

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



Review of the Internal Revenue Service's Purchase Card Violations Report

July 30, 2020

Reference Number: 2020-10-049

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HIGHLIGHTS: Review of Internal Revenue Service's Purchase Card Violations Report



Final Report issued on July 30, 2020
Reference Number 2020-10-049

Why TIGTA Did This Audit

This audit was initiated because the Government Charge Card Abuse Prevention Act of 2012 (Charge Card Act), which was signed into law on October 5, 2012, requires each agency with more than \$10 million in purchase card spending in the prior fiscal year to submit semiannual reports of employee purchase card violations and the disposition of those violations, including any disciplinary actions taken. These semiannual reports (Purchase Card Violations Reports) are prepared by the agency head, *e.g.*, Department of the Treasury, and reviewed by the Inspectors General, prior to the agency submitting the report to the Office of Management and Budget. The overall objective of this review was to assess whether the IRS complied with the Charge Card Act requirements for the period October 1, 2019, through March 31, 2020.

Impact on Taxpayers

Federal audits of agency charge card programs have found varying degrees of fraud, waste, and abuse. The Charge Card Act requires Executive Branch agencies to establish and maintain safeguards and internal controls for Government charge card programs. Additionally, inappropriate use of Government charge cards does not promote economic and efficient use of publically funded resources.

What TIGTA Found

Our review of the IRS's purchase card program found that controls are generally effective, and the number of purchase card violations identified by the IRS Credit Card Services Branch were minimal and generally for nominal amounts.

For the period of October 1, 2019, through March 31, 2020, the IRS identified nine instances of confirmed purchase card misuse totaling nearly \$3,500. Eight violations were purchases for personal use and included items such as a lumbar support and pocket magnifiers. The remaining violation was for exceeding the single transaction limit. The IRS also reported nine instances of potential purchase card misuse still pending agency investigation.

The Credit Card Services Branch also identified 22 purchase card transactions totaling nearly \$10,000 that did not comply with the IRS's internal charge card policy guidance.

What TIGTA Recommended

TIGTA made no recommendations as a result of the work performed during this review.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

July 30, 2020

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Review of the Internal Revenue Service’s Purchase Card Violations Report (Audit # 202010009)

This report presents the results of our review of the Internal Revenue Service’s Purchase Card Violations Report. The overall objective of this review was to assess whether the Internal Revenue Service complied with the Government Charge Card Abuse Prevention Act of 2012¹ requirements for the period October 1, 2019, through March 31, 2020. This review is part of our Fiscal Year 2020 Annual Audit Plan and addresses the major management and performance challenge of *Reducing Fraudulent Claims and Improper Payments*.

Copies of this report are also being sent to Internal Revenue Service managers affected by the report. If you have any questions, please contact me or Heather M. Hill, Assistant Inspector General for Audit (Management Services and Exempt Organizations).

¹ Pub. L. No. 112-194 (Oct. 2012).



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Background

Government purchase cards are an efficient and streamlined means for making payments, and the Federal Acquisition Regulation has designated the purchase card as the preferred method to purchase and pay for goods and services up to the micro-purchase limits.¹ On October 5, 2012, the President signed the Government Charge Card Abuse Prevention Act of 2012 (Charge Card Act) into law to reinforce Administration efforts to prevent fraud, waste, and abuse of Governmentwide charge card programs.² The Office of Management and Budget (OMB) provides oversight of Government charge card programs and originally issued guidance in September 2013 to establish minimum requirements and best practices for Government charge card programs. These minimum requirements and best practices may be supplemented by individual agency policies and procedures. In August 2019, the OMB revised its guidance contained in Circular A-123, Appendix B, to consolidate the Governmentwide charge card program management requirements and guidance issued by various agencies.³

Requirements of the Charge Card Act

The Charge Card Act established additional reporting and audit requirements for oversight of the Government charge card program. For example, it required:

- Agencies to compile reports of purchase card violations.
- The establishment and maintenance of safeguards and internal controls.
- Inspector General risk assessments and audits.

Each agency with more than \$10 million in purchase card spending the prior fiscal year⁴ is required to submit to the OMB semiannual reports (October 1 through March 30 and April 1 through September 30) of employee purchase or integrated card violations⁵ and the disposition of these violations, including disciplinary actions taken. These semiannual reports (Purchase Card Violations Reports) are prepared by the agency head,⁶ reviewed by the Inspectors General, and then submitted to the OMB no more than 120 days after the end of the reporting periods.

Agencies do not have to report on administrative or internal control process inconsistencies that do not result in confirmed fraud, loss to the Government, or misappropriation of funds or assets (whether or not recouped) in their semiannual violations reports. However, the Treasury Inspector General for Tax Administration (TIGTA) comments on all purchase card noncompliance

¹ The Federal Acquisition Regulation defines a micro purchase as an acquisition of supplies or services using simplified acquisition procedures, the aggregate amount of which does not exceed the micro-purchase threshold. The Department of the Treasury issued a Federal Acquisition Regulation deviation that increased the micro-purchase threshold to \$10,000 effective May 25, 2018.

² Pub. L. No. 112-194 (Oct. 2012).

³ OMB Circular No. A-123, Appendix B (Revised), *A Risk Management Framework for Government Charge Card Programs* (Aug. 2019), provides guidance that establishes minimum requirements for Government purchase card programs and suggests best practices.

⁴ Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.

⁵ An integrated card is a combination of two or more business lines in a single card, *e.g.*, purchase and travel.

⁶ As a bureau of the Department of the Treasury, the Internal Revenue Service is required to abide by the Charge Card Act and report charge card violations.



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identified by the Internal Revenue Service (IRS) in its semiannual review of purchase card violations reporting. TIGTA also reviews its Office of Investigations Criminal Results Management System to identify potential instances of purchase card misuse that may not have been directly identified by the IRS.

The Charge Card Act requires agencies to establish and maintain safeguards and internal controls over charge card programs. Each agency head is required to annually certify that appropriate policies and controls are in place or that corrective actions have been taken to mitigate the risk of fraud and inappropriate charge card practices. This certification is reported as part of the existing annual assurance statement under the Federal Managers' Financial Integrity Act of 1982.⁷ In addition, each agency is required to develop, issue, and maintain written policies and procedures for the appropriate use of charge cards consistent with OMB guidance.

The Charge Card Act also provides for additional oversight by Inspectors General by requiring them to conduct periodic risk assessments of purchase cards (including convenience checks, which are an alternative method of payment used with vendors that do not accept purchase cards for payment of goods and services), combined integrated cards, and travel card programs to analyze the risks of illegal, improper, and erroneous purchases. Beginning in Fiscal Year (FY) 2014, Inspectors General were also required to annually report to the Director, OMB, by January 31, on the agency's progress in implementing prior audit recommendations related to purchase and travel cards.⁸ This progress is compiled and sent to Congress and to the Comptroller General of the Government Accountability Office.

IRS roles and responsibilities for administering the purchase card program

Within the IRS, the Office of Procurement is responsible for providing policy guidance for the purchase card program as it relates to acquisition regulations. The Credit Card Services (CCS) Branch within the Office of the Chief Financial Officer is responsible for managing and providing oversight for the purchase card program and convenience checks. The CCS Branch's responsibilities include overseeing the IRS purchase card program, issuing program guidance, and overseeing periodic program reviews. In addition, the CCS Branch is responsible for tracking and reporting instances of alleged inappropriate purchase card use, and compiling the Purchase Card Violations Report for submission to the OMB.⁹

The CCS Branch evaluates compliance with purchase card operating guidance to detect and deter noncompliance with purchase card policy and procedures. According to the IRS, these evaluations include reviews of:

- Merchant categories and names to ensure that purchases may not be made from restricted vendors.
- Required source documents.
- Random samples of purchase card charges to assess compliance with purchase card regulations, including split purchase policy.

⁷ Title 31 U.S.C. § 3512(d)(2).

⁸ TIGTA issued its most recent report to comply with the Act on January 24, 2020. TIGTA, Ref. No. 2020-10-011, *Review of the Internal Revenue Service's Purchase Card Violations Report and Status of Recommendations* (Jan. 2020).

⁹ The process for ensuring appropriate use of purchase cards and convenience checks is the same.



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- Convenience checks issued by convenience check cardholders to assess compliance with purchase card regulations.

The Labor and Employee Relations function (hereafter referred to as Labor Relations) is the IRS office responsible for advising and supporting managers on employee conduct and performance matters, with the exception of such matters committed by employees of the Office of Chief Counsel. Once an alleged inappropriate purchase card misuse is referred by the CCS Branch, Labor Relations assists responsible managers by providing procedural advice and guidance in determining whether disciplinary action is appropriate.¹⁰ Although Office of Chief Counsel employee purchase card misuse may be identified by the CCS Branch, the Office of Chief Counsel is responsible for researching and applying disciplinary actions for those employees as well as tracking the disciplinary actions in its own database.

Results of Review

Implementation of and Compliance With the Government Charge Card Abuse Prevention Act of 2012 Requirements

The IRS stated that between October 1, 2019, and March 31, 2020, the IRS's purchase card program included 2,163 purchase cardholders. These cardholders made 18,560 purchases totaling almost \$9.5 million with their purchase cards. Additionally, 34 convenience checks totaling more than \$12,000 were written. Our review of the IRS's purchase card program found that controls are generally effective, and the number of purchase card violations identified by the IRS CCS Branch were minimal and generally for nominal amounts. However, we also found that purchase cardholders continue to make unauthorized purchases.

Semiannual report on IRS purchase card violations and actions taken by management in response

We reviewed the violations the IRS identified for the Purchase Card Violations Report and related supporting documentation. The IRS identified nine instances¹¹ of confirmed purchase card misuse for the period of October 1, 2019, through March 31, 2020, and has nine additional instances of potential purchase card misuse pending agency investigation.

The nine confirmed purchase card misuse cases collectively totaled nearly \$3,500 and included purchases exceeding the single transaction purchase limits and items purchased for personal use such as a lumbar support and pocket magnifiers.¹² According to the IRS, in two instances, totaling

The IRS identified nine instances of confirmed purchase card misuse.

¹⁰ IRS employee misconduct cases, including purchase misuse, are recorded in the Automated Labor and Employee Relations Tracking System database.

¹¹ For the purpose of this report, an instance represents a case recorded in the Automated Labor and Employee Relations Tracking System database.

¹² The IRS also identified personal use sanitizing wipes and hand sanitizer. Per the IRS's Restricted Purchase List, sanitizing wipes and hand sanitizer may not be purchased if they are intended for individual use. An exception exists for pandemic-related purchases; however, that exception did not apply for the cases we identified.



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more than \$145, items were returned for credit. In the other seven instances, cardholders did not reimburse the Government, as required by OMB guidance.

With respect to disciplinary actions taken by IRS management in response to the nine confirmed cases, all nine received nondisciplinary actions, such as written or oral counseling, cautionary letter, resigned/retired, or closed without action.¹³ The IRS's internal guidance provides a range of disciplinary and nondisciplinary actions from no action to suspension that can be applied for each purchase card policy violation or inappropriate use.¹⁴ Further, the IRS penalty guide provides a range of penalties from a five-day suspension for a first offense up to removal for a third offense. However, according to IRS policy, use of the penalty guide is not mandatory, and the ultimate decision lies with management.¹⁵

We also reviewed information provided by TIGTA's Office of Investigations Criminal Results Management System on purchase card misuse cases and complaints occurring during the review period. There were no purchase card misuse cases that were reported by TIGTA's Office of Investigations. In addition, we followed up on the status of eight cases previously reported as pending agency investigation. Three of these cases were subsequently confirmed to be instances of purchase card misuse and are included in the nine cases previously mentioned and identified in the Purchase Card Violations Report in Appendix II.

Purchase cardholders continue to make unauthorized purchases

The CCS Branch also identified 22 purchase card transactions totaling nearly \$10,000 that also did not comply with IRS internal policies and procedures. However, the Charge Card Act requires that only certain inappropriate purchase card transactions be reported to the OMB in the Purchase Card Violations Report.¹⁶ Reportable inappropriate transactions are those indicating that abuse, internal fraud, or misuse has occurred. For example, purchase card transactions that violated the Federal Acquisition Regulation or similar guidance. The OMB excludes from its reporting requirements administrative discrepancies, such as actions that violate operational policies or procedures but do not violate Federal law or regulation. For example, a purchase that is prohibited from being made by IRS policy would not be reportable to the OMB. In addition, purchases made without prior funding and/or approval are considered administrative discrepancies and are also not reportable to the OMB.

¹³ For situations in which management determines the misconduct is not serious or recurring, an informal action or nondisciplinary action is rendered.

¹⁴ Internal Revenue Manual 6.751.1, *Discipline and Disciplinary Actions: Policies, Responsibilities, Authorities, and Guidance* (Nov. 4, 2008).

¹⁵ IRS, *IRS Manager's Guide to Penalty Determinations* (Rev. Aug. 1, 2012).

¹⁶ One transaction was reported in two categories: altered order and prohibited purchase.



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Figure 1 summarizes the 22 purchase card transactions that did not comply with internal IRS guidelines.

Figure 1: Purchase Card Transactions That Did Not Comply With Internal IRS Guidelines

Description	Number	Amount
No Prior Manager Approval	5	\$1,500
No Prior Funding Approval	6	\$4,236
No Prior Manager or Funding Approval	4	\$1,184
Altered Order ¹⁷	1	\$46
Prohibited Purchases	6	\$2,975
Total	22	\$9,941

Source: TIGTA analysis of CCS Branch documentation.

An example of the prohibited purchases we identified included two transactions with a total value of more than \$2,800 for information technology equipment (network cables) that were purchased for legitimate business use but not by Information Technology organization functional cardholders as required. The remaining four transactions, totaling almost \$150, included obtaining calendars from an unauthorized source.

These unauthorized purchases were due to bypassing internal controls such as the requirement to obtain approval before making purchases. Consistent actions to address purchase card misuse and policy noncompliance are necessary to ensure that such violations do not reduce the overall effectiveness of controls over the purchase card program, provide a deterrent factor for purchase card misuse, and shield the purchase card program from repeated violations of applicable laws and regulations.

¹⁷ An altered order is a purchase that does not match the approved request. For example, the purchase cardholder received approval for the purchase of batteries, but subsequently changed the order to purchase a computer mouse.



Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to assess whether the IRS complied with the Charge Card Act requirements for the period October 1, 2019, through March 31, 2020.¹ To accomplish our objective, we:

- Reviewed alleged purchase card (and convenience check) violations by IRS employees and identified the actions the IRS had taken as a result of these violations.
- Determined the methodology and process the IRS uses to determine a confirmed violation.
- Determined whether the IRS is correctly following the process to determine confirmed violations by conducting interviews with key officials within the CCS Branch, Office of Chief Counsel, and Labor Relations to identify their process and the documentation they obtained to reach a determination as to whether suspicious purchase card transactions are confirmed to be reportable violations.
- Determined the total number of confirmed violations involving misuse of a purchase card for the specified period based on the data contained in the Automated Labor and Employees Relations Tracking System (ALERTS) database, Criminal Results Management System, Office of Chief Counsel Credit Card database, and CCS Branch Inappropriate Use Referral Log. We determined whether these violations constituted: 1) abuse,² 2) internal fraud,³ or 3) misuse.⁴
- Determined the number of adverse personnel actions, punishments, or other actions taken in response to each reportable violation involving misuse of a purchase card for the specified period using the ALERTS database. Further, we determined whether the actions involved: 1) demotions, 2) reprimands, 3) suspensions, 4) removals, or 5) any other adverse or administrative personnel actions.
- Determined the total number and status of all pending violations for the specified period based on the Labor Relations Open/Closed Report. Of these, we determined whether these pending violations were: 1) pending investigation, 2) pending hearing, 3) pending final agency action, or 4) pending decision on appeal.

¹ Pub. L. No. 112-194 (Oct. 2012).

² Intentional use of the purchase, travel, fleet, and/or integrated charge card in violation of the Federal Acquisition Regulation, Defense Federal Acquisition Regulation Supplement, Agency Supplements, or activity Government Purchase Card policies/procedures. Evidence of intentionality shall be inferred from repeat offenses of the same violation, following administrative and/or disciplinary action taken for this violation.

³ Any felonious act of corruption or attempt to cheat the Government or corrupt the Government's agents by Government Purchase Charge Card Program officials. Use of the Government purchase, travel, fleet, or integrated charge card(s) to transact business that is not sanctioned, not authorized, not in one's official Government capacity, not for the purpose for which the card was issued, not as part of official Government business.

⁴ Unintentional use of the purchase, travel, fleet, and/or integrated charge card in violation of the Federal Acquisition Regulation, Defense Federal Acquisition Regulation Supplement, Federal Travel Regulations, Agency Supplements, or Agency Policies/Procedures. These actions are the result of ignorance and/or carelessness, lacking intent, to include honest mistakes.



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- Requested a copy of the FY 2020 Department of the Treasury Charge Card Management Plan (CCMP). However, we were unable to review the FY 2020 CCMP to determine whether material revisions had occurred in comparison to the FY 2019 CCMP that would necessitate changes to the IRS's processes in identifying and reporting purchase card violations. Department of Treasury officials informed us that issuance of the FY 2020 CCMP has been delayed due to necessities in responding to the COVID-19 pandemic. Issuance of a revised CCMP is planned for later this year.

Performance of This Review

This review was performed with information obtained from offices of the Chief Financial Officer and CCS Branch management and staff located in Jacksonville, Florida; Cincinnati, Ohio; and Richmond, Virginia. We also conducted fieldwork or obtained information from the Office Chief Counsel located in Washington, D.C., and the Human Capital Office of Labor Relations located in Oakland, California, and Ogden Utah, during the period February through July 2020. We conducted this performance audit in accordance with generally accepted government auditing standards. Those 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Major contributors to the report were Heather M. Hill, Assistant Inspector General for Audit (Management Services and Exempt Organizations); LaToya R. Penn, Director; Seth A. Siegel, Audit Manager; George S. Hartman, Lead Auditor; and Nyanquoi K. Jones, Lead Auditor.

Validity and Reliability of Data From Computer-Based Systems

We performed tests to assess the reliability of data from the ALERTS database. We evaluated the data by 1) performing electronic testing of required data elements and 2) reviewing existing information about the data and the system that produced them. We determined that the data were sufficiently reliable for the purposes of this report.

Internal Controls Methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: IRS internal policies and procedures and other guidance pertaining to travel cards, purchase cards, and convenience checks, and CCS Branch inappropriate use forms, logs, and supporting documentation. We evaluated these controls by determining the IRS's methodology for reporting confirmed and pending violations in the Purchase Card Violations Report, and analyzing inappropriate use forms and logs (including for the Office of Chief Counsel, as applicable), the ALERTS database, and the Criminal Results Management System. We also reviewed IRS policies and procedures related to the Charge Card Act.



Appendix II

Internal Revenue Service's Purchase Card Violations Report

PURCHASE CARD VIOLATION DATA	PERIOD
I. Summary description of confirmed violations involving misuse of a purchase card or integrated card.¹	October 1, 2019, through March 31, 2020
a. Abuse.	0
b. Internal Fraud.	0
c. Misuse.	9
II. Summary description of all adverse personnel actions, punishment, or other actions taken in response to each reportable violation involving misuse of a purchase or integrated card.	
	October 1, 2019, through March 31, 2020
a. Documentation of Counseling: <i>Oral or written counseling issued.</i>	3
b. Demotion.	0
c. Reprimand.	0
d. Suspension.	0
e. Removal.	0
f. Other (no action taken): <i>Closed without any IRS management adverse personnel action.</i>	6
III. Status of all pending violations.	
	October 1, 2019, through March 31, 2020
a. Number of violations pending investigation.	9
b. Number of violations pending hearing.	0
c. Number of violations pending final agency action.	0
d. Number of violations pending decision on appeal.	0

Source: IRS review of inappropriate use forms, logs, and case information contained in the ALERTS database.

¹ Terms used are defined in OMB Circular No. A-123, Appendix B (Revised), *A Risk Management Framework for Government Charge Card Programs* (Aug. 2019).



Appendix III

Abbreviations

ALERTS	Automated Labor and Employees Relations Tracking System
CCMP	Charge Card Management Plan
CCS	Credit Card Services
FY	Fiscal Year
IRS	Internal Revenue Service
OMB	Office of Management and Budget
TIGTA	Treasury Inspector General for Tax Administration