



**UNITED STATES DEPARTMENT OF COMMERCE**  
**The Inspector General**  
Washington, D.C. 20230

**STATEMENT BY**

**JOHNNIE E. FRAZIER**

**INSPECTOR GENERAL**

**U.S. DEPARTMENT OF COMMERCE**

**BEFORE THE**

**SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS**

**COMMITTEE ON ENERGY AND COMMERCE**

**HOUSE OF REPRESENTATIVES**

**MAY 1, 2002**

Mr. Chairman and Members of the Subcommittee, I am pleased to appear before you today to discuss the Office of Inspector General's activities to oversee the Department of Commerce's Purchase Card Program.

I'd like to share with you some of "the good, the bad, and the ugly" things that we have learned about the program. First, the good: The overwhelming number of Commerce and other federal employees use their government purchase cards responsibly. These cardholders follow appropriate procedures, are careful to avoid making improper purchases, and stay alert to best practices that can help the program operate efficiently.

As for the bad: The program still has a number of systemic weaknesses and problematic practices that needlessly leave it open to fraud, waste, and abuse.

And the ugly: Reports in the media and from OIGs and other oversight organizations have highlighted irresponsible and illegal use of government purchase cards, and as a result have given the Purchase Card Program a negative image.

For more than 15 years, government employees have relied on purchase cards to expedite their ability to make small purchases, obtain training, and otherwise streamline unwieldy federal procurement procedures. As Commerce and other agencies push for greater efficiency in the acquisitions process, purchase cards will become an ever-more critical procurement option and

their use will inevitably increase. Hence, I believe that our collective efforts to improve the purchase card program government-wide must be guided by three key principles:

- ◆ **STOP** any and all personal abuses with aggressive oversight and strong disciplinary actions.
  
- ◆ **CAUTION** managers to address systemic weaknesses and problematic practices.
  
- ◆ **GO** forward at full speed to implement best practices and other proactive efforts that will prevent problems and promote efficiencies.

**Background: The Purchase Card Program Has Been at Commerce for Over 15 Years**

There is a long history of the purchase card program at Commerce. Over 15 years ago, in 1986, the Commerce Department was selected as one of several agencies to participate in the government's pilot purchase card program. The current version of the program dates from 1998, when the government, through the General Services Administration, awarded contracts to five nationwide banks to implement and continue the program. These contracts, awarded for five years, also have five one-year options to renew. Commerce is scheduled to re-compete its existing contract next year to determine if it will exercise its options or select a new bank.

In fiscal year 2001, the Commerce Department averaged over 6,000 purchase cardholders at any particular time, and during this twelve-month period, these cardholders completed over 330,000 transactions valued at about \$132 million. In short, the Commerce purchase card program represents substantial purchasing power, and as a result – at least from the OIG perspective – provides substantial opportunity for misuse and fraud.

So, what then are we doing to monitor the program and what do we see as the actions that are essential to improving it?

**STOP personal abuses with aggressive oversight and strong disciplinary actions**

With over 6,000 cardholders in the Commerce Department, we also receive allegations of purchase card abuse. The allegations, when deemed credible, are handled as criminal investigations. Here are some examples of several completed investigations:

- ◆ An Office of Secretary contract specialist fraudulently used her government purchase card to buy approximately \$50,000 worth of clothing, jewelry, electronic equipment, furniture, airline tickets, sporting event tickets, concert tickets, household supplies, and hotel accommodations. These purchase card

irregularities were first reported by an approving official. After it was referred to my office, we advised the Department to immediately cancel the card, and thus, minimized the potential loss to the government while we conducted our investigation. This employee resigned during the investigation and was subsequently convicted of theft of government property, sentenced to six months in prison, followed by two months of home detention and three years' probation, as well as ordered to make full restitution.

- ◆ In another case, a former secretary with the National Weather Service regional office in Alaska was convicted of theft of government property as a result of our investigation. In this case, our investigators were contacted by the supervising meteorologist after the unauthorized purchases were finally noticed. Since the approving official was the cardholder's direct supervisor and he considered the cardholder to be a trusted employee, this misuse was able to continue for approximately a year because the cardholder intercepted the monthly statements. When the cardholder was involved in an auto accident and on extended leave, another employee opened the mail and the approving official discovered that the fraudulent purchases were taking place. In our criminal investigation of the matter, we found that, over a one-year period, the secretary charged about \$7,500 for groceries, books, school supplies, electronics, and bath accessories on her government purchase card. She also used the card to spend New Year's Eve at a

premier hotel in Anchorage. She has been sentenced to five years' supervised probation and ordered to make full restitution to the government.

- ◆ Over a four month period, a former NOAA fisheries science center secretary used her government purchase card to go on a spending spree for her children, friends, and herself. Her 74 fraudulent purchases included clothing, cosmetics, gas, nightclub charges, concert tickets, restaurant meals, and Internet services. After a reviewing official noted several questionable purchases during a routine monthly review of a Citibank report, he spoke with the cardholder who admitted that she misused the card and subsequently reported this to us. A Massachusetts state court sentenced her to repay the \$4,300 theft within one year and to complete 25 hours of community service or face a sentence of up to two years and a \$25,000 fine.
  
- ◆ A former National Weather Service automation clerk used a co-worker's government purchase card to buy more than \$1000 in personal items, including lingerie, clothing, exercise equipment, and toys. As a result of this investigation, which was initiated by a referral from the Commerce Bankcard Center, the clerk was subsequently convicted of theft of government property. The U.S. District Court sentenced her to two years probation, 50 hours of community service, and ordered her to make full restitution to the government.

- ◆ Based on a referral from the Census Bureau, we investigated and subsequently obtained a theft conviction for a former administrative assistant's misuse of her government purchase card to buy \$800 worth of personal clothing, jewelry, CDs, and electronic equipment. She was convicted of theft of government property and sentenced to serve six months in a community correction facility, given two years' probation, and ordered to make full restitution to the government.
  
- ◆ The final case I will discuss is unusual in that it involved a contract employee working for the U.S. Patent and Trademark Office. A reviewing official discovered a questionable transaction, contacted the Commerce Bankcard Center, and the case was referred to our office. During our criminal investigation we learned that a departing USPTO employee surrendered her government purchase card to the contract employee/receptionist as part of her agency's separation procedure. The receptionist and a companion immediately used the card to go on a shopping spree to purchase \$700 of clothing. This individual's sentence included full restitution to the government, a year's probation, a fine of \$1,400, and 100 hours of community service

By now, it should be clear that not one of the aforementioned individuals is still employed at the Commerce Department and that my office has an established history of fully investigating

purchase card abusers, regardless of the amount involved. And it is equally important to point out that the Justice Department and state law enforcement agencies have generally been active partners in our cases, even though some of the monetary losses were relatively small, because they believe, like I believe, that ensuring the integrity of federal operations, and the trustworthiness of federal employees, is absolutely essential for maintaining the public's confidence in the government.

**CAUTION managers to address systemic weaknesses and problematic practices**

Beginning in 1995, my office began conducting audits and other reviews of purchase card use and related activities within various components of the Department. As a result, we have issued eleven reports that dealt specifically with the purchase card program at various bureaus. In addition, we have covered this topic in a number of our inspection reports as part of an overall review of administrative services at the offices inspected. For example, our audits included headquarters operations of NOAA, MBDA, NTIA, USPTO, and the Office of the Secretary, as well as certain laboratories, science centers, and regional offices. In addition, some of our reviews looked at purchase card use at our overseas posts. The primary purpose of our reviews was to determine if purchase card use was in compliance with the *Federal Acquisition Regulation*, the *Commerce Acquisition Manual*, and the Department's *Personal Property Management Manual*.

During these reviews, we examined a sample of purchase card transactions; reviewed applicable regulations, policies, procedures, management reports, and other records; interviewed cardholders, approving officials, and other management officials; and assessed administrative and accounting controls, including controls over the physical security and authorized use of the purchase card.

Frequently we found from these proactive reviews that systemic weaknesses and problematic practices needlessly leave the purchase card program vulnerable to waste, fraud, and abuse.

More specifically, we found that:

- ◆ **Bankcards were sometimes used by unauthorized employees.** For example, during a review of a NIST laboratory, we found that several cardholders allowed other employees to use their assigned purchase cards. When questioned about this inappropriate practice, the most frequent excuse given by the cardholders was that it allowed them “to save time.” Since purchase cards may only be used for purchases that are authorized by law or regulation, assigned cardholders are responsible for complying with this safeguard aimed at ensuring such things as the availability of funds and compliance with all internal controls.

- ◆ **Bankcards were often not properly secured.** In almost all of our reviews, we found that many cardholders kept cards in wallets, handbags, or unlocked desks. According to departmental regulations, cardholders are required to keep their cards in a secure place, such as a locked drawer or cabinet. Failure to do so increases the risk that the card could be stolen.
  
- ◆ **Split purchases were made.** Some cardholders improperly divided what should have been a single purchase into separate purchases on multiple occasions to avoid purchase card limitations. At a NIST laboratory in Boulder, Colorado, for example, seven different cardholders, over a 10-month period, purchased a security system for a total of \$83,000. This system consisted of an entrance/exit keypad and a photo identification component estimated to cost \$36,000 from a single vendor. As a result of using the split purchases, there is no assurance that the government received a competitive price or even a reasonable price.
  
- ◆ **Purchase order logs not maintained.** Many cardholders were not maintaining the required purchase order log, or at least not maintaining it in the proper detail. The log is designed to provide basic financial, administrative, and shipping data for each purchase card transaction. Without recording all transactions in the log, cardholders cannot adequately document, control, and reconcile purchase activity with the purchase card statement. In addition, the approving official cannot

adequately determine whether the transactions are appropriate and properly categorized, or reconcile purchase activity with the monthly summary report received from the bankcard contractor. For example, a review of a US&FCS office in Brazil revealed that record keeping was so deficient that purchases could not be easily identified and confirmed.

- ◆ **Required purchase card training was not completed and documented.** All cardholders are required to complete a minimum level of training to understand basic purchasing concepts and the proper use of the card. In almost all of our reviews, we found a need to improve initial and refresher training provided to cardholders, as well as some approving officials. In some instances, there was no documentation that required training was completed, cardholders could not remember receiving training, or cardholders were not familiar with the *Commerce Acquisition Manual*.
  
- ◆ **Competitive procurement procedures for purchases over \$2,500 were not always used or documented.** In some cases, cardholders made purchases over \$2,500 without obtaining and/or documenting required competitive quotes or developing a sole source justification. When this happens, there is no assurance that the government obtained the most competitive price or even a reasonable price. As an example, a NOAA Northwest Fisheries Science Center cardholder

purchased an environmental monitor for \$7,000 without knowing if the government received the best price for the item.

We have found that these proactive reviews are especially useful at identifying systemic weaknesses in the internal controls designed to safeguard the program. These reviews are continuing, including our ongoing comprehensive Department-wide audit of the purchase card program.

**GO forward at full speed to implement best practices and other proactive efforts that will prevent problems and promote efficiencies**

Of course it needs to be said again that not everything is “gloom and doom” related to the purchase card program. In fact, we believe that the vast majority of the Department's 6000 cardholders are attempting to do a quality job. However, we also believe that we must constantly work with Commerce officials, managers, and others to look for ways to improve the program and do our best to implement best practices to resolve problems, prevent and detect fraud, and encourage efficiencies. I am pleased to mention a number of proactive efforts that deserve special emphasis:

- ◆ **Properly train and support the approving officials.** After all is said and done -- that is, after our recommendations have been addressed, after management has improved internal controls, after the software has been modified to check for certain anomalies -- we believe, based on our past experience, that one of the most essential elements for protecting the program from abuse is a diligent, knowledgeable approving official. The approving official is responsible for monitoring cardholder's compliance with established regulations and procedures, reviewing monthly purchase card statements, and ensuring the validity and allowability of transactions. These are also the people who most often bring allegations of abuse to our attention. Thus, we believe that the role of the properly trained approving official is perhaps the main line of defense for guarding against fraud, waste, and abuse in the purchase card program.
  
- ◆ **Publicize common problems and their solutions.** It is important to share with cardholders and program managers information about what does and does not work. Accordingly, we were pleased to learn that the Controller of NOAA's Finance Office prepared a "slide show" for his office's website that -- with a dash of humor -- highlighted a number of findings and recommendations from our purchase card reviews. His basic admonition to employees is ". . . if it's happening there, it may be happening in your area as well." I believe that this slide

show, entitled *Internal Controls Over Bankcard Programs Need Improvement*, is still posted on the agency's website and sends a powerful reminder to government cardholders.

- ◆ **Look for problems before the problems find you.** We can all learn from the experiences of others in similar situations. This was certainly the thinking of one senior Commerce official. After my office had conducted a number of reviews at National Weather Service offices, the NWS Administrator shared some of the results with more than 100 field offices and advised his managers to address any potentially similar findings at other sites BEFORE additional reviews took place.
  
- ◆ **Maintain sufficient and constant oversight.** We cannot over emphasize the importance of managers' taking prompt, appropriate corrective action when problems arise. For example, the Commerce Bankcard Center has strengthened procedures and controls related to cancellation of purchase cards for terminated employees. The center requested that the various Commerce finance and payroll offices match Social Security Numbers of employees who have left the Department with the Social Security Numbers of "current" purchase cardholders. This procedure provides additional assurance that cards of terminated employees can no longer be used. While this procedure is not yet in effect with all Commerce bureaus, it is working at the bureaus that have implemented the Department's new

financial management system, and these bureaus account for 86% of the Commerce purchase cards.

- ◆ **Senior managers need to ensure that their own houses are in order.** Let me use my own office as the example here, since I do not consider that we are immune from scrutiny. In order to emphasize to the Department, and to my staff, just how seriously I regard this issue, in October 2001, I initiated a review of purchase cards used within the Office of Inspector General. At the time of the review, my office had 10 cardholders; this number has subsequently been reduced to seven. Let me note that our interval review found no evidence of fraud or misuse of funds – and naturally I'm very thankful for those results. But the review did point out to me that, as federal offices try to take advantage of the greater flexibility offered by the purchase card program, supervisors and approving officials need to stringently adhere to the program's regulations and guidelines. In our case, for example, some of my cardholders had not kept their training up to date, and my office initiated steps immediately to correct that situation. So, even if an agency is using the purchase card program efficiently and effectively, I believe that agency officials must still maintain diligence to ensure that administrative indifference does not eventually open the door for problems or abuses.

**The IG Community is working to strengthen oversight of the government's purchase card programs**

The President's Council on Integrity and Efficiency (PCIE) is primarily composed of the presidentially appointed IGs. Two of the PCIE's primary objectives are to (1) address efficiency, economy, and effectiveness issues that transcend individual government agencies, and (2) increase the professionalism and effectiveness of OIG personnel throughout the government.

As evidenced by the presence of my distinguished IG colleagues here today from the Department of Health and Human Services and the Energy Department, and my awareness that over the past year many of the other Inspectors General have also been involved in purchase card program reviews, it is clear that this issue transcends our individual agencies and is a true cross-cutting issue that has the attention of most, if not all, Inspectors General.

With this in mind, recently the PCIE's Inspection and Evaluation Committee, which I chair, began to explore ways that the IG community members could learn from each other's experiences—again, the good, the bad and the ugly—in ways that would allow us to improve the purchase card programs government-wide. Many of us have individually developed audit programs, inspection guides, or other review documents to help guide our staffs through reviews of purchase card activities. As we began to discuss and share our approaches and review guides,

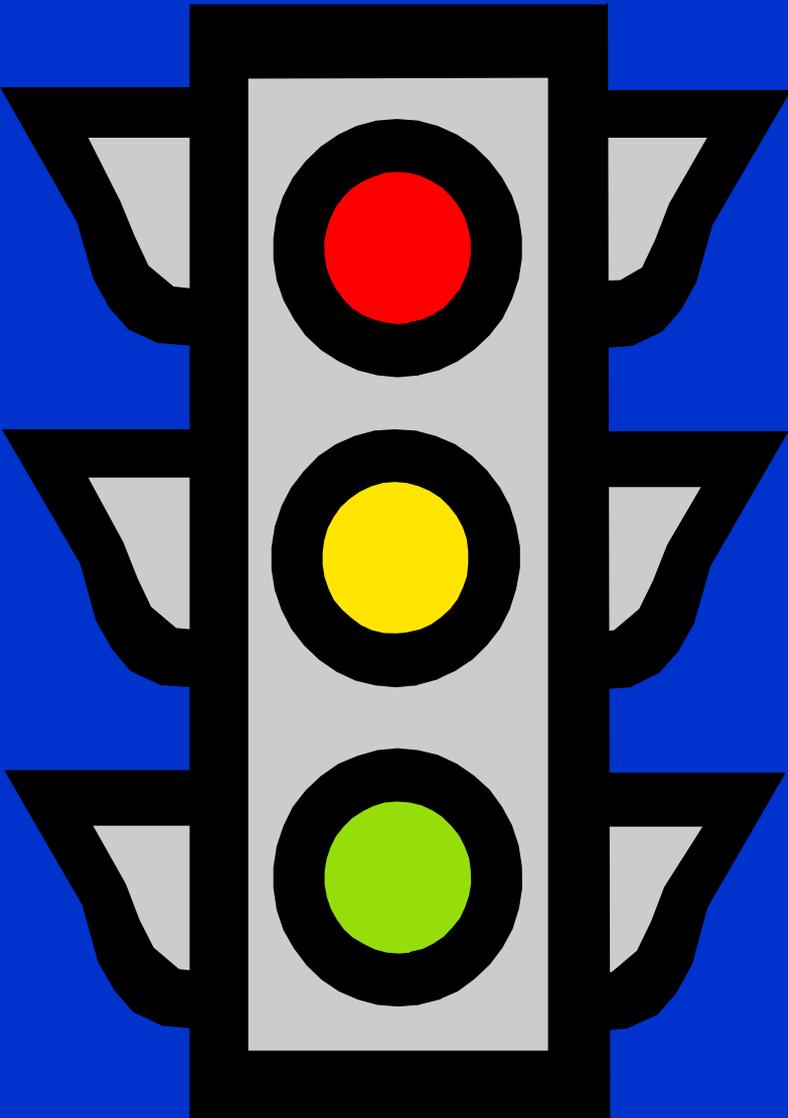
the Committee thought that it would be helpful to issue a reference guide that could be used by other Inspectors General in conjunction with their own evaluation tools and techniques. This reference guide, *A Practical Guide to Reviewing Government Purchase Card Programs*, will be issued in the next few weeks.

The guide was originally prepared for the I&E Committee by the Department of Education's IG, Lorraine Lewis, and her staff. It provides common sense advice on conducting the purchase card reviews and includes a number of practical features to enhance the review process, such as questionnaires, templates, and sample reports. It is designed to assist the IG Community in its reviews of purchase card activities. My hope is that the guide will be used in combination with the other valuable assessment tools developed by the IGs to further strengthen our oversight of government purchase card programs. Mr. Chairman, I believe that this guide reflects a continuing commitment of IGs from all agencies to work together in promoting efficiency and effectiveness throughout the government.

- - - - -

This concludes my testimony. Mr. Chairman, I will be happy to answer any questions that you or other Members of the Subcommittee may have.

# Government Purchase Cards: Traffic Ahead!



➤ **STOP** any and all “personal” abuses with aggressive oversight and strong disciplinary actions.

➤ **CAUTION** managers on the importance of addressing systemic weaknesses.

➤ **GO** full speed ahead with efforts to prevent problems, promote efficiencies, and implement best practices.