

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**International Merchant Purchase
Authorization Card Program:
Review of Calendar Year
2001 Transactions**



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**MARCH 2003
OEI-07-02-00510**

OFFICE OF INSPECTOR GENERAL

<http://www.oig.hhs.gov/>

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EXECUTIVE SUMMARY

PURPOSE

To determine whether Department of Health and Human Services' (HHS) employees properly used the International Merchant Purchase Authorization Card (IMPAC), and whether employees properly followed the HHS guidelines and agency procedures.

BACKGROUND

The IMPAC program was introduced to save the government money by avoiding costly paperwork and to speed the process of making purchases. In June 2002, HHS had 8,909 open IMPAC purchase card accounts. Cardholders made 654,322 purchases in calendar year (CY) 2001, spending more than \$321 million.

When the IMPAC program came into effect, the HHS issued guidelines for the respective agencies to use in developing their individual operating procedures. Core areas within the HHS guidelines include card issuance, card limits, training, written procedures, card security, record keeping, and acquisition. Agency procedures should be no less restrictive than the HHS guidelines.

The Inspector General for HHS testified on April 30, 2002, before the House Energy and Commerce Committee, Subcommittee on Oversight and Investigations. In that testimony, the Inspector General noted concerns with the IMPAC program and card usage, and identified current and future work on the part of the Office of Inspector General (OIG) designed to protect HHS against misuse.

We selected a stratified random sample of 400 transactions from all transactions that occurred during CY 2001. We requested and reviewed agency-specific procedures to identify key internal controls, and used these procedures to determine compliance based on documentation collected from cardholders and approving officials for the sampled transactions. We received a file of all cardholders and approving officials as of June 2002, and analyzed this file to identify vulnerabilities related to cards, cardholders, and approving officials.

FINDINGS

Although We Did Not Identify Any Transactions That Clearly Indicated Misuse or Purchases Converted to Personal Use, 44 Percent of Transactions Did Not Fully Comply With Requirements for Using the IMPAC Purchase Card

Based on our stratified random sample of 400 transactions, we did not identify any that clearly indicated misuse on the part of cardholders and approving officials, or purchases

converted to personal use. However, 166 transactions did not fully comply with the HHS guidelines and agency procedures for using the IMPAC purchase card. This number projects to 44 percent of all transactions, accounting for \$127 million of the \$321 million purchased in CY 2001. Because some of these transactions contain more than 1 problem, the sum of percentages for these 3 types do not total 44 percent. Approximately 38 percent lacked documentation of approving official review, 8 percent lacked sufficient purchase documentation, and 7 percent did not document the associated object class code.

Additional Control Weaknesses Increase the Risk of Improprieties

Although internal agency procedures are in place governing card usage, issues related to the cards themselves came to light through an examination of the file of all IMPAC accounts “open,” as of June 2002.

These issues, along with selected examples, include:

- open accounts that should be closed – 1,390 cards were reported lost or had expired, yet these accounts remained open on U.S. Bank’s file;
- infrequent card usage – 790 of 6,823 accounts had no activity during CY 2001;
- agencies failing to set reasonable card limits – the HHS had at least \$2.4 billion in available “credit” during CY 2001, yet made only \$321 million in purchases;
- relationships of cardholders to approving officials – 7 accounts have the cardholder and approving official listed as the same person;
- span of control of approving officials – 19 percent of approving officials have responsibility for 5 or more accounts; and
- approving officials and cardholders not collocated – 17 percent of accounts have approving officials with different zip codes in their mailing addresses than the corresponding cardholders.

As these concerns persist, the IMPAC program remains vulnerable to misuse.

Cardholder and Approving Official Actions Demonstrate a Lack of Understanding of Agency Procedures and the Need for Updated and Enhanced Training

Although the HHS guidelines and agency-specific procedures require training, cardholders’ and approving officials’ actions demonstrate a lack of understanding in properly controlling and safeguarding cards. Specific examples from our sample of 400 transactions include:

- 31 percent of cardholders produced their cards from their personal wallets, despite the HHS guidelines, which recommend that cardholders keep cards in locked locations when not in use, and 1 cardholder could not find his card;
- 23 percent of cardholders had not signed their cards, increasing the ease with which another person could use the card, if lost or stolen; and
- 1 office maintained a listing of card numbers in an electronic file so that any cardholder in the office could use any other card if he or she reached the 30-day limit on his/her card, and 1 cardholder had given the card to another individual, despite the HHS guidelines and agency procedures, which specifically prohibit use of a card by anyone other than the authorized cardholder.

CONCLUSION AND RECOMMENDATIONS

Although we did not identify any transactions that clearly indicated misuse on the part of cardholders and approving officials, or purchases converted to personal use, issues related to documentation, or the lack thereof, and the failure to follow internal controls did raise concerns. Our review of the cardholder file from U.S. Bank raised issues with cards and cardholders, such as unused accounts and questionable card limits. Finally, cardholders' and approving officials' actions demonstrate a lack of understanding of agency procedures and the need for updated and enhanced training.

Therefore, we recommend that the Office of the Assistant Secretary for Administration and Management, working through agency program coordinators:

- Ensure that cardholders, approving officials, and agencies are in full compliance with the guidelines established,
- Develop guidance where none currently exists, and
- Provide periodic targeted training for current cardholders and approving officials.

AGENCY COMMENTS

The draft of this report was reviewed by the Office of the Assistant Secretary for Administration and Management (ASAM). In its response, ASAM noted that it received input from the General Accounting Office and the Office of Management and Budget (OMB) that emphasized findings in our report. The ASAM noted that it will work with OMB to improve internal controls highlighted in our report.

The ASAM did state that the OIG may have drawn an "incorrect inference from the vendor's (US Bank) use of non-standard terminology." More specifically, the OIG failed to note that "open" accounts reported lost or stolen do not create a risk because they have been deactivated. Although it is true that we did not identify purchases associated with the cards we identified as lost or stolen, we chose to include the information because we had requested a file of "open" accounts, expecting to receive only open, active accounts.

Instead, we received a file containing large numbers of inactive accounts. We believe this could create difficulties in successfully managing the IMPAC program within HHS. Agency program coordinators, with whom we spoke, expressed frustration with their attempts to “clean up” their cardholder accounts, only to see accounts they attempted to get closed continue to show up on “open” account reports. We have revised the report to help clarify this point. The full text of ASAM’s comments can be found in Appendix D.

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INTRODUCTION

PURPOSE

To determine whether Department of Health and Human Services' (HHS) employees properly used the International Merchant Purchase Authorization Card (IMPAC), and whether employees properly followed the HHS guidelines and agency procedures.

BACKGROUND

The IMPAC program was introduced to save the government money by avoiding costly paperwork and to speed the process of making purchases. In June 2002, the HHS had 8,909 open IMPAC purchase card accounts. Cardholders used the IMPAC purchase cards and checks (a feature of the program that allows cardholders to write a check against the IMPAC purchase card account when individuals or entities do not accept purchase cards) to make 654,322 purchases in calendar year (CY) 2001, spending more than \$321 million.

To protect against unauthorized or fraudulent use of purchase cards, the *Treasury Financial Manual*, Vol. 1, Part 4, Section 4525 requires that each agency has its own internal procedures for using purchase cards. When the IMPAC program came into effect, the HHS issued guidelines for the respective agencies to use in developing their individual operating procedures. Core areas within the HHS guidelines included card issuance, card limits, training, written procedures, card security, record keeping, and acquisition. Agency procedures should be no less restrictive than the HHS guidelines.

Nine agencies within the HHS have IMPAC program coordinators and have issued procedures governing card usage. These agencies are the Agency for Healthcare Research and Quality, Centers for Disease Control and Prevention, Centers for Medicare & Medicaid Services, Food and Drug Administration, Health Resources and Services Administration, Indian Health Service, National Institutes of Health, Program Support Center (PSC), and the Substance Abuse and Mental Health Services Administration. Smaller agencies or offices that do not have their own program coordinators, such as the Office of Inspector General (OIG), receive their cards through the PSC.

The Inspector General for HHS testified on April 30, 2002, before the House Energy and Commerce Committee, Subcommittee on Oversight and Investigations. In that testimony, the Inspector General noted concerns with the IMPAC program and card usage, and identified current and future work on the part of the OIG designed to protect the HHS against unauthorized or questionable activity. As part of the current work, the OIG's Office of Investigations (OI) has received from U.S. Bank (the vendor for the HHS IMPAC purchase card program) information for all transactions dating back to

November 1999. The OI electronically reviews the data to identify potentially questionable purchases. These purchases are forwarded to the cognizant agency for their review; the agencies return the results to OI for appropriate action.

METHODOLOGY

The OIG's Office of Evaluation and Inspections (OEI) obtained data from OIG/OI for all HHS IMPAC card transactions occurring between November 1999 and April 2002. Using this file, we identified all transactions that occurred during CY 2001. There were 654,322 transactions that met this criteria. We excluded from the population transactions of \$5 or less, due to the low risk to the HHS associated with these purchases (8,426 transactions in CY 2001 totaling \$28,748). We also attempted to exclude all New York-based hotel expenditures (34 transactions totaling \$2.8 million) that were used for continuity of operations following September 11, 2001, due to the potential sensitivity related to these transactions and because normal restrictions for use of credit cards were temporarily not in effect to accommodate these types of transactions. We did not exclude transactions for other types of purchases (e.g., security services, communication equipment) that occurred because of operational changes after September 11, 2001. From the remaining transactions, we selected a stratified random sample of 400. A description of the 5 strata with their population, corresponding dollar amounts, and sample size are shown in Table 1 below.

Table 1: Stratified Sample of Transactions

Purchase Amount	Number of Transactions (CY 2001)	Dollar Amount of Transactions	Sample Size
\$25,000 or more	159	\$7,873,071	50
\$10,000 to less than \$25,000	1,163	\$18,363,580	50
\$2,500 to less than \$10,000	10,112	\$45,284,615	100
\$500 to less than \$2,500	151,206	\$167,850,785	100
Greater than \$5 to less than \$500	483,222	\$79,361,431	100
Totals	645,862*	\$318,733,482	400

*Total excludes transactions of \$5 or less and hotels related to continuity of operations post September 11, 2001.

For 375 of the 400 transactions, we met with the cardholder, approving official, and/or acting or designated officials.¹ We collected from them all documentation supporting the transaction that was maintained in the cardholder or approving official's files. For the remaining 25 transactions, we requested that documentation be submitted via mail or fax because the locations of the cardholders and approving officials were remote, making the costs associated with travel to the locations greater than the risk associated with not making on-site visits.

For each transaction, information that we requested included, but was not limited to, receipts, orders, invoices, or packing slips; the object class code associated with the item; proof of approving official review and approval; inventory control and transferred/excessed forms (if appropriate); and evidence of bids, sole source, or the existence of a master contract for purchases exceeding \$2,500. Whenever possible and appropriate, we matched equipment (e.g., computers, fax machines) against the inventory control forms. We also checked where cardholders maintained their cards and whether the cards were signed, the training status of cardholders and approving officials, and whether cardholders or approving officials had in their possession their agency's IMPAC procedures. Finally, we had the cardholder, approving official, and/or acting or designated officials sign an attestation verifying that the information we received was complete and accurate.

We sought to collect only those documents maintained in the cardholder and approving official files, based on agency procedures that require cardholders and approving officials to maintain documents to support each individual transaction. Therefore, we did not seek documents at off-site locations, although we did allow approving officials and cardholders to fax documentation to us for one week following on-site fieldwork. Documents were faxed to us for 10 percent (37 of 375) of the sampled transactions. Fieldwork was conducted between July 17 and August 23, 2002.

We requested and received from the nine aforementioned agencies their current IMPAC procedures. We reviewed these procedures to identify key internal controls, and compared these procedures against the HHS guidelines and across agencies. We used the identified controls as the basis of reviewing the sampled transactions. For each transaction, we made a determination of whether documentation was maintained to support the purchase and whether there was a failure to comply with internal controls (e.g., no proof of approving official review, object class code not maintained). Confidence intervals for key estimates can be found in Appendix A of this report.

We requested from U.S. Bank a listing of all "open" accounts as of June 2002. This file contained 8,909 records, with fields identifying the cardholder and address; approving official and address; dates issued, returned, and expired (if appropriate); and limits on

¹Some cardholders and approving officials were not available when we were scheduled to visit their location. We made arrangements for someone to act on the cardholder or approving official's behalf and to provide access to and certify the information we required.

card usage, including single-purchase and 30-day limits. We used this file to review various aspects related to the cards, and the cardholders and approving officials. We also matched the file to our transaction file to determine card usage as well as to determine the cardholder and approving official associated with each sampled transaction.

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

FINDINGS

Based on our stratified random sample of 400 transactions and the documentation we received from cardholders and approving officials supporting these transactions, we did not identify any transactions that clearly indicated misuse on the part of cardholders and approving officials, or purchases converted to personal use. However, we did find significant noncompliance with the HHS guidelines and agency procedures regarding (1) approving official review, (2) purchase documentation, and (3) object class codes. In addition, our review of the cardholder file from U.S. Bank disclosed internal control weaknesses, such as unused accounts and questionable card limits, which increase the risk of improprieties. Finally, although guidelines and procedures require cardholders and approving officials to receive training, cardholder and approving official noncompliance with the HHS guidelines and agency procedures demonstrate a lack of understanding of these policies and the need for updated and enhanced training.

Although We Did Not Identify Any Transactions That Clearly Indicated Misuse or Purchases Converted to Personal Use, 44 Percent of Transactions Did Not Fully Comply With Requirements for Using the IMPAC Purchase Card

One hundred sixty-six of the 400 sampled transactions did not fully comply with requirements for using the IMPAC purchase card, as described in the HHS guidelines and agency procedures. This number projects to 44 percent of all transactions, accounting for \$127 million of the \$321 million purchased in CY 2001. Three types of problems comprise the 44 percent projection, including (1) no evidence of approving official review, (2) lack of purchase documentation, and (3) failure to record object class codes. Because some of these transactions contain more than 1 problem, the sum of percentages for these 3 types do not total 44 percent. Table 2 on the following page summarizes these problems, while Appendix B provides breakdowns of problem types for each transaction.

Table 2: Breakdowns of Transactions with Problems

Reason	Number of Transactions/ Problems	Percent of Universe	Projected Purchase Amount (Millions)
No evidence of approving official review	125	38%	\$97
Insufficient purchase documentation	65	8%	\$46
Failure to record object class code	28	7%	\$22
Total of transactions which do not fully comply with requirements	218 problems across 166 transactions	44%	\$127

Agency procedures require cardholders and approving officials to maintain documents to support purchases and demonstrate compliance with internal controls. We gathered available documents (mostly through on-site visits) and reviewed these documents to determine whether procedures were followed. An overview of guidelines and procedures for IMPAC transactions can be found in Appendix C.

Approximately 38 percent of transactions had no evidence of approving official review

The HHS guidelines describe the need for approving officials to review accounts prior to forwarding information to their respective finance offices for payment. Agency procedures provide greater specificity on (1) what approving officials must do – reviewing invoices, packing slips, or other appropriate purchase documentation – and (2) how they must do it – signing the bottom of card statements or, more recently, using electronic automated systems to document review.

Cardholders or approving officials either did not obtain or maintain evidence of approving official review for 125 of the 400 transactions. This number projects to 38 percent of all transactions, accounting for \$97 million in purchases. Some cardholders claimed approving official review had occurred, but we could not find anything to support these claims within the cardholder or approving official files, and cardholders and approving officials did not supply any additional documentation via fax after completion of our site visits. Cardholders and/or approving officials did sign attestations indicating that the information we received at the completion of our fieldwork was complete and accurate.

Approximately 8 percent of transactions had insufficient purchase documentation

The HHS guidelines indicate the need to maintain a paper trail “. . . that will support all purchases and be available to anyone auditing the process.” Agency procedures support this guideline by requiring cardholders or approving officials to obtain charge slips, cash register receipts, packing slips, or invoices, or to include a statement in the files as to why such documentation does not exist and what steps were taken to collect the missing documentation.

Sixty-five of the 400 transactions had insufficient purchase documentation. This number projects to 8 percent of all transactions, accounting for \$46 million in purchases. For 51 of these transactions, there was no invoice or receipt. For 12 transactions, the invoice amount did not equal the transaction amount. For 2 transactions, we could not determine if credits for disputed transactions were ever received.

Due to the seriousness of problems for 30 of the transactions with documentation problems, we re-contacted the cardholders and approving officials and requested additional documentation. More than half could not or did not supply any additional documentation. Of those that did, some still could not fully support the transaction, and one supplied information indicating that the purchase was split between two cardholders to circumvent single-purchase limits.² We have referred several transactions for further development and/or investigation.

Approximately 7 percent of transactions did not have a recorded object class code

The HHS guidelines state that “The individual card holder must write the CAN [Common Accounting Number] and object class on the Statement of Account as appropriate, and the approving official must also verify this information.” All agency procedures echoed the need to document the object class code.

Cardholders did not maintain the object class code for 28 of the 400 sampled transactions, or 7 percent when projected to the universe, accounting for \$22 million in purchases. The object class code is an accounting code, which is used to classify expenditures to maintain budgetary control and report expenditures to the Office of Management and Budget. We did not trace these transactions to final accounting records to determine whether the transactions were properly classified. Our objective was to determine whether the

² Agency procedures clearly prohibit cardholders from splitting purchases to avoid purchase limits. We purposively selected 16 attempted transactions that would have exceeded the account’s single-purchase limit as further evidence of efforts to circumvent limits. We identified all transactions that each of the 16 cardholders made, and then, for each cardholder, searched for purchases on the same day or within a few days of the declined transaction. Six of the 16 had 2 or 3 purchases that, when added, matched the amount of the declined transaction. One cardholder, with a \$25,000 single-purchase limit, split a \$36,450 transaction into two transactions – \$18,225 each – after having the original transaction declined.

cardholder documented the object class code as the HHS guidelines and agency procedures require.

Additional Control Weaknesses Increase the Risk of Improprieties

In addition to our work on the sampled transactions, we expanded our review to include analyses of accounts listed as open to identify additional vulnerabilities. Because agencies could not adequately provide us with a listing of all “open” IMPAC accounts, we requested such a listing from U.S. Bank. The file we received contained all the HHS accounts with the status listed as “open” as of June 2002. Additional vulnerabilities that could place the HHS at risk of misuse include the following:

- coding 1,390 accounts as open that should be closed,
- maintaining infrequently used cards,
- setting extreme 30-day limits, ranging up to \$2 million, and
- having approving officials responsible for an excessive number of accounts and allowing circumstances that compromise the independence of approving official review.

As these concerns persist, the IMPAC program remains vulnerable to questionable, fraudulent, and unsupported purchases, and overall misuse.

Approximately 16 percent of open accounts should be closed

A review of the file from U.S. Bank revealed that 1,374 cards were reported lost, although the account status remained open. An additional 16 accounts had expiration dates that made the accounts inactive, yet, again, the status on the accounts remained “open.”

Although no account activity was associated with any of these 1,390 accounts, they do increase the administrative burden associated with managing the IMPAC program. Several of the program coordinators throughout the HHS indicated they report to U.S. Bank when accounts should be closed. However, the coordinators claim that these accounts frequently remained in an “open” status when the coordinators received updated statements of open accounts. They were left to make additional contacts to U.S. Bank to attempt to resolve the matter.

More than one-fifth of cards are being used infrequently

Using the U.S. Bank file, we identified 6,823 accounts that were “active” throughout CY 2001. We arrived at this number by taking the file of “open” accounts from U.S. Bank and excluding all cards reported lost or with expiration dates prior to 2001, or with dates indicating accounts opened in 2002.

Of the 6,823 accounts active throughout CY 2001, 790 had no transaction activity during the entire year. Approximately 22 percent (1,491) of all accounts had fewer than 6 total transactions – less than 1 transaction every 2 months – during 2001. Cardholders may be less likely to notice that a card is lost or stolen if it is used infrequently.

At the other extreme, 3 percent (179) had more than 500 transactions during the year. The highest number of transactions was 2,650, which averages out to more than 7 transactions a day for every day of CY 2001. Table 3 below summarizes transactional activity for all accounts open throughout CY 2001.

Table 3: Number of Transactions Associated with Accounts Active Throughout CY 2001

Number of Transactions per Account During CY 2001	Number of Accounts	Percent
0	790	11.6%
1	194	2.8%
2-6	627	9.2%
7-12	555	8.1%
13-24	901	13.2%
25-48	1,228	18.0%
49-100	1,252	18.4%
101-1,000	1,218	17.8%
1,001-2,000	52	0.8%
Greater Than 2,000	6	0.1%
Total	6,823	100.0%

Agencies fail to set reasonable card limits

The HHS guidelines instruct agencies to establish card limits in relation to the bona fide needs of the office involved, consistent with sound management and oversight. In addition, limits should be as realistic as possible and tied into the office’s budget and operating plan. Limits help protect the office or agency against financial loss if the cardholder or another individual uses the card improperly.

In CY 2001, the HHS had at least \$2.4 billion in available “credit” to make purchases with the IMPAC cards. We computed this figure by multiplying all available 30-day

limits for the 6,823 accounts “open” throughout CY 2001 by 12 months. The extreme 30-day limit was \$2 million, with two cardholders having this limit. It bears repeating that the HHS used cards to make approximately \$321 million in purchases in CY 2001, meaning that cardholders used less than 14 percent of available limits for purchases. Table 4 on the next page summarizes 30-day limits for cards active throughout CY 2001.

**Table 4: Summary of 30-day Limits
for Accounts Active Throughout CY 2001**

30-day Limit	Number of Accounts	Percent
\$100 to \$2,500	819	12.0%
Greater than \$2,500 to \$5,000	1,168	17.1%
Greater than \$5,000 to \$10,000	2,067	30.3%
Greater than \$10,000 to \$25,000	1,719	25.2%
Greater than \$25,000 to \$50,000	491	7.2%
Greater than \$50,000 to \$100,000	321	4.7%
Greater than \$100,000	238	3.5%
Total	6,823	100.0%

As further evidence that agencies set questionable limits:

- 54 accounts (0.8 percent) active throughout CY 2001 had single-purchase limits that were greater than the 30-day limits;³
- Cardholders for 133 accounts (1.9 percent) would need to make 50 or more purchases a month to reach the 30-day limit, assuming each purchase was the maximum allowable single-purchase amount; and

³A program coordinator informed us that the agency uses default single-purchase limits and sets 30-day limits, based on office needs. This explanation may explain why some single-purchase limits fall below the 30-day limit.

- 28 accounts had a single-purchase limit of \$1.⁴ The cardholder for one such account attempted to make 66 purchases during the first quarter (January through March) of 2002, all of which were denied. The limit remained at \$1 at the time we received the cardholder file in June 2002.

Specific guidelines and procedures do not address potential vulnerabilities related to cardholders and approving officials

The HHS guidelines and agency procedures do not specifically address many situations related to cardholders and approving officials, including who can act as an approving official for whom, the span of control for approving officials, and the location of cardholders relative to approving officials. Our review of the file of accounts active throughout CY 2001 revealed the following situations:

- 7 accounts list the same individual as cardholder and approving official – since none of these accounts were in our sample, we cannot say whether these cardholders are actually approving their own transactions;
- For 29 accounts, cardholders and approving officials have reversed relationships on another 29 accounts (i.e., individual A is the cardholder and individual B is the approving official on one account, while individual A is the approving official and individual B is the cardholder on another account) – the nature of reversed relationships on accounts may present an environment for misuse;
- 378 approving officials have responsibility for 5 or more accounts, while the extreme is 1 approving official responsible for 72 accounts – we question the extent of transaction approvals for approving officials with many accounts to manage; and
- 1,193 cardholders had mailing addresses in ZIP codes different from the ZIP codes listed for the approving official, with the extreme being 2,770 miles between the address for the cardholder and the approving official – this situation potentially limits communication and sharing of purchase documentation between cardholders and approving officials.

⁴A program coordinator informed us that the agency sets single-purchase limits at \$1 when cardholders fail to properly comply with requirements governing the IMPAC purchase card. This limit effectively prevents the cardholders from using the cards until matters have been resolved.

Cardholder and Approving Official Actions Demonstrate a Lack of Understanding of Agency Procedures and the Need for Updated and Enhanced Training

According to the IMPAC procedure manuals for all nine agencies, training is required for cardholders and approving officials. Seven agencies specifically require completion of training before a card is issued. Nonetheless, our findings show cardholders and approving officials lack an understanding of IMPAC procedures.

In addition to previously identified failures to obtain or maintain evidence of approving official review, retain sufficient purchase documentation, and/or properly record the object class code, we offer the following examples from our random sample of 400 transactions where cardholders and approving officials are not properly following procedures:

- 31 percent of cardholders produced their cards from their personal wallets, despite the HHS guidelines, which recommend that cardholders keep cards in locked locations when not in use, and 1 cardholder could not find his card;
- 23 percent of cardholders had not signed their cards, increasing the ease with which another person could use the card if lost or stolen; and
- 1 office maintained a listing of card numbers in an electronic file so that any cardholder in the office could use any other card if he or she reached the 30-day limit on his/her card, and one cardholder had given the card to another individual, despite the HHS guidelines and agency procedures that specifically prohibit use of a card by anyone other than the authorized cardholder.

Potentially compounding this lack of understanding is the fact that procedure manuals for two agencies are currently in draft status. During the on-site visits, approving officials and cardholders for one of the agencies told us that their agency had never released a final procedures manual, while the other agency recently updated procedures to reflect changes in transaction review and approval.

CONCLUSION AND RECOMMENDATIONS

The IMPAC card purchase program was intended to save the government money by reducing the burden of completing excessive paperwork and to expedite the process of making purchases. We did not identify any transactions that, based on the documentation we were able to obtain, clearly indicated misuse on the part of cardholders and approving officials, or purchases converted to personal use. In addition, where controls exist, they appear to provide protection against abuse, if properly followed. Yet 44 percent of transactions had no evidence of approving official review, insufficient purchase documentation, and/or no recorded object class code. We recognize that, for efficient operation of the IMPAC program, some situations (e.g., lack of approving official and cardholder collocation) may be necessary. However, control weaknesses, such as unreasonable limits and a lack of specific controls, increase the risk of improprieties. Finally, although guidelines and procedures require cardholders and approving officials to receive training, questionable cardholder and approving official actions demonstrate a lack of understanding of agency procedures and the need for updated and enhanced training.

As the IMPAC purchase card program continues to evolve, internal controls and procedures may fail to provide adequate protection against misuse. Therefore, we recommend that the Office of the Assistant Secretary for Administration and Management, working through agency program coordinators:

- As soon as possible, ensure that agencies are in full compliance with the established guidelines, including the following areas: (1) maintaining documents to support all transactions, (2) closing unnecessary accounts, (3) establishing appropriate card limits, (4) issuing final procedure manuals, and (5) maintaining physical security of the card.
- Develop guidance specifically targeting: (1) location of cardholders and approving officials, (2) role of approving officials and cardholders and the implications of those roles being interchangeable, and (3) breadth of approving official span of control.
- Provide periodic targeted training for cardholders and approving officials with particular emphasis given to: (1) maintenance of supporting documentation, (2) responsibilities of approving officials, (3) agency-specific card limits, and (4) card security and designated authorized users.

AGENCY COMMENTS

The draft of this report was reviewed by the Office of the Assistant Secretary for Administration and Management (ASAM). In its response, ASAM noted that it received input from the General Accounting Office and the Office of Management and Budget (OMB) that emphasized findings in our report. The ASAM noted that it will work with OMB to improve internal controls highlighted in our report.

The ASAM did state that the OIG may have drawn an “incorrect inference from the vendor’s (US Bank) use of non-standard terminology.” More specifically, the OIG failed to note that “open” accounts reported lost or stolen do not create a risk because they have been deactivated. Although it is true that we did not identify purchases associated with the cards we identified as lost or stolen, we chose to include the information because we had requested a file of open accounts expecting to receive only open, active accounts. Instead we received a file containing large numbers of inactive accounts. We believe this could create difficulties in successfully managing the IMPAC program within HHS. Agency program coordinators, with whom we spoke, expressed frustration with their attempts to “clean up” their cardholder accounts, only to see accounts they attempted to get closed continue to show up on “open” account reports. We have revised the report to help clarify this point. The full text of ASAM’s comments can be found in Appendix D.

Confidence Intervals for Key Estimates

We calculated confidence intervals for five key estimates. The estimates are given at 90 percent confidence level.

Key Estimate	Point Estimate– Percent	Confidence Interval– Percent	Point Estimate– Dollar Amount	Confidence Interval– Dollar Amount
Transactions which do not fully comply with requirements	43.503%	+/-6.439%	\$126,655,676	+/- \$19,770,302
Transactions which lack evidence of approving official review	38.435%	+/-6.347%	\$97,266,068	+/- \$17,646,406
Transactions which have insufficient purchase documentation	8.111%	+/-3.231%	\$45,918,740	+/- \$13,239,430
Transactions which lack a recorded object class code	6.543%	+/-3.267%	\$21,762,200	+/- \$9,796,178

Matrix of Transactions with Problems

One hundred sixty-six of 400 sampled transactions have one or more problems, as indicated in the table below.

Sample Number	No evidence of approving official review	Insufficient purchase documentation	Lack of recorded object class code
6	x		
7	x		
8	x		
9	x		
10	x		
15	x		
16	x		
17	x		
18	x		
21	x		
22		x	
27	x		
32	x	x	
34	x		
35	x	x	
39	x		
40	x		
41	x		
42	x		
44	x		
52		x	
53		x	
54		x	
55	x		
71	x		
72		x	
73	x	x	x
75	x		
82	x	x	
93	x	x	x
96	x		
97	x		
98		x	
102	x		
104	x		x
105	x	x	x

Sample Number	No evidence of approving official review	Insufficient purchase documentation	Lack of recorded object class code
106		x	
108		x	
112	x		
114	x		x
116	x		
117	x		
118	x	x	x
119	x		
123		x	
135	x		
140		x	
141		x	
143	x		
144	x		
145	x	x	x
150	x		
151		x	
153		x	
155	x	x	x
156	x	x	
159	x		x
165		x	
167		x	
168		x	
170		x	
172		x	
175	x	x	
179	x		x
180	x		
181	x		
184	x		
186	x	x	x
187	x	x	
188		x	
189	x		
190	x	x	
191	x	x	
192		x	
193	x		
194	x		
195	x	x	
196	x	x	
197		x	x
198		x	

Sample Number	No evidence of approving official review	Insufficient purchase documentation	Lack of recorded object class code
199		x	
201	x	x	
202	x	x	
203	x	x	
204	x	x	
206	x		
207	x		
208	x		
210	x		
211	x		
215	x		x
217	x		
218	x		
222		x	
224		x	
225	x		x
226	x		
227	x		
228	x		
229	x		
230	x		
231	x		
232	x		
233	x		
234	x		
235	x		x
240	x		
241	x		
245	x		
248	x		
252	x	x	
253	x	x	
255	x		
256	x	x	x
261		x	
263	x		
264	x		
265	x		
266	x		
267	x	x	
268	x		
269	x		
270	x		
271	x		

Sample Number	No evidence of approving official review	Insufficient purchase documentation	Lack of recorded object class code
277	x		
278		x	
281			x
282	x		x
284	x		x
285	x		x
288	x		
289	x		
290	x		
291		x	
292	x	x	x
293	x		x
294	x	x	x
295	x		x
296	x		x
300	x		x
308	x		
313			x
322		x	
325			x
327	x		
329		x	
330		x	
331	x		
338	x		
339	x		
347	x		
350	x		
351	x		
357	x		
368	x		
370	x		
374		x	
375	x		
379		x	
380		x	
381		x	
382		x	
384		x	
393		x	
395	x		
397	x		
Totals *	125	65	28

* 166 transactions

Overview of Guidelines and Procedures

The following is an overview of guidelines and procedures governing IMPAC card usage, corresponding to areas reviewed in the body of the report. For each section, we provide the HHS guideline, if appropriate, and offer examples drawn from one or more of the agency procedures to illustrate how agencies have implemented or added to the HHS guideline or how agencies have addressed the need for a given internal control. We did make some minor revisions to the guidelines and procedures presented below to aid in readability and flow, although we did preserve the emphasis that the HHS or agencies added.

Overall, from the HHS:

These guidelines apply to all components of the HHS. Each operating component must develop written internal operating procedures regarding the use of cards. These procedures should detail the internal controls and processing steps that the operating component will follow in implementing this program.

Approving Official Review:

From the HHS:

After verification by the cardholders and approving official, the Statements of Account are sent to the serving finance office.

From the agencies:

The cardholder must register their transactions during the billing cycle in the automated Managing/Accounting Credit Card System (MACCS), ensuring that the object class code and Common Accounting Number (CAN) for the purchases are included in the data. The transaction is forwarded to the approving officials for his/her approval. When the approving official approves the transaction, the process status changes from “Registered” to “Approved”.

The cardholder must document certain information on the statement of account and attach all supporting documentation, such as charge slips, packing slips, and purchase log, and forward the signed statement to the approving official. After signing the statement of account, approving officials will return a signed copy along with back-up documentation to the cardholder to be maintained as part of their monthly purchase file.

Approving officials monitor the proper use of the purchase card by cardholders assigned to them. Approving officials are responsible for reviewing their monthly cardholders' statements and verifying that all transactions are for necessary government purchases in accordance with regulations and agency manuals. Approving officials shall:

- Ensure that established limits are not exceeded;
- Ensure that cardholders receive training;
- Receive, review, and reconcile the bank's monthly billing statement against the cardholders' statements of account, ensuring that receipts and documentation are in order;
- Certify the monthly bill statement for payment processing;
- File and maintain the cardholders' original statements of account, receipts, and charge slips, along with copies of the monthly billing statements for 6 years and 3 months.

Purchase Documentation:

From the HHS:

A paper trail must be maintained that will support all purchases and be available to anyone auditing this process. At a minimum, this paper trail must include an identification of the items bought, who requested the items, date of purchase, amount of purchase, vendor, and funds charged.

It is the responsibility of each individual card holder to keep copies of each charge slip and to quickly reconcile each monthly statement and forward the information on to the approving official.

From the agencies:

All charge slips and other documentation (including cash register receipts, packing slips, "Cardholder's Statement of Questioned Items" forms – if necessary) should be retained in a permanent file and will be required for submission to the Administrative Office when the cardholder accounts are audited. If no documentation is available, the cardholder should indicate the word "lost" under the date of purchase on the purchase log and attach a written explanation. Check to see if duplicate copies can be obtained from the merchant.

Attach all documentation (e.g., charge slips, packing slips, and any Cardholder's Statement of Questioned Item – CSQI – forms) to the log, sign and date the log, and retain in the cardholder's file.

Any time a purchase is made, whether it is done over the counter or by telephone, a monthly cumulative purchase log must be annotated and retained in the purchase file. Each cardholder must set up a purchase file for all proof of purchase documents associated with purchase card orders.

Recording of Object Class Code:

From the HHS:

The individual card holder must write the CAN and object class on the Statement of Account as appropriate, and the approving official must also verify this information.

From the agencies:

The cardholder must register their transactions/purchases during the billing cycle in the MACCS automated system, ensuring that the object class code and CAN number for the purchases are included in the data. The transaction is forwarded to the approving officials for his/her approval.

Accounting needs the cardholders to list on the monthly statement the 4 digit object class code for each item purchased. This information is needed to report to the Office of Management and Budget on how the HHS appropriations are spent.

Closing Accounts:

From the HHS:

Since the cards are issued to individual employees, they must be destroyed when the cardholder leaves the organization. The contracting officer who delegated authority and distributed the cards has the primary responsibility for recovering the cards from terminating employees and for following instructions for card termination issued by the contractor (U.S. Bank).

From an agency:

If cards need to be canceled, the cardholder must turn the card in to the approving official, who must notify the administrative officer and return the purchase card (cut in half).

Card Activity:

From the HHS:

The HHS guidelines do not specifically reference this issue, although recent scrutiny of the purchase card program has brought attention to the number of “open” accounts across government.

Card Limits:

From the HHS:

For those cardholders who have not previously exercised procurement authority, the dollar limits for card use should be set in relation to the bona fide purchasing needs of the office involved, consistent with sound management and oversight. These limits should be set as realistically as possible and the monthly purchase limit . . . should be tied into the budget and operating plan.

From the agencies:

An email is sent to request that a card be issued to the named cardholder (with the appropriate approving official's name, title, and organization), which indicates the monthly and single-purchase limits desired. The standard single-purchase dollar limit is \$2,500.

Each purchase card is subject to a single-purchase limit, a billing cycle limit, and a billing cycle office limit. Neither cardholders nor merchants are allowed to exceed single-purchase limit or split the purchase in order to accommodate the purchase card limit.

When a card is presented for purchase, and the merchant slides it through the electronic verification machine (or telephonically requests approval), the limits are compared against the proposed purchase and the transaction will not be approved if either limit is exceeded.

Cardholder and Approving Official Relationships:

From the HHS:

The HHS guidelines do not specifically reference this issue.

Approving Official Span of Control:

From the HHS:

The HHS guidelines do not specifically reference this issue, although an official with responsibility for the purchase card program noted that it is "assumed" a supervisor will be the approving official for any employees whom he or she supervises, with the result that an approving official would not have a larger span of control than a typical supervisor.

From an agency:

The recommended ratio of cardholders to approving official is 5 to 1. Under certain rare and extenuating circumstances, up to 10 cardholders per approving official may be

allowed. The monthly transaction volume of the cardholder will be taken into consideration.

Location of Approving Official and Cardholder:

From the HHS:

The HHS guidelines do not specifically reference this issue.

Training:

From the HHS:

All cardholders who have not previously held a warrant for procurement authority must be provided training by the issuing agency, preferably before the card is issued, but in any case within 6 months of issuance. The training must cover, as a minimum, the following topics:

- Required sources of supply, including Federal Prison Industries, blind and handicapped workshops, mandatory General Services Administration schedules and printing services.
- Applicable requirements of the Federal Acquisition Regulation Section 13, including small business set asides, thresholds for competition, price reasonableness, and rotation of sources.
- Allowable and non-allowable purchases, as determined by statute, regulation, and Comptroller General decision.
- Requirements for payment of monthly statements, such as: identifying each item purchased, indicating object class and fiscal data for each item, and noting credits not shown.

Approving officials should make sure all prospective cardholders fully understand all policies and procedures regarding card usage and have signed a statement to this effect before they receive a card.

From the agencies:

Prospective cardholders and approving officials must attend a training course or review the U.S. Bank Purchasing Program videotape and complete certifications (as required) prior to their account set up forms being submitted to U.S. Bank. The cardholder and approving official will sign a statement that he/she has been fully trained and understands all policies and procedures regarding the card usage prior to receiving a card.

All purchase card users must receive their cards and their authorization to use them from an agency contracting officer, via a letter of limited procurement authority. Training is also required.

Safeguarding Cards:

From the HHS:

The card is for official use only! The cardholder is responsible for the security of the card and can be personally liable for its misuse. Cardholders should take precautions to prevent others from gaining access to their cards and should not give out their card number, since this could lead to misuse and personal liability. It is recommended that cardholders keep their cards locked up when not in use.

From the agencies:

The cardholder is the only person authorized to use his/her purchase card, is responsible for the security of the purchase card, should not give anyone their card number, and can be personally liable for its misuse. It is recommended that the card be kept in a locked cabinet when not in use.

Use of IMPAC by a cardholder for a personal purchase and/or a purchase of supplies or services which the cardholder had no authority to make, and/or use of the card by a person other than the cardholder, is unauthorized.

No member of the cardholder's staff, the cardholder's supervisor, or anyone else may use the card.

Splitting Purchases:

From the HHS:

The HHS guidelines do not specifically reference this issue, although all agency procedures address split purchases.

From the agencies:

The cardholder cannot split orders to stay within the dollar limitations.

The temptation may arise to break up a \$2,800 acquisition into one \$2,500 purchase and one \$300 purchase, so that the purchase card may be used. This proposed action would be wrong and not in the best interest of the government.

Agency Comments



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of the Secretary

Washington, D.C. 20201

FEB -7 2003

MEMORANDUM

DATE:

FROM: Assistant Secretary for Administration and Management

SUBJECT: Comments on Draft Report OEI-07-02-00510

TO: Inspector General

My office has received input from several sources, including the General Accounting Office and the Office of Management and Budget, that emphasizes some of the findings set forth in your draft report on "International Merchant Purchase Authorization Card Program: Review of Calendar Year 2001 Transactions." We will be working closely with OMB in improving some of the internal controls that have been highlighted.

The only finding in the draft report to which we take exception is the one concerning the ostensibly "open" accounts that should be closed. A follow-up investigation by my staff reveals that the OIG staff almost certainly drew an incorrect inference from the vendor's (US Bank) use of non-standard terminology. When the vendor provided a list of "open" accounts, it included those for lost or stolen cards, as noted in the draft report. What was not noted was that these accounts were "open" only in the sense that the bank maintained them on its records for its own purposes. They were not "open" in the sense implied in the draft report, since they had, in fact, been de-activated and any attempted purchases made against them would have been rejected by the bank's computer system. The accounts thus were not at risk for misuse or other improprieties.

IG	_____
EAIG	_____
FDIG	_____
DIG-AS	_____
DIG-EI	_____
DIG-OI	_____
DIG-MP	_____
OCIG	_____
ExecSec	_____
Tele Sent	2-20

Ed Sontag

ACKNOWLEDGMENTS

This report was prepared under the direction of Brian T. Pattison, Regional Inspector General for Evaluation and Inspections in the Kansas City Regional Office. Other principal Office of Evaluation and Inspections staff who contributed include:

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We would like to acknowledge the following OIG staff for their assistance in this project:

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Erin Bliss, OEI, Region V
Diana S. Clark, OEI, Region VII
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