



U.S. DEPARTMENT OF TRANSPORTATION
OFFICE OF INSPECTOR GENERAL

**DOT Needs To Enhance Oversight of Its
Purchase Card Program To Mitigate
Internal Control Weaknesses**

OST

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March 11, 2020





DOT Needs To Enhance Oversight of Its Purchase Card Program To Mitigate Internal Control Weaknesses

Required by the Government Charge Card Abuse Prevention Act of 2012

Department of Transportation | FI2020022 | March 11, 2020

What We Looked At

According to U.S. Bank, Department of Transportation (DOT) employees made more than 327,000 purchase card transactions—totaling \$223.7 million—from October 2016 through March 2018. In 2013, we reported several internal control weaknesses in the Department's purchase card program, such as lack of prior approval or funding certification for purchases; use of cards by individuals other than cardholders; split purchases to circumvent single purchase limits; payments of incorrect amounts; and purchases of items not included in purchase requests. In addition, our annual charge card risk assessments disclosed areas that constitute risk to the Department's charge card program such as purchase cardholders (PCH) not meeting training requirements and using their DOT-issued purchase cards to commit acts of fraud. As a result, we determined that another audit of this program was needed. Our objectives were to (1) test existing controls to determine if they provide reasonable assurance that improper purchases are prevented or detected in the normal course of business and (2) evaluate DOT's policies and procedures for oversight of its purchase card program. We looked at purchase card program policies and procedures and supporting documentation for purchases.

What We Found

We identified internal control weaknesses in multiple areas of the purchase card program. The weaknesses show that PCHs are not consistently following existing controls to prevent improper purchases, putting the Department's purchase card program at increased risk of misuse and abuse. Specifically, based on our findings for 44 of the 109 purchase card transactions in our sample, PCHs did not always follow prescribed controls for an estimated \$86.1 million in purchases. Furthermore, we found that employees did not always use proper purchase request channels, thus putting DOT at risk for Anti-Deficiency Act violations. We also found that DOT's policies and procedures for overseeing the purchase card program are not sufficient. For example, DOT does not review individual Operating Administrations' purchase card guidance for compliance with the Transportation Acquisition Manual.

Our Recommendations

We made 13 recommendations to assist DOT in improving its oversight of the purchase card program and increasing the effectiveness of its internal controls. DOT fully concurred with 10 recommendations and partially concurred with 3.

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Memorandum

Date: March 11, 2020

Subject: ACTION: DOT Needs To Enhance Oversight of its Purchase Card Program To Mitigate Internal Control Weaknesses | Report No. FI2020022

From: Louis C. King *Louis C. King*
Assistant Inspector General for Financial and Information Technology Audits

To: Senior Procurement Executive, DOT
Federal Aviation Administrator

According to U.S. Bank,¹ Department of Transportation (DOT) employees made more than 327,000 purchase card transactions—totaling \$223.7 million—from October 2016 through March 2018. DOT’s purchase card program is administered by its Office of the Senior Procurement Executive (OSPE). OSPE oversees this program—to reduce fraud, waste, and error—for 11 Operating Administrations (OA),² while the Federal Aviation Administration (FAA) oversees its own purchase card program.

In 2013, we evaluated the internal controls in place to prevent and detect erroneous purchases³ made with DOT purchase cards.⁴ As a result of our audit, we found that cardholders did not always receive approval prior to card use, received approval for purchases from approving officials that were not authorized to do so, did not verify fund availability prior to purchases, allowed other individuals to use their cards, split purchases to circumvent single purchase limits, paid incorrect amounts, and bought items not included in purchase requests. We

¹ U.S. Bank is the service provider that issues purchase cards for DOT.

² For purposes of this audit and report, OAs include: (1) the Federal Highway Administration (FHWA); (2) the Federal Motor Carrier Safety Administration (FMCSA); (3) the Federal Railroad Administration (FRA); (4) the Federal Transit Administration (FTA); (5) the Maritime Administration (MARAD); (6) the National Highway Traffic Safety Administration (NHTSA); (7) Pipeline and Hazardous Materials Safety Administration (PHMSA); and (8) the Saint Lawrence Seaway Development Corporation (SLSDC). We also include the Office of the Secretary (OST), the Office of the Inspector General (OIG), and the Volpe Center. Further, the Federal Aviation Administration (FAA) is not included as one of the eight DOT modes because it has a separate purchase card program.

³ An erroneous purchase is any purchase that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other applicable requirements.

⁴ *Actions Needed To Enforce Controls Over Purchase Cards* (OIG Report No. FI-2013-116), July 25, 2013.

also found that cardholders and approving officials did not take required purchase card training.

We have not audited the Department's purchase card program since 2013. However, we performed annual charge card risk assessments that disclosed areas that constitute risk to the Department's charge card program—such as purchase cardholders (PCH) not meeting training requirements and using their DOT-issued purchase cards to commit acts of fraud. As a result, we determined that another audit of this program was needed.

Our objectives for this audit were to (1) test existing controls to determine if they provide reasonable assurance that improper purchases are prevented or detected in the normal course of business and (2) evaluate DOT's policies and procedures for oversight of its purchase card program.

We conducted our work in accordance with generally accepted Government auditing standards. To accomplish our objectives, we reviewed relevant laws, regulations, and other authorities that govern DOT's purchase card program. We reviewed departmentwide and individual OAs' purchase card policies and procedures. We interviewed key department personnel who oversee purchase card operations. We assessed the effectiveness of internal controls by analyzing a statistical sample of purchase card transactions. Our total sample size was 109 with a total transaction amount of \$3,337,783.12, which was 1.5 percent of the universe amount. Exhibit A provides details on our scope and methodology, and exhibit B presents the locations we visited or contacted.

We appreciate the courtesies and cooperation of Department of Transportation representatives during this audit. If you have any questions concerning this report, please call me at (202) 366-1407, or George Banks, Program Director, at (202) 420-1116.

cc: The Secretary
DOT Audit Liaison, M-1
FAA Audit Liaison, AAE-100

Background

The purpose of the purchase card program is to streamline the payment process for small purchases and reduce the administrative burden associated with procuring goods and services under the micro-purchase threshold.⁵ The Government Charge Card Abuse Prevention Act of 2012⁶ (act) requires Executive Branch agencies to establish and maintain safeguards and internal controls for purchase cards. Consistent with the act, the Office of Management and Budget (OMB) prescribes policies and procedures to reduce waste, fraud, and error in Government charge card programs.⁷

DOT's purchase card program is governed by the Transportation Acquisition Manual (TAM), Appendix A, *Department of Transportation Purchase/Credit Card Program*. The TAM is the primary internal purchase card guidance for the OAs, except FAA, which has its own guidance.⁸ The TAM permits OAs to develop their own individual purchase card procedures. Although OAs have specific guidance and procedures that apply to their unique operations, the basic purchase card procurement process is similar for all OAs.

Purchase card personnel at the OA-level include agency program coordinators (APC), approving officials, and PCHs, all with different responsibilities. APCs have overall responsibility for administering the purchase card programs within their OAs. Their responsibilities include determining the single and monthly purchase limits for new cardholders; ensuring cardholders and approving officials receive training; and ensuring the security of all information management reports related to their programs. Approving officials' duties include ensuring that PCHs follow OA policies regarding use of purchase cards, verifying that purchases were for valid Government requirements, and initiating appropriate action if a cardholder uses a purchase card in an unauthorized manner. Lastly, PCHs are responsible for executing purchase transactions, complying with applicable policies and procedures, and verifying that sales taxes have not been charged.

⁵ A micro-purchase is an acquisition of supplies or services using simplified acquisition procedures. The threshold is the maximum amount a purchase can be to qualify as a micro-purchase. For the period of our audit, the micro-purchase threshold was \$10,000 for FAA and \$3,500 for the other OAs.

⁶ Pub. Law No. 112-194 (2012).

⁷ OMB, Circular A-123, Appendix B, *Improving the Management of Government Charge Card Programs*, January 2009. Because OMB updated this Circular and made effective on August 27, 2019, it does not apply to this audit.

⁸ FAA, *Acquisitions Management System, Purchase Card Program*.

Results in Brief

DOT lacks sufficient controls in multiple areas of the purchase card program.

PCHs did not always follow prescribed controls—intended to provide reasonable assurance that improper purchases were prevented or detected in the normal course of business—for an estimated \$86.1 million⁹ in purchases based on our findings for 44 of 109 sample purchase card transactions in a universe totaling \$223.7 million. Through analysis of these transactions, we found that PCHs did not obtain required approvals prior to using their purchase cards or document those approvals; verify that funds were available for making their purchases; have complete transaction files; document that purchased items and services were received; or ensure they were not charged sales taxes on their card purchases. We also found that employees without the required purchasing authority initiated unauthorized commitments¹⁰ for an estimated \$4.1 million,¹¹ and then requested PCHs to pay for them. For example, an FAA employee without purchasing authority ordered back flow testing services and forwarded the invoice to a PCH for payment. Additionally, FAA overpaid a vendor, but did not follow up and receive a credit until 11 months after payment. Based on our sample, such incorrect payments put an estimated \$5.1 million at risk of being unrecovered.¹² Furthermore, 839 of FAA's 4,631 PCHs in our universe did not complete mandatory refresher training within required timeframes, but their purchasing authorities were not suspended. These PCHs made new purchases totaling \$10.6 million after their training had expired. Lastly, we found that a former FAA PCH's account was not closed upon his separation from FAA and continued to be used. These internal control weaknesses occurred because some PCHs did not always follow prescribed controls, or controls were not properly designed. In aggregate, these issues significantly increase the risk that purchase cards will be misused or abused.

⁹ Our \$86.1 million estimate has a precision of +/- \$21.2 million or 9.5 percent of the \$223.7 million in the universe at the 90-percent confidence level so that our confidence limits range from \$64.9 million to \$107.3 million.

¹⁰ Unauthorized commitments are agreements that are not binding because the Government representative who made it lacked the authority to enter into that agreement on behalf of the Government.

¹¹ Our \$4.1 million estimate has a precision of -\$4.1 million or -1.8 percent of the \$223.7 million in the universe at the 100-percent confidence level, and +\$5.7 million or +2.5 percent of the \$223.7 million in the universe at the 90-percent confidence level, so that our confidence limits range from \$4.4 thousand to \$9.8 million.

¹² Our \$5.1 million estimate has a precision of -\$5.1 million or -2.3 percent of the \$223.7 million in the universe at the 100-percent confidence level and +\$8.4 million or +3.7 percent of the \$223.7 million in the universe at the 90-percent confidence level so that our confidence limits range from \$20.6 thousand to \$13.5 million.

DOT's weak policies and procedures impede effective oversight of the purchase card program.

OSPE permits OAs to develop their own individual purchase card procedures, but these procedures are not always in compliance with the TAM. OSPE does not review OAs' purchase card procedures or require the OAs to certify that their guidance are compliant with the TAM. We found inconsistencies between the TAM and individual OAs' purchase card policies and procedures related to established cardholder PCH and approving official transaction review and approval timeframes. For example, we found that the Volpe Center's (Volpe)¹³ policy allowed both PCHs and approving officials 45 days from the end of the billing cycle to verify, reconcile, and approve transactions. However, the TAM requires PCHs to verify and reconcile transactions within 10 days and approving officials to approve them within 20 days of the end of the billing cycle. Because OSPE does not review OAs' purchase card procedures or require OAs to certify that their guidance are compliant with the TAM, OSPE does not effectively monitor DOT's purchase card program to verify that the program complies with Federal requirements to maintain strict internal controls to reduce the risk of fraud, waste, and error in Government charge card programs. This increases the risk that the Department's purchase cards will be misused or abused.

We are making 13 recommendations to assist DOT in improving its oversight of the purchase card program and increasing the effectiveness of its internal controls.

DOT Lacks Sufficient Controls in Multiple Areas of the Purchase Card Program

We identified internal control weaknesses in multiple areas that did not provide reasonable assurance that improper purchases were prevented or detected in the normal course of business. PCHs did not always follow prescribed controls for an estimated \$86.1 million¹⁴ in purchases. Of the 109 transactions we tested, 44 had one or more compliance issues in each of 7 areas. Specifically, we found that: prior approvals and verifications of funds availability were not obtained before purchases were made; transaction files did not include all necessary documentation; transaction files were missing receipts for purchased items and

¹³ A component of DOT's Office of the Assistant Secretary for Research and Technology, the Volpe Technical Resource Center serves as a resource for research, development, testing, evaluation, analysis, and related activities for DOT and its OAs.

¹⁴ Our \$86.1 million estimate has a precision of +/- \$21.2 million or 9.5 percent of the \$223.7 million in the universe at the 90-percent confidence level so that our confidence limits range from \$64.9 million to \$107.3 million.

services; PCHs erroneously paid sales taxes; PCHs used purchase cards to pay for unauthorized commitments; and an FAA PCH made an incorrect payment. We also found that FAA PCHs did not complete mandatory refresher training and FAA did not cancel a purchase card after a PCH separated from the Agency.

PCHs Did Not Always Follow Prescribed Controls for an Estimated \$86.1 Million in Purchases

We found that 44 of 109 sampled¹⁵ transactions—totaling \$147,607—were made by PCHs who did not follow one or more prescribed controls to prevent or detect unauthorized or unfunded purchases, erroneous payments, and payments for items or services not received. Based on our findings we estimate transactions in the amount of \$86.1 million¹⁶ or 38.5 percent of the universe total were made by PCHs who did not follow one or more controls. Some transactions had more than one non-compliance issue. For example, FAA PCHs are responsible for obtaining prior approval from their approving officials and funds certifiers before making a purchase. However, an FAA PCH purchased weed abatement services, but there was no documentation to support prior approval from the PCH’s approving official or confirmation of funds availability. In addition, FAA PCHs must verify that items have been received by documenting receipt dates and recipients in the transaction files, but the receipt for the weed abatement services was missing from the transaction file.

When PCHs do not follow one or more prescribed controls for multiple purchase card transactions, the risk that the Department will make improper purchases significantly increases, along with the possibility of misuse or abuse of purchase cards, improperly obligated funds, and fraudulent purchases. Furthermore, when DOT employees do not use the proper channels to request purchases, the Department may be put at risk of incurring Anti-Deficiency Act violations. Table 1 summarizes the purchases from our sample that had non-compliance issues, such as not following existing controls. Transactions that had more than one issue are reflected in multiple areas of non-compliance in the table, but reflected only once in the projection calculation.

¹⁵ We reviewed a statistical sample of 109 out of 327,665 purchase card transactions posted between October 1, 2016 and March 31, 2018. This sample had a transaction amount of \$3.3 million or 1.5 percent of the \$223.7 million in the universe.

¹⁶ Our \$86.1 million estimate has a precision of +/- \$21.2 million or 9.5 percent of the \$223.7 million universe at the 90-percent confidence level so that our confidence limits range from \$64.9 million to \$107.3 million.

Table 1. Schedule of Non-Compliant Purchase Card Transactions

Area of Non-Compliance	DOT Transactions	Dollar Value of DOT Transactions	FAA Transactions	Dollar Value of FAA Transactions	Total Dollar Value of Transactions
Prior approvals were not obtained or documented	4	\$20,845	23	\$82,294	\$ 103,139
Funding availability was not verified prior to purchase	6	\$20,695	24	\$ 103,894	\$ 124,589
Key supporting documentation was missing	0	0	2	\$8,102	\$8,102
Missing receipts for purchased items or services	4	\$3,967	2	\$16,445	\$20,412
Purchases included sales tax	2	\$218	0	0	\$218
Payments for unauthorized commitments without evidence of ratification ¹⁷	4	\$4,061	1	\$380	\$4,441
Incorrect payment	0	0	1	\$ 20,582	\$ 20,582

Source: OIG analysis

Table 2 presents the numbers of these non-compliant purchase card transactions by OA.

¹⁷ Ratification is the act of approving an unauthorized commitment by an official who has the authority to do so.

Table 2. Non-Compliant Purchase Card Transactions by OA

OA	Prior Approvals Not Obtained	Funding Availability Not Verified Prior To Purchase	Missing Key Supporting Documentation	Missing Receipts for Purchased Items or Services	Purchases Included Sales Tax	Payments for Unauthorized Commitments Without Ratification	Incorrect Payments
FMCSA	1	1	0	1	0	0	0
FRA	0	0	0	0	1	1	0
MARAD	1	0	0	0	0	0	0
NHTSA	0	1	0	1	0	1	0
OIG	1	1	0	0	0	0	0
OST	0	1	0	1	0	2	0
SLSDC	0	0	0	0	1	0	0
PHMSA	1	1	0	0	0	0	0
FTA	0	1	0	1	0	0	0
FAA	23	24	2	2	0	1	1
Totals	27	30	2	6	2	5	1

Source: OIG analysis

PCHs Did Not Obtain or Document Required Approvals Prior to Purchases

We found that PCHs did not obtain required approvals prior to using their purchase cards or document those approvals. FAA requires all verbal approvals to be documented. Furthermore, FAA and eight OAs require PCHs to obtain approval prior to making a purchase. For OAs with prior approval requirements, we identified 23 FAA transactions and 4 non-FAA transactions—totaling \$103,139—for which PCHs did not obtain or document approving official or program office approvals prior to making purchases. For example, when a Federal Motor Carrier Safety Administration (FMCSA) PCH purchased supplies, the PCH’s approving official did not approve the purchase until 43 days later. In another

example, an FAA PCH purchased a transformer, and the approving official represented that he provided verbal approval, but there was no evidence in the PCH's transaction file to support the approval because the PCH did not follow established policy.

PCHs Did Not Verify Funding Availability Prior To Purchases

We identified 30 transactions—totaling \$124,589—for which PCHs did not obtain verification of funds availability prior to making purchases. For example, an Office of the Secretary (OST) PCH purchased an annual news service subscription without verifying that funds were available. This is contradictory to OST's Purchase Card Policies and Procedures,¹⁸ which states that written approval of funding is required before a cardholder can make a purchase using his/her purchase card. Cardholders must verify funds availability prior to executing any purchase card transaction. In addition, we found that a Federal Transit Administration (FTA) PCH placed an order for office furniture, but the confirmation of funds availability was not obtained until the next day. In contrast, FTA's purchase card program order¹⁹ requires PCHs to obtain all required pre-purchase approvals in support of proposed transactions, including certification of funds and approval from the Cost Center Manager. Despite OST and FTA having clear guidance related to the requirement for PCHs to verify the availability of funds, the PCHs did not follow policy.

Key Supporting Documentation in Transaction Files Was Missing

We identified two transactions—totaling \$8,102—for which the PCHs did not retain complete transaction records or documentation was not available at all. For example, an FAA PCH purchased fuel, but an invoice to support the purchase was not retained in the transaction file. In the other transaction, a former FAA PCH purchased an electronic part for \$7,560, but FAA did not retain any supporting documentation for the transaction. FAA's purchase card guidance requires PCHs to retain supporting documentation in their records for 6 years and 3 months from the date of the transaction. The National Archives and Records Administration, General Records Schedule,²⁰ states that financial transaction records related to procuring goods and services, paying bills, collecting debts,

¹⁸ OST, *Purchase Card Policies and Procedures*, 2016.

¹⁹ FTA Order 2701.1B, *Government-Wide Purchase Card Program*, 2017.

²⁰ NARA, *General Records Schedule 1.1: Financial Management and Reporting Records*, 2017.

and accounting should be retained for 6 years after final payment. These issues occurred because FAA PCHs did not follow policy regarding document retention.

Transaction Files Were Missing Receipts for Purchased Items and Services

We identified 6 of 109 sampled transactions—totaling \$20,412—for which PCHs did not retain in the transaction files documentation supporting the receipt of purchased items and services. For example, a National Highway Traffic Safety Administration (NHTSA) PCH purchased a high-pressure regulator without documentation to support that the item was received. However, NHTSA purchase card policies and procedures²¹ state that if there are no problems, the requestor shall sign the shipping document verifying that the items were received, and that the signed shipping documents shall become part of the transaction file that the PCH maintains.

We also found that an FAA PCH purchased hazardous materials disposal services, but had no documentation to support the service was performed. FAA purchase card guidance requires that all cardholder transaction files include receipts of goods or services, signed and dated by recipients. Even though NHTSA and FAA guidance is clear on this requirement, the PCHs did not follow the guidance.

Purchases Erroneously Included Sales Tax

We identified two transactions in our sample that erroneously included sales tax—totaling \$218. For one transaction, the PCH was able to recover the sales tax. For the second transaction, the PCH was not able to obtain a credit for the paid sales tax. In this second transaction, a Federal Railroad Administration (FRA) PCH purchased conference line services and was charged sales taxes. The transaction was then included on the PCH's bank statement, reconciled and certified by the PCH, and approved by the approving official—finalizing the transaction. The PCH provided a tax exemption certificate to the vendor to obtain a credit for the paid sales tax, but the vendor refused to refund the sales tax because the PCH did not submit the request in a timely manner and the transaction was already complete. This is contrary to the TAM's Appendix A, which states that the cardholder is responsible for verifying that sales tax has not been charged. Furthermore, OMB Circular A-123, Appendix B states that the Federal Government is not liable to pay taxes to State and local Governments, and any such taxes paid must be

²¹ NHTSA, *Purchase Card Policies and Procedures V.3*, 2018.

recovered. PCHs did not follow guidance to ensure they were not charged taxes prior to making payments.

Additionally, while reviewing the bank statements for two other sample transactions, we noted another eight transactions, outside the sample, for which FAA paid sales taxes—totaling \$1,702.

PCHs Used Purchase Cards To Pay for Unauthorized Commitments

We found employees initiated unauthorized commitments and then requested that PCHs pay for their purchases. The Federal Acquisition Regulation (FAR) states that an unauthorized commitment is not binding because the Government representative who made it lacked the authority to enter into the agreement on behalf of the Government.²² We identified five transactions in our sample—totaling \$4,441—that were initiated by employees who did not have purchasing authority. For example, a NHTSA employee placed an order for job advertisements with a vendor, received the invoice for the services, then forwarded the invoice to a PCH for payment. We reviewed NHTSA's purchase card manual and noted that it did not include guidance to cardholders about unauthorized commitments. We also noted that the TAM does not provide adequate guidance about unauthorized commitments in its Chapter 1213, Appendix A, which is specific to the purchase card program. Since the TAM does not provide adequate guidance about unauthorized commitments, cardholders may lack awareness about it.

In another example, an FAA employee ordered testing services, received the invoice, and forwarded the invoice to a PCH for payment. This conflicts with FAA's purchase card guidance, which states that only the individual whose name appears on a purchase card is authorized to make purchases with that card. However, FAA purchase card guidance does not provide specific instructions to cardholders regarding unauthorized commitments.

Based on our sample, we project that purchases resulting from unauthorized commitments in our universe could total as much as \$4.1 million.²³ Not using proper purchase request channels, increases the risk of fraud, misuse, and abuse

²² FAR Part 1.602-3(a).

²³ Our \$4.1 million estimate has a precision of -\$4.1 million or -1.8 percent of the \$223.7 million universe at the 100-percent confidence level, and +\$5.7 million or +2.5 percent of the \$223.7 million universe at the 90-percent confidence level, so that our confidence limits range from \$4.4 thousand to \$9.8 million.

of Government purchase cards and puts DOT at risk for Anti-Deficiency Act violations.²⁴

An FAA PCH Made an Incorrect Payment

We identified one transaction that was paid at an incorrect amount. An FAA PCH obtained part repair services from an aircraft manufacturer but was required by the manufacturer to submit payment equal to the full price of a remanufactured part, which was \$21,959. The FAA PCH was invoiced for \$21,959 but mistakenly paid the vendor \$25,000. Further, the actual cost of the repair only came to \$4,418, and FAA did not receive credits for the overpayment or repair difference until 11 months later. The Agency followed up on this issue after we inquired about the transaction.

While FAA purchase card guidance requires PCHs to validate charges against sales receipts and invoices, the PCH did not follow FAA guidance to ensure they only make payments in correct amounts. Because of insufficient internal controls, the aircraft manufacturer was able to retain the \$20,582 that should have been credited for 11 months before FAA followed-up and received the credit. Based on our sample, we project that an estimated \$5.1 million²⁵ in funds are at risk of being unrecovered.

FAA PCHs Made Purchases Without Completing Refresher Training

We found that some of FAA's PCHs did not take cardholder refresher training in FAA's electronic learning management system within the required 2-year timeframe.²⁶ Specifically, we determined that 839 of FAA's 4,631 PCHs in our universe did not timely complete mandatory refresher training but were not suspended, and made new purchases totaling \$10.6 million after their training had expired. FAA's guidance states that the National Purchase Card Program Manager is responsible for monitoring personnel's completion of required refresher training. FAA's guidance also states that approving officials and

²⁴ The Anti-Deficiency Act, 31 U.S.C. § 1341 (1982).

²⁵ Our \$5.1 million estimate has a precision of -\$5.1 million or -2.3 percent of the \$223.7 million universe at the 100-percent confidence level and +\$8.4 million or +3.7 percent of the \$223.7 million universe at the 90-percent confidence level so that our confidence limits range from \$20.6 thousand to \$13.5 million.

²⁶ FAA, *Acquisition Management System Procurement Guidance*, Section T3.2.6, Purchase Card Program, states that each approving official and cardholder must complete purchase card refresher training every 2 years using the electronic learning management system course.

cardholders who fail to meet refresher training requirements will have their authorities suspended until required training is completed.

We could not locate training records for another 179 PCHs in FAA's electronic learning management system. As a result, we could not determine whether or not these PCHs met the refresher training requirement. These PCHs made purchases totaling \$4.3 million during the period covered by our audit.

These issues occurred because internal controls were not in place to ensure refresher training was administered consistently, monitored adequately, and completed in a timely manner.

FAA Did Not Cancel a Purchase Card When a PCH Separated From the Agency

A former FAA PCH's account was not closed promptly upon his separation from the Agency. The cardholder's account remained open for 1.5 months after his departure and six transactions—totaling \$663.52—were charged to his card. The Government Charge Card Abuse Prevention Act of 2012 requires Executive Branch agencies to immediately invalidate purchase cards when employees separate from the agencies. FAA uses an employee close-out form to notify the APC that the purchase card account must be closed. We found that the PCH's close-out and clearance form was incorrectly completed by the PCH's supervisor and never sent to the APC.

DOT's Weak Policies and Procedures Impede Effective Oversight of the Purchase Card Program

OSPE has responsibility for overseeing DOT's purchase card program, but while OAs are permitted to develop their own individual purchase card procedures, we found that OAs' procedures are not always in compliance with the TAM. OMB Circular A-123 prescribes policies and procedures to agencies regarding how to maintain strict internal controls to reduce the risk of fraud, waste, and error in Government charge card programs. Ensuring OAs' procedures are consistent with Departmental policy is a key internal control. However, OSPE does not review OAs' procedures or require OAs to certify that their manuals are compliant with the TAM. Specifically, we found inconsistencies between the TAM and some OAs' purchase card procedures related to established PCH and approving officials' transaction review and approval timeframes. For example, Volpe allowed both PCHs and approving officials 45 days from the end of the billing cycle to verify,

reconcile and approve transactions. This policy, which was revised in September 2019, was inconsistent with the TAM, which requires PCHs to verify and reconcile transactions within 10 days and approving officials to approve the transactions within 20 days from the end of the billing cycle.

We consider obtaining approvals prior to making a purchase to be a best practice.²⁷ However, this internal control is not implemented consistently throughout DOT. We identified purchases that had no evidence of prior approval. For example, a PCH working for NHTSA purchased a gas regulator without obtaining prior approval from the approving official. Additionally, some OAs' manuals did not have a requirement for PCHs to obtain approval prior to making purchases.

Conclusion

OMB, OSPE, FAA, and the other OAs prescribe policy and procedures for the execution of the Department's purchase card program. However, issues such as ineffective oversight and review of OA policies and procedures, as well as insufficient enforcement of key internal controls—including refresher training, pre-approvals, maintaining documentation of purchases—can introduce significant risks into the Department's purchase card program. Until the Department addresses these issues, it will be at increased risk of purchase card misuse and abuse, fraudulent purchases, improperly obligated funds, and Anti-Deficiency Act violations.

Recommendations

To strengthen compliance with existing purchase card requirements and enhance controls, we recommend that the Senior Procurement Executive require that OAs:

1. Develop procedures to ensure purchase card files are complete. At a minimum, ensure cardholders verify that:
 - a. supervisory and/or program office approval has been obtained prior to making purchases;

²⁷ We observed this best practice at GSA, which is responsible for administering the SmartPay Program. GSA requires its PCHs obtain prior approval before making purchases. In addition, FAA and a number of DOT OAs specifically require prior approvals in their manuals.

- b. funds availability has been confirmed prior to making purchases;
 - c. required supporting documentation is on file;
 - d. items purchased have been received and services have been accepted; and
 - e. sales tax has not been charged.
2. Implement procedures to ensure cardholders retain records in accordance with the National Archives and Records Administration's general records schedule.
3. Update purchase card guidance to include appropriate language that states that purchase cards cannot be used to pay for unauthorized commitments without appropriate documentation showing that the unauthorized commitment has been ratified in accordance with FAR 1.602-3.

To strengthen compliance with existing purchase card requirements and enhance controls, we recommend that the Federal Aviation Administrator:

4. Develop procedures to ensure purchase card files are complete. At a minimum, ensure cardholders verify that:
 - a. supervisory and/or program office approval has been obtained prior to making purchases;
 - b. funds availability has been confirmed prior to making purchases;
 - c. required supporting documentation is on file;
 - d. payment amounts match to invoices;
 - e. items purchased have been received and services have been accepted; and
 - f. sales tax has not been charged.
5. Implement procedures to ensure cardholders retain records in accordance with the National Archives and Records Administration's general records schedule.
6. Update purchase card guidance to include appropriate language that states that purchase cards cannot be used to pay for unauthorized commitments without appropriate documentation showing that the unauthorized commitment has been ratified.

7. Develop and implement controls to ensure that all trainings are administered timely in FAA's electronic learning management system, and ensure cardholders complete refresher training in a timely manner.
8. Establish procedures to enforce the suspension of purchasing authority for cardholders that do not satisfy the refresher training requirement.
9. Reiterate the importance of following the employee close out and clearance process to Purchase Cardholders, Approving Officials and Agency Program Coordinators, when a cardholder separates from the agency or the purchase card program.
10. Develop and implement a process to monitor purchase transactions that involve credits to ensure the follow-up is performed and credits are received timely.

To improve oversight over the purchase card program, and strengthen controls, we recommend that the Senior Procurement Executive:

11. Update TAM Chapter 1213, Appendix A to include appropriate language that indicates that purchase cards cannot be used to pay for unauthorized commitments without appropriate documentation showing that the unauthorized commitment has been ratified in accordance with FAR 1.602-3.
12. Update Departmental policy and procedures to require all OAs (excluding FAA) to include a requirement to obtain supervisory and/or program office approval before purchases are made.
13. Update the TAM to require OAs (excluding FAA) to certify individual purchase card program manuals to comply with TAM requirements.

Agency Comments and OIG Response

We provided DOT with our draft report on January 14, 2020, and received its formal response on February 13, 2020. DOT's response is included in its entirety as an appendix to this report. DOT fully concurred with 10 of our recommendations and partially concurred with 3—recommendations 1, 4, and 12. The Department's proposed course of action with respect to these three recommendations would comply with OMB Circular A-123's requirement that cardholders receive prior approval before making self-generated purchases. We agree that this meets the intent of our recommendations. Thus, DOT provided appropriate actions and completion dates for all recommendations.

Actions Required

We consider all 13 recommendations resolved but open pending completion of planned actions.

Exhibit A. Scope and Methodology

We conducted this performance audit between April 2018, and January 2020, in accordance with generally accepted Government auditing standards as prescribed by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The audit scope covered purchase card program activities from October 1, 2016, through March 31, 2018. The scope included reviews of Federal laws, regulations, purchase card policies and procedures, purchase card transaction information from US Bank, cardholder training records, purchase transaction files, and other purchase card-related documentation.

To accomplish our objective to determine whether DOT's existing internal controls provided reasonable assurance that improper purchases are prevented or detected in the normal course of business, we assessed the effectiveness of purchase card program's internal controls by selecting a statistical sample of purchase card transactions. We downloaded all 707,490 DOT transaction records posted between October 1, 2016, and March 31, 2018, from the US Bank server. We deleted 379,728 transactions that had a \$0 transaction amount and 97 Surface Transportation Board transactions because it is a separate entity from DOT, so that our universe consisted of 327,665 transactions with a total transaction amount of \$223,743,867.01.

We stratified this universe into 28 strata based on factors such as managing account name, transactions with negative amounts, and a census stratum of 14 transactions that were randomly selected for our survey phase. We computed sample sizes approximately proportional to the number of transactions in a stratum with a minimum of 2 and a maximum of 10 from the Working Capital Fund stratum because of its higher risk. For our sample size computations, we used an estimated non-compliance rate of 50 percent, a confidence level of 90 percent and a precision no greater than +/-10 percent. Our total sample size was 109 with a total transaction amount of \$3,337,783.12, which was 1.5 percent of the universe amount.

We analyzed this sample to identify split purchases, purchases of restricted goods or services, and purchases made outside of normal business hours. We also determined whether the purchase card process was followed and that the supporting documentation was sufficient to support each sampled transaction. We interviewed cardholders, fund certifiers, and approving officials to determine

whether they understand and follow purchase card policies and procedures when approving and making purchases.

We further assessed the control environment by identifying the roles and reviewing the responsibilities of key purchase card program officials with management and oversight responsibilities. Through this process, we gained an understanding of how DOT's purchase program operates, the flow of transactions from request to payment, and the key controls over the purchase process. We also evaluated whether DOT's policies and operations comply with the laws and regulations that govern Federal purchase card programs. Moreover, we looked at whether DOT's policies, procedures, and practices for administering and monitoring the program are sufficient to mitigate any risks. Lastly, we matched 272,761 FAA transaction records with 20,921 FAA training records for 4,631 cardholders to identify those who did not have the required training when they made purchases, and computed the amount they spent. We verified our findings by reviewing the cardholder's actual training records.

For our analysis, we relied on computer-generated data from US Bank. We assessed the reliability of the data by verifying the data against supporting documentation. Based on our testing, we determined US Bank's data were sufficiently reliable for the purpose of achieving our objectives.

To accomplish our objective to evaluate DOT's policies and procedures for oversight of its purchase card program, we reviewed relevant laws, regulations, and other authorities that govern DOT's purchase card program. We also reviewed departmentwide and individual OA purchase card policies and procedures. In addition, we gained an understanding of DOT's purchase card program by interviewing key DOT personnel who were responsible for overseeing purchase card operations.

Exhibit B. Organizations Visited or Contacted

DOT Headquarters Offices

Office of the Secretary
Office of the Senior Procurement Executive
Office of the Inspector General
Federal Aviation Administration
Federal Highway Administration
Federal Motor Carrier Safety Administration
Federal Railroad Administration
Federal Transit Administration
Maritime Administration
National Highway Traffic Safety Administration
Pipeline and Hazardous Materials Safety Administration
Saint Lawrence Seaway Development Corporation

Other DOT Field Offices

FAA, Independence, MO
FAA, Fort Worth, TX
FAA, Bedford, MA
FAA, Oklahoma City, OK
RITA/TSI, Oklahoma City, OK
Volpe, Cambridge, MA
Enterprise Services Center, Oklahoma City, OK

Other Organizations

U.S. Bank

Exhibit C. List of Acronyms

APC	agency program coordinator
DOT	Department of Transportation
FAA	Federal Aviation Administration
FAR	Federal Acquisition Regulation
FMCSA	Federal Motor Carrier Safety Administration
FRA	Federal Railroad Administration
FTA	Federal Transit Administration
MARAD	Maritime Administration
NHTSA	National Highway Traffic Safety Administration
OA	Operating Administration
OIG	Office of Inspector General
OMB	Office of Management and Budget
OSPE	Office of the Senior Procurement Executive
OST	Office of the Secretary
PCH	purchase cardholder
PHMSA	Pipeline and Hazardous Materials Safety Administration
SLSDC	Saint Lawrence Seaway Development Corporation
TAM	Transportation Acquisition Manual

Exhibit D. Major Contributors to This Report

GEORGE BANKS	PROGRAM DIRECTOR
SHIRELL BUTCHER	PROJECT MANAGER
ADDISON LEE	SENIOR AUDITOR
T. WAYNE SUMMERS JR.	AUDITOR
SANJAY DUGGAL	MANAGEMENT AND PROGRAM ANALYST
PETRA SWARTZLANDER	SENIOR STATISTICIAN
MAKESI ORMOND	STATISTICIAN
WILLIAM SAVAGE	IT SPECIALIST
SETH KAUFMAN	SENIOR COUNSEL
CELESTE BORJAS	ATTORNEY ADVISOR
SUSAN CROOK-WILSON	WRITER-EDITOR
SUSAN NEILL	WRITER-EDITOR

Appendix. Agency Comments



MEMORANDUM

**U.S. DEPARTMENT OF
TRANSPORTATION**
Office of the Secretary
of Transportation

SUBJECT: Management Response to the Office of
Inspector General's (OIG) Draft Report –
DOT's Purchase Card Program

DATE: FEBRUARY 13, 2020

FROM: Willie H. Smith
Senior Procurement Executive
Office of the Assistant Secretary for
Administration

A handwritten signature in blue ink, appearing to read "W. H. Smith", with a small square mark below the signature.

TO: LOUIS KING
Assistant Inspector General for Financial and
Information Technology Audits

Maintaining and enhancing purchase card internal controls for management and oversight of the Department of Transportation's ("Department" or "DOT") purchase card program is a top priority. We are committed to maintaining safeguards and internal controls for purchase cards and implementing effective policies and procedures to reduce fraud, waste, and abuse. As a result of our oversight, OIG's audit did not identify any instances of fraud, waste, or abuse in DOT's purchase card program.

We have several efforts underway or completed to further improve the oversight and management of the Department's purchase card program, including the following:

- conducted annual training for the Department's Agency Program Coordinators (APC) to ensure understanding and awareness of program updates, requirements, and best practices;
- provided Department-level funding to support attendance of all DOT APCs at the 2018 U.S. General Services Administration (GSA) SmartPay¹ conference to ensure a smooth transition of the program from GSA SmartPay 2 to SmartPay 3;
- enhanced contractor bank requirement for level of management reports routinely provided to DOT APCs and introduced advanced payment analytic tools as an additional measure to provide stewardship and oversight of the program under SmartPay 3; and

¹ SmartPay is the GSA contract established with contractor bank vendors to provide purchase card support services.

- committed a resource in the Federal Aviation Administration (FAA) to continuously administer, monitor and report purchase card program training in FAA’s Electronic Learning Management System

Based on our review of the draft report, the Department concurs with recommendations 2, 3, 5 through 11, and 13, as written, and plans to complete actions to implement each of the recommendations as follows:

Recommendation Number	Implementation Date
2, 3, 5, 11, and 13	October 31, 2020
6	July 31, 2020
7, 8, 9 and 10	April 30, 2020

We partially concur with recommendations 1, 4, and 12. The updated U.S. Office of Management and Budget (OMB) Circular A-123, Appendix B – *A Risk Management Framework for Government Charge Card Programs*², Section 2.4.2, states, “Agency policy should require... [Approving Official] AO approval prior to purchase.” As a result, DOT plans to update policies in this area to comply with the OMB requirement rather than OIG’s recommendation for “supervisory and/or program office approval.” We plan to complete actions to implement recommendations 1, 4, and 12 by October 31, 2020.

We appreciate the opportunity to comment on OIG’s draft report. If you have any questions, please contact Jennifer Johnson, Associate Director, Acquisition Policy, Oversight & Business Strategies at 202-366-5521.

² Issued on August 27, 2019

U.S. DOT IG Fraud & Safety Hotline

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Our Mission

OIG conducts audits and investigations on behalf of the American public to improve the performance and integrity of DOT's programs to ensure a safe, efficient, and effective national transportation system.

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