U.S. OFFICE OF PERSONNEL MANAGEMENT
OFFICE OF THE INSPECTOR GENERAL
OFFICE OF AUDITS

Final Audit Report

LIMITED SCOPE AUDIT OF THE U.S. OFFICE OF PERSONNEL MANAGEMENT'S PURCHASE CARD TRANSACTIONS

Report Number 4A-OO-00-17-046

November 27, 2017

EXECUTIVE SUMMARY

Limited Scope Audit of the U.S. Office of Personnel Management's Purchase Card Transactions

Why Did We Conduct the Audit?

The objective of our limited scope audit was to determine whether the U.S. Office of Personnel Management (OPM) made purchase card transactions that were potentially illegal, improper, or erroneous.

What Did We Audit?

The Office of the Inspector General completed a performance audit on OPM's purchase card transactions. Our audit fieldwork was conducted from March 6 through August 30, 2017, at OPM headquarters, located in Washington D.C.

What Did We Find?

We selected a random statistical sample of 46 purchase card transactions, totaling $24,187, from October 1, 2016, through March 31, 2017. We found that 23 purchase card transactions, totaling $12,956, had one or more of the following exceptions:

Exception	Number of Occurrences
Lacks Approving Official Review	7
Missing All Documentation	2
Lacks Purchase Receipt - Missing Documentation	1
Lacks Requisition Request - Missing Documentation	5
Receipt of Goods and Services - Missing Documentation	7
Lacks Written Justification for Any Exception to Policies	13
Questionable Government Need	0
Error Amount Charged and Invoice Disagrees	1

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ABBREVIATIONS

AO	**Approving Official**
APC	**Agency Program Coordinator**
CIGIE	**Council of the Inspectors General on Integrity and Efficiency**
FY	**Fiscal Year**
IT	**Information Technology**
MCC	**Merchant Category Code**
OIG	**Office of the Inspector General**
OPM	**U.S. Office of Personnel Management**

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APPENDIX   Exceptions and Causes Tables, as defined by the Council of the Inspectors General on Integrity and Efficiency's Information Technology Committee

REPORT FRAUD, WASTE, AND MISMANAGEMENT

I. BACKGROUND

This final audit report details the results from our limited scope performance audit of the U.S. Office of Personnel Management's (OPM) purchase card transactions. The audit was performed by OPM's Office of the Inspector General (OIG), as authorized by the Inspector General Act of 1978, as amended.

In October 2016, the Council of the Inspectors General on Integrity and Efficiency's (CIGIE) Information Technology (IT) Committee initiated a Government-wide project, led by the U.S. Department of Agriculture, to analyze and review government purchase card data to determine risks associated with purchase card transactions. The CIGIE IT community created a set of algorithms[1] to assist participating Inspectors General in performing data-analysis and identifying high-risk transactions. Additionally, the CIGIE IT community provided data-analytical and statistical tools, such as excel spreadsheets and random numbers, to support the reviews and provide uniformity for processing and reporting the results across the CIGIE community. The set of algorithms provided by the CIGIE IT is listed in Table 1.

A report with the aggregated information for all participating Inspectors General will be published by CIGIE, and will discuss the risks associated with purchase card transactions and the number of purchase card transactions failing the algorithms.

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[1] Procedures to be performed during our audit.

Table 1	
Algorithm Numbers	**Purchase Card Algorithms**
1	Closed Account Activities - transactions where the *transaction date* is after the *account closed date*.
2	Prohibited Merchant Category Code (MCC)[2] - transactions that were processed using a prohibited MCC.
3	Questionable MCC[3] - transactions that were processed using a questionable MCC.
4	Billing Amount is Greater than Cardholder's Single Purchase Limit - transactions where billing amounts are greater than the single purchase limit.
5	Sales Taxes - transactions with sales tax.
6	PayPal and Amazon Transactions - transactions processed by PayPal or Amazon.
7	Weekend Transactions - transactions processed over a weekend.
8	Holiday Transaction - transactions processed on a holiday.
9	Potentially Split Transactions - potential purchase splits within one day.

PREVIOUS OFFICE OF THE INSPECTOR GENERAL REPORTS

In fiscal year (FY) 2016, the OIG conducted an audit of OPM's purchase card program. [4] The final report was issued on July 7, 2017. Our audit found that OPM needed to strengthen controls over its purchase card operations processes in the following five areas:

1. Of the 164 active purchase cards in OPM at the time of our audit, we found that 23, which had been issued to a former agency program coordinator, were not immediately canceled when the employee separated from OPM. Five of the cards were used for purchases, totaling $54,212, by unauthorized users.

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[2] Merchant category codes are established by the card issuing bank and are assigned to vendors as a means to identify the merchant type. Each cardholder account is set up with default merchant category codes that will allow the processing of transactions that fall under the specified merchant category code. If a cardholder attempts to submit a purchase through a vendor with a blocked (prohibited) merchant category code, the transaction will be denied at the point of attempted purchase.

[3] Merchant category codes identified by OPM as questionable.

[4] OPM-Office of the Inspector General Audit Report Number 4A-OO-00-16-046.

2. For Agency Reporting, we found that OPM could not provide documentation to support the $238,400 outstanding balance reported in Table 19 of OPM's FY 2015 Agency Financial Report. In addition, OPM's FY 2016, third quarter (April 1 through June 30, 2016) statistical report was incomplete.

3. OPM had not blocked, in JPMorgan Chase's PaymentNet, seven merchant category codes for items that were restricted or prohibited from being purchased with a Government purchase card. None of the restricted and prohibited codes were used during the scope of the audit.

4. Training records for purchase card program participants were either outdated or incomplete.

5. We found no evidence that cardholders were using their Government purchase card to purchase items that did not represent a legitimate business need; however, OPM's internal controls need improvement in the areas of: transaction documentation retention; payment of sales taxes; and reallocating and approving transactions in OPM's financial system.

All recommendations are currently open.

II. OBJECTIVE, SCOPE, AND METHODOLOGY

OBJECTIVE

The objective of our audit was to determine whether OPM made purchase card transactions that were potentially illegal, improper, or erroneous.

SCOPE AND METHODOLOGY

We conducted this performance audit in accordance with generally accepted government auditing standards as established 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 objective.

The scope of our audit covered purchase card transactions, including convenience checks, from October 1, 2016, through March 31, 2017, and the policies and procedures pertaining to these transactions. OPM processed 8,777 transactions, totaling $4,914,457, from October 1, 2016, through March 31, 2017. We performed our audit from March 6 through August 30, 2017, at OPM's headquarters, located in Washington, D.C.

To accomplish our audit objective noted above, we used IDEA[5] to run CIGIE's data analytic tool, which analyzed transactions and identified the universe of high-risk transactions based on the algorithms listed in Table 1.

There were 1,910 high-risk transactions, totaling $1,223,347, for the scope of the audit. Specifically:

- 1,095 transactions, totaling $643,579, were identified as high-risk transactions for fiscal year 2017, Quarter 1 (October 1 through December 31, 2016); and

- 815 transactions, totaling $579,768, were identified as high-risk transactions for fiscal year 2017, Quarter 2 (January 1 through March 31, 2017).

We used CIGIE's *Sample Selection Instructions and Random Numbers* Microsoft Excel spreadsheet to randomly select a statistical sample of 46 high-risk transactions, totaling $24,187. The number of samples selected for each algorithm, in each quarter, is outlined in Table 2.

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[5] CaseWare Analytics' data analysis software.

Table 2: Number of Samples Selected For Each Algorithm				
	Quarter 1 (October 1 through December 31, 2016)		Quarter 2 (January 1 through March 31, 2017)	
Algorithm	Sample Size	Dollar Value	Sample Size	Dollar Value
Closed Accounts	3	$8,114	0	$0
Prohibited MCC	0	$0	0	$0
Questionable MCC	0	$0	0	$0
Billing Amount > Cardholder's Single Purchase Limit	0	$0	0	$0
Sales Taxes	3	$527	4[6]	$755
PayPal/Amazon	2	$117	1	$7
Weekend/Holiday	7	$1,018	14	$7,044
Potentially Split	8	$3,192	4	$3,412
TOTAL	23	$12,968	23	$11,218

In planning our work and gaining an understanding of the internal controls over OPM's purchase card transactions, we considered, but did not rely on, OPM's internal control structure to the extent necessary to perform our audit procedures. These procedures were substantive in nature. We gained an understanding of management procedures and controls to the extent necessary to achieve our audit objective. The purpose of our audit was not to provide an opinion on internal controls but merely to evaluate controls over OPM's purchase card transactions.

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[6] One sample selected in quarter two hit both the sales taxes and the weekend and holiday algorithms. We counted the sample within the sales taxes sample size.

Our audit included such tests and analysis of OPM's records, documented policies and procedures, transactional data, and other applicable information as we considered necessary under the circumstances. The results of our tests were provided to USDA on September 25, 2017.

In conducting our audit, we relied to varying degrees on computer-generated data. To assess the reliability of computer-processed data obtained from PaymentNet[7], we looked for obvious errors in accuracy and completeness. We determined that the data was sufficiently reliable for the purpose of achieving our audit objective. We did not evaluate the effectiveness of the general application controls over computer-processed performance data.

The results from the statistical sample will be projected by the U.S. Department of Agriculture, and reported in a consolidated Government-wide report.

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[7] JPMorgan Chase's purchase card account management system used by OPM to order new cards, assign merchant category codes, cancel cards, modify spending limits, review transactions, and generate management reports.

III. AUDIT RESULTS

We found that 23 purchase card transactions, totaling $12,956, out of our sample of 46 transactions, had one or more exceptions, as outlined in Table 3.

Table 3: Results		
Exceptions[8]	**Number of Occurrences[9]**	**Causes**
Lacks Approving Official Review	7	Transactions not reviewed/monitored by Agency Program Coordinator.
Missing All Documentation	2	• Agency lacks procedures to identify error and • Cardholder or Approving Official no longer employed by the agency.
Lacks Purchase Receipt - Missing Documentation	1	Agency lacks procedures to identify error.
Lacks Requisition Request - Missing Documentation	5	
Receipt of Goods and Services - Missing Documentation	7	
Lacks Written Justification for Any Exception to Policies	13	
Error Amount Charged and Invoice Disagrees	1	

No exceptions were identified for the "Questionable Government Need" exception category.

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[8] The exceptions and causes, as defined by CIGIE's IT committee, are in the Appendix.
[9] The results in the table for each condition are independent of each other.

APPENDIX

Exception	Definition
No Exceptions	Transaction is valid and has all necessary documentation.
Lacks Approving Official Review	The Approving Official (AO) is the individual (typically a supervisor) that ensures that the purchase card is used properly. The AO also authorizes cardholder purchases (for official use only), ensures that the statements are reconciled, and submitted to the designated billing office in a timely manner. This feature is normally automated with the AO having an "approval queue" of cardholder transactions. After review, the AO signs the account statement and maintains the documentation in accordance with agency procedures.
Missing All Documentation	There is no documentation to support the transaction.
Lacks Purchase Receipt - Missing Documentation	Purchase receipt describing the merchant and items purchased has not been maintained.
Lacks Requisition Request - Missing Documentation	The request for purchase can be documented by either email, letter, or requisition form that describes the item needed and quantities.
Receipt of Goods and Services - Missing Documentation	Documentation from either the requestor or other authorized recipient that the item has actually been received.
Lacks Written Justification for Any Exception to Policies	If policy has been waived, there is written documentation for the exception such as purchasing from prohibited MCC, exceeding purchase limit, split purchase, etc.
Questionable Government Need	Items purchased which have no official agency use.
Error Amount Charged and Invoice Disagrees	The amount billed on the credit card and the purchase receipt amount are not the same.

Cause or Control Failure	Definition
No Exceptions	Transaction is valid and has all necessary documentation.
Transactions not reviewed/monitored by Charge Card Managers	Charge Card Managers are those managers responsible for ensuring Cardholders and the AOs are following agency policy and they may suspend accounts. These managers should have tools and reports to show if cardholders and AO are routinely reconciling and approving purchases. This may be the responsibility in some agencies of the Agency Program Coordinator (APC) or the local APC.
Cardholder same as Approving Official/No Separation of Duties	Cardholders and the AOs should not be the same.
Requestor and Cardholder same/No Separation of Duties	Those requiring the purchase should not be the same as the cardholder.
Lack of Documented Policy	The agency has the exception due to a lack of policy.
Lack of Proper Training	Training has not covered the exception to policy or refresher training has not occurred in the last three years (U.S. Office of Management and Budget A-123 Appendix B, 3.4).
Agency Lacks Procedures to Identify Error	Policy may exist but there is a lack of procedures to ensure compliance.
Cardholder or Approving Official No Longer Employed	Cardholders and Approving Officials have not certified because they are no longer employed by the agency.

Report Fraud, Waste, and Mismanagement

Fraud, waste, and mismanagement in Government concerns everyone: Office of the Inspector General staff, agency employees, and the general public. We actively solicit allegations of any inefficient and wasteful practices, fraud, and mismanagement related to OPM programs and operations. You can report allegations to us in several ways:

By Internet: http://www.opm.gov/our-inspector-general/hotline-to-report-fraud-waste-or-abuse

By Phone: Toll Free Number: (877) 499-7295
Washington Metro Area: (202) 606-2423

By Mail: Office of the Inspector General
U.S. Office of Personnel Management
1900 E Street, NW
Room 6400
Washington, DC 20415-1100