

Inspection of FCC Government Charge Card Program

Report No. 15-INSP-09-02

*Federal
Communications
Commission
Office of Inspector
General*

December 5, 2016



OIG HIGHLIGHTS

What We Inspected

The Office of Inspector General (OIG) performed an inspection to assess risk associated with the Federal Communications Commission’s (FCC) purchase, travel and fleet card programs for the period October 1, 2014 to September 30, 2015.

What We Found

We found that more robust monitoring is needed to detect travel card misuse and ensure that increases in purchase cards holder’s monthly spending limits are appropriate. Additionally, purchase card policies and procedures need to be updated.

What We Recommended

We made five recommendations to improve internal controls for the FCC Government Charge Card program. Specifically, we recommended improvements in the monitoring of travel and purchase card activity. We also recommended improvements to, the policies and procedures related to purchase cards.

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Executive Summary

The objective of the inspection was to assess risk associated with the FCC's purchase, travel, and fleet card programs. Specifically, we analyzed the risk of illegal, improper, or erroneous purchases within the programs, as required by the Government Charge Card Abuse Prevention Act of 2012 (Charge Card Act). The scope of the inspection included charge card activity from October 1, 2014 through September 30, 2015. This Inspection was conducted in accordance with the Council of the Inspectors General on Integrity and Efficiency (CIGIE) Quality Standards for Inspection and Evaluation, dated January 2012.

We performed this inspection consistent with our authority under the Inspector General Act of 1978, as amended, including, but not limited to sections 2(1) and 4(a) (1). The inspection is not intended as a substitute for any agency regulatory or compliance review.

This report presents the results of our review of FCC's purchase, travel and fleet card activity for Fiscal Year (FY) 2015. Based on our work, we concluded that, additional improvements are needed in the FCC travel and purchase card programs. Our inspection determined that:

- program managers did not review travel card transaction activity monthly reports to detect travel card misuse,
- program managers did not perform periodic reviews to ensure that purchase card holders who had been granted increased purchase card spending still needed the increased limit.
- policies and procedures for the purchase card program did not meet all of the requirements of the Charge Card Act, and,
- FCC needs to enhance its strategic sourcing activities.

Background

Federal Communications Commission Overview

The FCC is an independent regulatory agency of the United States Government charged with regulating interstate and international communications by radio, television, wire, satellite, and cable. The Commission also regulates telecommunications and advanced communication services and video programming for people with disabilities, as set forth in various sections of the Communications Act of 1934, as amended.

The Commission's headquarters is located in Washington, D.C., with three regional offices, sixteen district offices, and eight resident agent offices throughout the nation. The FCC is organized by function and consists of seven Bureaus and ten Offices. Office of Managing Director is responsible for the administration and management of the Commission and is the office primarily responsible for the FCC's Government Charge Card program.

Purchase, Travel, and Fleet Card Overview

Travel and Operations Group (TOG), an office within the Office of Managing Director's Financial Operations office, administers the charge card program for the Commission. The charge card program includes the purchase, travel, and fleet cards. TOG processes various types of disbursements, including those made to vendors, other government agencies, and employees via purchase, travel and fleet cards. TOG also processes the agency's travel expense reimbursements.

The Financial Operations office provides purchase card program guidance through FCC directive FCCINST 1097.2, *Use of Federal Government Purchase Card for Small Purchases*, dated April 13, 2015. The purpose of this directive is to: (1), ensure that applicable Federal, statues, and regulations pertaining to the use of Government purchase cards are properly adhered to, and (2), establish agency-specific policies and procedures pertaining to procurement activities.

Government Charge Card Legislation

On October 5, 2012 the President signed the Government Charge Card Abuse Prevention Act of 2012 (Charge Card Act), Public Law 112-194, into law to reinforce the government's efforts to prevent waste, fraud, and abuse of government-wide charge card programs. The Charge Card Act requires all executive branch agencies (agencies) to establish and maintain safeguards and internal controls for purchase cards, travel cards, integrated cards, and centrally billed accounts. The Charge Card Act also establishes additional reporting and audit requirements, consistent with existing statutory responsibilities to avoid improper payments and protect privacy, among other things.

In addition to compliance with the Charge Card Act, agencies are required to comply with charge card guidance issued in OMB Circular No. A-123, Appendix B (Improving the Management of Government Charge Card Programs) and OMB Memorandum M-12-12 (Promoting Efficient Spending to Support Agency Operations).

Objectives, Scope, and Methodology

The objective of the inspection was to analyze the risk of illegal, improper, or erroneous purchases within the FCC Charge Card Program. The scope of the inspection included the period October 1, 2014 through September 30, 2015. FCC's charge card program includes purchase, travel, and fleet cards.

We reviewed the transactions provided in the transactions detail report for each of the charge cards, and based on the volume of activity and total amount charged in each charge card program, determined that our testing should focus on the purchase and travel card programs.

The table below shows the number of transactions and total amount charged for each charge card program in FY 2015.

| Charge Card Programs | Number of Transactions | Total Amount Charged |
|-----------------------------|-------------------------------|-----------------------------|
| Fleet Card | 1,670 | \$105,215 |
| Purchase Card | 2,620 | \$1,207,804 |
| Travel Card | 6,756 | \$1,343,258 |

Results of Inspection

We performed an analysis of travel cardholder transactions using the Monthly Cash Advance Detail Report and the Monthly Delinquency with Current Balance Report. We reviewed the Monthly Cash Advance Detail Report to identify risk associated with cash advances. We also reviewed the Monthly Delinquency with Current Balance Report to determine risk associated with delinquent travel cards.

We judgmentally sampled 9 of 146 purchase cardholders to identify risk associated with spending limits, recurring charges, and split purchases¹. Specifically, we reviewed the 2015 Transaction Detail Report and targeted cardholders with repeated payments to the same vendor and transactions that exceeded the micro-purchase limits established by the Federal Acquisition Regulation, \$3,500 for goods and \$2,500 for services.

We conducted this inspection in accordance with the CIGIE *Quality Standards for Inspection and Evaluation*. Those standards require that we plan and perform the inspection to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. The CIGIE guide defines an inspection as a process that evaluates, reviews, studies, and/or analyzes the programs and activities of a Department/Agency for the purposes of providing information to managers for decision making; making recommendations for improvements to programs, policies, or procedures; and identifying where administrative action may be necessary. Inspections may be used to provide factual and analytical information, monitor compliance, measure performance, assess the efficiency and effectiveness of programs and operations, share best practices; and inquire into allegations of fraud, waste, abuse, and mismanagement. This inspection included inquiries and evaluations necessary to satisfy the inspection objective.

¹ Per Federal Acquisition Regulation (FAR) Parts 2.101, 13.2 and 13.3; A split purchase is the “intentional” breaking down of a known requirement to stay within the cardholder’s single purchase limit. Split purchases include: splitting requirements among merchants; splitting requirements among cardholders and splitting requirements over several days.

Finding 1 –Improvements are Needed for Travel Card Monitoring

Our review of risk management controls found that FCC management did not adequately monitor travel card use to identify unauthorized transactions. Specifically, monitoring did not include analyses of account activity using the transaction activity reports supplied by the card issuer, JP Morgan Chase, or procedures to identify prohibited transactions, such as employee's use of the travel card during non-travel status or for non-travel related expenses.

TOG focused its reviews on unauthorized ATM cash withdrawal transactions, charges against restricted merchant category codes and transactions identified on the monthly travel card delinquency report. Without more comprehensive monitoring using readily available information, such as transaction activity reports, travel card misuse may occur and not be detected by FCC management in a timely manner.

Office of Management and Budget's Circular A-123 Appendix B *Chapter 4 Section 8 - Specific risk management controls, policies, and practices for addressing charge card misuse*, dated December 21, 2004, states: Charge card managers are responsible for ensuring that charge cards are used for authorized purchases or expenses only. In carrying out these activities, charge card managers are required to: 1) Review charge card statements and account activity reports to identify questionable or suspicious transactions and 2) Incorporate all controls, practices and procedures related to charge card misuse into the agency's charge card management plan.

As stated in FCC's *Policies and Procedures Manual, Chapter 3 – Travel & Operations, Part 1, Disbursements Rev 2-27-15, Section 405.00*, "The transaction activity report lists transaction activity for all accounts during the preceding month. All accounts from the report should be examined for non-travel related expenses, and, if any are present, the cardholder and cardholder's supervisor are contacted by email, with a "cc" to their ABC/M, asking for assistance in relating the charge in question to a travel authorization. If the charge is determined to be unofficial, the occurrence should be documented and any subsequent occurrence of misuse reported to the Office of General Counsel for action."

Recommendation:

We recommend that Financial Operations TOG:

1. Review and implement existing policies and procedures for monitoring the transaction activity report, as stated in the *FCC Policies and Procedures Manual Chapter 3, Travel and Operations Part I Disbursements Rev 2-27-15*. If management's review determines that revisions to its existing policy are needed, ensure that those revisions are in accordance with OMB Circular A-123 Appendix B *Chapter 4: Section 8 - Specific risk management controls, policies, and practices for addressing charge card misuse*.

Finding 2 – Improvements are Needed in the Purchase Card Program

We found that management performed adequate reviews of cardholder's transactions to ensure they did not exceed the single purchase limit of \$3,500. However, the charge card program manager did not review the monthly spending limits on a regular basis to ensure that increases to the standard limit were appropriate and justified. The credit card holder application states that each cardholder's initial monthly spending limit is \$10,000. TOG increased monthly spending limits when they received requests from the cardholder's bureau chief. The requests for increase did not always include a justification and TOG did not review or scrutinize the requests for appropriateness. Our review noted that TOG increased the monthly spending limit for four cardholders in FY 2015 but did not obtain an appropriate justification for 3 of the 4 cardholders. Additionally, we found that nine other cardholders had monthly spending limits above \$10,000. The spending limits for those nine cardholders were processed prior to FY 2015. However, TOG had not performed any subsequent reviews to reassess the cardholders continued need for the increased spending limit. The oldest cardholder spending limit increase was processed in FY 2005, about 10 years ago. We noted increased risk because TOG did not have a process in place requiring periodic reviews of the spending and transaction limits to ensure the increased limit was still appropriate and justified.

When offices are allowed to maintain increased spending limits for prolonged periods without adequate justification, controls that ensure competitive bidding and efficient sourcing of goods and services may be weakened. The weakness noted in the purchase card policies and procedures increases financial risk to the FCC's Federal Government program.

As stated in the Office of Management and Budget's Circular A-123 Appendix B: *Attachment 5 - Best Practices in Managing Government Charge Card Programs*, "When mitigating risks of misuse and/or delinquency, charge card managers should: Perform periodic reviews of spending and transaction limits to ensure appropriateness and keep current on new and innovative solutions to detect and prevent misuse and fraud, such as, periodic review of cardholder accounts for continued necessity."

Secondly, we found that the FCC's purchase card policies did not address all of the criteria discussed in Public Law 112-194 § 1909, *Management of purchase cards* dated October 5, 2012. Specifically, FCC's directive FCCINST 1097.2, *Use of Federal Government Purchase Card for Small Purchases*, dated April 13, 2015, does not include the credit limits authorized by category of card holder or the categories of employees eligible for purchase cards. Not addressing all criteria increases the financial risk to the FCC's Federal Government program.

Public Law 112-194 § 1909, (a)(10), *Management of purchase cards* states, "The executive agency has specific policies regarding the number of purchase cards issued by various component organizations and categories of component organizations, the credit limits authorized for various categories of card holders, and categories of employees eligible to be issued purchase cards, and that those policies are designed to minimize the financial risk to the Federal Government of the issuance of the purchase cards and to ensure the integrity of purchase card holders."

Lastly, we noted that FCC does not perform comprehensive strategic sourcing, including formal coordination between the financial and contracts groups, to analyze the way the Commission spends funds through contracts, delivery orders, and the purchase card program. In response to our inquiries, management informed us that it has initiated meetings to review the strategic sourcing for recurring utilities charges. We requested from management, but did not receive the agendas for the meetings held with enterprise acquisition center, or any meeting minutes and action items resulting from the meetings. We believe management should also perform strategic sourcing reviews for cardholders who have monthly spending limits in excess of \$10,000. Without a formal process in place for strategic sourcing, FCC potentially decreases opportunities for any economies that may be gained by soliciting bids from multiple charge card vendors.

As stated in the Office of Management and Budget's Circular A-123 Appendix B: Chapter 8 Section 2, *Strategic sourcing* is important because the government spends billions of dollars each year through purchase card programs (as well as other contract mechanisms) and each transaction has the potential to increase the sourcing power of the government. Purchase card program managers should be aware of any agency-wide or multi-agency wide contracts that will yield better pricing and ensure that cardholders are aware of agency policies for using these contracts. For example, agencies should minimize the number of small orders from schedule contracts and consider a strategic approach to buying certain commodities. The A/OPC should review and analyze purchase card spending patterns and levels for opportunities to negotiate discounts and make recommendations to the Chief Acquisition Officer to improve the buying process and increase savings based on volume.

The weaknesses we identified in the purchase card program, including: (1) inadequate justification for card holder spending limit increases, (2) incomplete policies and procedures, and (3) informal strategic sourcing procedures, exist, largely, because FCC had not documented and implemented procedures to address all OMB guidance related to purchase cards.

Recommendations:

We recommend that Financial Operations TOG:

2. Implement a formal process for reviewing the initial request for spending and transaction limit increases to ensure cardholders have an appropriate need and adequate justification for the increase. The process should also include performing periodic follow-up reviews to determine if the higher limits are still needed.
3. Implement policies regarding the credit limits authorized for various categories of card holders, and categories of employees eligible to be issued purchase cards, as required by Public Law 112-194 § 1909, *Management of purchase cards*.
4. Maintain documentation of the coordination meetings held with the enterprise acquisition center. Documentation should include agendas, minutes of meetings and any meeting action items.

5. Analyze cardholders with monthly spending limits above \$10,000 in the monthly coordination meetings with the Enterprise Acquisition Center to determine if cardholders are at risk of exceeding the \$100,000 simplified acquisition threshold. In coordination with the Enterprise Acquisition Center, identify opportunities to leverage sourcing power by seeking discounts on commonly purchased goods and services, and applying discounts to charge card transactions, when appropriate.

Appendix A – Management’s Response



UNITED STATES GOVERNMENT
FEDERAL COMMUNICATIONS COMMISSION

Office of Managing Director

MEMORANDUM

DATE: September 30, 2016

TO: David L. Hunt, Inspector General

FROM: Mark Stephens, Managing Director

SUBJECT: Management’s Response to Office of Inspector General’s Inspection of FCC Government Charge Card Program

Thank you for the opportunity to review and respond to the findings and recommendations contained in the draft report entitled, *Inspection of FCC Government Charge Card Program* (15-INSP-0902). This report presents the results of the Federal Communication Commission’s (FCC) Office of Inspector General’s inspection to assess the risk associated with the FCC's purchase, travel, and fleet card programs. The Office of Inspector General analyzed the risk of illegal, improper, or erroneous purchases within the programs, as required by the Government Charge Card Abuse Prevention Act of 2012 (P.L. 112-194). The inspection included charge card activity and operations during Fiscal Year (FY) 2015 (October 1, 2014 through September 30, 2015). The report identifies opportunities for the FCC to improve the management of its charge card programs. The Office of Managing Director has reviewed the findings and recommendations made by the Office of Inspector General and concurs with each of them.

With regard to the findings in the inspection report, the FCC will take corrective action to resolve these findings as quickly as possible. The report makes important recommendations to the FCC to review its existing policies and procedures; the FCC will immediately ensure that its policies and procedures are strengthened to reflect these recommendations. Furthermore, the Office of Inspector General identified certain controls for improvements pertaining to the process by which the FCC grants requests for increases to spending limits for cardholders. The FCC will

take steps to ensure that all requests to revise spending limits are put through a uniform process and that these requests are reviewed regularly to ensure that the need for the requested limit still exists. Finally, the Inspector General noted that the controls surrounding the use of purchase cards by the FCC's Enterprise Acquisition Center could be strengthened so that contracting officers do not risk exceeding simplified acquisition thresholds. The FCC values these recommendations, and through increased coordination between the FCC's contracting team and financial operations team, the FCC believes it can limit any potential issues in this area.

The FCC is committed to operating its charge card programs with integrity and preventing, detecting, and responding to any issues related to charge card misuse. We thank the Inspector General for their time, input, and insights on the controls surrounding the program. We look forward to continuing to work in tandem with the Office of Inspector General through this inspection process to ensure the continual improvement of the FCC's control systems for its charge card programs.

A handwritten signature in blue ink, appearing to read "Mark Stephens", is positioned above the printed name and title.

Mark Stephens
Managing Director



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