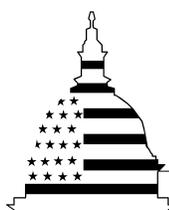


August 2003

FOREST SERVICE PURCHASE CARDS

Internal Control Weaknesses Resulted in Instances of Improper, Wasteful, and Questionable Purchases



G A O

Accountability * Integrity * Reliability



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Internal Control Weaknesses Resulted in Instances of Improper, Wasteful, and Questionable Purchases

Highlights of [GAO-03-786](#), a report to the Honorable Charles Grassley, Chairman, Senate Committee on Finance, and the Honorable Janice Schakowsky, House of Representatives

Why GAO Did This Study

Since 1999, GAO has designated Forest Service's financial management as a high-risk area because of internal control and accounting weaknesses that have been identified by the Inspector General and GAO. Given these known risks and the hundreds of millions of dollars in credit card purchases made by the agency each year, GAO was asked to review the Forest Service's fiscal year 2001 purchase card transactions to determine whether (1) existing internal controls were designed to provide reasonable assurance that improper purchases would be prevented or detected, (2) purchases were made in accordance with established policies and procedures, and (3) purchases were made for a reasonable cost and reflected a legitimate government need.

What GAO Recommends

GAO is making a number of recommendations to strengthen the Forest Service's internal controls and compliance in its purchase card program, decrease wasteful purchases, and improve accountability for assets. In responding to our draft report, the Forest Service did not specifically discuss GAO's recommendations, but it outlined actions taken or planned to strengthen management of the purchase card program. However, the actions outlined will not address many of the weaknesses identified in the report that GAO's recommendations are intended to address.

www.gao.gov/cgi-bin/getrpt?GAO-03-786.

To view the full report, including the scope and methodology, click on the link above. For more information, contact Linda Calbom at (202) 512-9508 or calboml@gao.gov.

What GAO Found

Internal control weaknesses in the Forest Service's purchase card program leave the agency vulnerable to, and in some cases, resulted in, improper, wasteful, and questionable purchases. These weaknesses included inadequate segregation of duties over purchases, supervisory review and approval of purchases, monitoring activities, and control over property used in Forest Service activities. For example, GAO found instances where items highly susceptible to theft, such as all terrain vehicles, digital cameras, and snowmobiles, were purchased and retained by cardholders, but no records of the items were created in Forest Service systems.

These weaknesses likely contributed to approximately \$2.7 million in improper, wasteful, and questionable purchases identified in our review. GAO identified purchases that totaled over \$1.6 million that were improper because they violated law, regulation, or agency policy. These included purchases that had been split into two or more segments to avoid the cardholder's single purchase limit, purchases that had been paid for twice, purchases that exceeded single transaction limits, purchases for which required approvals were not obtained, purchases of unauthorized items, transactions on accounts of former employees, and instances where cardholders wrote convenience checks to themselves.

GAO also found purchases totaling \$212,104 that it considered wasteful because they were excessive in cost relative to available alternatives or were for a questionable government need. Further, GAO found purchases totaling \$869,825 that it considered to be questionable because the Forest Service either could not provide supporting documentation for them, or supporting documentation was incomplete or incorrect and GAO was unable to determine whether the purchases were proper. Some examples of these are shown in the table below.

Examples of Wasteful and Questionable Purchases

Item descriptions	Examples of vendors	Amount
Cancellation fees	Doubletree Hotel, and Rain Country Bed & Breakfast	\$34,950
Specialty costumes and a decorative tent	Carol Flemming Costume Design Studio, and Evelyn Roth Festival Arts	16,050
Awards and gifts	Warner Bros., Eddie Bauer, and Mori Luggage and Gifts	14,134
Casinos, party items	Have Party Will Travel, Party Time, and Tribal Bingo Casino	10,414
DVD player for fitness room, TV/VCR combination in vehicles, and billiard table for a bunkhouse	Ultimate Electronics, Best Buy, and Quality Billiards	5,089
Aquarium for regional office	Hair of the Dog	2,929

Source: GAO's analysis of Forest Service purchase card transactions selected for fiscal year 2001.

Contents

Letter		1
	Results in Brief	3
	Background	5
	Scope and Methodology	8
	Critical Internal Control Activities Were Lacking or Inadequate	12
	Poor Controls over Purchasing Practices Resulted in Certain Wasteful and Questionable Transactions	29
	Conclusions	38
	Recommendations for Executive Action	38
	Agency Comments and Our Evaluation	40

Appendixes

Appendix I: Comments from the Forest Service	45
GAO Comments	49
Appendix II: GAO Contacts and Staff Acknowledgments	51
GAO Contacts	51
Acknowledgments	51

Tables		
	Table 1: Nonaccountable Items Purchased	21
	Table 2: Revised USDA Purchase Card Policies	23
	Table 3: Categories of Improper Purchases	25
	Table 4: Purchases Determined to Be Wasteful or Questionable	30

Abbreviations

APC	Agency Program Coordinator
COCO	Chief of the Contracting Office
EAGLS	Electronic Access Government Ledger System
FAR	Federal Acquisition Regulation
GSA	General Services Administration
LAPC	Local Agency Program Coordinator
MCC	Merchant Category Code
OPPM	Office of Procurement and Property Management
PCMS	Purchase Card Management System
PDA	Personal Digital Assistant
USDA	U.S. Department of Agriculture

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United States General Accounting Office
Washington, D.C. 20548

August 11, 2003

The Honorable Charles Grassley
Chairman
Committee on Finance
United States Senate

The Honorable Janice Schakowsky
House of Representatives

The use of purchase cards in the federal government has dramatically increased in past years as agencies have sought to streamline the administrative procedures long associated with making small purchases. The benefits of using purchase cards can be lower costs and less paperwork for both the government and the vendor community. However, given the nature, scale, and increasing use of purchase cards, it is important for agencies to have adequate internal controls in place to help ensure their proper use and thus help protect the government from fraud, waste, and abuse.

The Forest Service has a history of financial management problems, including serious accounting and financial reporting weaknesses and an organizational structure that has hampered efforts to correct these weaknesses. The Department of Agriculture's (USDA) Office of Inspector General (IG) and GAO have issued many reports over the last several years on the financial challenges facing the agency and the need to correct internal control weaknesses.¹ In fiscal year 2002, the Forest Service made significant progress toward achieving financial accountability, receiving its first unqualified or "clean" audit opinion on its financial statements. However, the Forest Service continues to face several major challenges for which it has corrective actions underway or planned. Since 1999, we have designated Forest Service's financial management as a high-risk area on the basis of serious financial and accounting weaknesses that we and the IG

¹ U.S. General Accounting Office, *Financial Management: Forest Service's Efforts to Achieve Financial Accountability*, [GAO/AIMD-99-68R](#) (Washington, D.C.: Feb. 8, 1999), *Forest Service: A Framework for Improving Accountability*, [GAO/RCED/AIMD-00-2](#) (Washington, D.C.: Oct. 13, 1999), and *Financial Management: USDA Continues to Face Major Financial Management Challenges*, [GAO/T-AIMD-00-334](#) (Washington, D.C.: Sept. 27, 2000).

have identified.² In August 2001, the IG issued a report³ on USDA's purchase card program that identified several internal control weaknesses. That review examined 400 fiscal year 1999 and 2000 purchase card and convenience check transactions made by four of USDA's agencies, including the Forest Service. Based on its review of this limited sample, the IG reported that purchases generally were valid and reasonable. However the report also noted the (1) lack of supervisory review and approval of cardholder transactions, (2) delays by cardholders in validating purchase transactions that have been paid, and (3) inadequate monitoring by agency management.

Given the hundreds of millions of dollars in purchase card purchases made by the Forest Service each year, these known financial management deficiencies raise the risk that fraudulent or improper purchases could be made by its employees and not detected. Because of these risks, you requested that we review the Forest Service's fiscal year 2001 purchase card and convenience check⁴ transactions to determine their validity.

In response to your request, we initiated a body of work designed to determine whether (1) existing internal controls at the Forest Service were designed to provide reasonable assurance that improper purchases would be prevented or detected in the normal course of business, (2) the Forest Service's fiscal year 2001 purchase card transactions were made in accordance with established policies and procedures, and (3) purchases were made for a reasonable cost and reflected a legitimate government need. Our review focused on the \$320 million of disbursements that the Forest Service made for purchase card transactions during fiscal year 2001, the most recent fiscal year for which complete data were available when we conducted our review.

² U.S. General Accounting Office, *Major Management Challenges and Program Risks: Department of Agriculture*, GAO-03-96 (Washington, D.C.: Jan. 1, 2003).

³ U.S. Department of Agriculture Office of Inspector General Financial and IT Operations Audit Report, *Some Changes Would Further Enhance Purchase Card Management System Internal Controls*, 50099-26-FM (Washington, D.C.: August 2001).

⁴ Convenience checks are issued to authorized cardholders. Agency management determines to whom checks are issued. The checks are similar in appearance to personal checks and are written against the cardholder's purchase card account. The total amount that may be written cannot exceed the cardholder's single transaction limit. Convenience checks are used when a merchant does not accept purchase cards.

Results in Brief

Significant internal control weaknesses in the Forest Service's purchase card program leave the agency vulnerable to, and in some cases resulted in, improper, wasteful, and questionable purchases, some of which were potentially fraudulent. These weaknesses included a lack of or inadequate segregation of duties over purchases, supervisory review and approval of purchases, monitoring activities, and control over property used in Forest Service activities. For example, we found instances of unauthorized transactions by vendors and former employees that occurred because the Forest Service did not adequately monitor activity to ensure that disputed transactions were resolved or that cardholders' accounts were closed upon separation. We also found instances where items that are highly susceptible to theft, such as digital cameras, binoculars, or camcorders, were purchased by cardholders, but no records of the items were created in the Forest Service property systems. In response to a prior IG audit report as well as an outside contractor study that reported some of these weaknesses, USDA and Forest Service management have strengthened purchase card policies and procedures. However, these actions have not fully addressed and corrected these weaknesses. These internal control deficiencies, combined with the inherent risk of fraud and abuse associated with purchase cards, created an environment in which improper or fraudulent purchases could occur without being detected in the normal course of business.

Internal control weaknesses likely contributed to approximately \$2.7 million in improper, wasteful, and questionable purchases identified during our review. Improper transactions were identified using statistical and nonstatistical methods. Based on the results of our statistical sample, we estimate that purchases totaling over \$1.5 million violated Forest Service policies or regulations. These included purchases that had been split into two or more segments to avoid the cardholder's single transaction limit and purchases that had been paid for twice. In addition, we identified purchases in our nonstatistical sample totaling over \$165,000 that violated law, regulation, or agency policy. These included purchases that exceeded single transaction limits, purchases for which required approvals were not obtained, purchases of unauthorized items, transactions charged to accounts of former employees, and instances where cardholders wrote convenience checks to themselves, which violated Forest Service policy.

We also found 135 purchase transactions totaling \$212,104 that we considered wasteful because they were excessive in cost relative to available alternatives, or they were for a questionable government need.

These included \$16,250 for specialty costumes and a decorative tent. In addition, we identified 644 transactions totaling \$869,825 that we considered to be questionable because the Forest Service either could not provide supporting documentation for them, or supporting documentation was incomplete or incorrect and we were unable to determine whether the purchases were proper. These included \$2,929 for an aquarium for a regional visitor information center; \$2,295 for a billiard table for a bunk house; \$5,803 at Have Party Will Travel; and \$4,100 at Party Time Inc. Certain of these questionable transactions were considered to be potentially fraudulent because they appeared to represent unauthorized purchases for personal use or unauthorized purchases made by persons using stolen cards or merchants using cardholder account numbers. In addition, we identified three potentially fraudulent transactions for one cardholder who, after an IG investigation, pleaded guilty to making over \$31,000 in fraudulent charges over a 2-year period.

While the approximately \$2.7 million of improper, wasteful, and questionable purchase card and convenience check purchases we identified is relatively small compared to the over \$320 million in total Forest Service purchase card and convenience check activity in fiscal year 2001, it demonstrates vulnerabilities from weak controls that could be exploited to a greater extent. In addition, because we tested only a small portion of the transactions we identified that appeared to have a higher risk of fraud, waste, or abuse, there may be other improper, wasteful, and questionable purchases in the remaining untested transactions.

Without significant improvements in its internal controls, the Forest Service's ability to detect and prevent improper or fraudulent purchase card use or to safeguard vulnerable assets will continue to be hampered. We make recommendations in this report to address the internal control, compliance, and property accountability issues we identified.

In commenting on a draft of this report, the Forest Service did not specifically address our recommendations. Rather, the response outlined actions taken or planned since June 2001 to strengthen the overall management of the purchase card program, which the Forest Service described as having been taken, notwithstanding our report. We acknowledged many of these actual and planned actions in our report. While we believe that these actions, if fully implemented, will help to address the vulnerabilities that we and the IG identified, many weaknesses still remain that continue to expose the Forest Service to improper,

wasteful, and fraudulent purchase card activity. We address these remaining weaknesses in our recommendations.

Background

The General Services Administration (GSA) administers the federal government's contracts in support of agencies' purchase card programs. GSA contracts with commercial banks to issue purchase cards to federal employees to make official government purchases. The Bank of America issues purchase cards to USDA agencies, including the Forest Service.⁵ The purchase card, unless otherwise directed by regulation, is intended to be the primary purchasing method for purchases from vendors that accept purchase cards for payment. This payment method is intended to streamline procurement and payment procedures by reducing the number of procurement requests, purchase orders, and vendor payments issued. USDA's purchase card program, including the Forest Service, also includes the use of convenience checks to pay vendors that do not accept purchase cards as payment. In fiscal year 2001, the Forest Service used purchase cards and convenience checks to make 1.1 million purchases totaling \$320 million.

The USDA procurement process is subject to the Federal Acquisition Regulation (FAR), the primary set of regulations governing acquisition of supplies and services by federal executive agencies with appropriated funds. The FAR also incorporates U. S. Department of Treasury's *Treasury Financial Manual* (TFM) requirements⁶ for the governmentwide purchase card program. To implement and supplement these regulations, USDA issues the Agriculture Acquisition Regulations (AGAR), which prescribe USDA procurement policies and procedures.

⁵ The government also uses commercial purchase cards for government-related travel expenditures (travel cards) and for expenditures related to the maintenance and operation of government-owned vehicles (fleet cards).

⁶ Agencies using the governmentwide commercial purchase card must establish procedures for use and control of the card that comply with TFM Chapter 4-4500 and that are consistent with the terms and conditions of the GSA Federal Supply Service Contract Guide for Governmentwide Commercial Purchase Card Service. 48 C.F.R. Sec. 13.301 (2002).

To implement and supplement the AGAR, the Forest Service issues directives,⁷ which contain Forest Service procurement policies and procedures. The *Forest Service Handbook*, FSH 6309.32 Part 4G13 *Simplified Acquisition Procedures*, provides specific guidance on procurement for the Forest Service, including the use of the government purchase card. The handbook contains policies and procedures that define the responsibilities of regional and local program coordinators for managing the purchase card program, including establishing cardholder data in the Purchase Card Management System (PCMS) and monitoring activities for the purchase card program.

GSA and Bank of America also provide purchase card guidance, and GSA provides training to cardholders and program coordinators. For example, GSA's *Blueprint for Success: Purchase Card Oversight* was prepared by a working group of agency program coordinators (APC) and provides general program guidance to APCs in performing their responsibilities. Beginning in fiscal year 2003, GSA made available to APCs a Web-based on-line training course covering such topics as APC responsibilities, reporting tools, and preventive measures to use in monitoring the purchase card program.

According to USDA policy, APCs and local area program coordinators (LAPC) are appointed by the head of the agency contracting office. APCs are primarily responsible for managing the purchase card program in their agency. In addition, they establish agency-unique purchase card policies and procedures, provide training and guidance to LAPCs, and conduct agencywide oversight of the purchase card program. LAPCs are responsible for the day-to-day operations of the purchase card program within their respective location. In addition, LAPCs are responsible for updating cardholder information in PCMS; providing training to cardholders; and monitoring purchases and reporting fraud, waste, and abuse in accordance with agency procedures. Currently, there are 137 Forest Service LAPCs.

In the Forest Service, cardholders are responsible for understanding and complying with purchasing policies and procedures; maintaining records

⁷ Forest Service Manuals (FSM) contain legal authorities, objectives, policies, responsibilities, instructions, and guidance needed on a continuing basis by Forest Service line officers and primary staff. Forest Service Handbooks (FSH) are the principal source of specialized guidance and instruction for carrying out the direction issued in the FSMs.

and receipts of all purchases; validating their purchases against PCMS online data; disputing unauthorized charges, and obtaining all necessary prepurchase approvals for certain items, such as information technology (IT) costing \$1,000 or more and other purchases costing \$2,501 or more. For all other purchases costing \$2,500 or less, the Forest Service cardholder is not required to obtain pre- or post-approval. During fiscal year 2001, approximately 14,000 of the approximately 30,000 employees, or over one-third of the Forest Service workforce, had purchase cards and most of them had a single purchase limit ranging from \$2,500 to \$25,000. The single transaction limit applies to both the purchase card and convenience checks issued to the cardholder.

In 1995, the Forest Service's use of the purchase card was limited to procurement personnel. However, with implementation of the President's National Performance Review recommendations, the Forest Service reduced its procurement staff by 27 percent by 1998. At the same time, USDA put together a task force to look at the procurement process and make recommendations to improve it. The task force recommended increasing the use of purchase cards within USDA, including the Forest Service, to streamline the procurement process. USDA rapidly expanded purchase card use, authorizing operations personnel as well as procurement personnel to use them.

USDA's Office of Procurement and Property Management (OPPM) and the National Finance Center (NFC) developed PCMS in 1995 to reduce administrative costs and to allow agencies faster procurement of goods and services. The system allowed USDA, including the Forest Service, to track, reconcile, and monitor purchases made using the USDA purchase cards and convenience checks. PCMS is used by program coordinators to establish and manage cardholder accounts and by cardholders to reconcile and dispute their transactions from their desktop computers.

In 1998, USDA switched card issuers and issued a task order under the GSA contract to Bank of America. The Bank of America purchase card system, developed under the GSA contract and called the Electronic Access Government Ledger System (EAGLS), includes various tools available to manage purchase card transactions. EAGLS is able to generate account activity reports, which identify trends such as purchases from merchants that would not be expected to be traditional suppliers or unusually high spending patterns; dispute reports, which identify cardholders with excessive disputes that may indicate cardholder misuse or fraudulent activity; and various other exception reports. Bank of America

recommended that USDA also use EAGLS to manage its purchase card program. However, as PCMS was developed by USDA prior to its changeover to Bank of America, USDA officials chose to continue using PCMS because they believed that it offered functionality similar to EAGLS. Bank of America processes purchase card transaction data received from vendors using EAGLS, which records the data, then sends it electronically to NFC. NFC uploads the data into PCMS and processes payments.

In August 2001, the IG issued a report on its review of PCMS, which identified several internal control weaknesses. The report noted the (1) lack of supervisory review and approval of cardholder transactions, (2) untimely validation of purchases against PCMS data, and (3) inadequate monitoring by agency management. In addition, a private firm was contracted to perform an Independent Verification and Validation⁸ (IV&V) assessment of PCMS, an assessment which also reported weaknesses in accounting process controls and internal controls over purchase card transactions. Both the IG and contractor reports noted that cardholders were authorized to buy a majority of items they wanted at any time. The IG made several recommendations, which included

- instituting a requirement that supervisors periodically review and approve their subordinates' purchase card transactions to confirm they are appropriate, for official purposes, and validated against PCMS data in a timely manner;
- developing and implementing appropriate internal control procedures over the custody, control, accountability, and issuance operations for convenience checks to ensure they are not misused; and
- instructing USDA agencies to review their controls for ensuring they always properly record property purchases valued at \$5,000 or more (called accountable purchases) in the Office of the Chief Financial Officer (OCFO)/NFC Property Management Information System.

Scope and Methodology

To obtain an understanding of the Forest Service's purchase card and convenience check policies and procedures, and the related internal controls, we

⁸ Independent Verification and Validation (IV&V) of the Purchase Card Management System (PCMS), *Assessment Final Report: "Future Directions for PCMS,"* October 2001.

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- reviewed USDA and Forest Service procurement policy, USDA PCMS guidance, Forest Service regional purchase card program policy, U.S. Department of the Treasury purchase card program policy, and previous GAO reports, as well as reports issued by USDA's IG and an independent contractor; and
 - observed and documented purchase card procedures and conducted telephone interviews with USDA and Forest Service management and staff to identify key purchase card, convenience check, and accountable property policies, procedures, and initiatives.

Because of known weaknesses in the design of internal controls at the Forest Service, we did not perform detailed tests to assess the effectiveness of these controls. However, we reviewed the internal control findings reported by the IG and the contractor in reports issued on the purchase card program and PCMS. In addition, we assessed the adequacy of the internal controls as designed, using our *Standards for Internal Control in the Federal Government*,⁹ *Internal Control Management and Evaluation Tool*,¹⁰ *Guide for Evaluating and Testing Controls Over Sensitive Payments*,¹¹ and *Executive Guide: Strategies to Manage Improper Payments*.¹²

To determine whether the Forest Service's fiscal year 2001 purchase card transactions were made in accordance with established policies and procedures, were reasonable, and reflected a legitimate government need, we selected transactions using three different methods. For each method of selection, we provided the Forest Service with the transactions selected and obtained and reviewed related supporting documentation. The three methods are as follows:

⁹ U.S. General Accounting Office, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 2000).

¹⁰ U.S. General Accounting Office, *Internal Control Management and Evaluation Tool*, [GAO-01-1008G](#) (Washington, D.C.: August 2001).

¹¹ U.S. General Accounting Office, *Guide for Evaluating and Testing Controls Over Sensitive Payments*, [GAO/AFMD-8.1.2](#) (Washington, D.C.: May 1993).

¹² U.S. General Accounting Office, *Executive Guide: Strategies to Manage Improper Payments*, [GAO-02-69G](#) (Washington, D.C.: October 2001).

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- *Data mining.*¹³ We performed data mining on Bank of America's database of the Forest Service's fiscal year 2001 purchase card and convenience check transactions for indicators of potential noncompliance with established policies and procedures. Specifically, we looked for transactions that exceeded cardholder or convenience check spending limits, split purchases or duplicate transactions, cardholders with multiple cards, transactions on purchase card accounts after the separation dates of the employees, and cardholders who wrote convenience checks to themselves or for cash. Except for potential split and duplicate transactions, we forwarded all selected transactions to the Forest Service APC to request supporting documentation from cardholders, which we used to assess whether in fact these were violations of policy. For split and duplicate transactions, we selected a statistical sample of transactions as discussed below.
 - *Statistical sampling.* To test for split transactions, we first performed data mining to identify possible split transactions from the population of purchase card transactions paid from October 1, 2000, through September 30, 2001. We then selected a stratified¹⁴ random (statistical) sample of 213 of 1,854 potential split transactions totaling \$3.5 million. Similarly, to test for duplicate transactions, we first performed data mining to identify possible duplicate transactions from the population of purchase card transactions paid from October 1, 2000, through September 30, 2001. We then selected a stratified¹⁵ random (statistical) sample of 230 of the 8,659 possible duplicate transactions totaling \$1.6 million. We requested supporting documentation for these transactions from the APC. Actual findings from both statistical samples were projected separately to total fiscal year 2001 Forest Service purchase card and convenience check transactions.

¹³ Data mining applies a search process to a data set, analyzing for trends, relationships, and unusual associations. For instance, it can be used to efficiently query transaction data for characteristics that may indicate potentially improper activity.

¹⁴ We stratified each population into seven groups on the basis of the dollar value for each transaction. Each sample element was subsequently weighted in the analysis to account statistically for all the members of the population, including those that were not selected.

¹⁵ See footnote 14.

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- *Nonstatistical sampling.* We selected transactions nonstatistically to allow us to identify those that appeared to have a higher risk of fraud, waste, or abuse, although the results cannot be projected to the overall population of purchases. We identified merchant category codes (MCC)¹⁶ or vendor names that appeared more likely to represent unauthorized or personal use items. We chose a nonstatistical sample of high-risk transactions from the total population of transactions identified for each vendor or MCC selected. We then requested supporting documentation from the APC for over 5,000 transactions totaling \$8.7 million that we identified as meeting the criteria mentioned above to test for improper purchases. In addition, we requested the records for more than 1,000 transactions totaling over \$690,000, which were disputed by cardholders during fiscal year 2001. We reviewed these transactions to determine whether the cardholders properly complied with applicable purchasing policies and procedures for disputed transactions.

To determine if controls over purchase card and convenience check equipment acquisitions were adequate to properly record and safeguard assets, we

- reviewed policies and procedures over the management and control of accountable property and sensitive items; and
- tested accountable property selected in the nonstatistical sample discussed above to determine whether these assets had been recorded in the Forest Service's property management system prior to our review.

While we identified some improper purchases, our work was not designed to identify all fraudulent or otherwise improper purchases made by the Forest Service. We conducted our review from April 2002 through March 2003 at the Forest Service Washington Office in Rosslyn, Virginia, and USDA headquarters in Washington, D.C., in accordance with generally accepted government auditing standards. We requested written comments on a draft of this report from the Chief of the Forest Service. Written comments were received from the Chief of the Forest Service and are reprinted in appendix I.

¹⁶ Merchant Category Codes are four digit numbers associated with every transaction that identify the general category of products sold by a vendor (e.g., 5941 – Sporting Goods, 5944 – Watch, Clock, and Jewelry Stores).

Critical Internal Control Activities Were Lacking or Inadequate

The Forest Service's internal controls did not provide reasonable assurance that improper purchase card and convenience check purchases would not occur or would be detected in the normal course of business. Effective internal controls are the first line of defense in safeguarding assets and preventing and detecting fraud. In addition, they help to ensure that actions are taken to address risks, and are an integral part of an entity's accountability for stewardship of government resources. Our *Standards for Internal Control in the Federal Government* contains the specific internal control standards to be followed. Specifically, these standards require, among other things, that (1) key duties and responsibilities be divided or segregated among different people to reduce the risk of error or fraud, (2) transactions and other significant events be authorized and executed only by persons acting within the scope of their authority, (3) internal control monitoring be performed to assess the quality of performance over time and ensure that audit findings are promptly resolved, and (4) physical control must be established to secure and safeguard assets vulnerable to risk of loss or unauthorized use.

The IG report, issued in August 2001, covered purchases made during fiscal years 1999 and 2000. The report noted several internal control weaknesses in USDA's purchase card program, including that of the Forest Service. These included (1) lack of supervisory review of purchase card transactions, (2) untimely reconciliation of purchases, and (3) inadequate monitoring by agency management. Because the IG report addressed significant internal control weaknesses and made several recommendations to address them, we did not conduct detailed tests of internal controls. However, through discussions with USDA and Forest Service officials and our reviews of purchase card policies and procedures, we confirmed that the Forest Service still did not have an adequate supervisory review process or sufficient program monitoring activities. Most importantly, we determined that the Forest Service continued not to have adequate segregation of duties, and property susceptible to theft or misuse was not adequately safeguarded. Our data mining of specific purchase card and convenience check transactions revealed numerous improper and wasteful purchases that could have been prevented or detected if these basic internal controls were in place. Without effective internal controls, the Forest Service does not have reasonable assurance that purchases are proper or that items purchased are safeguarded against loss or theft.

The Forest Service Did Not Adequately Segregate Purchasing Duties

Our *Standards for Internal Control in the Federal Government* requires that key duties and responsibilities, including authorizing, processing, recording, and reviewing transactions and handling related assets, be divided or segregated among different people in order to reduce the risk of error or fraud. Simply put, no one individual should control all the key aspects of a transaction or event. The processing and recording duties for purchase card and convenience check transactions were automated and not performed by the cardholder. However, under Forest Service regulations, the majority of purchase card transactions do not require a segregation of duties. Cardholders are allowed to perform the key duties of authorizing purchases, receiving related assets, and validating the purchases subsequent to payment.

Although Forest Service guidance required that a requisition be prepared for all procurements as a method to determine that the requestor had the authority for the purchase, a procurement request was not required for acquisitions below \$2,500 when using a purchase card or convenience check. In fiscal year 2001, 96 percent of purchase card transactions were for amounts less than \$2,500. Further, as purchase card purchases usually involved face-to-face transactions between the cardholder and the vendor, the cardholder received the assets.

Lastly, Forest Service guidance required that cardholders reconcile their transactions in PCMS at least once a month using the documentation retained from each transaction. After reconciling a transaction, cardholders validate the transaction by marking an “approved” cell in PCMS. Therefore, for the majority of Forest Service purchase card transactions made by individual cardholders, there is no separate authorization of the purchases, possession of the items, or independent validation of the transactions.

In discussions with USDA OPPM management and our review of purchase card policies and procedures, we noted that generally, segregation of duties was not adequately considered in the implementation of the purchase card program. When USDA, including the Forest Service, adopted PCMS, the revised procurement process allowed a much larger population of Forest Service employees to authorize purchasing decisions to buy goods and services as well as the responsibility for validating these purchases, up to their single transaction limit. This new process did away with the need for procurement requests and approving officials for the majority of purchase transactions below \$2,500 initiated by Forest Service employees.

As noted above, Forest Service purchase card program policies and procedures were written to support the increased authority given cardholders in purchase decisions. The lack of proper segregation of duties increased the Forest Service's vulnerability to theft or misuse since there was limited oversight or control to ensure that purchased items or services were for a legitimate government need and were being used for those purposes.

Supervisory Review and Approval Process Was Inadequate

Supervisory approval of transactions is a principal means of assuring that only valid transactions are initiated or entered into by persons acting within the scope of their authority. A supervisory review of purchase transactions is particularly important where there is a lack of segregation of duties, because a supervisor or approving official¹⁷ may be the only person other than the purchaser who would be in a position to identify an inappropriate purchase. Therefore, the supervisor or approving official's review is a critical internal control for ensuring that purchases are appropriate and comply with agency regulations.

The August 2001 IG report recommended that USDA institute a requirement that supervisors periodically review and approve their subordinates' purchase card transactions to confirm they are appropriate and revise departmental regulations and purchase card program instructions accordingly. USDA did not concur with this recommendation because the IG audit did not find any material problems with the purchase card transactions that they tested. Further, in commenting on the report, USDA management stated that they believe the existing management structure is effective in ensuring that purchase card transactions are appropriate.

During our review of the Forest Service purchase card program for fiscal year 2001, we also noted that supervisory review and approval of purchase card transactions was inadequate. The Forest Service did not require approval of purchase transactions under \$2,500, except for certain IT items such as computer hardware, software, and cellular phones. The Forest Service trusts cardholders to make appropriate purchasing decisions for

¹⁷ The U.S. Department of the Treasury's *Treasury Financial Manual* defines an approving official as an individual who reviews cardholder statement(s), is responsible for authorizing cardholder purchases (for official use only), and ensures that the statement is reconciled and submitted to the designated billing office.

transactions under this amount. During fiscal year 2001, purchases less than \$2,500 totaled \$226 million and accounted for 96 percent of all purchase card transactions in the Forest Service.

While Forest Service guidance requires prior approval for all purchase transactions exceeding \$2,500 and for specific IT items, we noted that this requirement was not consistently followed. We identified 11 transactions totaling \$25,452 that required prior approval, but were initiated and completed by cardholders without obtaining such approval. For example, we identified a \$1,260 purchase for a printer from ComputerLand Center. Prior approval for the purchase was not obtained as required by Forest Service policy. The cardholder stated that she did not obtain the proper approval because she was unaware of the requirement.

USDA issued its revised procurement regulation, *Use of the Purchase Card and Convenience Check* (DR-5013-6), in February 2003. The revised regulation added the cardholder supervisor to the list of responsible persons in the purchase card program. Supervisors are described as the first line of control over the purchasing activity of cardholders in their units. In addition, it states that supervisors will require cardholders to generate periodic reports of purchase card and convenience check transactions, and that supervisors review these reports at least quarterly, or more often if agency procedures require. However, OPPM officials told us that this new regulation does not require supervisors to review each and every transaction nor does it require them to review supporting documentation.¹⁸ Rather, these reviews are completed using data that has been entered into PCMS and do not require the cardholders to submit the original documentation for their purchases. Both USDA and Forest Service officials told us that supervisory review of all transactions is not practical because of the Forest Service's decentralized organization. However, this very decentralization makes it even more imperative that a supervisor or other approving official validate purchases.

Without an independent validation of transactions via supervisory review of supporting documentation, the Forest Service is at significant risk of misappropriation of funds due to fraudulent or improper charges. For example, as mentioned earlier, cardholders are required to "reconcile" or validate their transactions at least once a month. During this process the

¹⁸ Section 4500 of the U.S. Department of the Treasury's *Treasury Financial Manual* (TFM) also requires monthly review of transactions prior to submission for payment.

cardholders view each individual transaction for their account in PCMS and agree the vendor name, the date of the transaction, and the amount of the transaction to the original documentation maintained by the cardholder. In addition, the cardholders enter the description of the items purchased because this information is not initially included in PCMS. While following up on questionable purchases that we identified, our investigators learned that three of these purchases, for \$1,031 in jewelry and china from Meier & Frank, had been made by a Forest Service employee who had been under investigation by the IG since January 2002. In reviewing the IG Report on Investigation we noted that the cardholder, when reconciling her purchases, had entered fictitious items into the item description field in PCMS. For example, the purchases from Meier & Frank were described as nonmonetary awards and length-of-service awards. In addition, purchases of CD players, computers, computer games, and other miscellaneous items at one vendor were entered into the PCMS description field as cartridges, chair mats, folders, binders, paper, pencils, and other supplies. A comparison of the receipt to information in the PCMS database would have detected these purchases as potentially fraudulent.

Program Monitoring Was Inadequate

The Forest Service did not adequately monitor its purchase card program during fiscal year 2001 to ensure that Forest Service employees were following established policies and procedures. Program oversight through monitoring activities is important even when strong preventive controls are in place, and is especially critical in the Forest Service case where there is a lack of supervisory review and segregation of duties. USDA regulations¹⁹ in place during fiscal year 2001 required that APCs and LAPCs monitor purchase card transactions through PCMS's alert subsystem,²⁰ statistical sampling, and query tool software. In August 2001, the IG reported deficiencies in USDA's (including Forest Service) use of oversight tools for monitoring purchase card usage during fiscal years 1999 and 2000. Specifically, the IG reported that the department had not effectively implemented the alert subsystem of PCMS or implemented reviews of statistically sampled transactions, as required by USDA regulations. During our review of the Forest Service program for fiscal year 2001, we

¹⁹ USDA regulation 5013-6, *Use of the Purchase Card and Convenience Check*.

²⁰ The alert system is a subsystem of PCMS that was designed to reduce fraud, waste, and abuse by providing user messages to local coordinators regarding questionable transactions.

noted that it was still not using these tools for monitoring transactions for compliance with program requirements or for improper purchases.

In our discussions with OPPM officials in May 2002, they stated that they were not using the alert subsystem because it was generating too many alerts that did not represent true errors or abuse. They expect to correct the alert process by June 30, 2003, 6 months ahead of the original implementation date included in their corrective action plan to address the IG's findings. In addition, they informed us that they had not begun performing reviews of statistically selected samples during fiscal year 2001 but that they had begun performing these reviews during fiscal year 2002, distributing the results to the specific agencies, including the Forest Service, for follow-up on the identified transactions. The Forest Service APC confirmed that she received the transactions from OPPM and had distributed them to the specific field offices for investigation.

Lack of timely and consistent monitoring activities increases the risk that inappropriate purchase card transactions and improper cardholder activities will go undetected. In addition, without adequate monitoring activities, systematic problems will not be identified and addressed. In our review of support for transactions identified using data mining techniques, we found that local coordinators were not always (1) canceling accounts of permanent and temporary employees when they left the Forest Service, (2) informed by cardholders that cards had been lost or stolen, or (3) monitoring disputed transactions to ensure they were completely resolved and to identify unauthorized activity.

Canceling purchase card accounts. Purchase card accounts were not consistently being canceled when cards were reported as lost or stolen, or when a cardholder left the Forest Service. Forest Service guidance requires, in the case of a lost or stolen card, that the cardholder contact Bank of America to have a block placed on the account and a new card issued. The guidance also requires that cardholders, prior to leaving the Forest Service, surrender their cards and, if issued, unused convenience checks, to the LAPC who will destroy them and close the account.

We reviewed employee separation procedures at 16 Forest Service regional and field offices and noted that the written procedures at 3 offices did not include steps to physically collect the purchase card from the employee. Further, Forest Service program officials told us that the personnel forms used in this process are out of date at one office, they differ from region to region, and are inconsistently filled out.

In addition, we noted that purchase cards were issued to temporary employees hired during fire season when there is an increased need for manpower. According to the Forest Service APC, these cards are collected when the temporary employees leave the Forest Service. However, one of the officials we spoke with stated that the cards are not always retrieved. Instead the purchase limits are reduced to \$1 at that time. Our internal control standards require that an agency must establish physical control to secure and safeguard assets that might be vulnerable to risk of loss or unauthorized use. Failure to collect purchase cards due to outdated and inconsistently applied policies and procedures creates a significant risk of unauthorized use of purchase cards.

USDA purchase card policy states that cardholders are required to inform their LAPC immediately of lost or stolen purchase cards or convenience checks and contact the card issuer in order to have the accounts blocked. However, we found instances where LAPCs had not been notified that cards had been lost by cardholders or stolen and the cards had not been canceled. For example, we identified three instances where cardholders lost their cards but did not inform their LAPCs. Instead, in each case, the cardholder canceled the lost card and ordered a new card through Bank of America without the LAPC's knowledge.

Monitoring disputed transactions. We found that cardholders were not always disputing transactions within 60 days of the transaction dates as required by Forest Service policy and the GSA contract, and disputes were not being monitored to ensure they were completely investigated and resolved. Forest Service policy requires that cardholders reconcile their purchase card transactions in PCMS every 30 days to ensure the recorded charges are appropriate and correct, and that they dispute²¹ any charges identified as inappropriate or erroneous. GSA's *Blueprint for Success: Purchase Card Oversight*, states that agency officials should consistently monitor disputes filed by cardholders and watch for unusual trends, such as a high number of disputes for specific merchants. In addition, the GSA master contract with card issuers of government purchase cards states that charges disputed within 60 days of the transaction date will be investigated

²¹ In order to dispute an unauthorized or erroneous transaction, data are entered into the PCMS disputes screen by the cardholder and sent to NFC. NFC prints the screen and faxes it to Bank of America to be investigated and appropriate credit given. No supervisory review or approval is needed for a dispute to be processed.

by the card issuer and appropriate credits issued. After 60 days²² the cardholder is responsible for investigating the disputed charge. In fiscal year 2001, Forest Service cardholders disputed over 1,000 transactions totaling \$690,157. Of these, we noted 62 transactions totaling over \$51,000 that had not been disputed by cardholders within 60 days of the transaction date.

Forest Service regulations do not require that cardholders inform their LAPC of transactions to be disputed before they are submitted to Bank of America. As a result, LAPCs and other management officials may be unaware of disputed transactions that may indicate potentially fraudulent or improper purchase card use, and therefore are not ensuring that unauthorized activity is identified, compromised accounts are canceled, and appropriate credits are issued. We noted that 76 transactions had been identified by 51 cardholders as potentially fraudulent, but the transactions still had not been resolved (i.e., credits issued) and the accounts were still open as of the end of our fieldwork. For example, a cardholder disputed a \$600 charge at Dillards department store stating that this was one of several charges against his account for this vendor and that none of the charges were legitimate. In addition, cardholders disputed a total of 22 charges totaling \$2,791 for a vendor named Productivity Plus. In all but 2 of these 22 transactions the cardholders state that they had attempted to reach the vendor but were unable to. However, there was no explanation given as to why the cardholder accounts had not been closed.

The Forest Service issued revised policies and procedures for monitoring purchase card usage in June 2001. The revised guidance required that for each Forest Service region, field office, and the Washington office, the Chief of Contracting Office (COCO) and LAPC perform monthly, quarterly, and annual reviews of cardholder purchases. The guidance also gave the COCOs the authority to revoke cardholder purchase card and convenience check privileges for inappropriate use. However, the revised regulations do not address the need for monitoring disputed transactions to help ensure that the purchase cards that have been lost, stolen, or otherwise compromised are canceled and that disputed transactions are resolved. Inadequate monitoring is yet another gap in internal controls that leaves the Forest Service purchase card program open to waste, fraud, and abuse.

²² Per the GSA master contract for the government purchase card program.

Property Was Not Properly Tracked

Since 1999, we have designated financial management at the Forest Service as high risk on the basis of serious financial and accounting weaknesses. An area of particular concern has been the Forest Service's internal controls related to property. Internal controls are essential to safeguarding assets vulnerable to risk of loss or unauthorized use. However, we found that the Forest Service did not adequately track property bought with purchase cards.

Forest Service policy requires that property costing more than \$5,000 be entered into its personal property management system. Such property is also referred to as accountable property. USDA's property management regulations state that all accountable property acquired by purchase, transfer, construction, manufacture, or donation will be recorded in the property records at the time it is accepted by the receiving agency. We reviewed supporting documentation for 108 accountable property items purchased in 64 separate transactions during fiscal year 2001, selected on a nonstatistical basis.

In our review, we noted that 54 of these transactions were entered in the property system more than 60 days after the purchase transaction or not at all. Specifically, 34 of these items, totaling \$266,074, or approximately 31 percent, had been recorded in the USDA property system more than 60 days after the purchase transaction. In many of those cases, it was several months before the property was recorded. For example, 8 of the items were not entered into the system for more than a year. In addition, we noted 20 property items, totaling \$166,803, which the Forest Service could not determine had ever been entered into the property system. These items included 10 all-terrain vehicles, 3 copiers, 2 projectors, 2 generators, and 3 plasma monitors. This lack of accountability makes these assets particularly susceptible to loss or theft without detection.

The Forest Service does not require that property costing under \$5,000 be tracked unless the items are designated as "sensitive."²³ Each USDA agency defines its own list of sensitive property and is responsible for providing this list to the cardholders. The Forest Service designates all

²³ USDA defines sensitive property as any item of accountable property valued at less than \$5,000 which is highly susceptible to loss or theft as defined by the Agency Property Management Officer. The Forest Service defines sensitive property as nonconsumable equipment having an original acquisition cost from \$500 to \$4,999 that, due to its personal desirability or other considerations, warrants a higher level of monitoring and control.

firearms, frequency modulated land-mobile radios, precise positioning service Global Positioning Satellite (GPS) receivers, IT equipment, and radiological equipment having a radioactive source as sensitive property, agencywide. Further, Forest Service guidance allows each of its regions and field offices to designate other items as sensitive. While the Forest Service allows field offices to categorize items under \$5,000 as sensitive and thereby track them in inventory, there is no consistent definition of sensitive property across regions. For example, one Forest Service region considers VCRs, TVs, and CD players costing more than \$500 to be sensitive property. Another regional office designates video and audio equipment costing more than \$100 as sensitive. That particular region also considers survival equipment and clothing sensitive while other regions do not.

USDA regulations state that agencies shall be responsible for maintaining reasonable controls over their nonaccountable property to safeguard it against improper use, theft, and undue deterioration. In our review, we identified transactions totaling \$439,789 for purchases of items that were not recorded in the Forest Service’s inventory that, while not specifically designated as sensitive, appear to meet both USDA and Forest Service’s overall definition of sensitive property. The cost of many of these items fell just under the \$5,000 accountable property threshold. As shown in table 1, these items included all-terrain vehicles, cameras, GPS units, snowmobiles, and night-vision goggles.

Table 1: Nonaccountable Items Purchased

Item type	Number purchased	Dollar amount
All-terrain vehicles	17	\$74,648
LCD projectors	25	130,057
Cameras (digital and standard)	120	129,073
Snowmobiles	9	38,787
Global Positioning Satellite Units (GPS)	52	14,200
Camcorders	7	14,098
Binoculars	9	11,624
Motorcycles	2	9,689
Personal digital assistants	14	8,394
Night-vision goggles	4	9,219
Total	259	\$439,789

Source: GAO analysis of Forest Service purchase card and convenience check transactions selected for fiscal year 2001.

Without proper recording and accounting for these vulnerable assets, there is an increased risk of misappropriation of these items. For example, without tracking of these items a supervisor may be unaware that a cardholder leaving the Forest Service purchased one of these items, and therefore could not ensure that the item remained in the possession of the Forest Service. In some Forest Service regions, employee checkout procedures attempt to mitigate this by requiring that an official certify that the employee has accounted for all property. An inventory listing of these items would enable the supervisor to ensure that all vulnerable assets are properly accounted for when employees leave.

USDA's revised regulations, issued in June 2001, prohibit the purchase of accountable and sensitive property except by warranted cardholders.²⁴ However, the revised regulations did not mitigate the issues we identified regarding proper accounting for vulnerable assets. Therefore, these items continue to be at an increased risk of misappropriation.

Table 2 summarizes the actions USDA and the Forest Service have taken to address many of the internal control weaknesses identified by the IG and/or us. We did not test the effectiveness of these actions because they were implemented subsequent to our review time frame. On reviewing the proposed actions, however, we found that in certain cases, even if properly implemented, they will still not fully remedy known vulnerabilities in internal controls. These cases are noted in the table.

²⁴ A warranted cardholder is an employee who has contracting authority delegated to him or her by a duly authorized appointing official in accordance with federal and USDA regulations. The warrant, SF-1402, states the level of contracting authority delegated to an individual, including any limitations on that authority. Above the micropurchase threshold, only warranted individuals may bind USDA contractually.

Table 2: Revised USDA Purchase Card Policies

Policies in place during fiscal year 2001	Audit findings for fiscal year 2001	USDA/Forest Service actions to strengthen control	Continued vulnerabilities
Cardholder's authorize purchases, receive related assets, and validate the purchases subsequent to payment for purchases under \$2,500.	Forest Service regulations do not support a segregation of duties in purchase card transactions under \$2,500.	None	No requirement of independent review by the LAPC or supervisor to validate transactions or independent verification of receipt of goods or service leaves the Forest Service purchase card program vulnerable to fraud, waste, and abuse.
Transactions under \$2,500 do not require preapproval unless they are for specific IT items.	No requirement of independent review by LAPC or supervisor to validate transactions, or independent verification of receipt of goods or service.	<p>LAPCs and COCOs are required to audit a percentage of transactions on a monthly, quarterly, and annual basis to ensure micro-purchase rules have been followed using PCMS screens and reporting, including review of description fields completed by cardholders. Also, LAPCs are to audit 3 percent of transactions annually, by reviewing all supporting documentation for the transactions.</p> <p>(FS 6309.32 revised 6/01)</p> <p>Supervisors were added to list of responsible parties for monitoring USDA's regulation on purchase card usage. In addition, supervisors will require cardholders to generate periodic reports of purchase card and convenience check transactions. Supervisors shall review cardholder transaction reports at least quarterly, or more often if agency procedures require.</p> <p>(USDA 5013-6 issued 2/03)</p>	These limited post-reviews are not sufficient oversight given the decentralization of the organization and the lack of segregation of duties. As supervisors would be expected to be more knowledgeable of a cardholder's daily activities and responsibilities, the review of actual documentation should also be at the supervisor level. Cardholders are able to enter fictitious descriptions of item or service purchased in PCMS. Therefore, without a review of original supporting documentation at all levels the Forest Service cannot ensure that the purchase was appropriate and reflected a valid government need.

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Policies in place during fiscal year 2001	Audit findings for fiscal year 2001	USDA/Forest Service actions to strengthen control	Continued vulnerabilities
USDA-OPPM and Forest Service APCs and LAPCs are required to monitor purchase card transactions using the PCMS alert subsystem, statistical sampling, and query tool.	Alert subsystem not being used due to problems. Statistical sampling not being performed during 2001.	Alert subsystem expected to be running by June 30, 2003. New system will also include some data on disputed transactions for review by LAPCs. OPPM has begun producing random queries of PCMS data to identify transactions having a higher than normal potential for abuse and sending them to the respective agencies for investigation.	
Cardholders are to validate their transactions periodically and to dispute any erroneous or unauthorized transactions within 60 days of the transaction date.	Disputed transactions are not always submitted within 60 days of transaction date. Cardholders are not required to communicate disputed items to supervisors and supervisors are not required to monitor disputed transactions. Potentially fraudulent transactions were still unresolved as of the end of our fieldwork.	Forest Service began deactivating purchase card accounts for which transactions were unreconciled more than 30 days after transaction date. The agency expects to have the Alert subsystem running by June 30, 2003. New system will also include some data on disputed transactions for review by LAPCs.	Cardholders will still be able to use convenience checks to make purchases. It is not known whether the data provided will ensure that purchases that may be improper or potentially fraudulent are brought to management's attention for investigation and resolution.
Accountable and sensitive property is to be recorded immediately after purchase.	Accountable property is not entered in the property system. Certain vulnerable items are not considered sensitive and included in property system.	Only warranted cardholders may purchase accountable or sensitive property. (FS 6309.32 revised 6/01)	Property items that appear to meet the overall USDA and Forest Service definition of sensitive are still not included in the agency-level list of items to be entered into the property system.

Source: GAO analysis of Forest Service documentation.

Noncompliance with Purchasing Requirements Resulted in Instances of Improper Purchases

The lack of adequate internal controls resulted in violations of numerous federal acquisition requirements and USDA/Forest Service purchase card policies that we classified as improper purchases. These included (1) purchases that were split into two or more transactions to circumvent single transaction limits, (2) purchase transactions that were paid for twice, (3) purchases of unauthorized items, (4) purchases that exceeded single purchase limits, (5) unapproved information technology (IT) purchases, (6) transactions charged to purchase card accounts of former employees, and (7) convenience checks written by cardholders to

reimburse themselves. Table 3 shows the total dollar amounts for exceptions we identified for each category.

Table 3: Categories of Improper Purchases

Policy violation	Dollar amount of transactions
Split purchases	\$1,285,252 ^a
Duplicate transactions	177,187 ^b
Purchases of unauthorized items	53,324
Purchases that exceeded single transaction limit	41,445
Information technology purchases that were not approved	25,452
Transactions on accounts of former employees	43,625
Convenience checks written for cash reimbursement	2,014
Total	\$1,628,299

Source: GAO analysis of Forest Service purchase card and convenience check transactions selected for fiscal year 2001.

^aThis amount includes split transactions for which we selected a statistical sample of 213 transactions. Based on the results of our review we estimate that almost \$1.3 million of the total fiscal year 2001 purchase card transactions identified as potential splits were actual split transactions. We are 95 percent confident that the total dollar value for actual split transactions was between \$.9 million and \$1.6 million.

^bThis amount includes duplicate transactions for which we selected a statistical sample of 230 transactions. Based on the results of our review we estimate that almost \$177,187 of the total fiscal year 2001 purchase card transactions identified as potential duplicates were actual duplicate transactions. We are 95 percent confident that the total dollar value for actual duplicate transactions was between \$43,458 and \$310,916.

While the total amount of improper purchases we identified is relatively small compared to the more than \$320 million in annual purchase card and convenience check transactions, it demonstrates vulnerabilities from weak controls that could easily be exploited to a greater extent. The above policy violations are discussed in more detail below.

Split purchases. Using data mining techniques, we identified purchases that appeared to have been split into two or more transactions by cardholders to circumvent their single transaction limit. We requested supporting documentation for a statistically determined sample of 213 out of 1,854 potentially split purchases we identified. Of these 213, we identified 29 actual split purchases for which we received and examined documentation that confirmed that the purchases were split into two or more transactions. Based on these results, we estimate that almost

\$1.3 million²⁵ of the total fiscal year 2001 purchase card transactions were split transactions. For example, a cardholder with a single purchase limit of \$2,500 purchased 13 toner cartridges totaling \$3,918. The cardholder had the vendor split the purchase between two invoices to avoid exceeding her single purchase limit. In another example, the cardholder purchased \$36,984 of safety equipment for rescue workers. The cardholder had the vendor separate the total charge into three charges to circumvent her single transaction limit of \$25,000. The projected amount of split transactions may have been higher had we received all documentation requested. However, for 59 of the 213 sampled transactions, we could not determine whether they were split transactions because cardholders did not provide documentation through the APC to enable us to assess them. The purpose of the single purchase limit is to require that purchases above established limits be subject to additional controls to ensure that they are properly reviewed and approved before the agency obligates funds. By failing to monitor transactions, these limits may be circumvented and the Forest Service will have less control over the expenditure of its resources.

Duplicate transactions. Using data mining techniques, we identified individual purchases that appeared to have been charged twice to cardholder's accounts. We requested supporting documentation for a statistically determined sample of 230 of the 8,659 potentially duplicate transactions we identified. Of these 230, we identified 6 actual duplicate transactions. Based on these results, we estimate that \$177,187²⁶ of the total fiscal year 2001 purchase card transactions were duplicate transactions. The projected amount of duplicate transactions may have been higher had we received all documentation requested. However, for 30 of the 230 sampled transactions, we could not determine whether they were duplicate transactions because cardholders did not provide documentation through the APC to enable us to assess them. Supervisory review of the documentation supporting the cardholder's transactions reduces the risk that duplicate charges would go undetected and result in financial losses to the government. In addition, an effective monitoring program at the APC/LAPC level would help flag these types of improper transactions.

²⁵ We are 95 percent confident that the total dollar value of actual split transactions was between \$.9 million and \$1.6 million.

²⁶ We are 95 percent confident that the total dollar value of actual duplicate transactions was between \$43,458 and \$310,916.

Purchases of unauthorized items. USDA purchase card policy states that the purchase card and convenience checks will not be used for the purchase of hazardous items such as firearms, ammunition, explosives, or hazardous biological and radioactive substances. However, we identified 10 transactions totaling \$53,324 for the purchase of ammunition, rifles, and explosives. For example, we identified two transactions for the purchase of rifles, which are used for animal control and other Forest Service activities. When we informed the cardholders that these transactions were improper, one cardholder stated that he was unaware that purchase card policy prohibited this purchase. The other cardholder stated that as a warranted cardholder, she was allowed to purchase the rifle. This is not the case under Forest Service policy, and when we brought this to the attention of the Forest Service APC, she contacted the employee to inform her that the purchase was improper. Further, we identified a \$500 purchase of ammunition, which was given to the local sheriff's department under a cooperative agreement. Under the agreement, the sheriff's department would patrol campgrounds because of manpower shortages within the Forest Service. The cardholder told our investigator that it is a common occurrence in his region to have cooperative agreements with local law enforcement agencies. When we discussed this transaction with the Forest Service APC she expressed some concern as to whether the intent of the cooperative agreement program was being properly administered in the cardholder's region.

Purchases that exceeded single transaction limits established by USDA policy. Through our data mining efforts, we identified 12 purchases totaling \$41,445 that exceeded the cardholder's single transaction limit by 10 percent or more. Of the purchases we identified, we noted that none of them were made using the purchase card; instead they were made using convenience checks that had been issued to the cardholder. According to the Forest Service APC, when an individual cardholder uses a purchase card and the amount of the purchase is in excess of the limit, electronic controls established by Bank of America deny the transaction and it cannot be completed. However, these controls do not exist for convenience checks. The cardholder's single transaction limit is printed on the face of his/her convenience checks. Yet when a cardholder writes a check in excess of their transaction limit, only scrutiny by the vendor would identify this. According to the Forest Service APC, the Bank of America honors all convenience checks. Therefore, when vendors submit checks written for amounts in excess of the cardholder's limit to Bank of America, the checks are accepted and processed for payment. This lack of control allows a cardholder to circumvent the single transaction limit, even in the case

where the Forest Service has reduced a cardholder's single transaction limit to \$0 or \$1 for abusing the purchase card program or due to separation from the agency, increasing the risk of unauthorized or improper purchases by cardholders.

No preapproval of IT purchases. While the Forest Service generally does not require preapproval of purchases under \$2,500, there are some specific categories of items for which prior independent approval must be obtained. According to Forest Service policy, cell phones, fax machines, scanners, and other IT equipment are not to be purchased without first obtaining approval from the appropriate IT personnel. However, we found 11 transactions totaling \$25,452 for equipment, including cell phones, scanners, printers, and fax machines, that did not have this required preapproval.

Transactions by cardholders separated from the Forest Service. Using data mining techniques, we identified purchase card accounts that had transactions totaling approximately \$43,625 charged to them with transaction dates that appeared to be after the cardholders left the Forest Service.²⁷ In discussions with the Forest Service APC, she agreed that, based on the available data, \$4,385 of these transactions could be confirmed to be improper, having been made after the employees had left the Forest Service. For example, one former employee left the Forest Service on November 4, 2000, but PCMS records indicated that six purchases, totaling \$1,632, were charged to the employee's purchase card account over the next 2 months at Ames and Kmart department stores. The Forest Service was unable to provide documentation to support the appropriateness of the remaining transactions totaling \$39,240.

Cardholders wrote convenience checks to themselves. We found 26 instances, totaling \$2,014 where cardholders wrote checks to themselves, contrary to Forest Service policies that prohibit this practice. Writing checks for cash is also an unauthorized transaction, according to USDA's micropurchase guide. In addition, the guide states that cardholders may issue checks to reimburse other employees for local travel expenses, such

²⁷ We compared cardholder names from Bank of America data to the Forest Service list of employees who had left the Forest Service during fiscal year 2001, including their dates of separation. However, in some cases we found that the full name of the employee who left the Forest Service was the same as the cardholder, but was actually a different person. Therefore, it was necessary for us to obtain verification from the Forest Service before concluding on these transactions.

as mileage, parking, and taxis, authorized by their agency while on official business, or miscellaneous expenditures (e.g., supplies, services, registration fees, and telephone use for official business) that were cleared with the cardholder before the purchase was made. However, the proper documentation must be completed and the expenditures must be approved by an authorized official other than the cardholder. In most of the cases we identified, the cardholders stated that they were unaware of the prohibition against writing checks to themselves for cash. The remaining cardholders stated that they were aware of the restriction, but did it anyway to expedite their reimbursement as no other cardholders with checks were available at the time, or in one case, the employee who reimbursed himself was the only one with checks at that location.

The above examples not only illustrate a lack of adequate oversight, but also the need for better training. According to USDA and Forest Service regulations, each cardholder is required to obtain some type of training before being issued a card. Each agency within USDA is responsible for training participants in accordance with USDA or agency-specific regulations and is allowed to determine the method of certification.

Poor Controls over Purchasing Practices Resulted in Certain Wasteful and Questionable Transactions

The inadequacies and ineffectiveness of internal controls were also evident in the 779 wasteful and questionable transactions we identified that totaled over \$1 million. Transactions we classified as wasteful were for items or services that were (1) excessive in cost compared to other available alternatives, (2) for a questionable government need, or both. We also identified other transactions that we classified as questionable because there was insufficient documentation to determine what was purchased. Lacking key purchase documentation, we could not determine what was actually purchased, how many items were purchased, the cost of each of the items purchased, and whether there was a legitimate government need for such items.

Table 4 indicates the number of transactions and dollar amounts that we determined to be wasteful or questionable. These transactions are indicative of what can occur when purchase card use is not properly controlled. We tested only a portion²⁸ of the transactions that we identified

²⁸ Out of a total population of over 800,000 transactions, we identified approximately 68,000 transactions that appeared at higher risk of being inappropriate, of which we selected about 5,000 for our review.

that appeared to have a higher risk of fraud, waste, or abuse; there may be other improper, wasteful, and questionable purchases in the remaining untested transactions.

Table 4: Purchases Determined to Be Wasteful or Questionable

Transaction category	Number of transactions	Dollar amount of transactions
Wasteful transactions:		
Excessive cost	93	\$127,319
Questionable government need	42	84,785
Total wasteful purchases	135	\$212,104
Questionable transactions:		
Inadequate/incomplete documentation	317	253,388
No documentation	327	616,437
Total questionable purchases	644	\$869,825
Grand total	779	\$1,081,929

Source: GAO.

Wasteful Purchases

We identified 135 purchases totaling \$212,104 that we determined to be wasteful because they were excessive in cost relative to available alternatives, of questionable government need, or both. We considered items to be excessive in cost when less expensive alternatives would meet the same basic needs. We defined items as being of questionable government need when they appeared to be a matter of personal preference or personal convenience, were not reasonably required as part of the usual and necessary equipment for the work the employees were engaged in, or did not appear to be for the principal benefit of the government. Specifically, we identified 93 purchases totaling \$127,319 that we considered excessive in cost, including purchases for digital cameras, premium satellite and cable TV packages, awards and gifts, and cancellation fees. In addition, we identified 42 purchases totaling \$84,785 for which we questioned the government need. Such purchases included specialty costumes, PDAs, and PDA accessories.

Forest Service policy requires that purchasers buy equipment, supplies, or materials that economically meet the needs of the government, avoid deluxe items when the requirements are satisfactorily met by less costly standard articles, and take into account the perspective of the user of the

product. When we reviewed the supporting documentation for many of the purchases we identified, we noted that the cardholders frequently did not document their determination that the item purchased economically met the needs of the government based on an evaluation of price and other factors, thus avoiding deluxe items as required by Forest Service purchasing policy. When we requested additional information from cardholders, they either did not provide the requested information or the documentation provided was inadequate to support that the specific purchase was in compliance with this policy.

Items purchased at a price higher than that of available alternatives that would have met the same basic needs included:

- *Digital cameras.* During our detailed testing, we identified 66 digital cameras and accessories purchased in 37 separate transactions totaling \$61,243 that appeared to have been purchased based on the personal preference of the cardholder, not on the minimum specifications to support the anticipated use. Digital cameras are available at many price levels, with the price usually reflecting the technical specifications of the cameras and the options included. The Forest Service uses digital cameras for various purposes in its operations, such as taking digital images of nursery and reforestation activities throughout the nation. These images are used for publications, presentations, workshops, and placed on the RNGR web site as part of the technology transfer and technical assistance missions of certain teams. Depending on the intended use of the images, cameras must have certain capabilities of which the users should be knowledgeable or at a minimum have readily available guidance on. This helps to ensure that cameras purchased meet and not exceed the needs of the user. In our review of the supporting documentation and cardholder statements we noted that some of the cardholders knew how the cameras were going to be used. However, they did not know what minimum technical capabilities the cameras had to have. Cardholders purchased cameras ranging from 1 megapixel to 4 megapixels of data resolution, ranging in price from around \$350 to over \$1,900, that appeared to be based on personal preference, not Forest Service need. Forest Service policy states that the requirements of an item must be taken into account in its purchase to ensure that it economically meets the needs of the government and to prevent the purchase of deluxe items when the requirements are satisfactorily met by less costly standard articles. However, the Forest Service had not developed guidelines on the purchase of high-tech items such as digital cameras. In addition, the individual transactions by

cardholders at various vendors involved the purchase of usually only one or two cameras at a time. This does not allow the Forest Service to achieve possible economies of scale by purchasing them from a single vendor at a discount.

- *Premium satellite and cable TV packages.* We identified 21 transactions totaling \$4,843 for monthly satellite television programming. The Forest Service is authorized to provide minimum recreation facilities and opportunities for its employees consistent with the degree of isolation and permanence of the individual work centers. However, in each television entertainment purchase we identified, the cardholder had not contracted for the basic service offered by the vendor but instead for a premium package, such as HBO, Cinemax, NFL or NBA games, or for pay-per-view movies. In one instance the invoice included charges for pornographic movies. In addition, we noted one \$833 transaction for Direct TV service that the cardholder stated was needed in order to allow the office to track weather conditions in that part of the country. We questioned the need for this capability given that detailed weather tracking is accessible on the Internet, which, according to a Forest Service telecommunications manager, is available in all offices. In addition, we reviewed the invoice supporting this transaction noting that the cardholder had also subscribed to 2001 NFL Sunday Ticket (\$199), a subscription to view NFL games on Sunday during the NFL season, through the vendor.
- *Awards and gifts.* We noted several purchases for awards and retirement and farewell gifts for which adequate supporting documentation was not provided or the award items purchased were not in compliance with USDA policy. USDA policy provides for a number of performance award categories and criteria for each, and requires that the purpose and type of award given should be documented. Nonmonetary awards, according to USDA policy, are time off awards, keepsakes,²⁹ letters of appreciation, and honorary awards. We identified purchases for which the Forest Service was unable to identify the purpose of the award or provide supporting documentation. For example, we identified eight transactions, totaling \$13,694 in award purchases, which included hats, mugs, backpacks, and blankets

²⁹ Keepsakes are defined as medals, certificates, plaques, citations, badges, pen-and-pencil sets, pins, and coffee cups as long as the item displays the department's name and is suitable for display.

purchased from vendors such as Warner Bros., Eddie Bauer, and Mori Luggage and Gifts, in which the cardholder either gave no or inadequate justification for the purchase of these items. In addition, USDA's regulation on career service recognition states that awards are intended to recognize employees for their special efforts, and motivate others who witness the presentation. According to the regulation, employees should not be recognized monetarily when they leave USDA either through retirement or separation. However, USDA agencies may consider providing some form of honorary or nonmonetary recognition of an employee's efforts in support of USDA's mission. Items such as plaques or pins are considered appropriate and may be presented. However, we identified one transaction for the purchase of a golf bag as a farewell gift and another for the purchase of a rifle as a retirement gift for an employee.

- *Cancellation fees.* We found two transactions totaling \$34,950 for cancellation fees for rooms not used by Forest Service employees for a conference and housing for a seasonal work crew. Specifically, the Forest Service paid a \$30,000 cancellation fee to Doubletree Hotel in Denver, Colo.. The Contracting Officer did not recall the specific facts related to this transaction except that the program office rescheduled this conference several times with the hotel and then finally canceled, but not in time to avoid the fee. The Forest Service also paid a \$4,950 cancellation fee to the Rain Country Bed and Breakfast for late cancellation of its reservation to house seasonal workers.

We also found government expenditures that appeared to be for items that were a matter of personal preference or convenience, were not reasonably required as part of the usual and necessary equipment for the work the employees were engaged in, or did not appear to be for the principal benefit of the government, which included the following.

- *Specialty costumes and decorative tent.* Forest Service policy provides for purchases to promote programs related to Smokey the Bear and Woodsy the Owl. We noted three transactions totaling \$8,750 for costumes not related to these two programs. For example, the Forest Service purchased two fish costumes, Frank and Franny Fish, from the Carol Flemming Costume Design Studio at \$2,500 each, used for aquatic education in the Pacific forest regions. The cardholder explained that these personalities are to the fisheries program what Smokey Bear is to the fire program. We also identified a transaction totaling \$3,750 for 39 "web of life" costumes, including animals and nature themes, to be used

in education programs. However, Forest Service policy does not support the purchase of these costumes and the cardholder's statement does not establish sufficient government need for the costumes to support regional programs. In addition, we identified a \$7,500 purchase of a hand-stitched "salmon tent" from Evelyn Roth Festival Arts. The supporting documentation did not provide a purpose for the purchase of the tent, only a note that the Forest Service has purchased several of these tents over the last 5 years or so.

- *Personal Digital Assistants (PDA).* During our review, we identified 11 transactions for the purchase of 14 PDAs and accessories totaling \$8,768 from vendors such as Palm Computing, Casio, Amazon.com, and Best Buy. The Forest Service does not have a policy on the purchase of PDAs, handheld electronic devices that function as calendars, address books, and other personal administrative aids. Calendars and daily planners cost from \$6 to \$56 with refills for the daily planner costing about \$20. We noted that some cardholders had purchased high-end items such as the Palm V™ and Palm M505™ with costs ranging from \$350 to \$450. By comparison, alternatives such as Palm's M105™ model retailed for approximately \$200 at the time of these transactions. In our review of the supporting documentation for these purchases, we found nothing to show how the cardholders determined that the PDAs were necessary to fulfill a valid government need, rather than the personal preference of the cardholders. For example, one cardholder purchased a single IBM workpad with hotsync cradle for \$829 to use as a calendar, address book, and to check e-mail messages. Another cardholder purchased six new PDAs from Casio Electronics by trading in six Forest Service PDAs plus \$199 each. When asked to explain the need for the newer PDAs, his response was that the newer ones were faster and had more memory to support e-mail. Lastly, the Forest Service incurred other expenses for items to support the PDAs, such as keyboards and carrying cases. In one instance we identified a purchase of PDA keyboards, totaling \$374, which, according to the cardholder, would be used for taking notes in meetings.
- *Cordless phones and headsets.* We noted several purchases of cordless phones or headsets for Forest Service employees where cardholders were unable to provide documentation supporting the necessity for the item in performing their duties. Instead, the purchases have the appearance of having been made for personal convenience. For example, a Forest Service cardholder purchased cordless phones and handsets totaling \$2,242. When we asked why the phones were needed,

the cardholder responded that they were purchased for the ease of use and to enhance the workplace for certain employees.

We also identified numerous other individual purchases that we considered to be wasteful due to excessive cost or questionable government need. Such purchases included \$9,219 for six pairs of night vision goggles (\$1,536 average), that we found available at prices ranging from \$379 to \$1,949; \$2,701 for sound masking equipment, which the cardholder stated was needed to reduce the level of noise coming from the cubicles in the regional office where she worked; \$2,929 paid to Hair of the Dog for an aquarium in an Alaska regional visitor information center; \$2,295 paid to Quality Billiards for a billiard table for a Forest Service bunk house; \$2,204 paid to Best Buy for TV/VCR combinations and their installation into Forest Service vehicles; \$589 paid to Ultimate Electronics for a DVD player to be used by employees to watch exercise videos in the fitness room; and \$200 for a leather briefcase.

Until the Forest Service provides adequate management oversight of its purchase card program, including a more thorough, systematic review and monitoring of expenditures with appropriate disciplinary action when warranted, the types of wasteful and abusive purchases we identified are likely to continue.

Questionable Purchases

Forest Service policy requires that cardholders maintain adequate documentation of all purchase card and convenience check transactions. As discussed earlier in this report, we requested supporting documentation for a nonstatistical sample of over 5,000 transactions. Of these, we identified 644 transactions totaling over \$869,825 that appeared to be improper, wasteful, or potentially fraudulent, but for which the Forest Service either provided insufficient or no documentation to determine the propriety of the transactions.

For 104 transactions, totaling \$184,682, that appeared to be either improper or wasteful, the documentation we received was inadequate or was not the correct supporting documentation, and we were unable to make a determination of the propriety of the transactions. For example, we requested supporting documentation for a \$2,315 transaction charged by Unisys Corporation. Supporting documentation was not provided to us. The Forest Service explained that the employee knowledgeable about this charge had left the Forest Service and the documentation related to the purchase could not be located. The remaining transactions represented

purchases made at various vendors such as \$5,803 at Have Party Will Travel; \$4,940 at Spencer's TV & Appliance; \$2,400 at Grand Home Furnishings; \$2,828 at Lowder's Home Entertainment; \$1,729 at Mick's Scuba Inc.; and \$3,430 at Samson Tours.

We also identified 213 transactions totaling over \$68,706, which appeared to be either unauthorized and for personal use, made using compromised accounts or unauthorized transactions by merchants, but adequate documentation was unavailable to allow us to determine the propriety of the purchases. We were subsequently able to determine that several of the transactions were in fact fraudulent. These fraudulent and potentially fraudulent transactions included the following.

- *Transactions made by cardholders that appeared to be unauthorized and intended for personal use.* For example, we identified three transactions totaling \$1,031 in jewelry and china for one cardholder that appeared to be unauthorized or for personal use. In the course of our follow-up inquiries, we found that the cardholder had been under investigation by the IG since January 2002 when an employee at a local vendor expressed concerns to a Forest Service employee about some purchases by another Forest Service employee. In our review of the USDA IG Report of Investigation on this cardholder, we noted that the fraudulent activity identified by the IG spanned from May 1999 through January 2002. During this period the cardholder purchased five digital cameras totaling \$2,960, six computers totaling \$6,019, three palm pilots totaling \$736, jewelry totaling \$1,967 and various other items including cordless telephones, figurines, and Sony Playstations totaling \$6,101. On December 2, 2002, the employee pleaded guilty to one felony count of theft of government money and property in the amount of \$31,342. In addition, we identified one transaction totaling \$511, at a Tribal Bingo Casino, for another cardholder who, according to the IG, is also currently under investigation.
- *Transactions made using compromised accounts in which a purchase card or account number was stolen and used to make unauthorized purchases.* For example, we identified unauthorized transactions for \$692 at Kmart, Circuit City, and other vendors by a person other than the cardholder using the cardholder's account number. The cardholder contacted one of the merchants about the charges and was told that the merchant's security personnel requested personal identification from the individual after the purchase, but the individual left the store and did not return. The cardholder's account was canceled. In addition, we

identified a transaction that had been disputed by a cardholder and upon investigation the cardholder determined that the charge was incurred by an employee of a local vendor for calls made to a phone-sex line.

- *Unauthorized transactions charged by merchants to cardholder accounts.* For example, we identified 20 disputed transactions, totaling over \$2,700, for one merchant, Productivity Plus. On the basis of cardholder explanations we reviewed in PCMS's dispute screen, it appeared that the merchant had obtained several cardholder account numbers and charged amounts to them without the authorization of the cardholders.

For the remaining 327 transactions,³⁰ totaling \$616,437, the cardholders provided no documentation to the APC. Lacking key purchase documentation, we could not determine what was actually purchased, how many items were purchased, the cost of individual items purchased, and whether there was a legitimate government need for the items. Based on the vendor names and MCCs which identified the types of products or services sold by these vendors, we believe at least some of these items may have been determined to be improper or wasteful had the documentation been provided or available. These transactions included \$2,178 in purchases from Best Buy, \$2,500 from BUY.COM, \$6,840 at HPSHOPPING.com, \$4,100 from Party Time Inc. and \$3,185 from USA Tours.

The majority of these transactions represent single transactions for individual cardholders. However, we noted that there were several cardholders with multiple transactions who did not provide us with supporting documentation for their purchases. For example, one cardholder in the pacific southwest region did not provide documentation for five transactions of electronic purchases totaling \$3,349 that appeared to be either improper or wasteful. Another cardholder in the pacific southwest region did not provide documentation for six transactions, totaling \$11,267, for on-line services, electronics, and one payment by convenience check.

³⁰ Subsequent to the end of our fieldwork, the Forest Service had obtained documentation for approximately 200 of these transactions. However, due to the lateness of the documentation, we were unable to review them.

Conclusions

The Forest Service lacks certain basic internal controls over its purchase card program, and thus is susceptible to waste, fraud, and abuse. The IG in its August 2001 report also identified many of the same control weaknesses that we did. The Forest Service took several steps to address these problems when it issued revised purchase card regulations in June 2001, December 2002, and most recently, in conjunction with USDA, in February 2003. However, the revised regulations did not fully address the critical issues reported by the IG and confirmed by us as continuing weaknesses during our audit, such as supervisory review, effective monitoring of purchase card transactions, and property accountability. Until these weaknesses in fundamental internal controls are addressed, the types of improper, wasteful, and potentially fraudulent purchases we identified are likely to continue and certain assets will remain vulnerable to theft. The Forest Service will have to thoroughly reassess and strengthen its current policies and procedures to address the weaknesses identified, develop a strong commitment at all levels of the agency to carryout these policies and procedures, and implement appropriate oversight to continually assess their effectiveness.

Recommendations for Executive Action

We recommend that the Chief of the Forest Service take the following actions to strengthen internal controls and compliance in its purchase card program, decrease improper and wasteful purchases, and improve the accountability over assets.

Internal Controls

With regard to improving the Forest Service's internal controls over purchasing, we recommend that the Chief of the Forest Service do the following.

Segregation of Duties

- Establish policies and procedures that segregate duties for at least some phases of the purchasing process when using the purchase card. The Forest Service program should ensure that no one individual is able to take all the steps needed to request, purchase, receive, maintain, and validate goods and services.

Supervisory Review

- Establish policies and procedures requiring that supervisors review and validate all of their subordinates' purchase card transactions, including review of original supporting documentation to confirm they are appropriate, for official purposes, and reconciled in a timely manner.

Monitoring

- Strengthen policies and procedures to ensure that the appropriate LAPC is notified and the LAPC cancels cardholder accounts immediately when a purchase card is lost or stolen or a cardholder leaves Forest Service employment.
- Establish a systematic process that the APC can use to track and monitor training for cardholders and program coordinators to help ensure that they receive (1) training before being granted purchase cards or approval authority and (2) timely, periodic refresher training in areas such as proper segregation of duties, purchasing policies and procedures, supervisor and program coordinator responsibilities for reviewing and approving individual purchases, and reporting potential purchase card fraud and abuse.
- Revise and strengthen policies and procedures for cardholders who have had their purchase card use suspended or limited to ensure that similar action is taken on the use of convenience checks.
- Revise and strengthen policies and procedures over disputed transactions to ensure that all disputed transactions are identified in a timely manner and completely resolved.
- Establish policies and procedures to ensure that original documentation is maintained in central locations, such as regional offices, so that it is readily available for periodic monitoring reviews by supervisors, LAPCs, and COCOs.

Property

- Revise and strengthen policies and procedures for designating property costing under \$5,000 as “sensitive” to include all equipment susceptible to theft. Also, ensure that the revised policies and procedures are applied consistently across all Forest Service regions.
- Establish policies and procedures to ensure that all sensitive and accountable personal property used in Forest Service operations is promptly entered into the PROP system or other comparable system and that a periodic inventory of the items is taken.

Compliance with Purchasing Requirements

With regard to improving and enforcing compliance with purchasing requirements at the Forest Service, we recommend that the Chief of the Forest Service do the following.

-
- Implement monitoring techniques to identify improper transactions such as cardholders making split purchases, cardholders writing checks payable to themselves, purchases exceeding established dollar thresholds, or purchasing unauthorized items.
 - Revoke or suspend purchasing authority of cardholders who are found to be frequently or flagrantly noncompliant with policies and procedures.

Wasteful and Questionable Purchases

With regard to purchases that may be at an excessive cost or for questionable government need, we recommend that the Chief of the Forest Service do the following.

- Require purchases of certain assets, such as computer equipment, PDAs, and other electronics to be coordinated centrally to take advantage of economies of scale, standardize types of equipment purchased, and better ensure bona fide government need for each purchase.
- Develop and implement purchasing guidelines, based on specific Forest Service uses, for equipment such as digital cameras and projectors.
- Require that cardholders document their determination that purchased items economically met the needs of the government based on an evaluation of price, consideration of the item's expected use, and other factors.
- Follow up on transactions we identified for which no supporting documentation was provided to determine that the items purchased were for a legitimate government need, and take appropriate disciplinary or corrective action as warranted.

Agency Comments and Our Evaluation

The Forest Service provided written comments on a draft of this report. In its response, the Forest Service did not specifically comment on our recommendations. However, the response acknowledged that some of the internal control weaknesses identified in our report existed both prior to and during our review. The response further outlined actions taken or planned since June 2001 to strengthen the overall management of the purchase card program, which the Forest Service described as having been

taken, notwithstanding our report. We acknowledged many of these actual and planned actions in our report and believe that these actions, if fully implemented, will help to address some of the vulnerabilities that the IG and we identified. However, as shown in Table 2 on page 30 of our report, many weaknesses will still remain that continue to expose the Forest Service to improper, wasteful, and fraudulent purchase card activity. Our 15 recommendations address remaining weaknesses identified in the table and elsewhere in our report.

Specific actions taken as outlined in the Forest Service's response included, among other things, requiring definitive levels of auditing of purchase card transactions, performing data mining queries of transaction data to identify potential questionable purchases, and conducting training for regional and local agency program coordinators.

In its response, the Forest Service also stated that in fiscal year 2003 USDA issued an *Internal Control Blue Print* to decrease risks and improve internal controls over the purchase card program. In response, the Forest Service developed a *Plan for Improving Internal Controls* (Plan) that included improvements such as significantly decreasing the use of convenience checks beginning in fiscal year 2003 with the goal of totally eliminating them in the future, reducing the number of cardholders by 10 percent, developing additional data mining queries including PCMS alerts and statistical sampling, ensuring that the ratio of LAPCs to cardholders is appropriate, and requiring supervisors to review cardholder purchases including backup documentation.

If fully institutionalized and enforced, the actions included in the Forest Service's Plan, along with those actions previously taken, will go a long way in identifying improper purchases. However, it will be important that these actions be carried out in a systematic manner. Further, even if these actions are implemented systematically, they still fall short in mitigating certain internal control weaknesses that are addressed by the 15 recommendations in our report.

Specifically, the Forest Service letter outlined actions to strengthen monitoring such as the monthly, quarterly, and annual transaction reviews by LAPCs and COCOs, data mining queries developed and furnished to coordinators, and reviews by regional offices of audits performed by local offices. While these revised policies will provide much needed oversight at a macro level, these actions do not specifically address our recommendations regarding controls over cancellation of stolen cards,

disputed transactions, training, and the maintenance of documentation in a central location.

The Forest Service letter stated that its Plan requires supervisors to review cardholder purchases, including backup documentation. Upon review of the Forest Service's Plan, we noted that it does not require supervisors to review backup documentation, as stated in the response letter. The Plan only states that the Forest Service will communicate, by July 15, 2003, the requirement for cardholder's supervisors to review transactions quarterly in accordance with DR 5013-6, which also does not require that supervisors review backup documentation. We confirmed our understanding of this in discussions with USDA OPPM officials. We continue to believe that limited post-reviews are not sufficient, given the lack of segregation of duties, the decentralization of the organization, and the ratio of cardholders to LAPCs in the organization to detect or prevent inappropriate transactions. As recommended in our report, we believe that the Forest Service should establish policies and procedures requiring a front-line review by supervisors to validate all of their subordinates' purchase card transactions, including review of original supporting documentation to confirm that they are appropriate, for official purposes, and reconciled in a timely manner.

The Forest Service response also did not discuss any actions taken to reduce purchases that are of excessive cost or for questionable government need. In our report, we recommended that the Forest Service purchase certain assets centrally, develop purchasing guidelines, and require that cardholders document that items meet the needs of the government. We believe that our recommendations, if implemented, will assist in reducing waste in the purchase card program.

In the area of property accountability, the Forest Service responded that unwarranted cardholders are no longer permitted to acquire accountable property with purchase cards. Further, the letter stated that the Forest Service plans to issue guidance requiring that all property be labeled as Forest Service property and prohibiting regions from individually determining what property is considered sensitive. However, these new policies will not require the tracking of items costing under \$5,000, such as PDAs, cameras, ATVs, and snowmobiles that we consider to be at high risk for theft or misuse. USDA has determined that the \$5,000 accountability threshold is the level of acceptable risk for tracking property in the property system. USDA has further determined that items such as PDAs and digital cameras rapidly lose their value and usefulness and therefore,

the cost of tracking and maintaining property records for these types of items exceeds their value. We disagree with this position. None of the documentation we have reviewed or individuals we have spoken to indicated that uses for which these items were purchased will change dramatically or cease altogether in the near term, thus these items will continue to be useful for some time to come. We are not suggesting that items costing less than \$5,000 be capitalized for financial reporting purposes, however, we continue to believe that the Forest Service should track these items to help ensure accountability over them to mitigate the risk of misappropriation.

The Forest Service response also characterized the \$2.7 million of alleged improper, wasteful, and questionable purchases that we identified as relatively small compared to the \$320 million in purchases during fiscal year 2001. While we acknowledge this in the report, we also note that these improper transactions demonstrate vulnerabilities from weak controls that could be exploited to a greater extent. Further, in performing our review, we identified approximately 68,000 transactions that appeared to be at a higher risk of being improper or wasteful. However, we selected only 5,000 of these transactions for detailed review, therefore the actual amount of improper payments at the Forest Service is likely higher than what we identified.

The Forest Service response further stated that it appears that “GAO’s goal is a risk free micro-purchase program that would include approval and/or review of each and every micro-purchase transaction.” While no purchase card program can be risk free, the goal of our recommendations is to reduce the level of risk in the Forest Service program to an acceptable level. Currently, we believe that the risk of waste, fraud, and abuse in the program is unacceptably high. A micro-purchase program should and can be designed with certain basic internal controls that need not be costly or onerous to implement to help ensure that improper transactions are detected or prevented in the normal course of business and therefore that taxpayer funds are effectively used toward the achievement of agency goals and objectives.

The Forest Service’s written comments and our evaluation of certain of those comments not addressed above are presented in appendix I.

As arranged with your offices, unless you announce the contents of this report earlier, we will not distribute it until 30 days from its date. Then we

will send copies of this report to the Ranking Minority Member of the Senate Committee on Finance, congressional committees with jurisdiction over the Forest Service and its activities, the Secretary of Agriculture, the Chief of the Forest Service, and the Director of the Office of Management and Budget. We will also make copies available to others upon request. In addition, this report will be available at no charge on GAO's Web site at <http://www.gao.gov>.

Should you or your staff have any questions on matters discussed in this report, please contact me at (202) 512-8341 or calboml@gao.gov or Alana Stanfield, Assistant Director, at (202) 512-3197 or stanfielda@gao.gov. Major contributors to this report are acknowledged in appendix II.



Linda Calbom
Director, Financial Management
and Assurance

Comments from the Forest Service

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



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File Code: 1420

Date:

JUL 07 2003

Linda Calbom
Director, Financial Management and Assurance
General Accounting Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Calbom:

The Forest Service respectfully provides the following in response to GAO Audit 03-786, "Forest Service Purchase Cards: Internal Control Weaknesses Resulted in Instances of Improper, Wasteful, and Questionable Purchases."

In the mid to late 1990's USDA implemented a new purchase card program as a result of a business process case. We placed the purchase cards in the hands of the end users under the guiding principles of FAR 1.603-3 which states, "Agency heads are encouraged to delegate micro-purchase authority to individuals . . . who will be using the supplies or services being purchased." In the case of the Forest Service, this resulted in about 24 percent of our permanent and temporary employees. (Our records indicate we had approximately 11,000 cardholders in FY 2001, rather than the 14,000 GAO reported.) The pattern of purchase card distribution is generally consistent with our decentralized organizational structure - there are more cards at field locations where the majority of Forest Service program work is accomplished. Departmental and Agency regulations were promulgated to control use of the purchase card.

We acknowledge that our purchase card program had some elements of internal control weaknesses as identified in the GAO report prior to and during the period of the GAO audit. However, with the issuance of the Forest Service purchase card program policy in June of 2001, the Agency began a series of steps designed to strengthen the overall management of the program, thereby improving oversight and reducing vulnerability. These actions and policies have occurred without regard to the GAO audit findings since the audit was for transactions occurring two years ago. These improvements demonstrate our commitment in continuing to improve management of the purchase card program, notwithstanding GAO's audit that began more than a year ago.

Specific actions to strengthen the program include:

1. Forest Service policy (FSH 6309.32, Part 4G13) requires definitive levels of auditing of purchase card transactions that include reviewing the physical documentation for the purchases (approvals, receipts, invoices, etc.)
2. Internal Process Plans at the Washington and Regional levels explicitly require review of local audits of purchase card transactions.
3. Beginning with FY 02, Regions were required to certify to the Director of Acquisition Management that audits had been performed in accordance with the Forest Service policy.



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See comment 1.

See comment 2.

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2

4. A workshop that focused on management and oversight was provided to Regional Coordinators in May of 2002. In turn, Regions have provided in-kind training for Local Coordinators.
5. Specific data mining queries were developed and furnished to Regional and Local Coordinators during FY 02. These queries provide a means to search for potential questionable purchases.
6. Effective January of 2002, cardholders are no longer permitted to acquire accountable property with purchase cards.

In Fiscal Year (FY) 03, USDA issued the Internal Control Blue Print covering the USDA Purchase Card Program. The purpose of the Blue Print was to “increase effectiveness of purchase card program participants in adhering to policies and oversight, and decrease risks and improve internal controls.” The Forest Service’s plan in response to the Blueprint includes:

1. Significantly decreasing the use of convenience checks and those authorized to write them. The Forest Service plans to reduce convenience check use by over 40 percent in FY 03 and reduce the number of check writers by two-thirds. Further reductions are planned for FY 04 and beyond with the goal of eventual total elimination. It should be noted that this action is being taken mainly to improve compliance with the Debt Collection Improvement Act and IRS income reporting, not because of actual or potential improper transactions.
2. Reducing the number of cardholders by at least 10 percent.
3. Developing additional data mining queries for further oversight in the areas of:
 - Purchase card limits – comparing limits to expenditures to be able to make adjustments to single and monthly limits
 - Purchases with no descriptions – a report showing transactions in PCMS that have no descriptions
 - Utilizing PCMS Alerts and Statistical samples – a report that displays all alerts and statistical samples that have not been acted on within 15 days
 - Dormant and low usage cards - a report displaying accounts that have no or low usage to be considered for cancellation
4. Taking steps to assure that the ratio of cardholders to LAPCs is appropriate to enable full oversight and monitoring of cardholders.
5. Issuing direction that requires supervisors to review cardholder purchases including backup documentation.

Several specific areas of GAO’s report are worth commenting on to put them into context of the overall program:

The Forest Service will take action on the legitimate instances of card abuse, but as the GAO acknowledges, the \$2.7 million in alleged improper, wasteful, and questionable purchases is relatively small compared to the over \$320 million in purchases. In fact, this represents less than 1 percent of the total FY 2001 transactions. In addition, nearly half of the \$2.7 million is based on a statistical sample as opposed to actual cases.

Appendix I
Comments from the Forest Service

General Accounting Office

3

See comment 3.

Some of the so-called "split purchases" were in fact purchases made by warranted contracting officers acting within the limits of their warrant. At the time of the audit, Departmental regulation allowed a single purchase limit of \$2 million or the cardholder's warrant level, whichever was less. In our opinion the fact that several Forest Service warranted cardholders single purchase limits were not at their warrant levels are merely technicalities and not split purchases. Other purchases were made from GSA Advantage, which the Forest Service considers requisitions and therefore no micro-purchasing authority is required. We do not consider any of these to be "split purchases" to avoid authority limits.

See comment 4.

A portion of the transactions charged to accounts of former employees were in fact purchases made when the cardholder was still employed but not billed by the vendor until after the employee left the agency.

See comment 5.

The majority of instances where cardholders wrote checks to themselves were based on legitimate expenses incurred by the cardholder and approved by management. At the time the cardholder was the only local employee with check writing capabilities. Although the problem has been corrected, these transactions were conducted with appropriate controls in place.

See comment 6.

As stated in a footnote on page 26 of the draft report, the Forest Service received documentation for 200 of the 327 transactions GAO considers questionable. These were furnished to USDA's Office of Procurement and Policy Management after GAO declined to accept them.

In the area of property accountability, we offer the following comments:

1. Since January of 2002, Forest Service cardholders are no longer permitted to acquire accountable property with purchase cards.
2. Based on the most recent financial audit, we will soon issue policy that prohibits Regions from determining what property is considered to be sensitive property. That determination and policy will be made at the national level and will apply nationwide.
3. We will issue direction that reemphasizes the requirement to label all property as belonging to the Forest Service.
4. Through a combination of resources including property management officers, line officers, and first line supervisors, additional property controls are in place such as hand receipting of property by the end user. Direction will be issued to reinforce that policy.
5. Because approximately 20 percent of our assets account for 80 percent of the total value of those assets, USDA has determined that the \$5,000 accountability threshold is the level of acceptable risk in tracking property in the property system. These low dollar items include technology-driven items such as PDAs, and digital cameras – items that rapidly lose their value and therefore their usefulness. Hence it continues to be our determination that the cost of tracking and maintaining property records for these types of items exceeds the value of the items themselves.

We acknowledge GAO's position regarding segregation of duties and supervisory review. In

Appendix I
Comments from the Forest Service

General Accounting Office

4

that regard and as stated in the GAO report, USDA recently issued revised purchase card regulation requiring review of cardholder transactions by supervisors. It appears to us however, that GAO's goal is a risk free micro-purchase program that would include approval and/or review of each and every micro-purchase transaction – roughly 800,000 transactions in a given fiscal year in the Forest Service. We believe this level of risk avoidance is antithetical to a purchase card program intended to support end users.

Thank you for the opportunity to provide comments.

Sincerely,



DALE N. BOSWORTH
Chief

The following are GAO's comments on the Forest Service's letter dated July 7, 2003.

GAO Comments

1. We received summary documentation for the number of cardholders from USDA's Office of Procurement and Property Management and the Forest Service that supported approximately 14,000 and 11,000 cardholders respectively. Since USDA's Office of Procurement and Property Management is responsible for the oversight of the purchase card program for all of USDA's agencies, we used the number of cardholders that they provided for fiscal year 2001 in our report.
2. Discussed in the "Agency Comments and Our Evaluation" section of the report.
3. Of the 29 split purchases identified in the draft report provided to Forest Service for comment, 4 were made by cardholders who were also warranted employees, employees who can enter into, administer, or terminate contracts to the extent of the authority delegated to them. The contracting authority limit for a warranted Forest Service employee is separate and distinct from the single transaction limit for purchase card transactions. The Forest Service response stated that USDA regulations allowed a single purchase limit of \$2 million or the cardholder's warrant level. According to USDA purchase card regulations, warranted cardholders may conduct transactions up to the lesser of their purchase card single transaction limit or warrant authority. For all 4 purchases mentioned above, the total invoice amounts exceeded the single transaction limits of the cardholders. Therefore, the cardholders violated USDA regulations by splitting the invoice amount into separate purchase card transactions to circumvent their single transaction limits. Further, the Forest Service requires that cardholders submit requisition forms for all purchases exceeding \$2,500, to ensure that they are properly reviewed and approved. However, requisition forms were not submitted by the cardholders for these 4 purchases, violating policies and procedures. In addition, none of the 29 split purchases identified in our report reflected transactions with GSA Advantage.
4. As stated in our report, the Forest Service was unable to provide us with documentation to support the appropriateness of \$39,240 of the \$43,625 in transactions that appeared to have occurred after the cardholders left the Forest Service. The Forest Service confirmed the

remaining \$4,385 as having been charged after the cardholder left the agency.

5. As part of our review, we tested compliance with existing Forest Service policies and procedures that were meant to prevent or detect improper payments, including the policy that cardholders are prohibited from writing checks to themselves. We identified 23 transactions that were in clear violation of this policy, indicating that this control was not functioning effectively. Although the purchases related to these particular transactions were not determined to be improper, this control weakness leaves the Forest Service vulnerable to improper purchases. The Forest Service's internal control plan supports eliminating the use of convenience checks for non-emergency purchases, as well as other measures that should reduce the risk of improper use of convenience checks. However, as these steps have not yet been fully implemented, we are unable to assess their effectiveness.
6. The original requests for supporting documentation were made between June 20 and July 26, 2002. We asked the Forest Service to provide documentation on the last request by August 16, 2002. Subsequently, we extended the deadline until November 30, 2002, more than four months after our last request for information. In a status meeting held December 4, 2002, we informed OPPM and Forest Service officials that we had not received any supporting documentation for 327 transactions included in our requests and that these transactions would be categorized as questionable transactions in our report. We explained that continuing to accept this documentation would require us to significantly delay issuance of our report due to the time required to adequately review and assess any new documentation. OPPM and Forest Service officials both concurred with our position. Subsequently, the Forest Service offered to provide us with supporting documentation for 200 of the 327 transactions and we declined per the agreement reached during the December meeting.

GAO Contacts and Staff Acknowledgments

GAO Contacts

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Acknowledgments

In addition to those named above, the following individuals made important contributions to this report: William Brown, Sharon Byrd, Cary Chappell, Lisa Crye, Francis Dymond, Jeffrey Jacobson, Jason Strange, and Ed Tanaka.

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