



Office of Inspector General
Pension Benefit Guaranty Corporation

August 29, 2017

TO: Alice Maroni
Chief Management Officer

FROM: Conrad Quarles
Assistant Inspector General
for Investigations

SUBJECT: Final Inspection Report - PBGC's Purchase Card Program
Report No. INSP-2017-13/17-0006-I

I am pleased to transmit the final report on the inspection of the PBGC Purchase Card program. We conducted this inspection to identify fraudulent, improper, or abusive purchases made using the government purchase card. During the course of our inspection, we identified opportunities for improvement of this program, as discussed below.

Summary

We reviewed purchase card transactions that occurred between January 2015 and December 2016. We found no fraudulent, improper or abusive purchases during the period under review. However, to prevent and detect such purchases in the future, we identified opportunities for PBGC to strengthen its oversight of the program. These opportunities include: updating the "Included" template on at least a yearly basis and using U.S. Bank's *Payment Analytic* tools; enforcing and monitoring Approving Official reviews; documenting Department Director approvals for food purchases; reducing the amount of time for making payments to U.S. Bank; and amending policy to ensure first-offense violations are reported in a timely manner to the OIG. Additionally, we found that the Corporation could increase its rebate incentives by making more timely payments.

Background

According to federal guidance, government purchase cards provide federal agencies with a flexible, efficient way of quickly: (1) obtaining commercial goods and services and (2) making vendor payments. When well controlled, purchase cards facilitate improved mission support and reduce transaction-processing costs.

The General Services Administration (GSA) SmartPay program provides purchase cards to federal agencies and departments through contracts negotiated with financial institutions. PBGC holds a task order under GSA's SmartPay2 master contract with U.S. Bank. Under the terms of this order, U.S. Bank provides purchase cards to PBGC cardholders authorized to make limited purchases.

PBGC Purchase Card Program

As of February 2017, PBGC has 49 cardholders, 23 Approving Officials (AO), and there are 51 active cards. Of the 49 cardholders, two PBGC employees have two purchase cards because their offices need to use the cards for separate functions within the office. Between January 2015 and December 2016, PBGC cardholders made close to 6,800 purchases, totaling \$3,245,328.41. Historically, PBGC uses charge cards to purchase \$2.5 million of goods and services annually, which represents less than 1% of the agency's administrative budget.

Responsibilities

The PBGC Purchase Card program is governed by the policies and procedures contained in the PBGC Purchase Card Manual. To effectively manage the program, PBGC must adhere to guidance from the Federal Acquisition Regulation and the Office of Management and Budget. The Government Charge Card Abuse Prevention Act of 2012 was enacted to prevent waste, fraud, and abuse of government-wide charge card programs. The Act mandates that agency Inspectors General conduct periodic assessments of their agency's purchase card program to identify and analyze risks of illegal, improper, or erroneous purchases and payments. Our most recent purchase card risk assessment was issued on August 12, 2016. We assessed the overall risk of illegal, improper or erroneous purchases as low, and elected to conduct this inspection as a follow up to that risk assessment.

PBGC's Procurement Department is responsible for the operation of the purchase card program. The Agency Program Coordinator (APC) (1) establishes PBGC-wide policy governing the program, (2) processes purchase card applications, (3) administers purchase card accounts, and (4) monitors purchase card usage. Employees within operating departments are assigned the following purchase card responsibilities:

- AOs are responsible for certifying purchase card transactions. They provide program oversight to help ensure that cardholders adhere to program policies and procedures, and they must be at an administrative level above cardholders assigned to them.

- Cardholders have the primary responsibility for the proper use of the purchase account. As such, cardholders must (1) maintain purchase card transaction logs, (2) conduct market research, (3) ensure the availability of funds before making purchases, and (4) reconcile transactions.
- The General Accounting Branch (GAB) administers the general accounting programs, including vendor payments, benefit funding, and budgetary funds control for PBGC. GAB makes all purchase card payments to U.S. Bank.

Based on OMB guidance, all program participants must (1) complete purchase card training prior to their appointment and (2) certify that they understand the purchase card regulations and procedures, and know the consequences of inappropriate actions. Program participants are also required to take purchase card refresher training at least every three years.

Purchase Process

We interviewed the APC, GAB staff, and reviewed the Purchase Card Manual to understand the purchase process. We noted that the Purchase Card Manual does not give a step-by-step process for cardholders to follow. During interviews, each cardholder described a different process from receiving requests to making payments. According to the APC, the guidelines given in the Purchase Card Manual allow cardholders to develop their own process, as long as the cardholders work within the parameters of the guidelines. The following diagram describes the purchase card process:

Figure 1: PBGC Purchase Card Process



Source: OIG Analysis of the PBGC Purchase Card Process.

Cardholders receive requests from supervisors and staff to purchase goods and services. They must first show that they checked priority sources to fulfill requirements before purchasing

from open market sources. Priority sources are entities the federal government requires employees to use for certain goods and supplies. The sources include the Federal Prison Industries, AbilityOne Program, GSA Federal Supply Schedule contractors, and others.

Next, cardholders should verify that sufficient funds are available in their office budgets prior to making a purchase. Then, cardholders can make a purchase. Upon delivery of the items purchased, cardholders must inspect all items to ensure they received what they ordered.

Cardholders record their purchases on the Purchase Card Transaction Log, which shows that a legitimate need was established and subsequently fulfilled for card purchases. It documents the order date, price, vendor name, description of supplies or services, the name of the purchase requester, delivery date, and the requisition number (showing availability of funds). All purchase card transactions must appear on the log.

Cardholders should then reconcile merchant receipts against monthly U.S. Bank statements and the logs. Within seven days of receiving their bank statement, cardholders must complete their reconciliations, sign the U.S. Bank statement, and provide all receipts, statements, and logs to their AO for review and certification. The AO signs the log and, lastly, the purchase documents are sent in paper format to GAB for payment to U.S. Bank.

Findings

1. Periodically updating the authorized Merchant Category Code "Included" Template and using U.S. Bank's *Payment Analytics* Tools Would Enhance PBGC's Ability to Prevent and Detect Improper Purchases.

Section (a)(11) of the Act, Required Safeguards and Internal Controls, requires PBGC to use effective systems, techniques, and technologies to prevent or identify illegal, improper, or erroneous purchases. Additionally, OMB Circular A-123, Appendix B, requires agencies to implement risk management controls to prevent, detect and correct purchase card misuse. To fulfill these requirements, PBGC implemented the following purchase card controls:

- PBGC-wide purchase card policies and procedures that are periodically updated;
- Mandatory training requirements and documentation of successful completion;
- Individual cardholder purchase limits;
- Required pre-approvals and subsequent review of purchase card activities;

- Merchant Category Codes to restrict card use to appropriate merchants;
- Purchase card transaction logs;
- The APC reviews purchase card data on a monthly basis; and
- The APC reviews all AO and cardholder accounts.

The Purchase Card Manual lists certain categories that prohibit employees from using the purchase card for items such as entertainment, cash advances, personal use items, and commuting expenses. Specifically, the usage restrictions are based upon merchant category codes (MCC) identified by the APC, transaction frequency, and conditions for use of the purchase card. If the cardholder attempts to use the purchase card with a prohibited MCC (for example, MCC-7995 - Betting/Casino Gambling), the transaction will be declined by U.S. Bank.

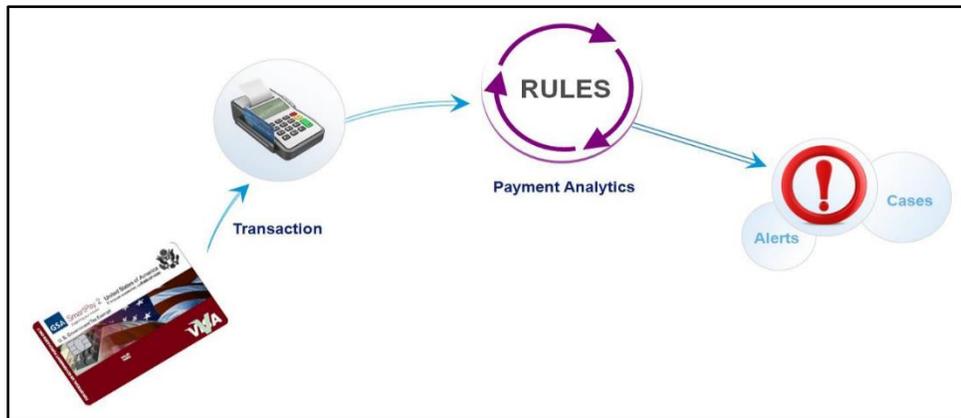
We found that the APC uses an "Included" template that identifies MCCs that may be used by cardholders. If the MCC is not on the "Included" list, the transaction will be declined. Theoretically, the cardholder could contact the APC to have a specific MCC unblocked, resulting in the transaction being completed. According to U.S. Bank, PBGC's "Included" template has not been updated since 2014. Visa updates their MCCs approximately every six months. When Visa updates their MCCs, U.S. Bank shares those updates with their agencies to see if the APC should revise their templates. Generally, agencies review their MCCs on a yearly basis, usually in October to reflect what took place in the last fiscal year. The failure to keep this list up to date may result in non-authorized or out-of-policy purchases.

The APC currently uses U.S. Bank's "Access Online" system to manage the program. This system allows the APC to view transaction data; set up or cancel card accounts; and identify spending patterns via standard and ad hoc reports. We found that the APC currently conducts monthly reviews of transactions by downloading a spreadsheet from this system and manually screening it against MCCs. In 2016, the Corporate Controls and Reviews Department recommended the APC document this review. To date, this monthly review is still undocumented. During our period of our inspection, the APC did not identify any inappropriate purchases using this method. PBGC averages over 280 transactions per month, and the APC is solely responsible for this manual review in addition to other duties related and unrelated to the program.

We also found that the APC is not fully using U.S. Bank *Payment Analytics*, which is a web-enabled tool available to PBGC to provide automatic, 100% transaction for post-payment monitoring. *Payment Analytics* allows the APC to create rule templates that automatically review transactions, as well as flag suspected card misuse and out-of-policy spending. This

feature sends the APC an alert for transactions made outside of the rules set. These rules, for example, can be used to remind the APC to block a previously opened MCC, track transactions as prohibited merchant category codes, monitor transactions that occur on a weekend, identify split transactions, or extensive use of convenience checks. The workflow of the *Payment Analytics* process is as follows:

Figure 2: U.S. Bank Payment Analytics Process



Source: U.S. Bank.

To help lessen the likelihood of this occurring, U.S. Bank *Payment Analytics* could be used to send an alert when the APC needs to close a MCC that was previously unblocked.

During our inspection, we learned that the APC has been working with U.S. Bank to update the MCC “Included” list and has been working to develop set up customized templates for each cardholder. The templates will be tailored to meet the needs of that specific cardholder, whereby only certain MCCs will be approved for each cardholder based on the cardholder’s needs and areas of responsibility.

2. Approving Officials should more regularly review cardholder records.

According to the Purchase Card Manual, AOs are responsible for the cardholders assigned to them. For each billing cycle, AOs are required to compare items on the cardholder’s monthly statements to items on the purchase card transaction log, and certify that all purchases were necessary and consistent with funding requirements by signing and dating the monthly statements and transaction log. Periodically, AOs should review cardholder records and report deficiencies to the APC.

The APC told us that she has not received any cardholder reviews from the AOs between 2015 and 2016. One of three AOs we interviewed did not conduct periodic reviews of cardholder

records during the inspected time period. This AO did not certify \$23,174 in purchases made in November 2015, March 2016, and September 2016. Instead, the cardholder signed as the approver, and GAB made the payment. After our interview with the cardholder, the AO retroactively signed the 2015 log.

3. PBGC cardholders did not always obtain documentation of approval for food purchases.

PBGC's policy regarding food and related expenditures and its Directive on Incentive and Recognition Awards require approval from Department Directors for purchases from restaurants, to include gift cards. Specifically, PBGC Notice No. 05-04, which transmitted a revision to PBGC Directive GA 10-7, *PBGC Policy Regarding Food and Related Expenditures*, states:

- (1) Authority. The Director of HRD retains authority to approve expenditures for food and related expenditures for agency wide award programs and ceremonies. Department Directors retain authority to approve expenditures for food and related expenditures for departmental non-monetary awards and ceremonies.

Twenty cardholders made purchases in the food categories; however, one cardholder departed before our inspection began, so we interviewed 19 cardholders who made purchases with MCCs titled "Caterers", "Eating Places", and "Fast Food." Seventy-five purchases fell into these categories, totaling \$54,676.80. We inspected cardholder records and found no documentation of approval for 59 of the 75 purchases.

Table 1: PBGC Food Purchases

MCC	MCC Title	Number of Transactions	Amount
5811	Caterers	9	\$5,151.30
5812	Eating Places and Restaurants	38	\$44,120.28
5814	Fast Food	28	\$5,405.22
	Total	75	\$54,676.80

Source: OIG Analysis of U.S. Bank data.

The majority of the cardholders interviewed responded that they received verbal approval. For instance, there was a \$1,060 food purchase for a National Native American and Alaska Indian Heritage Event that occurred in November 2016. The cardholder obtained verbal approval, but it was not documented. Similarly, there was a food purchase of approximately \$2,000 for a Black History Event that occurred in February 2016 by this same cardholder. The cardholder did

not have a documented approval from the Department Director, but he responded that the approval was verbal.

The risk of unauthorized purchases resulting from the failure to document Department Director approval for food purchases is further exacerbated when AOs do not regularly review purchasing activity as we observed above.

4. PBGC is not maximizing its potential to receive payment rebates from U.S. Bank.

Proper management of refunds is critical to ensuring that PBGC maintains a cost-effective purchase card program. Delinquency should be closely monitored, and delinquent payments must be addressed. The APC is responsible for ensuring that payment obligations are paid on time, according to OMB guidance. PBGC is required to establish a process, with strict internal controls, to ensure that all charges and payments are timely, accurate, and appropriate.

Rebates are PBGC's monetary incentive to make timely payments. U.S. Bank gives PBGC a rebate that depends on the timeliness of purchase card payments and the amount PBGC spends each quarter. U.S. Bank receives interchange fees, which they share with PBGC. These fees are based on a rebate grid for the purchase card program. The quarterly rebate is based on "file turn days" - which shows the time it takes PBGC to pay the managing account statements to U.S. Bank. The more cardholders spend and the faster PBGC pays, the higher the rebate.

We reviewed the file turn days for payments PBGC made to U.S. Bank for the first quarter of FY 2017. GAB took an average of 80 days to pay U.S. Bank from the close of the billing cycle. This resulted in a rebate of \$256. According to U.S. Bank, if GAB paid U.S. Bank within seven days, the rebate for the same quarter would amount to \$1,882, resulting in a quarterly lost rebate incentive of \$1,625.

In August 2016, our Purchase Card Risk Assessment also noted that PBGC was not maximizing its rebate potential. GAB staff informed us that departments often neglect to obligate the funds necessary to pay the bill prior to submitting a payment request to GAB, and this delays the process because GAB must then contact the department to ensure funds are obligated. Currently, cardholders are not required to provide proof of obligation during the payment request process. Additionally, GAB gives cardholders 15 days from the end of the closing cycle to send their payment requests to GAB, although cardholder bills are available online the day after the end of the billing cycle.

To reduce costs, while ensuring the program effectively supports PBGC's mission and financial controls, PBGC should use proper cash management decision-making and employ the necessary internal controls to maximize rebates.

5. PBGC does not report first instances of intentional purchase card misuse to the OIG.

The Purchase Card Manual addresses cardholder misuse:

- First Instance - The APC will counsel the cardholder about appropriate use (to include a review of possible disciplinary actions) and document the counseling. The Cardholder will be liable to repay the charges in question. The AO and Cardholder will both be notified that a second instance will result in the termination of the Cardholder's purchase card account.
- Second Instance - The AO, the cardholder, their immediate supervisor, Department Director, and EMC member are notified of the misuse; the cardholder's account will be terminated. A follow-up recommendation will be sent to the AO and immediate supervisor, with a "cc" copy to the Employee and Labor Relations Management Division (ELRMD) to discuss potential disciplinary action. A referral to the Office of Inspector General will be made.

The OIG is responsible for preventing, detecting, and investigating instances of fraud and abuse. Intentional misuse, whether the first occurrence or a subsequent occurrence, is within the OIG's jurisdiction, and instances of suspected fraud must be referred to the OIG for possible investigation. Current PBGC policy is deficient and may hinder our ability to perform our statutory mission. Additionally, the current policy unnecessarily increases PBGC's exposure to reputational risk from the failure to timely report any suspected unauthorized purchase card transactions.

Conclusion

Our inspection determined that program controls should be improved to ensure: the "Included" template is updated on at least a yearly basis and that the Corporation uses U.S. Bank's *Payment Analytic* tools; AO reviews are enforced and monitored; Department Director approvals for food purchases are documented; the amount of time for making payments to U.S. Bank is reduced; and the policy is amended to require that first-offense violations are reported in a timely manner to the OIG.

Recommendation No. 1 (OIG Control Number OI-3)

Require the APC to update the Included Template at least yearly, and use additional Rules Management functionality of U.S. Bank *Payment Analytics* as appropriate.

PBGC Response and OIG Evaluation

Resolved. PBGC agreed with the recommendation and has begun updating the "Included" templates to reduce the authorized MCCs for each cardholder. Additionally, the APC has initiated training to use U.S. Bank *Payment Analytics*.

Recommendation No. 2 (OIG Control Number OI-4)

Ensure AOs regularly review cardholder records.

PBGC Response and OIG Evaluation

Resolved. PBGC agreed with the recommendation and has increased the training requirement for AOs and cardholders from every three years to every year. This training will emphasize the importance of AOs reviewing the monthly statements and purchase card logs of their cardholders.

Recommendation No. 3 (OIG Control Number OI-5)

Require cardholders to obtain written approval from Department Directors for food and related expenditures for departmental non-monetary awards and ceremonies.

PBGC Response and OIG Evaluation

Resolved. PBGC agreed with the recommendation and will emphasize the approval requirement for Department Directors during the annual training.

Recommendation No. 4 (OIG Control Number OI-6)

Prepare a cost-benefit analysis to determine whether increased participation in U.S. Bank's rebate incentive program is warranted.

PBGC Response and OIG Evaluation

Resolved. PBGC agreed with the recommendation and the APC will meet with GAB to discuss reducing the time allotted for statement submissions to less than seven days.

Recommendation No. 5 (OIG Control Number OI-7)

Amend policy to ensure the OIG is immediately notified of all instances of purchase card misuse, including first instances.

PBGC Response and OIG Evaluation

Resolved. PBGC agreed with the recommendation and updated the PBGC Purchase Card Manual to require that the OIG is notified on first instances of misuse by a cardholder.

Appendix I: Objective, Scope and Methodology

Objective

Our objective was to identify fraudulent, improper, or abusive purchases made using the government purchase card.

Scope

The scope of this inspection covered purchase card transactions that occurred between January 2015 and December 2016. We conducted this inspection from January through April 2017 in Washington, DC.

Methodology

To accomplish our inspection objectives, we reviewed applicable laws, regulations, and PBGC policies and procedures; interviewed PBGC officials to obtain an understanding of PBGC's internal controls to prevent and detect fraudulent, improper, or abusive purchases; obtained purchase card transactions for the period under review; designed and conducted data mining procedures to identify potentially fraudulent, improper, or abusive purchases; selected a judgmental sample of transactions marked for further review; conducted follow-up procedures for those transactions marked for further review; and reported our findings to management.

This inspection was conducted in accordance with the Quality Standards for Inspection and Evaluation issued by the Council of the Inspectors General on Integrity and Efficiency. Those standards require that we plan and perform the inspection to obtain sufficient, competent, and relevant evidence to provide a reasonable basis for our findings, conclusions, and recommendations based on our inspection objectives.

Appendix II: Acronyms

AO	Approving Official
APC	Agency Program Coordinator
ELRMD	Employee and Labor Relations Management Division
FY	Fiscal Year
GAB	General Accounting Branch
GSA	General Services Administration
MCC	Merchant Category Code
OIG	Office of Inspector General
OMB	Office of Management and Budget
PBGC	Pension Benefit Guaranty Corporation

Appendix III: PBGC OIG Contact and Staff Acknowledgement

PBGC OIG Contact

Conrad Quarles, (202) 326-4000 or
quarles.conrad@pbgc.gov

Staff Acknowledgement

In addition to the contact named above, Special Agent Adelle Harris made key contributions to this report.

Appendix IV: Feedback

Please send your comments, suggestions, and feedback to OIGFeedback@pbgc.gov and include your name, contact information, and the report number. You may also mail comments to us:

Office of Inspector General
Pension Benefit Guaranty Corporation
1200 K Street NW, Suite 480
Washington, DC 20005

If you want to discuss this report or your comments with a member of the Office of Inspector General staff, please contact our office at (202) 326-4030.



Pension Benefit Guaranty Corporation
1200 K Street, N.W., Washington, D.C. 20005-4026

August 21, 2017

To: Conrad Quarles
Assistant Inspector General for Investigations (OIG)

From: Steve Block 
Director, Procurement Department (PD)

Subject: PBGC's Response to Recommendations in the OIG Draft Inspection Report – Inspection of PBGC's Purchase Card program

PBGC met with the representatives from the Office of the Inspector General (OIG) on August 1, 2017 to receive their Exit Conference and to discuss the findings and recommendations. The dialogue was both informative and insightful and PBGC is grateful for the opportunity to respond to the recommendations suggested by the OIG.

PBGC has outlined in the attachment, steps it has taken, and those we will take to address the recommendations. The Point of Contact for PBGC is Steven Kvalevog, Chief, Procurement Policy. He can be reached at extension 6859 or by email at kvalevog.steven@pbgc.gov.

Attachment: Response to OIG Recommendations

cc: Alice Maroni, CMO
Martin Boehm, CCRD

Response to OIG Recommendations Inspection of PBGC's Purchase Card Program (17-0006-1)

Recommendation No. 1 (OIG Control Number OI-3)

Require the APC to update the Included Template at least yearly, and use additional Rules Management functionality of U.S. Bank *Payment Analytics* as appropriate.

PD RESPONSE: US Bank and the APC have begun updating the "Included" templates to reduce the authorized MCCs for each Cardholder. Because each PBGC office has different functions, the "Included" MCCs for their respective Cardholders are being tailored to restrict MCCs that are not associated with their functions. International MCC restrictions have already been put in place for all Cardholders. US Bank will soon be providing monthly MCC reports reflecting these new reduced MCC templates to the APC. The APC will review the "included" templates annually, and revise them as necessary. In FY2018, the APC will update the PBGC GPC Manual to include this annual review. Additionally, the APC has already initiated US Bank Payment Analytics training. Upon completion of the Payment Analytics training, the APC will use this US Bank toolset to automatically review transactions to flag suspected card misuse and out-of-policy spending.

Recommendation No. 2 (OIG Control Number OI-4)

Ensure AOs regularly review cardholder records.

PD RESPONSE: The federal requirement for training is initial GSA training with refresher training required at least every three years. In April 2017, the APC established an annual training requirement for all Cardholders and Approving Officials, with 100% attendance. The training includes the emphasis on the importance of Approving Officials reviewing the monthly statements and purchase card logs of each of their respective Cardholders. The Procurement Department will provide a closer examination of Cardholder files during the annual file reviews.

Recommendation No. 3 (OIG Control Number OI-5)

Require cardholders to obtain written approval from Department Directors for food and related expenditures for departmental non-monetary awards and ceremonies.

PD RESPONSE: The Cardholder and Approving Official training provided by the APC will address purchases involving food and departmental non-monetary awards. Emphasis will be placed on the requirement for Department Directors to provide approval for food, non-monetary award, and award ceremony purchases.

Recommendation No. 4 (OIG Control Number OI-6)

Prepare a cost-benefit analysis to determine whether increased participation in U.S. Bank's rebate incentive program is warranted. Will try again to meet with FOD, GAB and Approving Officials on finding a solution to get statements paid quicker.

PD RESPONSE: In 2015, the APC met with FOD, GAB, and Approving Officials to identify actions required to get US Bank statements paid before their due date. In early FY2018, the APC will meet with GAB to discuss reducing the time allotted for statement submission to less than seven (7) days.

Recommendation No. 5 (OIG Control Number OI-7)

Amend policy to ensure the OIG is immediately notified of all instances of purchase card misuse, including first instances.

PD RESPONSE: The APC issued an updated PBGC Purchase Card Manual on August 1, 2017, which added the requirement for the APC to make a referral to the Office of the Inspector General after the first and second instance of intentional misuse and third instance of unintentional misuse by a Cardholder. The APC will make referrals to the Office of the Inspector General when such instances of misuse are detected.