



*Review of the Internal Revenue Service's
Purchase Card Violations Report
and the Status of Government
Charge Card Recommendations*

January 24, 2014

Reference Number: 2014-10-014

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

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HIGHLIGHTS

REVIEW OF THE INTERNAL REVENUE SERVICE'S PURCHASE CARD VIOLATIONS REPORT AND THE STATUS OF GOVERNMENT CHARGE CARD RECOMMENDATIONS

Highlights

Final Report issued on January 24, 2014

Highlights of Reference Number: 2014-10-014 to the Internal Revenue Service Deputy Commissioner for Operations Support.

IMPACT ON TAXPAYERS

Federal audits of agency charge card programs have found varying degrees of fraud, waste, and abuse. On October 5, 2012, the President signed into law the Government Charge Card Abuse Prevention Act of 2012, which reinforced Administration and congressional efforts to prevent fraud, waste, and abuse of Governmentwide charge card programs.

WHY TIGTA DID THE AUDIT

This review was initiated because the Government Charge Card Abuse Prevention Act of 2012 requires each agency with more than \$10 million in purchase card spending in the prior fiscal year to submit semiannual reports of employee purchase card violations and the disposition of those violations, including disciplinary actions taken. Inspectors General must report to the Director of the Office of Management and Budget 120 days after the end of each fiscal year on agency progress in implementing purchase and travel card audit recommendations. The overall objective of this review was to assess the IRS's implementation of and compliance with the law's requirements for the period April 1 to September 30, 2013.

WHAT TIGTA FOUND

TIGTA found that the IRS properly reported four instances of identified purchase card misuse. The IRS prepared the Purchase Card Violations Report pursuant to the requirements outlined in the law and in Office of Management and Budget Memorandum M-13-21,

Implementation of the Government Charge Card Abuse Prevention Act of 2012, dated September 6, 2013.

TIGTA's independent review identified one confirmed violation of purchase card fraud during the reporting period that resulted in the responsible cardholder's resignation from employment with the IRS. In addition, TIGTA identified two potential purchase card violations pending final agency action and one potential purchase card violation pending investigation. This corresponds with what the IRS conveyed in its Purchase Card Violations Report.

TIGTA also reviewed the IRS's Fiscal Year 2013 annual assurance statement and determined that it had been updated by the IRS to state that appropriate policies and controls were in place to mitigate the risk of fraud and inappropriate Government travel and purchase charge card practices.

However, six TIGTA recommendations remain open and are scheduled to be implemented by the IRS in Fiscal Year 2014. Once implemented, these recommendations will further enhance the IRS's internal controls for its charge card programs. Finally, an additional 14 prior TIGTA recommendations related to purchase or travel cards were implemented and closed during Fiscal Year 2013.

WHAT TIGTA RECOMMENDED

TIGTA made no recommendations in this report.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

January 24, 2014

MEMORANDUM FOR DEPUTY COMMISSIONER FOR OPERATIONS SUPPORT

Michael E. McKenney

FROM:

Michael E. McKenney
Acting Deputy Inspector General for Audit

SUBJECT:

Final Audit Report – Review of the Internal Revenue Service’s
Purchase Card Violations Report and the Status of Government Charge
Card Recommendations (Audit # 201310031)

This report presents the results of our review of the Internal Revenue Service’s (IRS) Purchase Card Violations Report. The overall objective of this review was to assess the IRS’s implementation of and compliance with the Government Charge Card Abuse Prevention Act of 2012¹ for the period April 1 to September 30, 2013.

Copies of this report are also being sent to the IRS managers affected by the report. If you have any questions, please contact me or Gregory D. Kutz, Assistant Inspector General for Audit (Management Services and Exempt Organizations).

¹ Pub. L. No. 112-194 (Oct. 2012). On September 6, 2013, the Office of Management and Budget issued Memorandum M-13-21 with implementation guidance for the act. On September 9, 2013, the General Services Administration issued Smart Bulletin No. 21, which included a summary compliance checklist for agency use and sample reporting templates.



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Abbreviations

ALERTS	Automated Labor and Employee Relations Tracking System
AWSS	Agency-Wide Shared Services
CCS	Credit Card Services
CFO	Chief Financial Officer
FY	Fiscal Year
IRS	Internal Revenue Service
JAMES	Joint Audit Management Enterprise System
OMB	Office of Management and Budget
PARIS	Performance and Results Information System
TIGTA	Treasury Inspector General for Tax Administration



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Background

Government purchase cards are an affordable and convenient means for making electronic payments, and the Federal Acquisition Regulation¹ designated the purchase card as the preferred method for making purchases up to the micro-purchase limit.² In order to accommodate purchases from vendors who do not accept credit cards, the purchase card program also has a convenience check component. While the use of purchase cards has been credited with reducing administrative costs and simplifying the acquisition process, audits of Federal agency purchase card programs have found varying degrees of fraud, waste, and abuse. One of the most common risk factors identified is a weak internal control environment. In a prior audit of purchase cards,³ we found that while some controls are working as intended, the Internal Revenue Service's (IRS) purchase card program lacks consistent oversight to identify and address inappropriate use.

On October 5, 2012, the President signed into law the Government Charge Card Abuse Prevention Act of 2012 (Charge Card Act),⁴ which reinforced Administration and congressional efforts to prevent fraud, waste, and abuse of Governmentwide charge card programs. In conjunction with current guidance,⁵ the Charge Card Act requires all executive branch agencies to establish and maintain safeguards and internal controls for Government charge card programs. Because Government charge card program oversight involves multiple agency functions, successful implementation of the Charge Card Act requires collaboration between agencies and Inspectors General. The Charge Card Act established additional reporting and audit requirements for certain Offices of Inspectors General, including the Treasury Inspector General for Tax Administration (TIGTA). The act requires each agency with more than \$10 million⁶ in purchase card spending in the prior fiscal year to submit semiannual reports of employee purchase card violations and the disposition of those violations, including disciplinary actions

¹ 48 C.F.R. §13.201 (b) (May 2011).

² \$3,000 (\$2,500 for services; \$2,000 for construction).

³ Treasury Inspector General for Tax Administration, Ref. No. 2013-10-056, *The Purchase Card Program Lacks Consistent Oversight to Identify and Address Inappropriate Use* (June 2013).

⁴ Pub. L. No. 112-194 (Oct. 2012). On September 6, 2013, the Office of Management and Budget (OMB) issued Memorandum M-13-21, *Implementation of the Government Charge Card Abuse Prevention Act of 2012* (Sept. 2013). On September 9, 2013, the General Services Administration issued Smart Bulletin No. 21, which included a summary compliance checklist for agency use and sample reporting templates.

⁵ OMB, OMB Circular No. A-123, Appendix B (Revised), *Improving the Management of Government Charge Card Programs* (Jan. 2009), and OMB Memorandum M-12-12, *Promoting Efficient Spending to Support Agency Operations* (May 2012).

⁶ Between October 4, 2012, and October 3, 2013 (approximately Fiscal Year 2013), the IRS purchase card program made purchases totaling approximately \$31 million.



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taken.⁷ Because agencies should be aware of charge card audit findings and ensure that they are promptly resolved, Inspectors General will report to the Director of the Office of Management and Budget (OMB) 120 days after the end of each fiscal year on agency progress in implementing purchase and travel card audit recommendations beginning with Fiscal Year (FY) 2013.

To ensure compliance with the Charge Card Act, as of September 30, 2013, each agency head is required to provide an annual certification that the appropriate policies and controls are in place or that corrective action has been taken to mitigate risk of fraud or inappropriate travel and purchase charge card practices. The annual certification should be included as part of the existing annual assurance statement under the Federal Managers' Financial Integrity Act of 1982.⁸ In addition, each agency will continue to maintain and annually submit Charge Card Management Plans no later than January 31 as required by OMB Circular A-123, Appendix B. TIGTA examined the annual assurance statement provided by the IRS Office of the Chief Financial Officer (CFO) as part of our review.

Additional requirements of the Charge Card Act include augmentation of existing internal controls. At a minimum, all agency Charge Card Management Plans are required to be reviewed and updated to reflect the following internal control activities:

- ***To prevent an individual from being reimbursed for a bill already paid by the Government*** by ensuring that agency officials who approve or settle official travel verify that charges paid directly by the Government to the bank are not also reimbursed to an employee or an employee's individually billed account.
- ***To prevent the Government from spending money on unused tickets*** by verifying that the agency (travel management center or service or commercial travel office) submits requests to servicing common carriers for refunds of fully or partially unused tickets and tracks the status of these tickets to ensure resolution.
- ***To deter employee misuse of Government cards*** by implementing penalties for charge card violations that are jointly developed by agency charge card management and human resources components. These penalties will include salary offset, for instances of personal liability, and disciplinary actions for a cardholder or approving official's illegal, improper, or erroneous purchases made with a purchase card, convenience check, integrated card, or travel card. Disciplinary actions should include dismissal, as appropriate. The plan will define and apply appropriate and consistent employee

⁷ An administrative or internal control process inconsistency that does not result in fraud, loss to the Government, or misappropriation of funds or assets (whether or not recouped) is not a reportable violation for the purposes of the semiannual report.

⁸ Pub. L. No. 97-255 (Sept. 1982), 31 U.S.C. 3512(d)(2) (Dec. 2013).



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disciplinary procedures and comply with joint external reporting required of the Inspector General and agency management.

Between October 4, 2012, and October 3, 2013 (approximately FY 2013), the IRS purchase card program included 3,796 purchase cardholders. These purchase cardholders made more than 79,000 purchases totaling approximately \$31 million with their cards. In addition, 32 purchase cardholders had access to convenience checks that were linked to their purchase card accounts. IRS convenience check writers posted 1,723 checks totaling approximately \$529,000 during this period.

The Federal Acquisition Regulation⁹ establishes criteria for using purchase cards to make payments. In addition, the OMB provides oversight of the purchase card program and has issued guidance that establishes minimum requirements for Government purchase card programs and suggested best practices.¹⁰ The IRS's purchase card policy is set forth in the Purchase Card Program Handbook and the Purchase Card Guide.¹¹ The IRS Restricted Purchase List also provides cardholders with detailed information on what is and is not an acceptable purchase.¹²

Within the IRS, the Office of Procurement is responsible for providing policy guidance for the purchase card program as it relates to acquisition regulations and the Credit Card Services (CCS) Branch¹³ is responsible for managing and providing oversight for the purchase card program. The CCS Branch's responsibilities include processing new account applications and performing account maintenance, providing training, issuing program guidance, and performing periodic program reviews. In addition, the CCS Branch is responsible for tracking and reporting to the Labor and Employee Relations function (hereafter referred to as Labor Relations)¹⁴ instances of alleged inappropriate purchase card use as part of the process for determining and implementing the appropriate disciplinary action.

The IRS inputs employee misconduct allegations, including those involving purchase cards, into the Automated Labor and Employee Relations Tracking System (ALERTS). The ALERTS uses issue codes to categorize the employee misconduct allegations and disposition codes to record IRS management actions taken in response to cases of misconduct, including the disciplinary actions taken as a result of investigating the alleged misconduct or problem. TIGTA's Office of

⁹ 48 C.F.R. § 13 (Mar. 2012).

¹⁰ OMB, Circular No. A-123, Appendix B (Revised), *Improving the Management of Government Charge Card Programs* (Jan. 2009).

¹¹ Internal Revenue Manual 1.32.6 (Jan. 21, 2010) and Document 9185, *Internal Revenue Service Purchase Card Guide* (Jan. 2012).

¹² Policy and Procedures Memorandum No. 70.11, *Internal Revenue Service Restricted Purchase List* (June 2011).

¹³ The CCS Branch is a part of the Employee Support Services function within the Agency-Wide Shared Services function.

¹⁴ The Labor and Employee Relations function is a function in the Human Capital Office within the Workforce Relations Division. It is the IRS office responsible for advising and supporting managers on employee conduct and performance matters.



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Investigation maintains the Performance and Results Information System (PARIS). The PARIS is a management information system that provides TIGTA with the ability to manage and account for the thousands of complaints received, investigations initiated, and leads developed from law enforcement initiatives.

We held discussions with and analyzed information obtained from CCS Branch management and staff located in Cincinnati, Ohio; Nashville, Tennessee; and Seattle, Washington; IRS Counsel management located in Washington, D.C.; Human Capital Office Labor Relations management and staff located in Laguna Niguel, California; Walnut Creek, California; and Kansas City, Missouri; and the Office of the CFO located in Washington, D.C., during the period September 2013 through January 2014. It is important to note that the IRS and TIGTA reviews relate to the proper identification and reporting of known cases of purchase card misuse. Fraud and abuse not identified by the IRS systems and management controls were beyond the scope of this audit. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



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Results of Review

Implementation of and Compliance With the Government Charge Card Abuse Prevention Act of 2012 Requirements

TIGTA found that the IRS properly identified and reported four instances of purchase card misuse. The IRS prepared its Purchase Card Violations Report (see Appendix IV) pursuant to the requirements outlined in the Charge Card Act and in OMB Memorandum M-13-21, *Implementation of the Government Charge Card Abuse Prevention Act of 2012*.

TIGTA's independent review identified one confirmed violation of purchase card fraud during the reporting period that resulted in the responsible cardholder's resignation from employment with the IRS. In addition, TIGTA identified two potential purchase card violations pending final agency action and one potential purchase card violation pending investigation. This corresponds with the information that the IRS conveyed in its Purchase Card Violations Report.

TIGTA also reviewed the IRS's FY 2013 annual assurance statement under the Federal Managers' Financial Integrity Act of 1982 and determined that it had been updated by the IRS, as required, to state that appropriate policies and controls were in place to mitigate the risk of fraud and inappropriate Government charge card practices. The Department of the Treasury Charge Card Management Plan is due to be updated in late January 2014 and was not available during our review period. As a result, we will review the Charge Card Management Plan (to ensure that it has been updated to include the new controls over travel cards required by the Charge Card Act) in our next semiannual report due in July 2014.

TIGTA identified six TIGTA recommendations related to purchase or travel cards that remain open and are scheduled to be implemented by the IRS in FY 2014. Once implemented, these recommendations will further enhance the IRS internal controls for its charge card programs. Finally, TIGTA identified an additional 14 related prior TIGTA recommendations that were implemented and closed during FY 2013.

Semiannual report on IRS purchase card violations and actions taken by IRS management in response to violations

TIGTA reviewed the IRS's Purchase Card Violations Report, the methodology the IRS used to identify purchase card violations, and related supporting documentation. TIGTA's Office of Audit also reviewed information from TIGTA's Office of Investigations on completed purchase card misuse investigation cases and complaints occurring during the review period.



Review of the Internal Revenue Service's Purchase Card Violations Report and the Status of Government Charge Card Recommendations

Based on our independent review, four cases meeting OMB criteria appeared to be properly included in the IRS's Purchase Card Violations Report. Specifically, TIGTA's independent review identified one confirmed violation of purchase card fraud during the reporting period that resulted in the responsible cardholder's resignation from employment with the IRS. In addition, TIGTA identified two potential purchase card violations pending final agency action and one potential purchase card violation pending investigation. This corresponds with what the IRS reported for the period of April 1 to September 30, 2013.

Review of annual assurance letter and Charge Card Management Plan

We reviewed the IRS's FY 2013 annual assurance statement under the Federal Managers' Financial Integrity Act of 1982 and determined that it had been updated by the IRS to state that appropriate policies and controls were in place to mitigate the risk of fraud and inappropriate Government travel and purchase charge card practices. The Department of the Treasury Charge Card Management Plan is due to be updated in late January 2014 and was not available for review during our audit period. As such, we will review the Charge Card Management Plan and determine whether it has been updated to include the new travel card controls required by the Charge Card Act in our next semiannual report due in July 2014. The IRS stated that it has updated its policies and procedures pertaining to Government charge cards as a result of the act, and TIGTA concluded that IRS's Internal Revenue Manual, policies and procedures, and other guidance generally contain the controls cited in the act. The IRS stated its current purchase card training material and CCS Branch oversight reviews incorporate the compliance provisions included in the Charge Card Act. We will monitor these controls as part of our next review due in July 2014.

Status of the Internal Revenue Service's Implementation of Treasury Inspector General for Tax Administration Audit Recommendations Related to Government Charge Cards

We identified a total of six TIGTA audit reports related to IRS purchase and travel cards issued over the past five years (from FYs 2009 to 2013). These reports contain 35 recommendations and 42 corrective actions proposed by the IRS in response to those recommendations. Of these six prior TIGTA reports, three reports contained recommendations that the IRS reported were closed during FY 2013 or remained opened at the end of FY 2013.¹⁵

We identified six TIGTA recommendations that are scheduled to be implemented by the end of FY 2014. Once corrective actions are implemented, these recommendations will further enhance the IRS's internal controls for its charge card programs. Finally, we identified an additional

¹⁵ The IRS indicated that it has closed an additional two recommendations during early FY 2014. Recommendations closed after September 30, 2013, and before the issuance of this report are not captured in this report, but will be included in our annual reporting on IRS's implementation of audit recommendations due in January 2015.



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14 recommendations that the IRS reported as being implemented during FY 2013. Additional details related to recommendations closed during FY 2013 can be found in Appendix VI. The recommendations that remained open as of September 30, 2013, can be found in Appendix V.



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Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to assess the IRS's implementation of and compliance with the Government Charge Card Abuse Prevention Act of 2012 (Charge Card Act)¹ requirements for the period April 1 to September 30, 2013.² To accomplish this objective, we:

- I. Determined how the IRS intends to implement legislative requirements of the Charge Card Act.
 - A. Reviewed the Charge Card Act, related OMB implementing guidance M-13-21,³ OMB Circular A-123 (Appendix B),⁴ OMB Circular A-50,⁵ and any current Department of the Treasury and IRS policies and procedures related to Government charge cards, specifically purchase cards.
 - B. Interviewed key IRS personnel from the CCS Branch, the Office of the CFO, and the Human Capital Office's Labor and Employee Relations function (hereafter referred to as Labor Relations)⁶ to determine:
 1. The approach used to prepare the IRS's Purchase Card Violations Report and its reasonableness.
 2. How the IRS determined when purchase cards had been misused by IRS employees.
 3. What adverse personnel actions the IRS could take in response to purchase card misuse.

¹ Pub. L. No. 112-194 (Oct. 2012). On September 6, 2013, the Office of Management and Budget (OMB) issued Memorandum M-13-21, *Implementation of the Government Charge Card Abuse Prevention Act of 2012* (Sept. 2013). On September 9, 2013, the General Services Administration issued Smart Bulletin No. 21, which included a summary compliance checklist for agency use and sample reporting templates.

² It is important to note that the IRS and TIGTA reviews relate to the proper identification and reporting of known cases of purchase card misuse. Fraud and abuse not identified by the IRS systems and management controls were beyond the scope of this audit.

³ OMB, OMB Memorandum M-13-21, *Implementation of the Government Charge Card Abuse Prevention Act of 2012* (Sept. 2013).

⁴ OMB, OMB Circular No. A-123, Appendix B (Revised), *Improving the Management of Government Charge Card Programs* (Jan. 2009).

⁵ OMB, OMB Circular No. A-50, *Audit Followup* (Sept. 1982).

⁶ The Labor and Employee Relations function is a function in the Human Capital Office within the Workforce Relations Division. It is the IRS office responsible for advising and supporting managers on employee conduct and performance matters.



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- C. Identified all TIGTA reports related to Government charge cards (including purchase cards, convenience checks, and travel cards [both individually billed and centrally billed accounts]) that had been issued within the past five fiscal years (FYs 2009 to 2013).
- II. Reviewed confirmed purchase card (and convenience check) violations by IRS employees and identified the actions the IRS had taken as a result of these violations.⁷
- A. Determined the total number of confirmed violations involving misuse of a purchase card for the specified period. We determined whether these violations constituted: (1) abuse;⁸ (2) fraud;⁹ or (3) other loss, waste, or misuse.¹⁰
1. In order to identify all confirmed violations, we reviewed IRS inappropriate use forms and logs maintained by the CCS Branch to document instances of potential purchase card misuse, all instances of potential credit card violations that were closed in the Labor Relations' ALERTS database with a disposition of management action, and investigative cases and complaints in TIGTA's PARIS database.
 2. We performed data reliability testing to verify the completeness and accuracy of the data for the ALERTS and PARIS databases. We determined that the data were sufficiently reliable for the purposes of this report.
 3. We identified nine closed cases related to purchase card misuse using the ALERTS. Of these nine cases, only one case was reportable as a confirmed fraud violation.¹¹ The remaining eight cases were not reportable as violations because

⁷ The review period is from April 1, 2013, through September 30, 2013.

⁸ Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate. Abuse does not necessarily involve fraud or noncompliance with provisions of laws, regulations, contracts, or grant agreements.

⁹ Fraud involves obtaining something of value through willful misrepresentation. Whether an act is, in fact, fraud is a determination to be made through the judicial or other adjudicative system and is beyond our auditors' professional responsibility.

¹⁰ These three categories were identified in OMB Memorandum M-13-21.

¹¹ One purchase cardholder made 38 transactions totaling \$2,655 for personal purchases and provided falsified (or fraudulent) receipts to justify the purchases made. Information that the vendor provided to the credit card company indicates that this cardholder purchased diet pills, romance novels, steaks, a smartphone, and baby items such as bottles, games, and clothing with his or her purchase card; however, the cardholder claimed that the same transactions were for reference books and office supplies. TIGTA identified this misuse in its prior purchase card audit and referred it to the TIGTA Office of Investigations. The IRS employee was subsequently indicted and prosecuted.



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they were administrative in nature.¹² Based on our review of TIGTA's PARIS database, we identified one case and one complaint. We confirmed that the case was the same confirmed fraud case. We reviewed the complaint and determined that it was not reportable for the purposes of the Purchase Card Violations Report.

- B. Determined the number of adverse personnel actions, punishment, or other actions taken in response to each reportable violation involving misuse of a purchase card for the specified period. We further determined whether the actions involved: (1) demotions, (2) reprimands, (3) suspensions, (4) removals, or (5) any other adverse personnel actions.¹³
1. To identify these actions, we reviewed all instances of potential credit card violations that were closed in the Labor Relations' ALERTS database with a disposition of management action.
 2. We performed data reliability testing to verify the completeness and accuracy of the data for the ALERTS database. We determined that the data were sufficiently reliable for the purposes of this report.
 3. The one fraud case we identified resulted in the resignation of the employee.
- C. Determined the total number and status of all pending violations for the specified period. We determined if these pending violations are: (1) pending investigation, (2) pending hearing, (3) pending final agency action, or (4) pending a decision on appeal.¹⁴
1. In order to identify all pending violations, we reviewed IRS inappropriate use forms and logs maintained by the CCS Branch to document instances of potential purchase card misuse, all instances of potential credit card violations that were still active in the Labor Relations' ALERTS database, and investigative cases and complaints in TIGTA's PARIS database.
 2. We performed data reliability testing to verify the completeness and accuracy of the data for the ALERTS and PARIS databases. We determined that the data were sufficiently reliable for the purposes of this report.
 3. From the CCS Branch logs, we identified one pending investigation instance of potential purchase card misuse that was referred by the CCS Branch directly to TIGTA's Office of Investigations, bypassing Labor Relations. We identified 17 open cases related to purchase card misuse using the ALERTS. Of these

¹² These cases included purchases made without the proper funding approval and purchases that were "split" to avoid the micro-purchase limit.

¹³ These five categories were identified in OMB Memorandum M-13-21.

¹⁴ These four categories were identified in OMB Memorandum M-13-21.



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17 open cases, two were potential violations pending IRS management action.¹⁵ The remaining 15 cases were not reportable because they were administrative in nature.¹⁶

- III. Determined the IRS's reported progress in implementing prior TIGTA audit recommendations for improving internal controls related to Government charge cards.¹⁷
- A. Reviewed all TIGTA reports related to Government charge cards that had been issued within the past five fiscal years (FYs 2009 to 2013).
1. Identified the status of implemented (closed) and open TIGTA audit recommendations for reports using the Joint Audit Management Enterprise System (JAMES). We performed data reliability testing to verify the completeness of the JAMES. We determined that the data were sufficiently reliable for the purposes of this report.
 2. For any recommendations that had not yet been reported as implemented by the IRS, we identified the corrective action planned by the IRS and the proposed completion date and any progress made to date.
- IV. Reviewed the IRS's FY 2013 annual certification to ensure that it stated that the appropriate policies and controls were in place or that corrective actions had been taken to mitigate the risk of fraud and inappropriate Government travel and purchase charge card practices. This certification is the same as the annual assurance statement required by the Federal Managers' Financial Integrity Act of 1982. We planned to review the Department of the Treasury Charge Card Management Plan, as a part of the annual assurance statement, to ensure that it included the new requirements for the IRS as stated in the Charge Card Act. However, the plan was due to be updated in late January 2014 and was not available during our review period. As a result, we will review the Charge Card Management Plan (to ensure that it has been updated to include the new controls over travel cards required by the act) in our next semiannual report due in July 2014.
- V. Reviewed the IRS Internal Revenue Manual and other internal guidance to determine if it had been updated to reflect the changes noted in Step IV.

¹⁵ One case involved the purchase of a prohibited item (coffee), and the other involved an item purchased in error for which the IRS has not yet received a refund.

¹⁶ These cases included purchases made without the proper funding approval, incidents that were incorrectly coded as purchase card cases, and cases of self-reported accidental misuse.

¹⁷ We made this determination by analyzing the status of our recommendations in the Joint Audit Management Enterprise System (JAMES). The JAMES is the Department of the Treasury's web-based audit tracking system. It tracks issues, findings, and recommendations extracted from TIGTA and Government Accountability Office audit reports. We did not perform any follow-up audits to confirm that our recommendations were successfully implemented; rather, we relied on the information in the JAMES to provide our response. Follow-up audits on purchase and travel cards will be considered as part of our annual risk assessment process.



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- VI. Determined if training would be offered for IRS staff relative to the new legislative requirements.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined the following internal controls were relevant to our audit objective: the Government Charge Card Abuse Prevention Act of 2012 and related OMB guidance; IRS internal policies and procedures and other guidance pertaining to travel cards, purchase cards, and convenience checks; the CCS Branch inappropriate use forms, logs, and supporting documentation; and ALERTS and PARIS databases. To assess those controls, we reviewed the IRS's methodology for reporting confirmed and pending violations in the Purchase Card Violations report; and analyzed inappropriate use forms, logs, and supporting documentation as well as cases of confirmed and pending purchase card violations contained within ALERTS and PARIS databases. We also reviewed IRS policies and procedures related to the Charge Card Act, including the IRS's FY 2013 annual assurance statement, and prior TIGTA audit reports and information in the JAMES to identify closed recommendations during FY 2013 and any remaining open recommendations related to Government charge cards.



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Appendix II

Major Contributors to This Report

Gregory D. Kutz, Assistant Inspector General for Audit (Management Services and Exempt Organizations)
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Gary D. Pressley, Senior Auditor
Lauren W. Bourg, Auditor



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Appendix III

Report Distribution List

Commissioner
Office of the Commissioner – Attn: Chief of Staff C
Chief Counsel CC
Chief, Agency-Wide Shared Services OS:A
Chief Financial Officer OS:CFO
IRS Human Capital Officer OS:HC
Director, Employee Support Services OS:A:ESS
Director, Workforce Relations Division OS:HC:R
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluations and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaisons:
 Chief Counsel CC
 Chief, Agency-Wide Shared Services OS:A
 Chief Financial Officer OS:CFO
 IRS Human Capital Officer OS:HC



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Appendix IV

Purchase Card Violations Report

PURCHASE CARD VIOLATION DATA	
I. Summary description of confirmed violations involving misuse of a purchase card or integrated card.	April 1 to September 30, 2013
a. Abuse* ¹	0
b. Fraud*	1
c. Other loss, waste, or misuse	0

II. Summary description of all adverse personnel actions, punishment, or other actions taken in response to each reportable violation involving misuse of a purchase or integrated card. **	April 1 to September 30, 2013
a. Documentation of Counseling	0
b. Demotion	0
c. Reprimand	0
d. Suspension	0
e. Removal	0
f. Other (resignation)	1

III. Status of all pending violations.	April 1 to September 30, 2013
a. Number of violations pending investigation ²	1
b. Number of violations pending hearing	0
c. Number of violations pending final agency action	2
d. Number of violations pending decision on appeal	0

Source: IRS review of inappropriate use forms and logs and case information contained in the ALERTS database.

¹ * Terms used are defined in the *Government Auditing Standards* (Government Accountability Office, GAO-12-331G, *Government Auditing Standards* (Dec. 2011) see: <http://www.gao.gov/yellowbook>).

² Because the IRS does not always have access to all case and complaint information contained in the PARIS database, discrepancies in reportable figures may occur for this particular category.



*Review of the Internal Revenue Service's Purchase Card
Violations Report and the Status of Government Charge Card
Recommendations*

Appendix V

*Open Purchase Card Recommendations as of
September 30, 2013*

Open Recommendations	Date Due
<i>Travel Card Controls Are Generally Effective, but More Aggressive Actions to Address Misuse Are Needed</i> (Ref. No. 2013-10-032), issued on April 18, 2013.	
The Chief, Agency-Wide Shared Services (AWSS), should work with the CFO to develop policies that clearly state when employees are authorized to make automatic teller machine withdrawals and that provide a specific period in advance of or immediately following official travel dates when withdrawals are permitted.	6/15/2014
The Chief, AWSS, should work with the CFO to develop policies that clearly state when employees are authorized to purchase fuel with their travel card.	6/15/2014
The Chief, AWSS, should work with the CFO and IRS Human Capital Officer to develop and implement a policy where cardholders with evidence of significant personal financial problems associated with travel card misuse (including suspended accounts, issuance of insufficient funds checks, and charged-off accounts) are referred to the IRS Human Capital Officer for a reevaluation of background investigations, security clearances, and suitability for employment.	9/30/2014
<i>The Purchase Card Program Lacks Consistent Oversight to Identify and Address Inappropriate Use</i> (Ref. No. 2013-10-056), issued on June 20, 2013.	
The Chief, AWSS, should improve split purchase oversight reviews conducted by the CCS Branch by using data analysis techniques to identify all groups of transactions that occur by a single cardholder, on the same day, with the same vendor, and with a total purchase price that exceeds \$3,000. In addition, require the CCS Branch to conduct an analysis to determine which purchases identified were split to circumvent procurement policies and report all cardholders who split purchases to Labor Relations for disciplinary review, tracking, and appropriate disciplinary action.	3/15/2014



*Review of the Internal Revenue Service's Purchase Card
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Open Recommendations	Date Due
The Chief, AWSS, should require the CCS Branch to report all instances of potential inappropriate use of purchase cards, identified through program oversight reviews or other means, to Labor Relations for disciplinary review and tracking in the ALERTS.	3/15/2014
The Chief, AWSS, should develop and implement a plan to replace the use of convenience checks for emergency salary payments, travel advances, Public Transportation Subsidy Program payments, and other employee reimbursements prior to the 2014 expiration of the waiver allowing the use of convenience checks.	4/15/2014

Source: Our analysis of the JAMES.¹

¹ The JAMES is used to track and report on TIGTA audit recommendations. We did not independently verify the accuracy of the information contained within this system as part of this audit.



*Review of the Internal Revenue Service's Purchase Card
Violations Report and the Status of Government Charge Card
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Appendix VI

*Fiscal Year 2013
Closed Purchase Card Recommendations*

Closed Recommendations

Travel Card Controls Are Generally Effective, but More Aggressive Actions to Address Misuse Are Needed (Ref. No. 2013-10-032), issued April 18, 2013.

The Chief, AWSS, should develop and implement detective travel card controls designed to identify inappropriate or personal use travel card transactions that occur when cardholders are on official travel.

The Chief, AWSS, should work with the CFO to revise current policies and procedures to include steps to verify that daily automatic teller machine limits are maintained whenever credit limits are adjusted.

The Chief, AWSS, should refer to Labor Relations any instances of travel card misuse identified by this audit (e.g., insufficient funds checks written) that were not previously referred due to control failures.

The Chief, AWSS, should review current detective control processes over holiday transaction reviews to determine whether current data extraction methods identify all transactions during the target time period and update the related procedures accordingly to reflect any control enhancement needs identified.

The Chief, AWSS, should coordinate with the other Federal agencies and the General Services Administration to collect charged-off account balances from separated employees.

The Purchase Card Program Lacks Consistent Oversight to Identify and Address Inappropriate Use (Ref. No. 2013-10-056), issued June 20, 2013.

The Deputy Commissioner for Operations Support and the Deputy Commissioner for Services and Enforcement should reemphasize to all purchase cardholders, supervisors, funding officials, and approving officials the importance of purchasing items only in compliance with applicable authorities and necessary to complete their mission.



*Review of the Internal Revenue Service's Purchase Card
Violations Report and the Status of Government Charge Card
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Closed Recommendations

Chief Counsel should require management to evaluate all instances of potential inappropriate use of purchase cards by Chief Counsel employees that are forwarded from Labor Relations and take appropriate action.

The Chief, AWSS, should monitor and review purchase cardholder accounts, and refer for investigation cases of individuals with multiple account closures due to lost, stolen, or compromised cards. Also, monitor whether cardholders report lost or stolen cards to TIGTA's Office of Investigations, as required, and follow up with cardholders to ensure that they follow the proper procedures.

The Chief, AWSS, should develop an oversight process to identify IRS employee personal use and other inappropriate or abusive types of purchase card transactions.

The Deputy Commissioner for Operations Support and the Deputy Commissioner for Services and Enforcement should reemphasize to all purchase cardholders, supervisors, funding officials, and approving officials that convenience checks are to be used only as a payment of last resort and any requests to CCS Branch check writers for this payment vehicle will be denied if they do not comply with program requirements.

The Chief, AWSS, should consider expanding and improving CCS Branch convenience check oversight reviews and requiring the CCS Branch to refer all inappropriate use to Labor Relations for disciplinary review, tracking, and appropriate disciplinary action.

The Chief, AWSS, should update the IRS Purchase Card Guide and current policy to include examples to clearly explain scenarios that constitute a split purchase of desktop supplies.

The Chief, AWSS, should update current purchase card guidance to require the CCS Branch to close purchase card accounts prior to the date of a cardholder's separation from the IRS to ensure that the number of pending transactions is minimized.

Although Citibank Travel Rebates Have Significantly Increased, They Were Not Properly Allocated, Resulting in the Misappropriation of Funds (Ref. No. 2010-10-124), issued September 24, 2010.

The Chief Financial Officer should establish and implement policies and procedures that are in compliance with the Circular to ensure that travel card rebates are distributed to the appropriation against which the expenditures were originally charged.

Source: Our analysis of the JAMES.¹

¹ The JAMES is used to track and report on TIGTA audit recommendations. We did not independently verify the accuracy of the information contained within this system as part of this audit.