



DEPARTMENT OF VETERANS AFFAIRS  
**OFFICE OF INSPECTOR GENERAL**

*Office of Audits and Evaluations*

DEPARTMENT OF VETERANS AFFAIRS

Fiscal Year 2020 Risk  
Assessment of VA's Charge  
Card Program

REVIEW

REPORT #21-00350-201

AUGUST 18, 2021



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**OFFICE OF INSPECTOR GENERAL**  
WASHINGTON, DC 20001



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## MEMORANDUM

**Date:** August 18, 2021  
**To:** Inspector General (50)  
**From:** Assistant Inspector General for Audits and Evaluations (52)  
**Subject:** Fiscal Year (FY) 2020 Risk Assessment of VA's Charge Card Program

### Annual Risk Assessment of VA's Charge Card Programs

VA has three types of charge cards: purchase cards (including convenience checks), travel cards, and fleet cards.<sup>1</sup> VA uses purchase cards to procure, order, and pay for supplies and services; travel cards for official travel expenses; and fleet cards for fuel, maintenance, and repair of governmentally owned and operated vehicles. VA's Charge Card Program has individual programs for each type of charge card. This risk assessment by the Office of Inspector General (OIG) is mandated by the Government Charge Card Abuse Prevention Act of 2012.<sup>2</sup> The review team used data analytics and reviewed prior OIG investigations and reports to identify potential charge card misuse and make conclusions about the risk level of each charge card program.<sup>3</sup> VA's Charge Card Program had nearly \$4.9 billion in FY 2020 spending.

The Purchase Card Program is the largest of VA's charge card programs, with over \$4.7 billion in spending representing about 98 percent of charge card purchases in FY 2020. During FY 2020, the OIG investigated, found, and reported on misuse of VA purchase cards.<sup>4</sup> The OIG assessed the Purchase Card Program at medium risk for illegal, improper, or erroneous purchases. The Travel Card Program and the Fleet Card Program represented about 1.4 percent and 0.3 percent, respectively, of overall charge card spending in FY 2020. Based on data analytics, these charge card programs have a low risk for illegal, improper, or erroneous purchases.

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<sup>1</sup> "Volume XVI - Charge Card Programs," VA Office of Finance, accessed April 23, 2021, <https://www.va.gov/finance/policy/pubs/volumeXVI.asp>.

<sup>2</sup> Government Charge Card Abuse Prevention Act of 2012, Pub. L. No. 112-194, 41 U.S.C. § 1909.

<sup>3</sup> Office of Management and Budget (OMB), Memo M-13-21, "Implementation of the Government Charge Card Abuse Prevention Act of 2012," September 6, 2013; OMB, Circular A-123, app. B, "A Risk Management Framework for Government Charge Card Programs," August 27, 2019. "Data analytics" is an automated process used to scan databases to detect patterns, trends, and/or anomalies for use in risk management or other areas of analysis.

<sup>4</sup> VA OIG, October 2020 Highlights. Accessed on April 22, 2021, <https://www.va.gov/oig/pubs/highlights/VAOIG-Highlights-202010.pdf>.

## Background

Charge cards enable authorized government employees to make purchases on behalf of the federal government, help agencies simplify acquisition procedures, and are the preferred method for purchasing and paying for micropurchases.<sup>5</sup> Federal agencies establish charge card accounts with the General Services Administration's (GSA) SmartPay Program through two GSA SmartPay 3 contractor banks—Citibank and U.S. Bank. The Government Charge Card Abuse Prevention Act of 2012 was enacted to prevent abuse in federal charge card programs. This law and the Office of Management and Budget (OMB) require inspectors general to conduct periodic risk assessments of illegal, improper, or erroneous purchases in charge card programs.<sup>6</sup> Inspectors general are required to use these risk assessments to determine the scope, frequency, and number of periodic audits of charge card programs.

## The Impact of the COVID-19 Pandemic on VA's Charge Card Programs

The COVID-19 pandemic presented unprecedented challenges to healthcare delivery nationwide, including significant stresses on VA's healthcare system. VA's charge card programs were affected during this period, as reflected by an increase in spending for medical supplies and a decrease in the amount of charge card spending and number of transactions for purchase, travel, and fleet cards in FY 2020.

As the United States identified cases of COVID-19 in February 2020, consumption of personal protective equipment in VA medical centers began to increase significantly. In some instances, VA turned to nontraditional sources to manage supply chain disruptions, which sometimes had an impact on the timeliness, cost, and quality of supplies.<sup>7</sup> Anticipating the implications of unprecedented requirements for personal protective equipment, along with the uncertainty regarding the pandemic's duration, VA allowed its medical centers to use purchase cards to a greater extent to procure personal protective equipment as the availability of supplies from prime vendors diminished.<sup>8</sup>

On March 3, 2020, the President announced the formation of the White House Coronavirus Task Force to lead the Administration's efforts to monitor, contain, and mitigate the spread of the COVID-19 virus, while ensuring that the American people have the most accurate and up-to-date

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<sup>5</sup> "GSA SmartPay Saves! The GSA SmartPay Program," accessed March 23, 2021, <https://smartpay.gsa.gov/content/about-gsa-smartpay>; Government Accountability Office (GAO), *Government Purchase Cards: Control Weaknesses Expose Agencies to Fraud and Abuse*, GAO-02-676T, May 1, 2002; Federal Acquisition Regulation 13.201(b); VA Financial Policies and Procedures, vol. XVI, chap. 1B, "Government Purchase Card for Micro-Purchases," October 2019.

<sup>6</sup> OMB, Memo M-13-21.

<sup>7</sup> Veterans Health Administration (VHA), *VHA Coronavirus Disease 2019 (COVID-19) Response Report*, October 27, 2020.

<sup>8</sup> VHA, *VHA Coronavirus Disease 2019 (COVID-19) Response Report*.

health and travel information.<sup>9</sup> On March 15, 2020, the executive director of the office of acquisition and logistics and senior procurement executive issued a memorandum on the use of emergency acquisition flexibilities.<sup>10</sup> The guidance stated that the micropurchase threshold was doubled from \$10,000 to \$20,000 for VA acquisitions.<sup>11</sup> Also in March 2020, VA announced that purchase cards could be used to make open market purchases at Amazon Business for the purpose of procuring supplies and equipment, including items required in response to the COVID-19 emergency.<sup>12</sup> According to a February 2021 report by the Council of the Inspectors General on Integrity and Efficiency, pandemic-related funding has worsened existing problems with the lack of internal oversight and poor planning and has resulted in some controls being circumvented to adjust for emergency conditions.<sup>13</sup>

Travel card and fleet card activity were also affected in FY 2020, as VA issued guidelines recommending that work-related travel be minimized. On March 9, 2020, the VA executive in charge of the office of the under secretary for health published a memorandum instructing that only mission-critical travel was approved, and all other Veterans Health Administration travel would be canceled for 30 days.<sup>14</sup>

## Scope and Methodology

The OIG conducted this risk assessment from November 2020 through March 2021. The review team used data analytics to evaluate the three types of charge cards used by VA. The team reviewed VA policies, procedures, and other controls applicable to these charge card programs. The team also analyzed FY 2018 and FY 2019 charge card data to identify transactions or patterns of activity that represented potentially illegal, improper, or erroneous charge card purchases and to measure year-to-year changes in charge card use. Due to the limited scope of the risk assessment, the team did not verify individual transactions.

The review team established and used the criteria in table 1 to assess risk based on the data analytics results.

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<sup>9</sup> Office of Personnel Management Memo, "Preliminary Guidance to Agencies during Coronavirus Disease 2019 (COVID-19)," March 3, 2020.

<sup>10</sup> VA Memo, "Emergency Acquisition Flexibilities – Emergency Assistance Activities in Support of Global Pandemic for Coronavirus Disease 2019 (COVID-19)," March 15, 2020.

<sup>11</sup> VA Memo, "Emergency Acquisition Flexibilities – Emergency Assistance Activities in Support of Global Pandemic for Coronavirus Disease 2019 (COVID-19)."

<sup>12</sup> VA Memo RCS-OPS-006, "COVID-19 Response: Use of Government Purchase Card with Amazon Business," March 31, 2020.

<sup>13</sup> Council of the Inspectors General on Integrity and Efficiency, *Top Management and Performance Challenges Facing Multiple Federal Agencies*, February 2021.

<sup>14</sup> VA Memo, "Mission Critical Travel," March 9, 2020.

**Table 1. Criteria for Assessing Charge Card Risk**

Risk level	Percent of charge card transactions or dollar amount of purchases determined to be potentially illegal, improper, or erroneous
Low	Less than 5
Medium	From 5 to 20
High	More than 20

*Source: Criteria established by the VA OIG.*

In assessing risk, the review team considered the results and recommendations from prior OIG reviews and investigations that evaluated aspects of VA’s charge card programs. The team also reviewed VA’s FY 2020 and FY 2021 annual charge card management plans. OMB requires that VA develop, issue, and maintain written policies and procedures for the appropriate use of charge cards to minimize the potential for fraud, misuse, and delinquency.<sup>15</sup> Finally, the team reviewed VA’s *Semiannual Report on Purchase Charge Card Violations*, which it received from the Financial Services Center in February 2021.<sup>16</sup> The center’s Charge Card Services Division is responsible for agencywide oversight of all financial operations and program administration duties for the VA’s Charge Card Program and systems. This report describes confirmed charge card violations involving misuse of a purchase card, adverse personnel actions, punishments, or other actions taken for violations, as well as the status of pending violations involving purchase cards.

**Assessment 1: VA’s Purchase Card Program Is at Medium Risk for Illegal, Improper, or Erroneous Purchases**

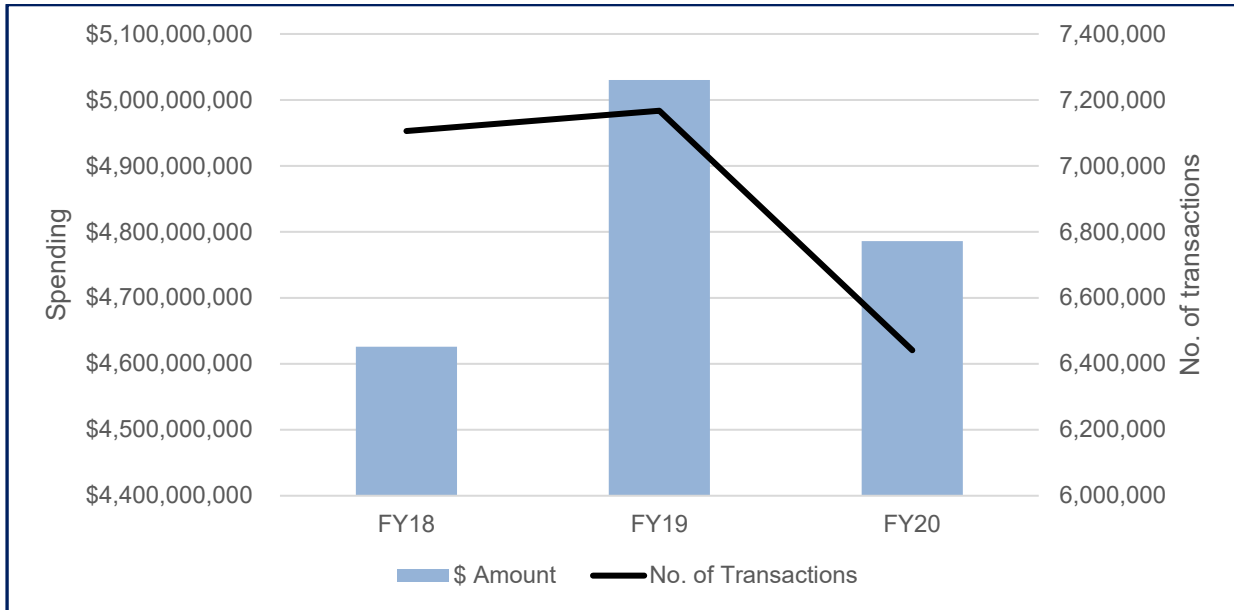
VA’s Purchase Card Program is the largest VA charge card program, as measured by both the amount of spending and number of transactions. The large amount of purchase card spending and high volume of transactions makes it important to have strong controls over purchase card use to safeguard government resources and ensure compliance with policies and procedures that reduce the risk of error, fraud, waste, or abuse.

In FY 2018, purchase card spending was about \$4.6 billion with over seven million transactions. From FY 2019 to FY 2020, VA purchase card spending decreased by about \$244.4 million from about \$5 billion to over \$4.7 billion. The number of purchase card transactions also decreased from approximately 7.2 million to about 6.4 million. The number of VA purchase cardholders decreased to 12,927 in FY 2020, which is about 3.3 percent of VA’s workforce of approximately 387,000 employees and 580 fewer cardholders than in FY 2019.

<sup>15</sup> OMB, Circular A-123.

<sup>16</sup> “VA’s Semiannual Report on Purchase Charge Card Violations,” Financial Services Center email response to questions from VA OIG Office of Audits and Evaluations, received February 3, 2021.

Figure 1 shows the change in purchase card trends from FY 2018 through FY 2020 as measured by the number of transactions and amount spent.



**Figure 1.** FYs 2018–2020 trends in purchase card spending and number of transactions.

Source: VA OIG analysis of FYs 2018–2020 U.S. Bank data.

### Purchase Card Data

The review team analyzed FY 2020 purchase card data to identify transactions or patterns of activity that suggest potential illegal, improper, or erroneous purchases, such as the following categories:

1. Surges in year-end purchase card spending
2. Excessive number of purchase card accounts per approving official
  - a. associated with approving officials assigned more than 25 purchase card accounts, or
  - b. associated with prosthetics approving officials assigned more than 40 purchase card accounts
3. Potentially prohibited sales tax
4. Potential split purchases
5. Potentially unauthorized transactions using third-party payers
6. Prohibited merchant category codes
7. Questionable merchant category codes

8. Potentially unauthorized automated teller machine (ATM) withdrawals<sup>17</sup>

Table 2 shows the total number and dollar amount of purchase card transactions and the number of purchase cardholders.

**Table 2. Data for the Purchase Card Risk Assessment**

Measure	FY 2019	FY 2020	Change from FY 2019 to FY 2020
Purchase card transactions	7,167,220	6,441,151	(726,069)
Amount of purchase card charges	\$5,030,262,565	\$4,785,869,185	(\$244,393,380)
Purchase cardholders	13,507	12,927	(580)

Source: VA OIG analysis of FY 2019 and FY 2020 U.S. Bank data.

Table 3 shows the percentage of transactions associated with the risk elements, the assessed risk, and the change from FY 2019 to FY 2020.

**Table 3. Percentage of Transactions by Category for the Purchase Card Risk Assessment**

	Category	FY 2020 risk assessment	FY 2019 percent	FY 2020 percent	Percent change from FY 2019 to FY 2020*
1	Due to surges in year-end purchase card spending	Medium	9.10	10.80	18.70
2a	Associated with approving officials assigned more than 25 purchase card accounts	Medium	5.80	7.00	20.70
2b	Associated with prosthetics approving officials assigned more than 40 purchase card accounts	Medium	10.50	8.80	(16.20)
3	With potentially prohibited sales tax	Medium	4.30	6.80	58.10
4	Identified as potential split purchases	Low	3.20	1.80	(43.80)
5	Potentially using unauthorized third-party payers	Low	0.00	0.00	0.00
6	With prohibited merchant category codes	Low	0.23	0.24	4.30

<sup>17</sup> OMB, Circular A-123. B. The federal government may be exempt from state taxes; however, depending on state tax requirements, federal government employees may not be exempt from conference facility fees or taxes, and county, city, and local taxes. To identify surges in year-end spending, the review team compared average monthly purchase card spending for the first 10 months of the fiscal year against average spending during the last two months of the fiscal year.



	Category	FY 2020 risk assessment	FY 2019 percent	FY 2020 percent	Percent change from FY 2019 to FY 2020*
7	With questionable merchant category codes	Low	0.00	0.00	0.00
8	With potentially unauthorized ATM withdrawals	Low	0.00	0.00	0.00

Source: VA OIG analysis of FY 2019 and FY 2020 U.S. Bank data.

\* The percent change equals [(FY 2020 percent – FY 2019 percent) / FY 2019 percent].

\*The percentages in tables 3, 5, and 7 have been rounded.

The OIG determined the risk of illegal, improper, or erroneous purchases in VA’s Purchase Card Program is medium. This is the same level of risk assessed by the OIG in the prior year based on VA’s FY 2019 purchase card data. The OIG assigned the risk level based on the elements in table 3 and consideration of their potential to impact a program which includes purchase card, travel card, and fleet card spending, and had nearly \$4.9 billion in spending in FY 2020.

### 1. Surges in Year-End Spending

According to the Government Accountability Office (GAO), year-end spending is not inherently more wasteful than spending at other times of the year.<sup>18</sup> However, a surge in year-end spending may indicate low-priority projects, unplanned products or services, or shortcuts to the procurement process.<sup>19</sup>

Efforts to “use it or lose it” could potentially lead to the purchase of goods or services that do not represent bona fide needs of that fiscal year. This uses up funds remaining at the end of the year and, if used to acquire items that have continuing requirements, may relieve funds of a subsequent year, which is not permissible. Spending in this manner is improper because a fiscal year appropriation may be obligated only to meet a legitimate, or bona fide need, arising in, or in some cases arising prior to but continuing to exist in, the fiscal year for which the appropriation was made.<sup>20</sup>

Finally, surges in year-end spending could also result in rushed purchasing procedures, increased workload for procurement personnel, and higher prices.<sup>21</sup> To assess the risk that year-end spending could have on VA’s Purchase Card Program, the review team compared VA’s average purchase card spending during the first 10 months of FY 2020 to the average spending for the last two months. VA data showed that despite a decrease in the average number of transactions

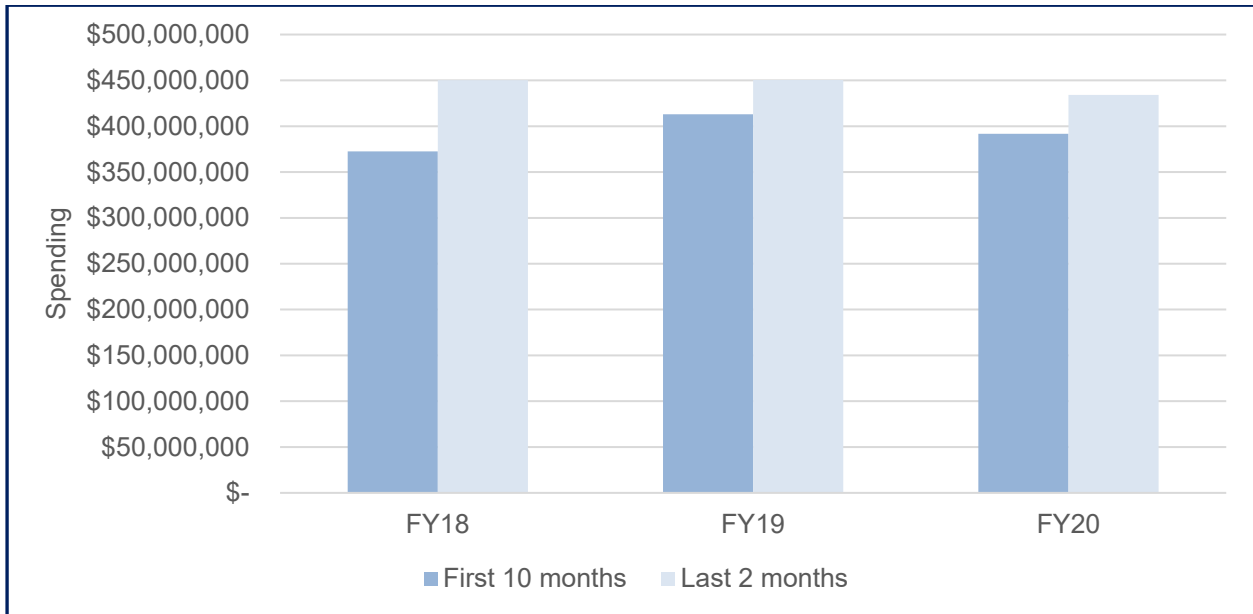
<sup>18</sup> GAO, *Principles of Federal Appropriations Law*, 3rd ed., vol. 1, GAO-04-261SP, January 2004.

<sup>19</sup> GAO, Report To The Honorable Stewart B. McKinney, United States House Of Representatives, Federal Year-End Spending: Symptom Of A Larger Problem, PAD-81-18, October 1980.

<sup>20</sup> GAO, *Principles of Federal Appropriations Law*, 3rd ed., vol. 1, GAO-04-261SP, January 2004.

<sup>21</sup> GAO, Report To The Honorable Stewart B. McKinney, United States House Of Representatives, Federal Year-End Spending: Symptom Of A Larger Problem, PAD-81-18, October 1980.

during the last two months, the average amount of spending increased. During the first 10 months of FY 2020, VA averaged approximately \$391.8 million in monthly spending and 538,000 transactions. During the last two months of FY 2020, average monthly spending increased to about \$434.1 million per month, while the average number of transactions decreased to about 528,000, up approximately 11 percent and down approximately two percent, respectively. Figure 2 shows the average monthly purchase card spending increased during the last two months of each year relative to the prior 10 months.



**Figure 2.** FYs 2018–2020 average monthly purchase card spending, first 10 months versus last two months.

Source: VA OIG analysis of FYs 2018–2020 U.S. Bank data.

## 2. Excessive Number of Purchase Card Accounts per Approving Official

An approving official is a person who authorizes cardholder purchases, ensures payment charges are reconciled to monthly billing statements, and helps ensure purchase cards are used properly. GSA guidance on purchase card use states that the number of cardholders and the volume of transactions for which an approving official is responsible need to be reasonable so that the official may conduct reviews in a timely manner. These timely reviews are necessary to ensure the detection of possible cases of card misuse and fraud. VA policy provides similar guidance, but bases limitations on the number of accounts, not cardholders. VA policy limits an approving official being responsible for no more than 25 purchase card accounts. This limit does not apply to purchase card accounts used specifically for prosthetics purchases. Approving officials for these accounts are permitted to have up to 40 purchase card accounts.<sup>22</sup> When the number of

<sup>22</sup> VA Financial Policies and Procedures, vol. XVI, chap. 1A, “Administrative Actions for Government Purchase Cards,” June 2018.

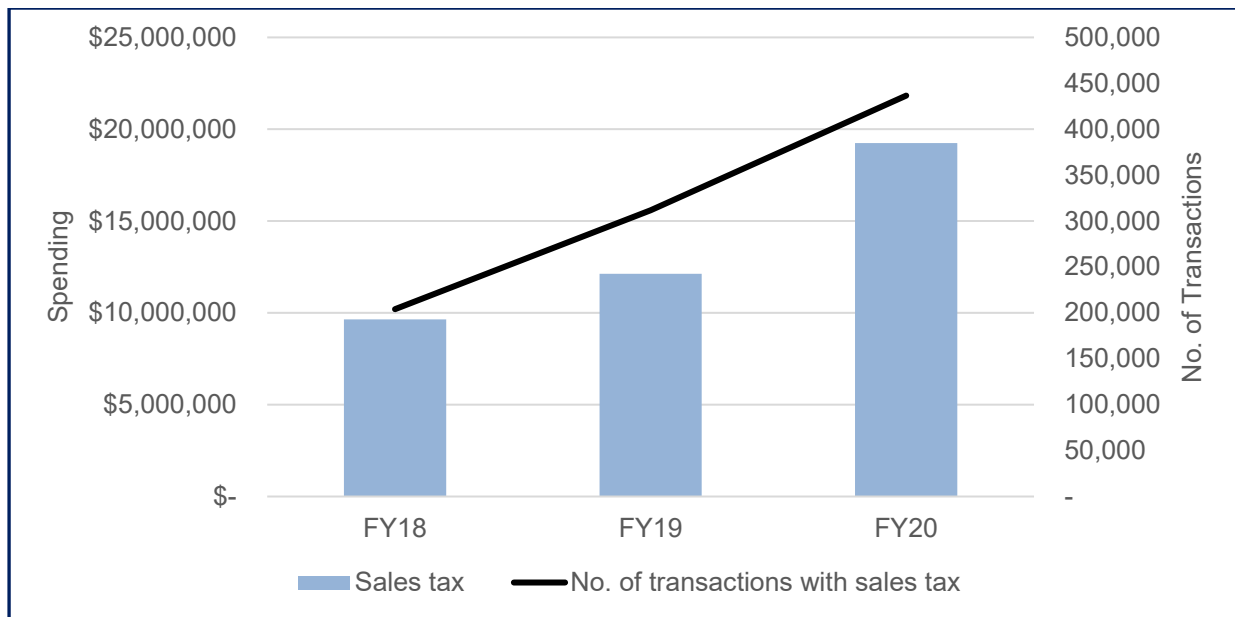
purchase card accounts assigned to an approving official exceeds these limits, the risk for illegal, improper, or erroneous purchases increases.

The OIG found that 126 non-prosthetics purchase card approving officials were assigned more than the limit of 25 purchase card accounts, amounting to 4,734 accounts in total and an average of over 37 accounts per approving official. The accounts were used for 461,722 transactions and over \$419 million in spending during FY 2020. The OIG also identified 25 prosthetics purchase card approving officials who were assigned more than the limit of 40 accounts each, amounting to 1,223 accounts in the aggregate and translating into an average of almost 49 accounts per approving official. The accounts were used for 581,517 transactions totaling over \$302 million during FY 2020.

### 3. Potentially Prohibited Sales Taxes

Generally, purchases and leases made by the federal government are exempt from state and local taxes and, when it is economically feasible to do so, executive agencies shall take maximum advantage of all exemptions from state and local taxation that may be available.<sup>23</sup> In assessing the risk that VA may have paid prohibited sales taxes on purchase card transactions, the OIG identified \$19,241,281 of sales tax on 436,590 purchase card transactions in FY 2020. This is an increase from \$12,124,508 reported in sales tax on 311,697 purchase transactions in FY 2019.

Figure 3 shows VA's purchase card sales tax paid has consistently trended upward in both the amount spent and the number of transactions for FY 2018 through FY 2020.



**Figure 3.** FYs 2018–2020 purchase card sales tax amount and number of transactions with sales tax.  
 Source: VA OIG analysis of FYs 2018–2020 U.S. Bank data.

<sup>23</sup> Federal Acquisition Regulation 29.302.

VA's chief of the charge card services division at the Financial Services Center advised the review team that the amount of sales tax data reported in the U.S. Bank file is not accurate because it is self-reported by the vendor. According to the chief, some vendors intentionally report sales tax amounts, even though no sales tax was paid, so they can receive discounts on transaction fees charged by VISA. The chief of the charge card services division informed the team that VISA provides these discounts as an incentive to encourage merchants to provide certain types of third-level transactional data, including sales tax. VA stated that they are unable to determine the accurate amount of sales taxes actually paid by VA without the corresponding receipts, which increases the risk that VA will not reclaim inappropriate sales tax payments.

In addition, VA provided the review team with an example in which it was appropriate for the VA to pay sales tax. In this example, VA used purchase cards to pay for textbooks for student veterans. One state deemed this purchase to be taxable because the benefit's recipient was an individual and not a federal agency, even though VA paid for the textbooks. Due to the limited scope of a risk assessment, the team did not determine if these potentially prohibited sales taxes were actually prohibited.

#### **4. Potential Split Purchases**

A split purchase occurs when a cardholder intentionally modifies a known requirement into two or more purchases or payments in order to circumvent the micropurchase threshold for a single purchase.<sup>24</sup> The Federal Acquisition Regulation prohibits purchases from being split to qualify for simplified acquisition procedures or to avoid requirements that apply to purchases above the micropurchase threshold.<sup>25</sup> To assess the risk that split purchases could have on the VA Purchase Card Program, the review team first identified potential split purchases for FY 2020. This pool of potential split purchases included transactions with a combination of the same purchase date, merchant name, credit card number, and with total spending greater than the micropurchase threshold. The threshold was \$10,000 from October 1, 2019, through March 14, 2020. On March 15, 2020, the micropurchase threshold was increased to \$20,000 in response to the national emergency.<sup>26</sup> This \$20,000 threshold remained in effect through the remainder of the fiscal year.<sup>27</sup>

The OIG identified more than 116,000 potential split purchases totaling over \$400 million. This is a decrease from almost 226,400 potential split purchases totaling over \$564 million for FY 2019. Due to the limited scope of a risk assessment, the review team did not determine if these potential split purchase transactions were actual split purchases. However, the OIG

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<sup>24</sup> VA Financial Policies and Procedures, "Government Purchase Card for Micro-Purchases."

<sup>25</sup> Federal Acquisition Regulation 13.003.

<sup>26</sup> VA Memo, "Emergency Acquisition Flexibilities – Emergency Assistance Activities in Support of Global Pandemic for Coronavirus Disease 2019 (COVID-19)," March 15, 2020.

<sup>27</sup> VA Memo, "Emergency Acquisition Flexibilities Update 20-04 – National Interest Action," June 23, 2020.

is conducting separate financial management reviews at VA medical centers that include an examination of transactional data in regard to potential split purchases.

## 5. Potentially Unauthorized Transactions Using Third-Party Payers

Third-party payers offer payment processing services to merchants and other business entities, typically initiating transactions on behalf of clients that do not have a direct relationship with the payment processor's financial institution. Internet transactions that are made using third-party payment platforms are considered to be high-risk, as available transaction data may not be completely passed to the government's contractor bank and transaction dispute terms may vary from those offered on a traditional charge card transaction. OMB policy states that alternative methods of payment or using a different vendor that does not use a third-party payer should be considered prior to making a card payment using a third-party payer.<sup>28</sup>

Consistent with OMB guidance, VA policy states cardholders will not use third-party payers—for example, PayPal, E-Money, E-Account, Amazon Marketplace, Google Checkout, and Venmo—unless there are no other available vendors. Cardholders are required to justify in writing if a third-party payer is used and keep documentation identifying the actual vendor providing the item purchased. The use of third-party payers is discouraged because they do not always disclose the actual name of the merchant fulfilling the request, which can mask the purchase and lead to circumvention of unauthorized purchases. Additionally, disputes involving third-party merchants are more challenging to resolve because billing discrepancies must be addressed directly with the merchant or supplier.<sup>29</sup> High numbers of consumer complaints about payment processors and their clients, and particularly high numbers of returns or charge-backs, suggest that the originating merchant may be engaged in unfair or deceptive practices or fraud, including using consumers' account information to create unauthorized debits.<sup>30</sup>

To assess the risk that unauthorized purchases through third-party payers could have on the Purchase Card Program, the review team first identified third-party transactions. VA data showed an increase in third-party purchase card spending in FY 2020, despite a decrease in the number of third-party purchase card transactions. VA data showed 2,386 potentially unauthorized third-party transactions totaling \$2,637,073 in FY 2020, compared to 2,433 third-party transactions totaling \$2,338,007 in FY 2019. Due to the limited scope of a risk assessment, the team did not review individual transactions to determine if they were actual unauthorized third-party purchases.

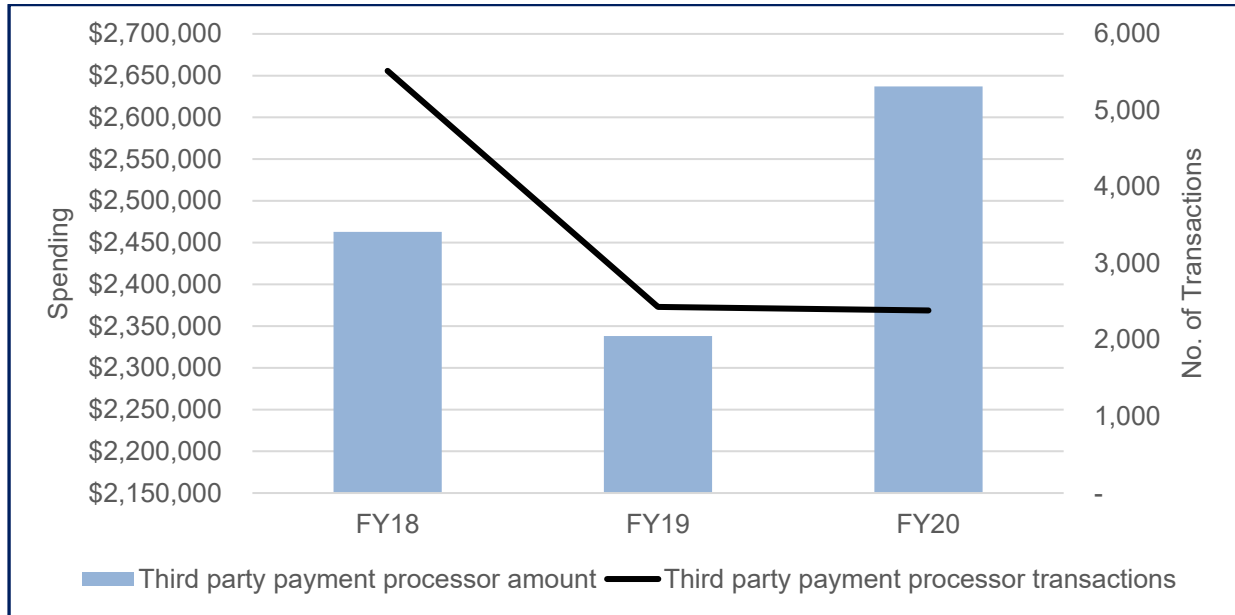
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<sup>28</sup> OMB, Circular A-123.

<sup>29</sup> VA Financial Policies and Procedures, "Government Purchase Card for Micro-Purchases."

<sup>30</sup> Department of Treasury Financial Crimes Enforcement Network, Advisory FIN-2012-A010, *Risk Associated with Third-Party Payment Processors* (October 22, 2012), <https://www.fincen.gov/sites/default/files/advisory/FIN-2012-A010.pdf>, accessed December 14, 2020.

Figure 4 shows that third-party payer transactions decreased each year from FY 2018 through 2020, while the amount of spending via third-party payers was inconsistent, decreasing in FY 2019 before increasing in FY 2020. As the micropurchase threshold doubled from \$10,000 to \$20,000, fewer transactions were required to purchase higher dollar amounts of goods and services.



**Figure 4.** FYs 2018–2020 third-party payer activity amounts and number of transactions.  
 Source: VA OIG analysis of FYs 2018–2020 U.S. Bank data.

## 6. Potentially Prohibited Merchant Category Codes

A merchant category code (MCC) is a four-digit code used to identify the type of business a merchant conducts, such as gas stations, restaurants, or airlines. Bankcard associations or banks establish MCCs, and merchants select the code that best describes their business. These codes enable VA to limit the types of businesses where a card will be accepted. This restriction can reduce the risk associated with inappropriate purchase card use. Also, these codes can be used to highlight transactions requiring further investigation. As noted by the GAO, this control can be circumvented if vendors provide false or misleading information and obtain codes intended to disguise the types of goods or services they provide.<sup>31</sup> Also, bank service providers do not always reject purchase card transactions with blocked vendor codes.

The VA’s chief of its charge card services division told the review team VA requires purchases from a list of approved MCCs instead of blocking MCCs to achieve the same objective of restricting the purchase of non-mission-essential items. Purchases with a merchant that does not have an MCC on the approved list require additional approval from an agency/organization

<sup>31</sup> GAO, *Auditing and Investigating the Internal Control of Government Purchase Card Programs*, GAO-04-87G, November 2003.

program coordinator and the Financial Services Center. VA also requires that agency/organization program coordinators monitor the use of MCCs and high-risk merchant spending on a monthly basis.

To assess this risk element, the review team identified potentially prohibited MCC transactions. VA data showed there were 15,705 potentially prohibited MCC transactions totaling \$20,881,082 in FY 2020, down from 16,586 transactions totaling \$17,842,501 in FY 2019. The MCC descriptions associated with these codes included tourist attractions, art dealers, and establishments associated with alcoholic beverages. While a transaction with a merchant that has a dubious MCC may initially raise questions, further investigation may reveal that the transaction was a legitimate purchase or that the merchant was misclassified. Due to the limited scope of a risk assessment, the team did not determine if these transactions were actually prohibited MCC purchases.

## **7. Questionable Merchant Category Codes**

For the purposes of this risk assessment, questionable MCCs are transactions that are described as stored-value cards. The term stored-value card means any card with a prepaid value, including any gift card. Stored-value cards are issued by credit card networks, bank card issuers, and retail merchants and have a specific dollar value preloaded onto them. Per VA policy, purchase cards may not be used to buy gift cards, except for “patient only” purchases from the General Post Fund, which directly benefit the veteran.<sup>32</sup>

To assess the risk to the Purchase Card Program, the review team performed data analytics to identify FY 2020 questionable MCC transactions. VA data showed there was a significant decrease in questionable MCC spending in FY 2020 despite a slight increase in transactions. There were 12 questionable MCC transactions totaling \$6,245 in FY 2020, up from nine transactions totaling \$45,144 in FY 2019. Due to the limited scope of a risk assessment, the team did not determine if these potentially questionable MCC purchase transactions were improper.

## **8. Potentially Unauthorized ATM Withdrawals**

Per the GSA SmartPay definitions, purchase card cash advances, which include ATM cash withdrawals, are strictly prohibited. OIG data analytics did not identify any purchase card ATM withdrawals or cash disbursements. As such, the review team concluded there is minimal risk associated with ATM withdrawals using purchase cards.

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<sup>32</sup> VA Financial Policies and Procedures, “Government Purchase Card for Micro-Purchases;” VHA Directive 4721, *VHA General Post Funds - Gifts and Donations*, August 13, 2018. Gift cards may be purchased from the General Post Funds for distribution to inpatients, members, and/or caregivers of the veteran (for veteran use) only if the distribution of the cards or books will support the mission and goals of VHA and will directly benefit the veteran.

## Other Risk Assessment and Internal Control Factors

In addition to the data analysis, the review team conducted a search for previously issued OIG reports and recommendations as well as results from OIG investigations of charge card misuse. Other risk assessment factors included VA's annual charge card management plan, VA's semiannual reports on purchase card violations, and the role of VA's Office of Business Oversight in continuing to support VA operations and improve controls.

### *Previously Issued OIG Reports and Recommendations*

The review team performed a search for published oversight reports that had findings and recommendations related to VA's charge card use in FY 2020. The team did not find any significant reporting.<sup>33</sup>

### *Results of OIG Investigations*

The OIG's Office of Investigations continues to identify patterns of misuse and fraudulent use of purchase cards. During FY 2020, OIG criminal investigators opened three cases regarding the misuse of purchase cards. These cases reflected investigations into

- large dollar amounts paid to the vendor by only one VA employee,
- multiple purchases just under the micropurchase limit,
- lack of separation of duties,
- service-disabled veteran-owned small business pass-through schemes, and
- purchasing a category of goods that is inconsistent from the type of goods sold by the vendor, for example, computer equipment from a furniture store.

In FY 2020, the OIG Office of Investigations closed five purchase card fraud cases. One of those cases is described below.

- A former VA medical center police and security service sergeant was sentenced in the western district of Tennessee to three years' of supervised probation and ordered to pay \$118,000 in restitution to VA after pleading guilty to conflict of interest. A VA OIG investigation revealed that the defendant created a shell security company which she then paid using her government purchase card for purported security services rendered at VA facilities in the Memphis, Tennessee area. The money was laundered through an account with a third-party processor that the defendant opened

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<sup>33</sup> Oversight.gov, Council of the Inspectors General on Integrity and Efficiency, accessed March 3, 2021, <https://www.oversight.gov/>; "GSA SmartPay Audit Repository," GSA, accessed March 1, 2021, <https://smartpay.gsa.gov/content/audit-repository>.



in the name of the shell company. After being processed by the third-party processor, the money was deposited into the defendant's personal bank account.

### *VA's Charge Card Management Plan*

OMB consolidates requirements and guidance on maintaining internal controls that reduce the risk of fraud, waste, and error in government charge card programs.<sup>34</sup> VA's FY 2021 Charge Card Management Plan included

- responsibilities of key personnel,
- procedures for issuing a purchase card,
- training requirements for purchase cardholders,
- management controls, policies, and practices for ensuring appropriate charge card use,
- policies and practices developed to ensure strategic sourcing implementation, promotion, and effectiveness,
- explanation of how available reports and data are used for monitoring efficiencies,
- record-keeping requirements, and
- policies for the closure or transfer of charge cards and maintenance of other documentation when employees terminate employment.<sup>35</sup>

Per VA's chief of the charge card services division, VA submitted this plan to OMB on January 14, 2021, and addressed all required elements.

### *VA's Semiannual Reports on Purchase Charge Card Violations*

The Government Charge Card Abuse Prevention Act of 2012 directs the VA Secretary and VA Inspector General to submit semiannual joint violation reports to the OMB director that describe confirmed violations involving the misuse of purchase cards, adverse actions, punishments, or other actions taken based on each violation.<sup>36</sup>

VA reported one confirmed violation involving the loss, waste, or misuse of a purchase card in FY 2020. The report indicated that the amount of violation was nominal (two \$5 purchases) and required that the cardholder and the approving official retake purchase card and unauthorized commitment training. According to the VA's chief of its charge card services division, VA issued a bill of collection and the cardholder paid the money back to the VA. The facility

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<sup>34</sup> OMB, Circular A-123.

<sup>35</sup> VA, Fiscal Year 21 Charge Card Management Plan, December 31, 2020.

<sup>36</sup> Government Charge Card Abuse Prevention Act of 2012, Pub. L. No. 112-194, 41 U.S.C. § 1909.

concluded that the employee was following instructions from the chief business officer and no counseling or disciplinary actions were taken.

### *VA's Office of Business Oversight Reviews of Purchase Card Transactions*

The Office of Business Oversight is part of VA's Office of Management and is dedicated to improving internal controls. As part of this mission, the office's Financial Risk Oversight Service documents and assesses VA's internal controls framework and provides auditing, testing, and remediation assistance to VA management to support effective and efficient operations and assist in improving controls over financial reporting to fulfill VA's commitment to veterans.<sup>37</sup>

According to the director of the Office of Business Oversight, Office of Financial Risk Oversight Services, the Office of Business Oversight also reviews and updates financial processes through the issuance of business cycle memos. The office is in the process of developing a payment management cycle memorandum, which includes VA-wide processes related to all VA charge card programs. This memo is scheduled to be issued in FY 2021 and will continue as a multiyear effort.

### **Assessment 1 Conclusion**

VA's Purchase Card Program remains at medium risk of illegal, improper, or erroneous purchases. The OIG assigned a medium risk level because the data analytics of purchase card transactions identified potential misuse of purchase cards, while OIG investigations and reviews continue to identify patterns of purchase card transactions that do not comply with the Federal Acquisition Regulation and VA policies and procedures. The OIG will use this risk assessment to evaluate the need for future audits of the VA Purchase Card Program.

### **Assessment 2: VA's Travel Card Program Is at Low Risk for Illegal, Improper, or Erroneous Purchases**

Congress has mandated that federal employees use government travel charge cards for payments of expenses related to official government travel.<sup>38</sup> There are two types of accounts available under the VA's Government Travel Charge Card Program—individually billed accounts (IBA) and centrally billed accounts (CBA). With IBA cards, the government reimburses employees for authorized travel expenses, including meals and incidental expenses, and the employee is responsible for making payment to the bank. CBA cards are used for employees' common carrier costs, for example, private-sector suppliers of air, rail, or bus transportation, and accounts are

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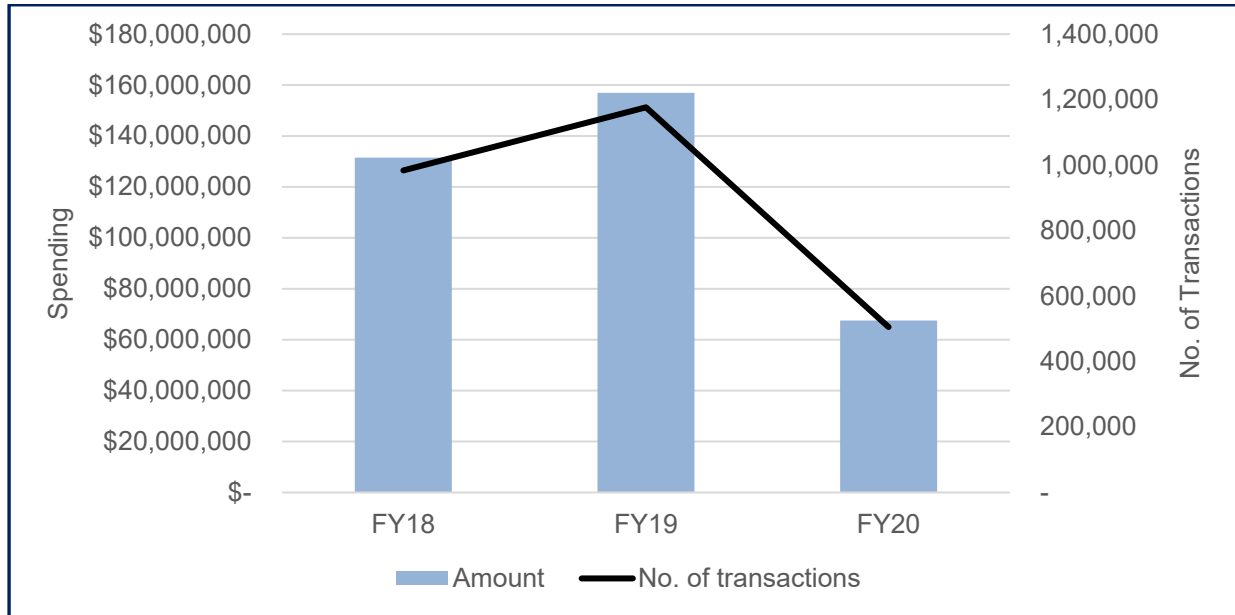
<sup>37</sup> Office of Business Oversight Home (website), VA, accessed February 3, 2021, <https://vaww.va.gov/OIC/index.asp>. (This is an internal VA website not publicly accessible.)

<sup>38</sup> Travel and Transportation Reform Act of 1998, Pub. L. No. 105-264, 112 Stat. 2350 (1998).

paid directly by the government to the bank. The controls and allowed expenses are different depending on the type of account.

Upon completion of authorized travel, travelers must use VA's travel system to prepare and submit a travel claim to the approving official within five workdays. Approving officials must review the travel claim, and the approving official will either return to the traveler for correction or approve the travel claim and submit it to the servicing fiscal office.<sup>39</sup> During FY 2020, over 22,300 of VA's approximately 387,000 employees used travel cards to make about 505,000 transactions totaling approximately \$67.6 million. Compared to FY 2019, travel card activity in FY 2020 represents a 32 percent decrease in the number of cardholders, a 57 percent decrease in the number of transactions, and a 57 percent decrease in the amount of spending.

Figure 5 shows travel card trends from FY 2018 through FY 2020. VA's travel card transactions rose in FY 2019 and significantly dropped in FY 2020.



**Figure 5.** FYs 2018–FY 2020 Trends in VA travel card spending and number of transactions.  
 Source: VA OIG analysis of FYs 2018–2020 U.S. Bank data.

### Travel Card Data

The review team performed data analytics of VA's FY 2020 travel card transactions to identify transactions or patterns of activity that suggest potential illegal, improper, or erroneous purchases, including

- the percentage of transactions with prohibited MCCs,

<sup>39</sup> VA Financial Policies and Procedures, vol. XVI, chap. 2, "Government Travel Charge Card Program," September 28, 2017.

- the percentage of transactions using potentially unauthorized third-party payers, and
- surges in year-end travel card spending.

Table 4 shows the number and dollar amounts of VA travel card transactions and the number of travel cardholders.

**Table 4. Data for the Travel Card Risk Assessment**

Measure	FY 2019	FY 2020	Change from FY 2019 to FY 2020
Travel card transactions	1,176,456	505,255	(671,201)
Amount of travel card charges	\$156,972,209	\$67,557,391	(\$89,414,818)
Travel cardholders	33,032	22,358	(10,674)

Source: VA OIG analysis of FY 2019 and FY 2020 U.S. Bank data.

Table 5 shows the percentage of transactions associated with the risk elements, the assessed risk, and the change from FY 2019 to FY 2020.

**Table 5. Percentage of Transactions by Category for the Travel Card Risk Assessment**

Category	FY 2019 percent	FY 2020 risk assessment	FY 2020 percent	Percent change from FY 2019 to FY 2020
With prohibited merchant category codes	1.50	Low	1.60	6.70
Using potentially unauthorized third-party payers	0.00	Low	0.00	0.00
Due to surges in year-end travel card spending	21.50	Low	(61.80)	(387.40)

Source: VA OIG analysis of FY 2019 and FY 2020 U.S. Bank data.

The OIG determined the risk of illegal, improper, or erroneous purchases in VA's Travel Card Program is low. This is the same level of risk assessed by the OIG in the prior year, based on VA's travel card data from FY 2019. The OIG assigned the risk level based on the elements in table 5 and consideration of the limited impact that approximately \$67.6 million in travel card spending could have on VA's Charge Card Program, which had nearly \$4.9 billion in spending in FY 2020.

### Potential Prohibited Merchant Category Codes

The review team's data analytics also identified a decrease in potentially prohibited MCC transactions from 17,593 in FY 2019 to 8,245 in FY 2020. Examples include MCCs that are not

described on VA's allowable MCC template as "charitable organizations" and "medical services." The year-to-year drop in activity is consistent with the overall travel card trend for FY 2020.

### **Potentially Unauthorized Transactions Using Third-Party Payers**

The review team's data analytics also identified transactions associated with potentially unauthorized transactions using third-party payers. The team found that the number of travel card transactions associated with third-party payers decreased from 87 in FY 2019 to 20 in FY 2020.

### **Surges in Year-End Spending**

The review team's data analytics of approximately 505,000 FY 2020 travel card transactions showed that activity declined toward the end of the fiscal year. During the first 10 months of FY 2020, VA averaged almost \$6.3 million in monthly spending and 47,300 transactions. During the last two months of FY 2020, average monthly spending decreased to about \$2.4 million, while the average number of transactions decreased to about 16,150 per month, down about 62 percent and 66 percent, respectively.

### **VA's Charge Card Management Plan**

VA's FY 2021 Charge Card Management Plan outlined VA policies and procedures established to mitigate travel card misuse and abuse and included

- procedures for evaluating the creditworthiness of travel cardholders,
- requirements for travel cardholders to receive training every three years,
- record-keeping requirements,
- travel card risks and controls implemented to mitigate them,
- a list of reports available to officials to manage the Travel Card Program,
- procedures for identifying and resolving travel card delinquencies and ensuring appropriate card use, and
- disciplinary procedures for cardholders who misuse travel cards.<sup>40</sup>

Proper and consistent implementation of the plan should reduce the risk of illegal, improper, or erroneous use of travel cards.

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<sup>40</sup> VA, Fiscal Year 21 Charge Card Management Plan, December 31, 2021.

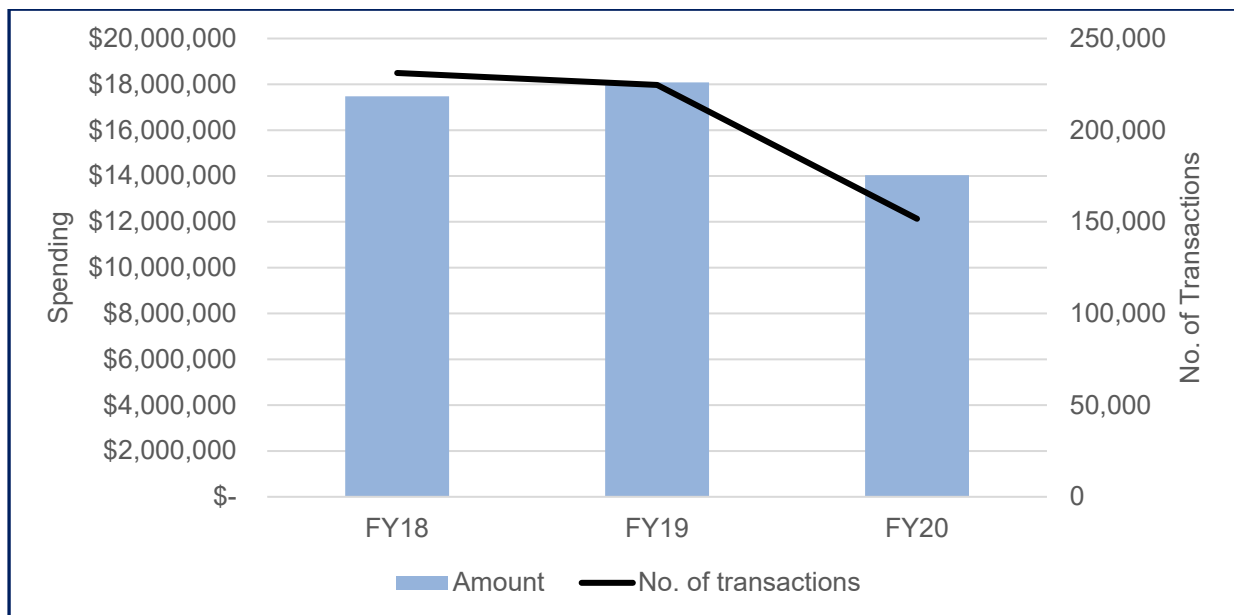
## Assessment 2 Conclusion

VA's Travel Card Program remains at low risk of illegal, improper, or erroneous purchases. The OIG assigned a low risk level primarily because data analytics did not show a surge in year-end spending and showed a low percentage of transactions that use potentially unauthorized third-party payers. In addition, travel card transactions represented only about 1.4 percent of the approximately \$4.9 billion spent by VA on charge card transactions during FY 2020.

## Assessment 3: VA's Fleet Card Program is at Low Risk of Illegal, Improper, or Erroneous Purchases and Payments

VA issues fleet cards for all VA-owned and VA-leased vehicles as well as for small engine vehicles such as a golf carts, on-site generators or fuel tanks, and other non-license-plated ground equipment owned or leased by VA. Individual cardholders are not identified within the Fleet Card Program; instead, fleet cards are issued under the vehicle license plate number or are identified by the equipment that the cards will service. Multiple vehicle or equipment operators may use the same card, including non-VA employee volunteers. Fleet cards are used to pay for vehicles' fuel, maintenance, and repair.<sup>41</sup> During FY 2020, VA fleet cards were used to make over 151,000 transactions totaling approximately \$14 million.

Figure 6 shows fleet card trends from FY 2018 through FY 2020. VA's spending and the number of transactions remained relatively consistent for FY 2018 and FY 2019; however, both spending amounts and the number of transactions dropped in FY 2020.



**Figure 6.** FYs 2018–2020 trends in fleet card spending and number of transactions.

<sup>41</sup> VA Financial Policies and Procedures, vol. XVI, chap. 3, “Fleet Charge Card,” December 16, 2020.

Source: VA OIG analysis of FYs 2018—2020 U.S. Bank data.

## Fleet Card Data

The review team performed data analytics of VA's FY 2020 fleet card transactions to identify patterns of activity that suggest potential illegal, improper, or erroneous purchases. In addition, the team identified 725 fleet card transactions totaling \$200,851 from vendors with MCCs not normally associated with fleet cards, such as glassware, sporting goods, home furnishings, and exterminating services. However, the \$200,851 represents only about 1.4 percent of about \$14 million spent on FY 2020 fleet card transactions. The team performed data analytics to include potentially prohibited sales tax transactions and surges in year-end fleet card spending.

Table 6 shows the number and dollar amount of VA fleet card transactions and the number of fleet cardholders.

**Table 6. Data for the Fleet Card Risk Assessment**

Measure	FY 2019	FY 2020	Change from FY 2019 to FY 2020
Fleet card transactions	224,653	151,672	(72,981)
Amount of fleet card charges	\$18,085,103	\$14,031,723	(\$4,053,380)
Number of fleet cards	4,726	4,530	(196)

Source: VA OIG analysis of FY 2019 and FY 2020 U.S. Bank data.

Table 7 shows the percentage of transactions associated with the risk elements, the assessed risk, and the change from FY 2019 to FY 2020.

**Table 7. Percentage of Transactions by Category for the Fleet Card Risk Assessment\***

Category	FY 2020 risk assessment	FY 2019 percent	FY 2020 percent	Percent change from FY 2019 to FY 2020
Percentage of potentially prohibited sales tax transactions	High	40.2	43.7	8.7
Due to surges in year-end fleet card spending	Low	1.3	(8.6)	(761.5)

\* Numbers are rounded to one decimal place.

Source: VA OIG analysis of FY 2019 and FY 2020 U.S. Bank data.

The OIG determined the risk of illegal, improper, or erroneous purchases in VA's Fleet Card Program is low. This is the same level of risk assessed by the OIG in the prior year, based on VA's FY 2019 fleet card data. The team assigned the risk level based on the elements in table 7.

## Potentially Prohibited Sales Taxes

Per VA policy, VA fleet card transactions are exempt from state and local taxes for purchases made within the United States.<sup>42</sup> VA's FY 2021 Charge Card Management Plan states that the current contracted charge card provider includes tax reclamation services as part of their product offering.<sup>43</sup> A third-party company works with the charge card provider to review fuel purchase data, identify potential tax recovery opportunities, and prepare tax reclamation data for VA to submit to the appropriate authorities. This third-party company bills individual states for the amount of state fuel taxes paid during the preceding recording period. Depending on the agreements with individual states, states are billed monthly, bimonthly, quarterly, biannually, or annually. Fuel tax refunds are processed at the Financial Services Center and the fuel tax amount paid by each facility is returned directly back to the corresponding facility. This process of tax reclamation mitigates the review team's high-risk assessment, which is associated with the percentage of potentially prohibited sales tax transactions.

To assess the risk that potentially prohibited sales taxes could have on the Fleet Card Program, the review team identified fleet card transactions that included sales tax. VA data showed \$150,504 of potentially prohibited sales tax on 66,278 fleet card transactions in FY 2020, down from \$203,968 of potentially prohibited sales tax on 90,245 fleet card transactions in FY 2019. Due to the limited scope of a risk assessment, the team did not determine if these potentially prohibited sales taxes were actually prohibited.

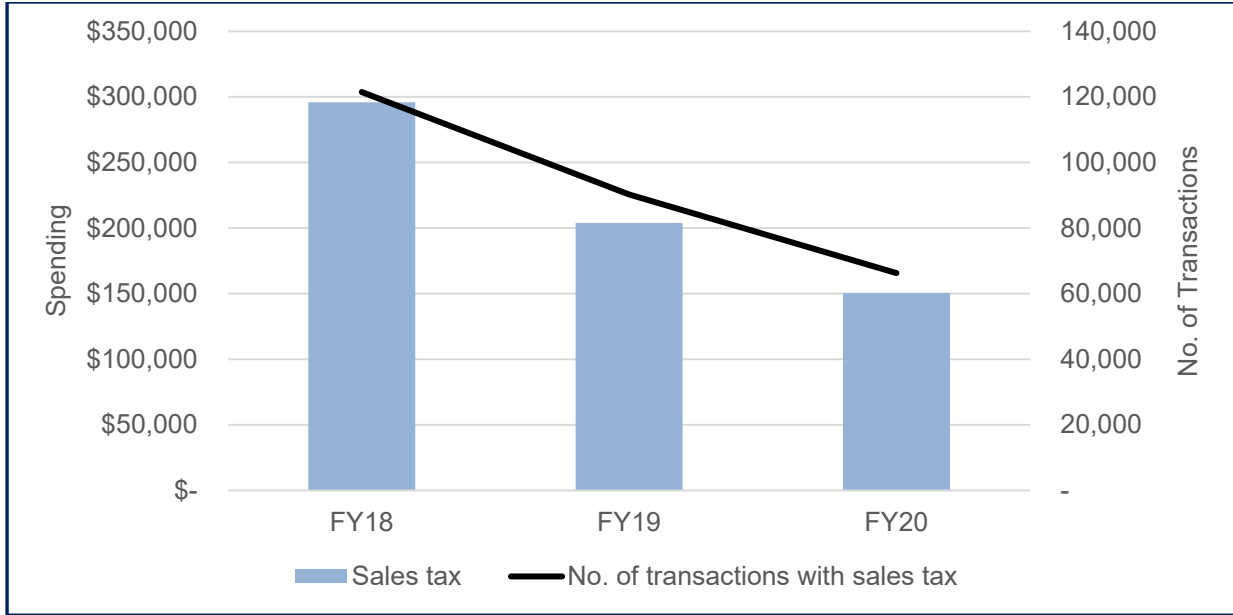
Figure 7 shows VA's fleet card sales taxes have consistently trended downward in both amount spent and number of transactions from FY 2018 through FY 2020.

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<sup>42</sup> VA Financial Policies and Procedures, vol. XVI, chap. 3, "Fleet Charge Card," December 16, 2020.

<sup>43</sup> VA, Fiscal Year 21 Charge Card Management Plan, December 31, 2020.





**Figure 7.** FYs 2018–2020 trends in fleet card sales tax amount and number of transactions with sales tax.  
 Source: VA OIG analysis of FYs 2018–2020 U.S. Bank Data.

### Surges in Year-End Spending

To assess the risk that year-end spending could have on VA’s Fleet Card Program, the review team first compared the first 10 months of spending in FY 2020 to the last two months of spending in FY 2020. VA data showed decreases in year-end fleet card spending and transactions in FY 2020. During the first 10 months of FY 2020, VA averaged approximately \$1.2 million in monthly spending with 13,027 transactions. During the last two months of FY 2020, average monthly spending decreased to about \$1.1 million, while the average number of transactions decreased to about 10,703 per month, a decrease of about 17.8 percent and 8.6 percent respectively.

### VA’s Charge Card Management Plan

VA’s FY 2021 Charge Card Management Plan outlined VA policies, procedures, and other controls to help mitigate fleet card fraud and misuse. The plan includes

- procedures for issuing fleet cards by vehicle license number,
- requirements for fleet card users and card approvers to complete training every two years,
- record-keeping requirements,
- procedures for closing accounts when vehicles are removed from service,
- fleet card risks and controls implemented to mitigate them,
- reports available to officials to manage the Fleet Card Program, and

- disciplinary procedures for cardholders who misuse fleet cards.

Proper and consistent implementation of the plan should reduce the risk of illegal, improper, or erroneous use of fleet cards.

### **Assessment 3 Conclusion**

VA's Fleet Card Program remains at low risk of illegal, improper, or erroneous purchases. The review team assigned a low risk level based on the determination that year-end spending hikes did not occur and VA's practice of obtaining refunds for sales tax paid on fuel purchases. Moreover, fleet card transactions represented only about 0.3 percent of the nearly \$4.9 billion spent by VA on charge card transactions during FY 2020.

### **Overall Assessment**

VA's Purchase Card Program remains at medium risk of illegal, improper, or erroneous purchases. Data analytics identified potential misuse of purchase cards, and OIG investigations and reviews continue to identify patterns of purchase card transactions that deviate from the Federal Acquisition Regulation and VA policies and procedures. In contrast, VA's Travel and Fleet Card programs have a low risk of illegal, improper, or erroneous purchases. The OIG continues to plan audits of VA's charge card expenditures, and the OIG Office of Investigations continues to perform work on individual cases of purchase card abuse.



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