on purchases made by cardholders at four of the six sites reviewed. Although the amounts of taxes paid were only in the hundreds of dollars for the transactions the team sampled, the amount of taxes paid Department-wide is unknown.

The team recommends that:

- F1. Headquarters Office of Procurement and Assistance Management modify Departmental guidelines to include a detailed list of the types of documentation cardholders are required to maintain and reemphasize the requirement for prior authorization of purchases.
- F2. Headquarters Office of Procurement and Assistance Management modify Departmental guidelines to include guidance on procuring support services.
- F3. Headquarters Office of Procurement and Assistance Management ensure that all sites provide refresher training to all purchase cardholders to make them aware of changes made to Departmental guidelines.
- F4. Headquarters Office of Procurement and Assistance Management reemphasize requirements for documenting purchases, obtaining advance authorization of purchases, adhering to spending limits, avoiding purchases of prohibited items, and notifying vendors that purchases are tax exempt.

G. Finance Controls

Departmental guidelines outline specific steps that should be taken by the payment centers as part of the monthly review process; however, there is no provision for the payment centers to notify the purchase card program coordinator of problems with individual cardholders (e.g. statements not being submitted, not getting Approving Official signatures, etc.). Our review of one payment center's records revealed missing statements and other outstanding cardholder problems. Notifying the program coordinator would allow them to either contact the cardholder to resolve the problem or take appropriate action if the cardholder is non-responsive.

The team also identified instances where charges were made to accounts even though statements did not contain proper approvals or statements were missing all together. The team was informed by the payment center that it is their policy (albeit unwritten) to obligate and charge funds under an available funding source for the program and notify the program via E-mail that the charge was applied. Charging program accounts without the specific funding direction required from the cardholders' approved statements (or the program budget officer) places the program at risk of funding violations.

The team recommends that:

- G1. Headquarters Office of Procurement and Assistance Management modify Departmental guidelines to require payment centers to notify the purchase card program coordinator of problems with individual cardholders on a periodic basis.
- G2. Headquarters Office of Procurement and Assistance Management and Program Coordinators work with the Department's payment centers to establish and tighten controls for ensuring that: a) proper approvals are present on all statements before charging program office accounts; b) instances where cardholder statements are not received in a timely manner are referred to the program coordinator; and, c) program accounts are charged only in accordance with the funding direction provided on approved cardholder statements. Controls should include steps to suspend or revoke the accounts of cardholders who are not providing their documentation on time and with the appropriate approvals.

H. Property Controls

At the time of our review, Departmental guidelines required property and equipment delivered by vendors and acquired using the purchase card to be shipped to the receiving office (loading dock) to ensure appropriate tagging and associated updating of the property records. With respect to equipment and property that was purchased and hand carried by cardholders to the office, appropriate tagging and associated updating of the property records was required; however, the guidelines did not require cardholders to maintain specific documentation to verify receipt and recording into property records. Such documentation is critical for Approving Officials reviewing cardholders' statements and represents a vital internal control. In addition, such documentation would also help auditors and other reviewers of the purchase card program ensure that property guidelines are being followed. The team found instances where either existing controls had not been followed or, in the case of a contractor site not under the SmartPay Program, controls at the site were not as stringent as the Departmental guidelines.

The team recommends that:

- H1. Headquarters Office of Procurement and Assistance Management modify Departmental guidelines to require cardholders to obtain and maintain loading dock records or some type of property report or documentation that would validate receipt and tagging of administratively controlled purchased property and establish procedures to ensure that such purchases are periodically matched to inventory accounts.
- H2. Headquarters Office of Procurement and Assistance Management conduct a review to trace property acquired by purchase cards to the property records.

I. Rebates

Under the Smart Pay Program, the Department receives rebates from the credit card company

based on the volume of purchases made. At the time of our review, Departmental guidelines did not establish responsibility for verifying rebate amounts; therefore, there was no assurance that the Department was receiving the correct amounts in rebates. Contractors apply their rebates as a cost offset to overhead accounts, thereby reducing costs charged to the Department.

The team recommends that:

- II. Headquarters Office of Procurement and Assistance Management ensure that payment centers have the necessary information to validate rebate amounts received from the credit card organizations and ensure that payment centers and management and operating contractors validate rebate amounts and follow up with the credit card organizations to correct discrepancies.

J. Review and Follow-up

Departmental guidelines state that the Head of Contracting Activity (HCA) "...Should conduct annual reviews of cardholder records to determine the extent of adherence to prescribed policies, procedures..." Periodic review of cardholder records is key to maintaining a strong control environment and demonstrates management commitment to ensuring adherence to prescribed policies. This improves the effectiveness of existing controls and may provide some level of deterrence to misuse of purchase cards. Periodic reviews have not been mandatory but discretionary. It is evident from the findings in this report that periodic reviews would be beneficial.

The team recommends that:

- J1. Headquarters Office of Program Liaison and Financial Analysis develop a review guide which will provide a standard process for both Federal and contractor program transaction review and make the guide available on the Office of Management, Budget and Evaluation/Chief Financial Officer web site.
- J2. Headquarters Office of Program Liaison and Financial Analysis complete Department-wide review of policies, procedures and controls over Federal and contractor purchase cards.
- J3. Headquarters Office of Procurement and Assistance Management require mandatory annual (or on-going) reviews of Federal and contractor purchase card programs and records to ensure that policy revisions are implemented and internal controls are adequate and followed. Reviews should include data mining and other automated techniques as appropriate. Follow-up actions should be taken to verify that reviews are performed.
- J4. Field Office managers ensure that cost allowability reviews include steps to determine the allowability of acquisitions made by contractors with purchase cards.

- J5. Headquarters Office of Program Liaison and Financial Analysis revise the purchase card review guide based upon pilot review results. Field Office Managers and Headquarters Office of Procurement and Assistance Management follow-up on pilot review findings and recommendations to ensure that adequate corrective actions are implemented. Steps should include obtaining copies of missing cardholder documentation through contacting the credit card organization or vendors, revoking cardholder privileges where appropriate, and taking other warranted disciplinary actions.
- J6. Headquarters Office of Human Resources Management evaluate the effectiveness of the current procedures and penalties for disciplining employees who misuse purchase cards and issue appropriate guidelines to ensure prompt appropriate action is taken.

K. Segregation of Duties

The team found that, at one site, cardholders also recorded purchase card transactions (reservation and obligation of funds) and processed and authorized payment for all purchase card transactions, including their own. The team believes that this is inadequate segregation of duties in that it allows one individual to control too many aspects of the purchase card transaction, thereby increasing the risk of fraud or abuse.

The team also noted that Departmental guidelines did not prohibit Approving Officials who are also cardholders from approving their own statements. While the team did not find that this occurred, Departmental guidelines should specifically prohibit this practice.

The team recommends that:

- K1. Headquarters Office of Procurement and Assistance Management modify Departmental guidelines to require adequate segregation of duties between authorizing, approving, purchasing, accounting, and making payments for purchase card transactions.

Management Actions

Based on review results, the Department is revising its guidelines to specifically improve internal controls for those areas where deficiencies were found and taking steps to ensure that they are followed. We have initiated a comprehensive review of Federal employee cardholders to determine the appropriateness of their delegations and individuals' need for the cards. We are requiring that Approving Officials be trained and that refresher training be provided to Approving Officials and cardholders at least bi-annually. We are also requiring that rebates be verified.

With respect to contractors, we are also developing procedural guidelines to require that contractors' purchase card systems have adequate internal controls and procedures and will follow up to ensure that they are implemented. In those few instances where the Inspector General had previously identified individuals (primarily contractor employees) who abused their purchase card privileges, the individuals have resigned or been fired. In addition, they were prosecuted under applicable criminal laws. Amounts they expended for improper purchases have been determined unallowable for reimbursement. The Department will continue to take this aggressive posture.

The improvements to our policies and procedures will be conveyed to cardholders through refresher training and will be available on a web site. Approving Officials will also be made aware of current policies and procedures through training and access to the web site. To ensure that sites follow policies, guidelines, and internal controls and to verify that reforms are effective, we are requiring annual reviews of the purchase card program at each site.

Finally, during this fiscal year, we plan to conduct a Department-wide review of purchase cards at additional Federal and contractor sites to ensure that internal controls are adequate and followed and improved guidelines are being implemented. Review results will be evaluated to identify additional need for improvement in our policies, procedures and internal controls. The appendix contains our remedial action plan.

Remedial Action Plan

<u>Action</u>	<u>Responsible Office</u>	<u>Completion Date</u>
A1. Determine whether current policy that allows contractors to use the SmartPay program should be revised to require all contractors to establish and use their own purchase card programs and take appropriate action based on the determination.	Headquarters Office of Procurement and Assistance Management	August 2002
A2. Modify Departmental guidelines in accordance with recommendations made throughout this report and clearly indicate that the guidelines are applicable to all Federal and contractor SmartPay programs and that any deviations must not reduce the level of controls in place. In addition, the guidelines must clearly state the Federal responsibility for ensuring that contractor purchase card programs meet the standards established in the guidelines.	Headquarters Office of Procurement and Assistance Management	August 2002
A3. Issue guidelines setting internal control criteria by which contractor purchase card systems will be measured for approval by contracting officers. These standards should require a level of internal controls equal to or better than the Department's internal controls for the Federal purchase card program.	Headquarters Office of Procurement and Assistance Management	August 2002
B1. Maintain and periodically update an inventory of all Federal and contractor purchase cardholders under the SmartPay program. Also, require that contractors not under the SmartPay program maintain, periodically update, and provide to Headquarters an inventory of their purchase cardholders working on the Department's contracts.	Headquarters Office of Procurement and Assistance Management	July 2002

<u>Action</u>	<u>Responsible Office</u>	<u>Completion Date</u>
B2. Modify Departmental guidelines to establish controls that help limit the number of cardholders to the minimum necessary to effectively carry out the Department's missions.	Headquarters Office of Procurement and Assistance Management	June 2002
B3. Establish a requirement for the Department and its management and operating contractors to obtain and cancel purchase cards for employees as part of the formal employee separation process.	Headquarters Office of Procurement and Assistance Management	June 2002
B4. Require periodic reviews of accounts of cardholders who have no transactions for a specified period (e.g. 3 or 6 months) to validate the continued need for the purchase card.	Headquarters Office of Procurement and Assistance Management	June 2002
B5. Revoke purchase cards, and require contractors to revoke purchase cards, in those instances where: cards were issued to non-employees; employees permitted others to use their cards; employees have not provided supporting documentation on time with appropriate approvals for making payments, and employees have otherwise violated their agreements.	Headquarters Office of Procurement and Assistance Management	Continuous
B6. Review and update records to ensure all active cardholders have been issued delegations and/or warrants as appropriate.	Headquarters Office of Procurement and Assistance Management	June 2002
B7. Determine the feasibility of deactivating and reactivating purchase cards for those users who only occasionally need purchase cards.	Headquarters Office of Procurement and Assistance Management	June 2002
B8. Modify Departmental guidelines to limit each purchase cardholder to one card unless prior approval for more than one card is approved by the Head of the Contracting Activity	Headquarters Office of Procurement and Assistance Management	June 2002
C1. Reemphasize Approving Officials' responsibility for reviewing and approving cardholder statements.	Headquarters Office of Procurement and Assistance Management	June 2002

<u>Action</u>	<u>Responsible Office</u>	<u>Completion Date</u>
C2. Establish a maximum ratio of cardholders per approving official.	Headquarters Office of Procurement and Assistance Management	June 2002
D1. Modify Departmental guidelines to require periodic refresher training for all cardholders to help cardholders stay abreast of current policies and procedures and periodically follow up to ensure that cardholders receive refresher training.	Headquarters Office of Procurement and Assistance Management	June 2002
D2. Modify Departmental guidelines to require initial and refresher training for Approving Officials to ensure that they are kept aware of current policies and procedures.	Headquarters Office of Procurement and Assistance Management	June 2002
D3. Identify a training course for Approving Officials and complete such training for all Approving Officials.	Headquarters Office of Procurement and Assistance Management	October 2002
D4. Periodically follow up to ensure that Approving Officials receive initial and refresher training.	Headquarters Office of Procurement and Assistance Management	Annually
E1. Establish a requirement to periodically review and adjust cardholders' spending limits to ensure that limits are maintained at the minimum necessary to carry out Departmental missions.	Headquarters Office of Procurement and Assistance Management	June 2002
F1. Modify Departmental guidelines to include a detailed list of the types of documentation cardholders are required to maintain and reemphasize the requirement for prior authorization of purchases.	Headquarters Office of Procurement and Assistance Management	June 2002
F2. Modify Departmental guidelines to include guidance on procuring support services.	Headquarters Office of Procurement and Assistance Management	June 2002
F3. Ensure that all sites provide refresher training to all purchase cardholders to make them aware of changes made to Departmental guidelines.	Headquarters Office of Procurement and Assistance Management	August 2002

<u>Action</u>	<u>Responsible Office</u>	<u>Completion Date</u>
F4. Reemphasize requirements for documenting purchases, obtaining advance authorization of purchases, adhering to spending limits, avoiding purchases of prohibited items, and notifying vendors that purchases are tax exempt.	Headquarters Office of Procurement and Assistance Management	June 2002
G1. Modify Departmental guidelines to require payment centers to notify the purchase card program coordinator of problems with individual cardholders on a periodic basis.	Headquarters Office of Procurement and Assistance Management	June 2002
G2. Work with the Department's payment centers to establish and tighten controls for ensuring that: a) proper approvals are present on all statements before charging program office accounts; b) instances where cardholder statements are not received in a timely manner are referred to the program coordinator; and, c) program accounts are only charged in accordance with the funding direction provided on approved cardholder statements. Controls should include steps to suspend or revoke the accounts of cardholders who are not providing their documentation on time and with the appropriate approvals.	Headquarters Office of Procurement and Assistance Management/Program Coordinators	August 2002
H1. Modify Departmental guidelines to require cardholders to obtain and maintain loading dock records or some type of property report or documentation that would validate receipt and tagging of administratively controlled purchased property and establish procedures to ensure that such purchases are matched to inventory records.	Headquarters Office of Procurement and Assistance Management	June 2002
H2. Conduct a review to trace property acquired by purchase cards to the property records.	Headquarters Office of Procurement and Assistance Management	September 2002

<u>Action</u>	<u>Responsible Office</u>	<u>Completion Date</u>
I1. Ensure that payment centers have the necessary information to validate rebate amounts received from the credit card organizations, and that payment centers and contractors validate rebate amounts and follow up with the credit card organizations to correct discrepancies.	Headquarters Office of Procurement and Assistance Management	June 2002
J1. Develop a review guide that will provide a standard process for both Federal and contractor program transaction review and make the guide available on the Office of Management, Budget and Evaluation/Chief Financial Officer web site.	Headquarters Office of Program Liaison and Financial Analysis	June 2002
J2. Complete Department-wide review of policies, procedures and controls over Federal and contractor purchase cards.	Headquarters Office of Program Liaison and Financial Analysis	August 2002
J3. Require mandatory annual (or on-going) reviews of Federal and contractor purchase card programs and records to ensure that policy revisions are implemented and internal controls are adequate and followed. Reviews should include data mining and other automated techniques as appropriate. Follow up to ensure that reviews are performed.	Headquarters Office of Procurement and Assistance Management	Annually
J4. Ensure that cost allowability reviews include steps to determine the allowability of acquisitions made by contractors with purchase cards	Field Office Managers	Annually

<u>Action</u>	<u>Responsible Office</u>	<u>Completion Date</u>
J5. Revise the purchase card review guide based upon pilot review results. Follow-up on pilot review findings and recommendations to ensure that adequate corrective actions are implemented. Steps should include obtaining copies of missing cardholder documentation through contacting the credit card organization or vendors, revoking cardholder privileges where appropriate, and taking other warranted disciplinary actions.	Headquarters Office of Program Liaison and Financial Analysis (revise review guide) Field Office Managers and Headquarters Office of Procurement and Assistance Management (follow-up on pilot review findings)	July 2002
J6. Evaluate the effectiveness of the current procedures and penalties for disciplining employees who misuse purchase cards and issue appropriate guidelines to ensure prompt appropriate action is taken.	Headquarters Office of Human Resources Management	September 2002
K1. Modify Departmental guidelines to require adequate segregation of duties between authorizing, approving, purchasing, accounting, and making payments for purchase card transactions.	Headquarters Office of Procurement and Assistance Management	June 2002

U.S. Department of Energy

Report on Review of Travel Card Program



June 2002

Travel Card Review Team
Office of Management, Budget and
Evaluation/Chief Financial Officer

U. S. Department of Energy
Report on Review of Travel Card Program
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Executive Summary

This report presents the results of the Travel Card Review Team's evaluation of the Department's travel card program in response to Office of Management and Budget (OMB) Memorandum for Heads of Departments and Agencies, M-02-05, "Use of Government Purchase and Travel Cards," dated April 18, 2002. Our review team's objective was to examine policies, procedures and internal controls and to evaluate their adequacy for preventing abuses; identify significant control weaknesses that may exist; and develop an action plan for correcting noted deficiencies.

The team examined reports of delinquent payments from the March 2002 billing cycle to determine the extent of delinquent payments. In addition, the team reviewed records for Federal travel cardholders' transactions during the first half of fiscal year 2002 to identify any misuse of travel cards for charges that were not associated with official travel. The team also examined a study that had been performed by program coordinators to determine whether the cardholders on the active cardholder listing still worked for the Department. The review was performed during the period April 29 through May 23, 2002, and included Federal travel cardholder transactions and accounts at three DOE sites. The sites selected for review were a representative sample of the Department's sites using travel cards and included 43 percent of the travel cards issued at the Department. The team reviewed controls over issuance, use and cancellation of cards; documentation of transactions; review of cardholder transactions; and training for program coordinators.

The team noted that as of April 30, 2002, the Department had over 14,000 travel cards issued under the General Services Administration (GSA) SmartPay Program. The team found that a review by the Department's program coordinators identified 774 accounts that should have been closed or transferred. The team also found that, as of March 2002, the Department had a less than 2 percent delinquency rate, which is among the lowest in the Federal Government. In addition, the team noted instances that appeared to be travel card misuse for charges not associated with official travel, inadequate control procedures, and failure to follow established procedures. The team also found instances where employees and supervisors were not notified of employee travel card delinquencies and potential misuse. The team has recommendations for improvement in the following areas:

- Updating Departmental policy for the Federal travel card program, (Section A)
- Expanding program coordinator's responsibilities and card controls, (Section B), and
- Updating and strengthening responsibilities of Heads of Departmental Elements and Supervisors, (Section C)

Departmental Actions

As a result of the number of cards issued compared to the total number of employees, we directed sites to perform an immediate study to ensure that all accounts that were open were for current employees. Any accounts that were not for current employees were to be closed. As a result, the Department has taken immediate action to update the Federal travel cardholder inventory by canceling or transferring the 774 travel card accounts identified with employees

that had previously departed or transferred from the Department. The Department has already incorporated improvements to policies aimed at strengthening controls over the travel card program into a new Travel Order and anticipates issuance of the final document in the near future. We are also investigating the instances of apparent misuse of travel cards identified during the review and will follow up with appropriate action. The Department is committed to fully implementing the review recommendations and our remedial action plan is included as an Appendix.

Introduction

Background

In accordance with the Office of Management and Budget (OMB) Memorandum for the Heads of Departments and Agencies, M-02-05, "Use of Government Purchase and Travel Cards, the Department of Energy (DOE) assembled a review team (the team) which has evaluated our Travel Card program. This report provides the results of the Travel Card program review together with our remedial action plan.

The Department of Energy operates a Travel Card Program in accordance with GSA guidelines, Departmental policy, and task orders with two travel card vendors. The Federal Travel Regulations require the use of General Services Administration (GSA) contractor-issued travel charge cards for all expenses incurred in the performance of official travel. The Travel Card Program utilizes two types of accounts under the GSA "SmartPay" contract, individually billed accounts and centrally billed accounts. Individually billed accounts are established by issuing Federal employees, authorized military or Intergovernmental Personnel Assignees (IPAs), individual travel cards to pay for official travel expenses. The Department reimburses employees for authorized travel expenses within 3-4 days after submission of a valid travel voucher. Travel cardholders who have an individually billed account are personally liable and responsible for all charges made on the card and must make payments directly to the travel card vendor in full by the billing due date. Centrally billed accounts are established between the Department and the travel card vendor for official travel expenses, such as airline tickets, where the Department pays the travel card vendor directly. These accounts are used for those travelers on invitational travel, for new employees who have not yet received individual cards, and for those employees who have lost cards. Each of the Department's sites has a centrally billed account.

The Department has 21 Agency/Organization Program Coordinators (Program Coordinators) appointed at its sites to oversee the travel card program and serve as an intermediary between the travel cardholder, the travel card vendor and the Department. The Department's travel card vendor and the GSA provide guidance and training for SmartPay programs and program coordinators through conferences, workshops, online help, customer services, and guides, such as GSA's Program Coordinator Survival Guide.

As of April 30, 2002, the Department had issued 14,685 travel cards to its Federal employees and authorized military and IPAs under the GSA SmartPay Program. As of the March 2002 billing cycle with the travel card vendor, the Department had a delinquency rate of less than 2 percent, among the lowest in the Federal Government, with just over \$82,000 in delinquent accounts out of about \$ 4.3 million outstanding.

Objective

The objective of our review was to assess the policies, procedures, and internal controls to evaluate their adequacy for preventing employee abuses of the travel card program and to develop an action plan for correcting any noted deficiencies.

Scope and Methodology

Our review was performed during the period April 29 through May 23, 2002. It included Federal travel cardholders with individually billed accounts at sites selected for review covering the first half of fiscal year 2002. The review did not include centrally billed accounts for travel expenses because the team relied upon well-established financial controls over this process. The review included a representative sample of DOE sites comprised of three financial service centers with 6,300 travel cards issued (43 percent of total travel cards issued) as of April 30, 2002.

The team reviewed policies and procedures for administering the travel card program. The team evaluated controls over issuance, cancellation and use of cards; documentation of transactions; review of cardholder transactions; and training for program coordinators. To review controls, the team specifically examined delinquent travel card accounts as of the March 2002 billing cycle and travel card transactions during the first half of fiscal year 2002.

The review did not include contractor travel card programs that are separately administered by the Department's contractors through independent contracts. The Department's Inspector General announced a review of the Department's management of travel card usage by contractors, and we will rely on their results.

Detailed Review Results

The review team found instances that appeared to be misuse of travel cards for charges not associated with official travel, inadequate control procedures, and failure to follow established procedures. The team identified nine recommendations for improving the management of the travel card program. Our remedial action plan is included as an Appendix. Details of our review findings and related recommendations follow.

A. Policy and Guidelines for Federal Travel Card Program

The Department's policy for administering the Travel Card program is contained in DOE Order 1500.4A, "Travel Charge Card Program," dated September 15, 1992. While the team found low rates of delinquencies and some apparent misuse, we believe that additional controls could drive improvements in these areas.

The team recommends that:

- A1. The Office of Financial Policy issue revised policy to include internal controls conducive to minimizing employee delinquent payments and misuse of travel cards and in accordance with recommendations contained in this report.
- A2. The Office of Program Liaison and Financial Analysis and the Office of Financial Policy issue guidance requiring Field Chief Financial Officers to perform continuous reviews of travel card usage to detect misuse of travel cards.

B. Agency/Organization Program Coordinators

The Department's 21 Agency/Organization Program Coordinators (program coordinators) are delegated the role of managing the travel card program at the Department's sites. The program coordinators are responsible for providing authorized employees with the necessary forms/instructions to request a travel card; submitting travel card request forms to the travel card vendor; canceling travel cards when employees separate or transfer from the Department; and monitoring travel card payment delinquency reports before providing to Heads of Departmental Elements for distribution to supervisory personnel.

Training and Assistance

The Department's program coordinators are given access to a secured web application, the Electronic Account Government Ledger System (EAGLS) that is maintained by the travel card vendor in order to manage and monitor the travel card program. The travel card vendor provides training and guidance to program coordinators for implementing their responsibilities through online training in EAGLS and available customer service representatives. GSA also sponsors an annual Government-wide conference for SmartPay participants to stay abreast of current program applications and issues the Program Coordinator Survival Guide to explain travel card management responsibilities and provide best practices. The Department's travel card vendor and the program coordinators are proactive in addressing travel card issues and concerns by holding biweekly conference calls to discuss various subjects or problems identified by any participant in the Department's travel card program.

Controls over Issuance and Cancellation of Cards

The issuance of a travel card to an employee includes various controls that are performed by the program coordinator. These controls include the program coordinator ensuring that applications for cards are (1) accurate and complete, (2) for an active DOE employee or designated representative of DOE, and (3) processed with an appropriate credit limit and Automated Teller Machine limit. The review of these controls at the three sites identified that controls were consistently applied and a default credit limit was being utilized, unless modified and justified on an individual basis.

The cancellation of travel cards is also controlled through the program coordinator. A cardholder is required to notify the program coordinator and turn in the travel card when separating/transferring from the Department. The program coordinator is required to notify the travel card vendor by telephone to cancel the account or to cancel the account online through the EAGLS system. The review team utilized the EAGLS system to identify the total number of travel cards issued within the Department. As of April 30, 2002, the Department had a total of 14,685 travel cards issued. An initial analysis of this total indicated that it included accounts that should have been cancelled due to employee separation or transfer. Further review by the Department's program coordinators to ensure that open accounts were for current, authorized Federal employees identified 774 accounts that should have been closed or transferred and not included in the EAGLS inventory. The Department needs to maintain an accurate and current

inventory of Federal travel cardholders to ensure that only those individuals that are current Federal employees can utilize the travel card for official travel related expenses.

The team found that the program coordinator at one site is involved in the checkout process for all departing employees and requires a travel card administrative clearance to verify that travel cards of departing employees have been recovered or appropriately transferred. The review identified that program coordinators at all three review sites are utilizing the EAGLS system and/or the customer service representative with the travel card vendor to cancel travel cards, however, controls can be strengthened to ensure an accurate travel card inventory is maintained. As a result of the review, the review sites started utilizing available payroll reports of separated employees to ensure the proper cancellation of travel cards of departing employees.

Monitoring Delinquency Reports

The team examined delinquency reports from the March 2002 billing cycle to determine whether there were large amounts of delinquent payments. It should be noted that the Department receives rebates from the travel card vendor based on purchases, but the rebate amounts can be reduced due to delinquent payments. The team found that the Department had a less than 2 percent delinquency rate, among the lowest in the Federal Government. The Department's program coordinators are required to monitor charge card payment delinquency reports to identify when a travel cardholder does not pay the travel card vendor for charge transaction balances within 30 days of billing. Upon monitoring delinquency reports, the program coordinators are also required to provide such reports to the Heads of Departmental Elements for distribution to the cardholder's supervisory personnel. GSA's Program Coordinator Survival Guide suggests that the program coordinator notify delinquent cardholders by telephone, letter, electronic mail, or personal visit and make them aware that suspension and cancellation of their travel card by the travel card vendor could result if payment is not made in a timely manner. The Department's travel card provider takes action against delinquent accounts by suspending all cardholder accounts that are 60 days delinquent, canceling all cardholder accounts that are 120 days delinquent, and utilizing a collection agency. The Department's program coordinators also provide cardholder contact information to the travel card vendor or collection agency to assist in collecting delinquent and/or cancelled accounts.

The team examined the monitoring activities conducted for delinquent accounts that were 60 or more days past due as of the March 2002 billing cycle at the three review sites. As the following table summarizes, the review identified 31 delinquent accounts totaling \$35,224, of which \$32,179 was in the 60-120 day delinquent category where the travel card vendor puts the cards into suspension and \$3,045 was in the over 120 day delinquent category where the cards are cancelled by the travel card vendor.

Delinquent Cardholder Accounts at Sites Reviewed					
Sites	Total Open Accounts	Number of Delinquent Accounts	Total Dollar Amount of Delinquent Accounts	Dollar Amount of Accounts 60-120 Days Delinquent (Cards in Suspension)	Dollar Amount of Accounts >120 Days Delinquent (Cards are Cancelled)
1	4,126	14	\$ 19,498.76	\$ 17,909.76	\$ 1,589.00
2	1,325	14	\$ 12,809.24	\$ 11,353.24	\$ 1,456.00
3	501	3	\$ 2,916.47	\$ 2,916.47	\$ 0
Total	5,952	31	\$ 35,224.47	\$ 32,179.47	\$ 3,045.00

The team found that program coordinators at all three review sites monitor delinquent reports obtained through the EAGLS system on a monthly basis, however, some inconsistencies were identified with how program coordinators notify cardholders of delinquencies. The first site notifies cardholders with delinquent accounts between 45-60 days past due (when the account is approaching suspension by the travel card provider) and cardholders with other delinquent accounts unless a payment plan has been established with the travel card vendor. The team found that the second site does not notify all delinquent cardholders due to the travel card vendor's actions in pursuing the payment from the cardholder. The team found that the third site notifies cardholders of delinquent accounts when the accounts are 60 days or more past due.

The requirement for the distribution of delinquency reports to appropriate supervisory personnel is a travel card control that can provide effective deterrence and reduction to the amount of delinquent accounts at the Department.

Travel Card Misuse

The Department's travel card program policy states that cardholders shall use the travel card only for expenses incurred in conjunction with official travel and that other use of the travel card is defined as misuse and may result in disciplinary actions against the cardholder. The review identified that the Department's current travel card program policy does not require program coordinators to monitor cardholder transactions for misuse. The review examined the monitoring activities for identifying travel card misuse at the three sites by reviewing all travel cardholders' charges during the first half of fiscal year 2002 for two sites and reviewing a judgmental sample of travel cardholder's charges during the second quarter of fiscal year 2002 for a third site, due to its larger volume of transactions. The review team identified a total of 589 travel card transactions, totaling \$54,787 from the three review sites that were for charges that could not be associated with official travel and therefore apparent misuse of the travel card.

The review identified that the program coordinators at sites 2 and 3 are conducting monthly monitoring activities to identify travel card misuse and notifying employees and supervisors when cardholder misuse is identified. The review indicated that site 1 does not periodically monitor for cardholder misuse, unless the travel card vendor notifies the program coordinator of cardholder misuse or supervisory requests are made for card activities. The review indicates that the incidence of misuse was significantly reduced at site 2 when employees and supervisors are

notified of every travel card misuse. Based on the results of the review, the Department can strengthen its controls over travel card misuse.

Activation/Deactivation of Travel Cards

The Department's program coordinators have the ability to deactivate travel cards when cardholders are not on official travel and to reactivate the card shortly before a cardholder is scheduled to depart for official travel. Due to the significant administrative burden that would be placed on the Department's 21 program coordinators to deactivate and reactivate the Department's almost 14,000 travel cards based on demonstrated necessity for official travel, the Department does not consider deactivation to be a cost effective control to reduce the Department's risk. The Department will continue to evaluate selective deactivation and reactivation of travel cards for use with infrequent travelers.

The team recommends that:

- B1. The Office of Financial Policy amend program coordinators' responsibilities by including recently implemented monitoring activities of all open travel card accounts in order to ensure that only current Departmental employees are cardholders.
- B2. The Office of Human Resources Management include the Department's program coordinators in the personnel process for out-processing of separating/transferring employees to ensure travel card accounts are properly cancelled or transferred and an accurate card inventory is maintained.
- B3. Heads of Field and Headquarters Departmental Elements distribute delinquency reports to supervisory personnel to ensure that management is made aware of noncompliant cardholders and takes appropriate disciplinary actions.
- B4. The Office of Financial Policy amend program coordinators' responsibility to include monitoring activities for identifying travel card transactions for non-travel related charges.
- B5. The Office of Financial Policy continue to evaluate selective deactivation and reactivation of travel cards for use with infrequent travelers.
- B6. The Office of Human Resources Management evaluate the effectiveness of the current procedures and penalties for disciplining employees who misuse travel cards and/or fail to make timely payments. Issue appropriate guidelines to ensure prompt appropriate action is taken in such cases.

C. Responsibilities of Heads of Departmental Elements and Supervisors

The Department's travel card program policy requires that Heads of Departmental Elements distribute payment delinquency reports received from travel card program coordinators to supervisors of delinquent employees and monitor the effectiveness of management's corrective

actions. Supervisors are also required to personally counsel delinquent cardholders, advise these cardholders of potential card cancellation and administrative action, and follow up with cardholders to verify account payment. As indicated earlier in the report, the review identified that program coordinators at two review sites were not providing Heads of Departmental Elements with all cardholder delinquency reports, and consequently supervisors were not performing their travel card responsibilities. Implementation of these responsibilities could further deter cardholders from inappropriate card activity and improve the management of the Department's travel card program.

The team recommends that:

- C1. The Office of Financial Policy revise the responsibilities of Heads of Departmental Elements to provide both delinquent and misuse reports to supervisory personnel.
- C2. The Director, Office of Management, Budget and Evaluation/Chief Financial Officer, issue a memorandum to Departmental Heads directing them to evaluate employee travel card usage and recommend cancellation for employees with no foreseeable travel requirements.

Management Actions

The Department has taken immediate action to update the Federal travel cardholder inventory by canceling or transferring the 774 travel card accounts identified with employees that had previously departed or transferred from the Department. We are investigating the instances of apparent travel card misuse and will follow up with appropriate action. The Department has already incorporated improvements to policies aimed at strengthening controls over the travel card program into a new Travel Order and anticipates issuance of the final document in the near future. The Department is committed to fully implementing the review recommendations and our remedial action plan is included as an Appendix.

Remedial Action Plan

<u>Action</u>	<u>Responsible Office</u>	<u>Completion Date</u>
A1. Issue revised policy to include internal controls conducive to minimizing employee delinquent payments and misuse of travel cards and in accordance with recommendations contained in this report.	Office of Financial Policy	September 2002
A2. Issue guidance requiring Field Chief Financial Officers to perform continuous reviews of travel card usage to detect misuse of travel cards.	The Office of Program Liaison and Financial Analysis and the Office of Financial Policy	Continuous
B1. Amend program coordinators' responsibilities by including recently implemented monitoring activities of all open travel card accounts in order to ensure that only current Departmental employees are cardholders.	Office of Financial Policy	September 2002
B2. Include the Department's program coordinators in the personnel process for out-processing of separating/transferring employees to ensure travel card accounts are properly cancelled or transferred and an accurate card inventory is maintained.	Office of Human Resources Management	September 2002
B3. Distribute delinquency reports to supervisory personnel to ensure that management is made aware of noncompliant cardholders and takes appropriate disciplinary actions.	Heads of Departmental Elements	September 2002
B4. Amend program coordinators' responsibility to include monitoring activities for identifying travel card transactions for non-travel related charges.	Office of Financial Policy	September 2002
B5. Continue to evaluate selective deactivation and reactivation of travel cards for use with infrequent travelers.	Office of Financial Policy	September 2002

<u>Action</u>	<u>Responsible Office</u>	<u>Completion Date</u>
B6. Evaluate the effectiveness of the current procedures and penalties for disciplining employees who misuse travel cards and/or fail to make timely payments. Issue appropriate guidelines to ensure prompt appropriate action is taken in such cases.	Office of Human Resources Management	September 2002
C1. Revise the responsibilities of Heads of Departmental Elements to provide both delinquent and misuse reports to supervisory personnel.	Office of Financial Policy	September 2002
C2. Issue a memorandum to Departmental Heads directing them to evaluate employee travel card usage and recommend cancellation for employees with no foreseeable travel requirements.	Office of Management, Budget and Evaluation/Chief Financial Officer	September 2002