

PUBLIC OVERSIGHT HEARING
A REVIEW OF REFORMS MADE TO THE DISTRICT
OF COLUMBIA GOVERNMENT PURCHASE CARD
PROGRAM AND GOVERNMENT TRAVEL CARD
PROGRAM

Before the
Committee on Government Operations
Council of the District of Columbia

The Honorable Vincent B. Orange, Sr., Chairman

October 3, 2003, 11:00 a.m.
Council Chamber



Testimony of
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Good morning, Chairman Orange, and members of the Committee on Government Operations. I am Ben Lorigo, executive director of the Office of Integrity and Oversight in the Office of the Chief Financial Officer (OCFO). With me today are Jo Ann Smoak, director of the OCFO Office of Management and Administration, and Paul Lundquist, director of OCFO Financial Operations, who will be available to answer any questions you or the members may have about OCFO card programs.

On June 27, 2003, I appeared before this committee to describe the review that we had just commenced, at the request of the Mayor, on the administration of the purchase card program in the agencies of the District Government. At that time, you requested that I inform you of the results of our review. On September 10, 2003, my office issued a draft report on this subject, which I have provided to the Committee, and which I will briefly summarize here.

The purpose of this review was to determine whether purchase cards were being used properly. We evaluated compliance based primarily on the Office of Contracting and Procurement's (OCP) *Manual of Instruction and Standard Procedures for the Use of Government Purchase Cards in the District of Columbia*, which was provided to us by OCP at the start of our audit. We also checked compliance with relevant outside third parties – the U.S. General Services Administration (GSA) and US Bank, which is the financial institution that issues the purchase cards and processes the charges. In addition, we sought to determine whether there are adequate internal controls over the issuance, purchases, payments and cancellation of purchase cards.

We also met with senior officials of the U.S. Office of Management and Budget (OMB), which has overall responsibility for the federal government's purchase card program, and with the Department of Defense (DOD) to obtain best practices from their experience in addressing problems with this program in the federal government. I provided the Deputy Mayor for Operations and the Director of OCP with the names of these federal officials as a resource for assisting District officials in this program. Also, in the early stages of our review, the Chief Financial Officer issued a Management Implication Report that alerted agency financial officials of problems in the purchase and travel card programs and directed them to implement immediate changes.

Our review was based on a random sample of 116 cardholders from agencies under the Mayor's jurisdiction, covering purchase card activities over 10 non-consecutive months between October 2001 and April 2003. We also were requested by the Mayor's office to review card activities for 45 cardholders that were under consideration for performance bonuses. In addition, we reviewed all card activities of the four cardholders from the Office of Property Management (OPM) in view of allegations related to that office. The total cardholders we reviewed represented approximately 29 percent of the cardholders of the targeted population.

All of our findings and recommendations are contained in our report. The report also contains an exhibit that describes purchase card activities by the various functions or "clusters" of the government. This exhibit shows that there were examples of a high degree of performance by some functions despite the overall compliance problems noted in the program.

The following is a brief summary of our principal findings:

- **Purchase cards were used to acquire prohibited items.** Based on available documentation, we found approximately 314 unallowable purchases, totaling \$164,994. Examples of prohibited items purchased included gasoline, Metro fare cards, parking, clothing, a camera, airline tickets, hotel charges, drinking water, and food. The Office of Property Management was responsible for most of these expenditures (over \$116,000).

We recommended that the Office of Contracting and Procurement enforce existing policies that require strong administrative action against cardholders who abuse or misuse their cards, as well as all approving officials who fail to perform their responsibility to review these transactions. We also referred the questionable purchases to the Deputy Mayor for Operations for administrative review in coordination with the Office of the Inspector General, and we notified the Inspector General.

- **There was a lack of adequate documentation to support purchases made.** Of the over 8,000 transactions tested, totaling almost \$4 million dollars, almost 3,000 purchases totaling \$1.4 million did not have invoices, charge slips, or receipts on file for our review. The Office of Property Management was responsible for almost 1,400 of these unsupported purchases, totaling approximately \$1 million. Without adequate documentation of purchases, agencies did not have a description of the goods or services paid for and whether they were in compliance with District regulations. This increases the risk of misuse, abuse and fraud.

We recommended that finance offices take the necessary measures to obtain from cardholders and approving officials all pertinent documentation as proof of purchase. No payments should be made without proper supporting documentation on file. We also recommended that purchase cards promptly be suspended or revoked regarding those who violate these policies and procedures.

- **Agency finance officials did not comply with the “Pay and Chase” policy.**

This policy allows the finance personnel to pay the invoice without the approved monthly cardholder reconciliation packages. It requires, however, that the finance office follow up with cardholders and approving officials to track down the supporting monthly invoices for all purchases that had not been timely submitted and that were not used as a basis for the initial payment to the bank. In many instances, the finance office paid but did not chase, which permitted cardholders to make unallowable purchases and commit other violations, which were not readily discovered.

We recommended that the District Chief Financial Officer take immediate action to discontinue the “Pay and Chase” policy, to be replaced with a “Confirm and Pay” policy. I have been informed that the Department of Defense successfully uses this method.

- **Approving officials did not carefully review and approve cardholder transactions.** As stated, we identified a large number of purchase violations, which should have been routinely identified by approving officials had internal control procedures been followed.

We recommended that the Office of Contracting and Procurement enforce existing policies and procedures, which require that an approving official review and approve purchases by signing the monthly bank statements. Those who continually fail to perform this necessary function should be subject to appropriate disciplinary action.

- **Cardholders were splitting purchases to avoid single purchase limitations.**

A “split purchase” occurs when the price of an item is split into two charges to avoid the cardholder’s single purchase limit (usually \$2,500). In our sample, almost 20 percent of the total dollar amount was due to “split purchases.” The rationale for assigning single purchase limits is to ensure proper internal control, restrict purchases to small amounts, and ensure that purchases made are within the thresholds defined under the program.

We recommended that authorizing officials exercise greater scrutiny over purchase activities. Cardholders requesting purchases for higher value goods that exceed the single purchase limits should utilize the agency’s regular procurement process. Those who continually engage in split purchases should have their card privileges suspended or revoked and be subject to appropriate administrative or disciplinary action.

- **The Office of Contracting and Procurement did not maintain a current listing of all cardholders.** When we requested a listing of all active cardholders, by agency, for the purpose of our sample selection, OCP did not have such a listing and advised that we could obtain this from US Bank.

Since OCP is responsible for issuing purchase cards, training, and processing each new cardholder, as well as being responsible and accountable for the overall monitoring of cardholders and authorizing officials' compliance with purchase card policies and procedures, we recommended that OCP implement and maintain such a system. We consider this to be a core responsibility for program administration.

- **OCP did not adequately monitor purchase card activities.** This resulted in many violations of District purchase card regulations going undetected, as described in the results of our review. Cardholders, who continued to violate these regulations, continued using their cards without any notification, restriction, or other administrative action. OCP stated that they had three employees assigned to both the purchase and travel card programs, and that this was insufficient for monitoring card activities.

As I stated during my prior testimony before this committee, US Bank, the financial institution that issues the purchase cards and processes the charges, informed us of their computer system capability known as Customer Automation Reporting Environment (CARE), which can be customized for our needs free of charge to prevent and report transactions that we define as questionable or prohibited. The bank gave us a demonstration, which confirmed that it could assist in program administration, detecting and reporting, for example, of split purchases or purchases over authorized limits.

We strongly recommended that OCP fully utilize the CARE system to monitor and review purchase card activities on a regular basis to identify potential

abuse and misuse of the cards. We also recommended that OCP assign additional staff to this program.

- **There were weak controls in canceling purchase cards after an employee's employment was terminated or the employee was transferred.** We found that, in essence, the onus is on the employee to surrender the purchase card to his employer when leaving the agency so that the card can be deactivated.

We consider this to be a poor practice, which presents unacceptable risk to the District. We recommended that OCP and the Office of Personnel establish clear and simple transfer and exit procedures to permit deactivation of purchase cards for employees being transferred or separated from the District.

Mr. Chairman, this concludes my testimony. My colleagues and I are prepared to answer any questions the committee may have.

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