



GOVERNMENTWIDE PURCHASE CARDS

Actions Needed to Strengthen Internal Controls to Reduce Fraudulent, Improper, and Abusive Purchases

Highlights of [GAO-08-333](#), a report to the Permanent Subcommittee on Investigations, Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

Over the past several years, GAO has issued numerous reports and testimonies on internal control breakdowns in certain individual agencies' purchase card programs. In light of these findings, GAO was asked to analyze purchase card transactions governmentwide to (1) determine whether internal control weaknesses existed in the government purchase card program and (2) if so, identify examples of fraudulent, improper, and abusive activity.

GAO used statistical sampling to systematically test internal controls and data mining procedures to identify fraudulent, improper, and abusive activity. GAO's work was not designed to determine the overall extent of fraudulent, improper, or abusive transactions.

What GAO Recommends

To reduce fraud, waste, and abuse governmentwide, GAO made 13 recommendations to the Office of Management and Budget (OMB) and the General Services Administration (GSA) to instruct agencies to strengthen purchase card controls in the areas of convenience checks and property, and impose financial liability for unauthorized purchases, among other things. OMB agreed and GSA partially agreed. Although it manages the purchase card program, GSA did not agree that it had the authority to help agencies improve controls over independent receipt and acceptance or asset accountability—two areas where the use of purchase cards poses unique internal control challenges.

To view the full product, including the scope and methodology, click on [GAO-08-333](#). For more information, contact Gregory Kutz at (202) 512-6722 or kutzg@gao.gov.

What GAO Found

Internal control weaknesses in agency purchase card programs exposed the federal government to fraud, waste, abuse, and loss of assets. When testing internal controls, GAO asked agencies to provide documentation on selected transactions to prove that the purchase of goods or services had been properly authorized and that when the good or service was delivered, an individual other than the cardholder received and signed for it. Using a statistical sample of purchase card transactions from July 1, 2005, through June 30, 2006, GAO estimated that nearly 41 percent of the transactions failed to meet either of these basic internal control standards. Using a second sample of transactions over \$2,500, GAO found a similar failure rate—agencies could not demonstrate that 48 percent of these large purchases met the standard of proper authorization, independent receipt and acceptance, or both.

Breakdowns in internal controls, including authorization and independent receipt and acceptance, resulted in numerous examples of fraudulent, improper, and abusive purchase card use. These examples included instances where cardholders used purchase cards to subscribe to Internet dating services, buy video iPods for personal use, and pay for lavish dinners that included top-shelf liquor. The table below shows some of the case studies GAO identified, including one case where a cardholder used the purchase card program to embezzle over \$642,000 over a period of 6 years from the Department of Agriculture's Forest Service firefighting fund. This cardholder was sentenced to 21 months in prison and ordered to pay full restitution.

Fraudulent, Improper, and Abusive Purchases by Cardholders

Type of purchase	Agency	Amount	Activity
Fraudulent	Department of Agriculture	\$642,000	Cardholder used convenience checks to embezzle public funds for over 6 years. The \$642,000 was used for personal expenditures, such as gambling, car and mortgage payments, and other retail purchases.
Improper	Department of Energy	112,300	Cardholder improperly used convenience checks—and consequently had to pay thousands in fees—for relocation services. Agency policy generally prohibits convenience checks above \$3,000.
Abusive	Department of Defense	77,700	Four cardholders purchased expensive suits and accessories from Brooks Brothers and other high-end clothing stores to outfit several servicemembers.

Source: GAO analysis of bank data and supporting documentation.

In addition, agencies were unable to locate 458 items of 1,058 total accountable and pilferable items totaling over \$2.7 million that GAO selected for testing. These missing items, which GAO considered to be lost or stolen, totaled over \$1.8 million and included computer servers, laptop computers, iPods, and digital cameras. For example, the Department of the Army could not adequately account for 256 items making up 16 server configurations, each of which cost nearly \$100,000.