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Testimony

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VETERANS HEALTH
ADMINISTRATION

Inadequate Controls over
the Purchase Card
Program Resulted in
Improper and Questionable
Purchases

Statement of McCoy Williams
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Highlights of [GAO-04-857T](#), a testimony before the Committee on Veterans' Affairs, House of Representatives

Why GAO Did This Study

The Department of Veterans Affairs (VA) Office of Inspector General (OIG) has continued to identify significant vulnerabilities in the department's use of government purchase cards. Over the years, the OIG has identified internal control weaknesses that resulted in instances of fraud and numerous improper and questionable uses of purchase cards. The OIG has made a number of recommendations for corrective action.

Given that VA is the second largest user of the governmentwide purchase card program, with reported purchases totaling \$1.5 billion for fiscal year 2002, and because of the program weaknesses reported by the OIG, GAO was asked to determine whether existing controls at the Veterans Health Administration (VHA) were designed to provide reasonable assurance that improper purchases would be prevented or detected in the normal course of business, purchase card and convenience check expenditures were made in compliance with applicable laws and regulations, and purchases were made for a reasonable cost and a valid government need.

GAO's report on this issue, released concurrently with this testimony, makes 36 recommendations to strengthen internal controls and compliance in VHA's purchase card program to reduce its vulnerability to improper, wasteful, and questionable purchases.

www.gao.gov/cgi-bin/getrpt?GAO-04-857T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact McCoy Williams at (202) 512-6906 or williamsm1@gao.gov.

VETERANS HEALTH ADMINISTRATION

Inadequate Controls over the Purchase Card Program Resulted in Improper and Questionable Purchases

What GAO Found

Weaknesses in VHA's controls over the use of purchase cards and convenience checks resulted in instances of improper, wasteful, and questionable purchases. These weaknesses included inadequate segregation of duties; lack of key supporting documents; lack of timeliness in recording, reconciling, and reviewing transactions; and insufficient program monitoring activities. Generally, GAO found that internal controls were not operating as intended because cardholders and approving officials were not following VA/VHA operating guidance governing the program and, in the case of documentation and vendor-offered discounts, lacked adequate guidance.

The lack of adequate internal controls resulted in numerous violations of applicable laws and regulations and VA/VHA purchase card policies that GAO identified as improper purchases. GAO found violations of applicable laws and regulations that included purchases for personal use such as food or clothing, purchases that were split into two or more transactions to circumvent single purchase limits, purchases over the \$2,500 micro-purchase threshold that were either beyond the scope of the cardholder's authority or lacked evidence of competition, and purchases made from an improper source. While the total amount of improper purchases GAO identified is relatively small compared to the more than \$1.4 billion in annual purchase card and convenience check transactions, they demonstrate vulnerabilities from weak controls that may have been exploited to a much greater extent.

The ineffectiveness of internal controls was also evident in the number of transactions classified as wasteful or questionable. GAO identified over \$300,000 in wasteful or questionable purchases, including two purchases for 3,348 movie gift certificates totaling over \$30,000 for employee awards for which award letters or justification for the awards could not be provided and a purchase for a digital camera totaling \$999 when there were other less costly digital cameras widely available. Also, 250 questionable purchases totaling \$209,496 from vendors that would more likely be selling unauthorized or personal use items lacked key purchase documentation. Examples of these types of purchases included a purchase from Radio Shack totaling \$3,305, a purchase from Daddy's Junky Music totaling \$1,041, a purchase from Gap Kids totaling \$788, and a purchase from Harbor Cruises totaling \$357. Missing documentation prevented determining the reasonableness and validity of these purchases. Because only a small portion of the transactions that appeared to have a higher risk of fraud, waste, or abuse were tested, there may be other improper, wasteful, and questionable purchases in the remaining untested transactions.

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss internal controls over the use of purchase cards at the Veterans Health Administration (VHA). At the outset, I want to make clear that GAO supports the concept of the purchase card program. The benefits of using purchase cards are lower costs and less bureaucracy for both the government and the vendor community. At the same time, given the nature, scale, and increasing use of purchase cards, it is important that agencies have adequate internal controls in place to help ensure proper use of purchase cards and thus to protect the government from waste, fraud, and abuse.

As you know, the Department of Veterans Affairs (VA) Office of Inspector General (OIG) has continued to identify significant vulnerabilities in the department's use of government purchase cards.¹ In its most recent report, the OIG identified internal control weaknesses that resulted in instances of fraud and numerous improper and questionable uses of purchase cards. The OIG made a number of recommendations for corrective action.

Given that VA is the second largest user of the governmentwide purchase card program, with reported purchases totaling \$1.5 billion for fiscal year 2002, and because of the program weaknesses reported by the OIG, you asked that we review VHA's purchase card program for fiscal year 2002 to determine if control problems still existed. Our report on this issue is being released today at this hearing.

You also asked that we review internal control activities (1) over third-party billings and collections at selected VHA medical centers to assess whether those controls were designed and implemented effectively and (2) in three areas of operation at selected VHA medical centers—accountability over personal property, drugs returned for credit, and part-time physician time and attendance. These two reports will be issued later this month.

In my testimony today, I will discuss the inadequacy of internal controls over VHA's purchase card program. The scope of our work, which was performed from April 2003 through April 2004 in accordance with generally

¹U.S. Department of Veterans Affairs, Office of Inspector General, *Evaluation of the Department of Veterans Affairs Government Purchase Card Program*, Report Number 02-01481-135 (Washington, D.C.: Apr. 26, 2004).

accepted government auditing standards, is detailed in the report being released today.

Heads of agencies are required to establish systems of internal control consistent with our *Standards for Internal Control in the Federal Government*.² Effective internal controls are the first line of defense in safeguarding assets and in 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 the stewardship of government resources.

As I will discuss in my testimony, we found that (1) existing controls at VHA were not designed to provide reasonable assurance that improper purchases would be prevented or detected in the normal course of business, (2) lack of compliance with applicable laws and regulations in VHA's purchase card and convenience check programs led to improper purchases, and (3) poor controls resulted in some wasteful and questionable purchases. We focused on the approximately \$1.4 billion of disbursements that VHA made during fiscal year 2002, the most recent fiscal year for which complete data were available when we began our review.

I will first address the inadequacy of VHA's internal controls.

Critical Internal Controls Were Ineffective

Our review found that VHA's internal controls were not designed to provide reasonable assurance that improper purchase card and convenience check purchases would not occur or would be detected in the normal course of business. We found that (1) VHA lacked adequate segregation of duties between those purchasing and receiving goods; (2) payments for purchase card and convenience check transactions often did not have key supporting documents; (3) timeliness standards for recording, reconciling, and reviewing transactions were not met; and (4) cardholders did not consistently take advantage of vendor-offered purchase discounts. Generally, we found that internal controls were not operating as intended because cardholders and approving officials were not following operating guidance governing the program, and in the case of documentation and vendor-offered discounts, they lacked guidance. We also noted that

²U.S. General Accounting Office, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

monitoring activities could be strengthened, for example, as in instances where (1) accounts remained active long after the cardholder had left service at VA, (2) credit limits on accounts were significantly higher than actual usage, and (3) human capital resources were insufficient to enable adequate monitoring of the purchase card program.

Our *Standards for Internal Control in the Federal Government* requires that (1) key duties and responsibilities be divided or segregated among different people to reduce the risk of error or fraud; (2) all transactions and other significant events be clearly documented and readily available for examination, and other significant events be authorized and executed only by persons acting within the scope of their authority; (3) transactions be promptly recorded to maintain their relevance and value to management in controlling operations and decisions; and (4) internal control monitoring be performed to assess the quality of performance over time and ensure that audit findings are promptly resolved. Similarly, internal control activities help ensure that management's directives are carried out. They should be effective and efficient in accomplishing the agency's objectives and should occur at all levels and functions of the entity.

We found that VHA lacked adequate segregation of duties regarding independent receiving of goods and separation of responsibilities within the purchasing process. Independent receiving, which means someone other than the cardholder receives the goods or services, provides additional assurance that items are not acquired for personal use and that they come into the possession of the government. This reduces the risk of error or fraud. From our purchase card internal control testing, we estimate that \$75 million³ in transactions did not have evidence that independent receiving of goods had occurred. In addition, our data mining of the purchase card and convenience check activity identified 15 agency or organization program coordinators (A/OPC) who were also cardholders and collectively made 9,411 purchases totaling \$5.5 million during fiscal year 2002. Because A/OPCs are responsible for monitoring cardholders' and approving officials' activities for indications of fraud, waste, and abuse, these A/OPCs were essentially monitoring their own activities.

We also found instances where purchase card and convenience check transactions lacked key supporting documentation. This would include

³We are 95 percent confident that the total dollar value of purchase card transactions that lacked independent receiving was between \$37.4 million and \$112.6 million.

internal written authorization for convenience check disbursements and vendor invoices that support the description, quantity, and price of what was purchased. VHA's purchase card guidance does not address the types of documentation that cardholders should maintain to support their purchases. It only addresses documentation requirements in its audit guide, which is an appendix to the purchase card guidance that provides instructions to internal reviewers for performing their monitoring functions. Furthermore, we noted that VA's operating guidance for convenience checks has no requirement that vendor documentation be provided before checks are issued. The guidance only provides that sufficient documentation, such as a VA-created purchase order, must be evident before checks are issued.

The invoice is a key document in purchase card internal control activities. Without an invoice, independent evidence of the description and quantity of what was purchased and the price charged is not available. In addition, the invoice is the basic document that should be forwarded to the approving official or supervisor so that he or she can perform an adequate review of the cardholder's purchases. Of the 283 purchase card sample transactions we tested, 74 transactions totaling \$2.1 million lacked an invoice, credit card slip, or other adequate vendor documentation to support the purchase. Based on these results, we estimate that \$312.8 million⁴ of the fiscal year 2002 purchase card transactions lacked key supporting documentation. For the convenience check sample, we found 35 of 255 transactions totaling \$43,669 lacked the same key documentation. Based on these results, we estimate that \$3.8 million⁵ of the fiscal year 2002 convenience check transactions lacked key supporting documentation.

We also noted that VA's operating guidance over convenience checks does not provide detailed procedures regarding appropriate written documentation or authorization that must be forwarded to the authorizing employee before funds are disbursed to a third party. VA's operating guidance only provides that the required documentation be the same as that for paying with cash, such as a purchase order. The guidance makes no mention of independent vendor documentation and that this type of

⁴We are 95 percent confident that the total dollar value of purchase card transactions that lacked key supporting documentation was between \$243.2 million and \$382.4 million.

⁵We are 95 percent confident that the total dollar value of convenience check transactions that lacked key supporting documentation was between \$2.4 million and \$5.3 million.

documentation be required prior to issuing checks to vendors. In addition, VA's guidance only requires that the authorizing employees issuing convenience checks retain copies for 1 year. This documentation requirement is inconsistent with the *Federal Acquisition Regulation* (FAR) and VHA's *Records, Control Schedule 10-1*, dated February 14, 2002, which requires that such records be retained for 6 years and 3 months after final payment for procurements exceeding the simplified acquisition threshold and for 3 years after final payment for procurements below the simplified acquisition threshold.⁶

We found that of 255 convenience check transactions, 17, totaling \$8,890, lacked written authorization needed for issuance. Based on these results, we estimate that \$1.7 million⁷ of the fiscal year 2002 convenience check transactions lacked written authorization. In addition, we noted that 19 of the 255 convenience check transactions lacked a copy of the check or carbon copy. Based on these results, we estimate that \$2.3 million⁸ of the fiscal year 2002 convenience check transactions lacked this supporting documentation. Although VA only requires copies of convenience checks to be retained for 1 year, retaining the copies and the supporting documentation for the longer retention period mandated by the FAR and incorporated in VHA's *Records, Control Schedule 10-1*, would facilitate subsequent internal and external reviews in assessing whether a transaction was proper and in compliance with acquisition policies and procedures.

At the time of our work, VHA had also established several timeliness standards for cardholders and approving officials to ensure prompt recording, reconciliation, and review of purchases. Specifically, within 1 workday of making a purchase, cardholders are required to input or record the purchase information in VA's purchase card order system. Within 10 calendar days of electronically receiving the transaction charge information from Citibank,⁹ the cardholder must reconcile 75 percent of

⁶48 C.F.R. § 4.805. See also General Records Schedule 3, Transmittal No. 8 (December 1998).

⁷We are 95 percent confident that the total dollar value of convenience check transactions that lacked written authorization was between \$.8 million and \$2.7 million.

⁸We are 95 percent confident that the total dollar value of convenience check transactions that lacked a copy of the check or carbon copy was between \$1.2 million and \$3.4 million.

⁹Citibank issues purchase cards to VA operating administrations, including VHA.

these Citibank charges to the purchase information in the system. Within 17 calendar days, 95 percent of the Citibank charges must be reconciled. As evidence of reconciliation, the purchase card order system assigns the date the cardholder reconciled the purchase in the system. For testing the timeliness of cardholder reconciliations, we used the 17 calendar day criteria. In addition, VHA requires that within 14 calendar days of electronically receiving the cardholder's reconciled purchases, the approving official, through an electronic signature, certify in the purchase card order system that all procurements are legal and proper and have been received.¹⁰

Our review found untimely recording, reconciliation, and approving official review. Table 1 summarizes the statistical results of VHA's timeliness standards that cardholders and approving officials must meet to ensure prompt recording, reconciliation, and review of purchases. Our work shows that the internal controls were not operating as intended to ensure prompt recording of transactions and events.

¹⁰VA revised its timeliness standards in the agencywide government purchase card procedures issued April 4, 2003. Specifically, cardholders are now required to reconcile all of their purchases within 5 working days instead of 10 calendar days. VA has removed the incremental reconciliation goals of 75 percent of the purchases within 10 calendar days and 95 percent within 17 calendar days. Also, VA converted the 14 calendar days formerly allotted to approving officials for review and certification to 10 working days.

Table 1: Summarization of VHA Timeliness Standards Exceptions

VHA timeliness tests of purchase card order system	Number of sample transactions in error	Estimated total number of transactions in error	Confidence interval at a 95 percent confidence level	Estimated dollar value of amount in error (in millions)	Confidence interval at a 95 percent confidence level (in millions)
Purchase card orders were entered within 1 day	36	289,352	164,100 – 458,414	\$152.5	\$99.9 – \$205.1
Cardholder reconciliation within 17 days	53	351,256	216,683 – 522,909	\$252.7	\$184.4 – \$321.0
Approving official certification within 14 days	44	308,448	181,930 – 475,207	\$212.4	\$149.2 – \$275.7

Source: GAO.

Note: GAO's estimate of the audit results for 283 sampled transactions selected to test VHA timeliness standards for fiscal year 2002. The population total of transactions from which this stratified random sample was selected was 1,884,695.

The following examples illustrate the extent of untimely recording, reconciliation, and review of the purchase card transactions. For instance, one cardholder made a purchase on July 9, 2002, of \$994, but did not record the information in VA's purchase card order system until August 29, 2002—51 days later and 50 days after VHA policy required that the information be entered. Another cardholder made a purchase of \$100 on August 24, 2002. Citibank sent charge information for this purchase to VHA on October 8, 2002. According to VHA policy, the cardholder should have reconciled this charge within 17 days. Instead, we found that the account was not reconciled until September 8, 2003, or 335 days after receiving the charge information. In another instance, a cardholder reconciled a purchase card transaction totaling more than \$3,000, which should have been reviewed and certified by an approving official within 14 calendar days. We found no evidence that the approving official reviewed this cardholder's reconciliation until 227 days later. It is critical that cardholders and approving officials promptly record, reconcile, and review purchase card transactions so that erroneous charges can be quickly disputed with the vendor and any fraudulent, improper, or wasteful purchases can be quickly detected and acted upon.

We also found instances where cardholders did not consistently take advantage of vendor-offered purchase discounts. Our review identified 69 invoices containing vendor-offered discounts totaling \$15,785 that were not taken at the time of purchase or subsequently credited for the discount

amount. When purchases are made, vendors may offer purchase discounts if buyers make early payments of their invoices. Typically, the vendor specifies a period during which the discount is offered, but expects the full invoice amount for payments made after that period. When cardholders use the purchase card, payment to vendors, via Citibank, generally occurs at the time of purchase. In turn, Citibank bills VA for the purchases through a daily electronic file. Therefore, it is critical that cardholders ask about any vendor-offered discounts at the time of purchase and make efforts to obtain a credit upon receipt and review of the invoice. Our detailed testing indicated that VHA did not always take advantage of vendor-offered discounts and that it lacked purchase card guidance to ensure cardholders ask about vendor payment terms to determine whether discounts were being offered.

For example, one vendor offered VHA a discount of 2.9 percent, or \$896, for an invoice amount of \$30,888 if it was paid within 15 days. Citibank, on behalf of VA, made payment to the vendor within the 15-day time frame, yet the vendor charged the cardholder's account for the full invoice amount. We found no evidence that the cardholder attempted to obtain a credit for the available discount offered. In another example, we found that a cardholder had taken advantage of the vendor-offered discount.

A factor that may contribute to cardholder inconsistencies in taking advantage of vendor discounts is the lack of established policies and procedures that address this issue. We found that VHA's purchase card guidance did not include procedures to ensure that cardholders take advantage of available vendor discounts before making payments or require that approving officials identify instances when cardholders did not take advantage of vendor discounts in order to determine the frequency of these occurrences. Without such guidance, VHA will not be able to determine the frequency of these occurrences and actual dollars lost by the government.

While VHA's purchase card guidance includes prescribed monitoring procedures to help ensure purchases are legal and proper, we found no monitoring procedures to identify active accounts of cardholders who had separated from VA nor any provisions to assess cardholder credit limits. We also noted insufficient human capital resources at the A/OPC level for executing the prescribed monitoring activities. For instance, we identified 18 instances in which purchase card accounts remained active after the cardholders left VA and all related outstanding purchase orders had been reconciled. Of the 18 purchase card accounts that remained active after

the cardholders had left VA, we determined that 14 accounts remained active 6 or more days after the cardholders' outstanding purchase orders had been reconciled, which we deemed too long. The remaining 4 purchase cards had been promptly canceled after all outstanding purchase orders were reconciled.

Of the 14 accounts that were untimely cancelled, 11 accounts remained open between 6 and 150 days and 3 accounts remained open between 151 and 339 days. For example, one cardholder separated from VA on April 3, 2002, with five outstanding purchase card orders made prior to separation. The last purchase transaction was reconciled on May 21, 2002, but the account was not canceled until April 25, 2003, or 339 days after reconciliation. Requiring monitoring procedures to identify active accounts of departed cardholders and to ensure prompt closure once outstanding purchase orders have been reconciled would assist in reducing the risk of fraud, waste, and abuse that could occur when accounts remain open beyond the necessary time frame.

In addition to accounts left open, our analysis of purchases VHA cardholders made in 2002 showed that cumulatively they bought \$112 million of goods and services per month on average, but they had credit limits of \$1.2 billion, or about 11 times their actual spending. According to VHA's purchase card guidance, the approving official, in conjunction with the A/OPC, billing officer, and head of contracting activity, recommends cardholder single purchase and monthly credit limits. However, we found no guidance on what factors to consider when recommending the dollar amounts to be assigned to each cardholder. Further, we found no monitoring procedures that require the A/OPC or approving official to determine periodically whether cardholder limits should be changed based on existing and expected future use.

Periodic monitoring and analysis of cardholders' actual monthly and average charges, in conjunction with existing credit limits would help VHA management make reasonable determinations of cardholder spending limits. Without adequate monitoring, the financial exposure in VHA's purchase card program can become excessive when its management does not exercise judgment in determining single purchase and monthly credit limits. During our review, for instance, the difference between the monthly cumulative credit limits of \$1.2 billion and actual spending of \$112 million represents a \$1.1 billion financial exposure. Limiting credit available to cardholders is a key factor in managing the VHA purchase card

program, minimizing the government's financial exposure, and enhancing operational efficiency.

Furthermore, VHA has not provided sufficient human capital resources to enable monitoring of the purchase card program. One key position for monitoring purchases and overseeing the program is the A/OPC. While the A/OPC position is a specifically designated responsibility, we found in many instances that the A/OPC also functioned in another capacity or performed other assigned duties, for example, as a systems analyst, budget analyst, and contract specialist. Of the 90 A/OPCs who responded to a GAO question regarding other duties assigned, 55 A/OPCs, or 61 percent, reported that they spend 50 percent or less of their time performing A/OPC duties. For example, at the extreme low end of the scale, one A/OPC responded that he was also the budget analyst and that he spends 100 percent of his time on budget analyst duties, leaving no time for A/OPC duties on an ongoing basis. Given that VHA makes millions of purchase card and convenience check transactions annually, which in fiscal year 2002 exceeded \$1.4 billion, it is essential that VHA management devote adequate attention to monitoring its purchase card program to ensure that it is properly managed to reduce the risk of fraud, waste, and abuse.

Noncompliance with Purchasing Requirements Resulted in Instances of Improper Purchases

The lack of adequate internal controls resulted in numerous violations of applicable laws and regulations and VA/VHA purchase card policies. We classified purchases made in violation of applicable laws and regulations or VA/VHA purchase card policies as improper purchases. We found violations that included purchases for personal use such as food or clothing, purchases that were split into two or more transactions to circumvent single purchase limits, purchases over the \$2,500 micro-purchase threshold that were either beyond the scope of the cardholder's authority or lacked evidence of competition, and purchases made from an improper source. We also found violations of VA/VHA policy that included using convenience checks to pay for purchases even though the vendor accepted the government purchase card, convenience check payments that exceeded established limits, and purchases for which procurement procedures were not followed. While the total amount of improper purchases we identified, based on limited scale audit work, is relatively small compared to the more than \$1.4 billion in annual purchase card and convenience check transactions, we believe our results demonstrate vulnerabilities from weak controls that could have been exploited to a much greater extent.

For instance, from the nonstatistical sample, we identified 17 purchases, totaling \$14,054, for clothing, food, and other items that cardholders purchased for personal use. Items that are classified as personal expenses may not be purchased with appropriated funds without specific statutory authority. The FAR emphasizes that the governmentwide commercial purchase card may be used only for purchases that are otherwise authorized by law or regulation.¹¹

We identified eight purchases totaling \$7,510, in the nonstatistical sample that were subject to procurement from a mandatory source of supply but were obtained from other sources. Various federal laws and regulations, such as the Javits-Wagner-O'Day Act (JWOD), require government cardholders to acquire certain products from designated sources. The JWOD program generates jobs and training for Americans who are blind or have severe disabilities by requiring that federal agencies purchase supplies and services furnished by nonprofit agencies, such as the National Industries for the Blind and the National Institute for the Severely Handicapped.

We noted that cardholders did not consistently purchase items from JWOD suppliers when they should have. For example, a cardholder purchased day planner starter kits and refills for employees, totaling \$1,591, from Franklin Covey, a high-end office supply store. These items provide essentially the same features as the JWOD items, which would have cost \$1,126, or \$465 less. During our data mining, we noted that VHA made 652 purchases totaling \$76,350 from Franklin Covey during 2002. While we did not review all of the individual purchases, based on our detailed testing of similar transactions, it is likely that many of them should have been procured from a mandatory source at a much lower cost.

Using data mining techniques, we identified purchases that appeared to have been split into two or more transactions by cardholders to circumvent their single purchase limit. We requested documentation for a statistically determined sample of 280 potential split transactions totaling \$4 million. Of these 280 transactions, we determined that 49 were actual splits. Based

¹¹48 C.F.R. § 13.301 (a).

on these results, we estimate that \$17.1 million¹² of the total fiscal year 2002 purchase card transactions were split transactions.

For example, a cardholder with a single purchase limit of \$2,500 purchased accommodations in 110 hotel rooms totaling \$4,950. When performing follow-up, the cardholder stated that VA provides lodging accommodations for veterans receiving medical services such as radiation therapy, chemotherapy, and day surgery who live at least 150 miles from the medical facility. The cardholder created two separate purchase orders and had the vendor create two separate charges, one for \$2,500 and the other for \$2,450, so that the purchase could be made. On the documentation provided, the cardholder stated the “purchase was split per the direction of the previous purchase card program administrator.” The cardholder also stated that currently, her purchase card at that facility is no longer used to pay hotel lodging for veterans. Hotel payments are now disbursed electronically via VA’s Financial Service Center. 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 allowing these limits to be circumvented, VA had less control over the obligation and expenditure of its resources.

The FAR provides that the purchase card may be used by contracting officers or individuals who have been delegated micro-purchase authority in accordance with agency procedures.¹³ Only warranted contracting officers, who must promote competition to the maximum extent practical, may make purchases above the micro-purchase threshold using the purchase card. Contracting officers must consider solicitation of quotations from at least three sources,¹⁴ and they must minimally document the use of competition or provide a written justification for the use of other than competitive procedures.¹⁵ When cardholders circumvent these laws and regulations, VHA has no assurance that purchases comply with certain simplified acquisition procedures and that cardholders are

¹²We are 95 percent confident that the total dollar value for actual split purchase card transactions was between \$12.4 million and \$21.9 million.

¹³48 C.F.R. § 13.301 (a).

¹⁴48 C.F.R. § 13.104.

¹⁵48 C.F.R. § 13.106-3(b).

making contractual commitments on behalf of VHA within the limits of their delegated purchasing authority.

From the statistical sample of purchases over \$2,500, we found that for 19 of the 76 transactions, cardholders lacked warrant authority needed to make these types of purchases. Based on these results, we estimate that cardholders with only micro-purchase authority, made \$111.9 million¹⁶ of the total fiscal year 2002 purchases that exceeded \$2,500. In addition, we found that 12 of the 76 transactions lacked evidence of competition. Based on these results, we estimate that \$60 million¹⁷ of the total fiscal year 2002 purchases totaling more than \$2,500 lacked evidence of competition.

We identified 23 purchase card transactions totaling \$112,924 in the nonstatistical sample related to the rental of conference room facilities used for internal VA meetings, conferences, and training. For these purchases, the cardholders could not provide documentation to show that efforts had been made to secure free conference space. VA's acquisition regulations state that rental conference space may be paid for only in the event that free space is not available, and require that complete documentation of efforts to secure free conference space be maintained in the purchase order file.¹⁸ For one purchase, VHA paid \$31,610 for conference room facilities and related services for 3 days at the Flamingo Hilton Hotel in Las Vegas. The cardholder provided no evidence that attempts to secure free facilities had been made. In addition, of the 23 purchase card transactions cited, 12 purchases totaling \$103,662 occurred at one VHA facility. This included one transaction totaling \$12,000 for a 3-day training course on Prevention and Management of Disruptive Behavior at the MGM Grand Hotel in Las Vegas. Again, we were not provided evidence that efforts had been made to secure free conference space.

We identified improper use of convenience checks related to purchases that exceeded VA's established limits of \$2,500 and \$10,000 and payments to vendors who accept the purchase card payments. VA's convenience check

¹⁶We are 95 percent confident that the total dollar value for purchases over \$2,500 made by nonwarranted cardholders was between \$52.8 million and \$170.9 million.

¹⁷We are 95 percent confident that the total dollar value for purchases over \$2,500 that lacked evidence of competition was between \$26.3 million and \$93.7 million.

¹⁸We are 95 percent confident that the total dollar value for actual split convenience check transactions was between \$13.6 million and \$14.0 million.

guidance requires that a single draft transaction be limited to \$2,500 or in some cases \$10,000 unless a waiver has been obtained from the Department of the Treasury, restricting convenience check use to instances when vendors do not accept purchase cards. From the statistical testing of convenience check limits, we found that 91 of 105 convenience check purchases were paid using multiple checks because the total purchase amount exceeded the established convenience check limit. Based on these results, we estimate that \$13.8 million¹⁹ of the total fiscal year 2002 convenience check transactions were improperly used to pay for purchases exceeding the established limits. In April 2003, VA issued new purchase card guidance providing that for micro-purchases, convenience checks may be used in lieu of purchase cards only when it is advantageous to the government and it has been documented as the most cost-effective and practical procurement and disbursement method. However, we found no established criteria for determining the most cost-effective and practical procurement and disbursement method.

Poor Controls Resulted in Some Wasteful and Questionable Purchases

The ineffectiveness of internal controls was also evident in the number of transactions that we classified as (1) wasteful, that is, excessive in cost compared to other available alternatives or for questionable government need, or (2) questionable because there was insufficient documentation to determine what was purchased. Of the 982 nonstatistical sample transactions we reviewed, 250 transactions, totaling \$209,496, lacked key purchase documentation. As a result, 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. Because we tested only a small portion of the transactions 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.

We identified 20 purchases totaling \$56,655 that we determined to be wasteful because they were excessive in cost relative to available alternatives or were of questionable government need. The limited number of wasteful purchases found in the nonstatistical sample demonstrates that cardholders are generally prudent in determining that prices of goods and services are reasonable before they make credit card purchases. We

¹⁹The Department of Veterans Affairs Acquisition Regulation, Part 870, subpart 113 (VAAR 870.113).

considered items wasteful if they were excessive in cost when compared to available alternatives, and questionable if they appeared to be 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. We identified 18 purchases, totaling \$55,156, for which we questioned the government need and 2 purchases, totaling \$1,499, that we considered excessive in cost. A majority of the purchases were related to officewide and organizational awards.

Many award purchases were for gift certificates and gift cards. Although VA policy gives managers great latitude in determining the nature and extent of awards, we identified 10 purchases, totaling \$51,117, for award gifts for which VHA was unable to provide information on either the recipients of the awards or the purposes for which the recipients were being recognized. Therefore, we categorized these purchases as of questionable government need. For example, we identified two transactions for 3,348 movie gift certificates, totaling over \$30,000. For these purchases, the cardholders and A/OPCs could provide neither the award letters nor justification for the awards. Consequently, VHA could provide no evidence that these purchases were actually used for awards.

We also identified two purchases that we considered wasteful because of excessive cost. We identified a cardholder who purchased a \$999 digital camera when there were other less costly digital cameras widely available. For example, during the same 6-month period from February 2002 through July 2002, two other cardholders purchased digital cameras for \$526 and \$550. No documentation was available to show why the more expensive model was necessary. In the second example, we identified a purchase for a 20-minute magic show, totaling \$500, that was performed during a VA volunteer luncheon. Although VA policies allow for funds for volunteer events, this expenditure, at roughly \$25 per minute, seemed excessive.

We also found questionable purchases. As I discussed earlier, we identified numerous transactions from the statistical samples that were missing adequate supporting documentation on what was actually purchased, how many items were purchased, and the cost of the items purchased. We requested supporting documentation for a nonstatistical sample of 982 transactions, totaling \$1.2 million. Of these, we identified 315 transactions, totaling \$246,596, that appeared to be improper or wasteful, for which VHA either provided insufficient or no documentation to support the propriety of the transactions.

We classified 250 of these 315 transactions, totaling \$209,496, as missing invoices because the cardholders either provided VHA internal documentation but no vendor documentation to support the purchase or provided no documentation at all to support the purchase. VHA internal documentation includes purchase orders, reconciliation documents, and receiving reports. Vendor documentation includes invoices, sales receipts, and packing slips. For 184 of these transactions, totaling \$155,429, internal documentation was available but no vendor documentation was available. No documentation at all was available for the remaining 66 transactions, totaling \$54,068. These purchases were from vendors that would more likely be selling unauthorized or personal use items. Examples of these types of purchases included a purchase from Radio Shack totaling \$3,305, a purchase from Daddy's Junky Music totaling \$1,041, a purchase from Gap Kids totaling \$788, and a purchase from Harbor Cruises totaling \$357.

An example of a transaction with internal documentation but no vendor documentation included a purchase from Circuit City where the cardholder stated that the purchase was for three \$650 television sets and three \$100 television stands, totaling \$2,300 (including \$50 shipping), that were needed to replace the existing ones in the VA facility's waiting area. In another transaction, no vendor documentation was available for a transaction from Black & Gold Beer where the cardholder stated that the purchase of beer was for a patient. The purchase order shows that three cases were purchased at \$12.50 each, totaling \$37.50. The cardholder stated that the purchase was at the request of the pharmacy for a specific patient; however, no documentation was provided to support this claim. We believe that at least some of the items we identified may have been determined to be potentially fraudulent, improper, or wasteful had the documentation been provided or available. In addition, we noted that of the 66 transactions for which VHA cardholders provided no documentation to support the purchase, 32 transactions (49 percent) represented 2 or more transactions by the same cardholder. For example, one cardholder did not provide documentation for 5 transactions, totaling \$5,799, from various types of merchants, including two restaurants, a movie theater, a country club, and an airport café.

For 65 transactions, totaling \$37,100, that we characterized as questionable but appeared to be either improper or wasteful, the documentation we received either was not correct or was inadequate, and we were unable to determine the propriety of the transactions. For example, one transaction was for \$1,350 to Hollywood Entertainment; however, the purchase order and invoice listed Hear, Inc., as the vendor for closed captioning services.

The cardholder stated that she believed Hollywood Entertainment is an associate company name for Hear, Inc.; however, the company could not provide any documentation to support this statement. Additionally, from our Internet searches of both Hollywood Entertainment and Hear, Inc. we found no information to indicate that these two companies were associated in any way.

We also identified 68 transactions, totaling \$31,772, involving the purchase of tickets for sporting events, plays, movies, amusement or theme parks, and other recreation activities for veterans and VA volunteers. The documentation provided for these transactions was inadequate or missing vendor invoices; therefore, we could not determine whether these tickets were used in support of the volunteers or veterans. As a result, we categorized these purchases as questionable. Various programs under VHA, such as Recreation Therapy, Voluntary Services, and Blind Rehabilitation Service, sponsor assorted activities for veterans and VA volunteers. From our review of these types of purchases, we found that VHA does not have procedures in place to ensure that the purchased items were used by the intended recipients and accounted for properly. In most cases, there was inadequate or no documentation to account for how the tickets were distributed and who participated in the events. For example, we found a purchase of 46 tickets, totaling \$812, for veterans to attend a Pittsburgh Pirates baseball game. However, we were provided no documentation that identified who received the tickets or who attended the baseball game. Proper accountability over the distribution and receipt of tickets for such events is needed to help ensure that tickets are not improperly used for personal use.

In closing, Mr. Chairman, I want to emphasize that without improvements in its internal controls to strengthen segregation of duties; documentation of purchase transactions; timely recording, review, and reconciliation of transactions; and program monitoring, VHA will continue to be at risk for noncompliance with applicable laws and regulations and its own policies and remain vulnerable to improper, wasteful, and questionable purchases. Our report, which is being released at this hearing, makes 36 recommendations to strengthen internal controls and compliance in VHA's purchase card program to reduce its vulnerability to improper, wasteful, and questionable purchases.

This concludes my statement. I would be happy to answer any questions you or other members of the committee may have.

Contact and Acknowledgments

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