



*Review of the Internal Revenue Service's
Purchase Card Violations Report*

July 28, 2015

Reference Number: 2015-10-070

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

Highlights

Final Report issued on July 28, 2015

Highlights of Reference Number: 2015-10-070 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 (Charge Card Act), which reinforced Administration and congressional efforts to prevent fraud, waste, and abuse of Governmentwide charge card programs.

WHY TIGTA DID THE AUDIT

This audit was initiated because the Charge Card Act requires each agency with more than \$10 million in purchase card spending annually to submit semiannual reports of employee purchase card violations and the disposition of those violations, including any disciplinary actions taken. The overall objective of this review was to assess the IRS's implementation of and compliance with the Charge Card Act requirements for the period October 1, 2014, to March 31, 2015.

WHAT TIGTA FOUND

The IRS identified and reported 10 instances of confirmed purchase card misuse and no potential instances of purchase card misuse pending final agency action. TIGTA identified one additional instance of confirmed purchase card misuse and five additional instances of purchase card misuse pending investigation or final agency action. Two of these additional cases pending investigation were under review by the TIGTA Office of Investigations and details of these cases were not available to the IRS. With the exception of the four cases for which details were available to the IRS, the Purchase

Card Violations Report was prepared by the IRS pursuant to the requirements outlined in the law and by the Office of Management and Budget. The 11 confirmed purchase card misuse cases were all related to restricted or prohibited items with purchases collectively totaling approximately \$700.

TIGTA also reviewed the IRS's current credit card guidance and determined that policies and controls have been established that are designed to mitigate the risk of fraud and inappropriate Government travel and purchase charge card practices, including controls that address centrally billed travel card accounts. However, TIGTA determined that the IRS's practice is not to report instances of purchase card misuse involving purchases made for a valid business need but not procured from an authorized priority source, which resulted in additional cost to the Government. TIGTA believes this constitutes waste and should, therefore, be addressed by agency management and included in the IRS Purchase Card Violations Report.

Finally, TIGTA reviewed the final version of the Fiscal Year 2015 Department of the Treasury Charge Card Management Plan and determined that it had been updated to comply with the requirements in the Charge Card Act.

WHAT TIGTA RECOMMENDED

The Chief, Agency-Wide Shared Services, should ensure that cases of purchase card misuse involving purchases not procured from an authorized priority source, which result in additional cost (loss) to the Government, are addressed and documented in the IRS's semiannual Purchase Card Violations Report.

In their response, IRS management disagreed with our recommendation, stating that IRS policy allows for and there are occasions when a purchase cardholder may use a non-priority source. TIGTA believes that purchases made which do not comply with Federal Acquisition Regulation requirements and IRS policy and result in additional cost (loss) to the Government should be addressed and included in the Purchase Card Violations Report.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

July 28, 2015

MEMORANDUM FOR DEPUTY COMMISSIONER FOR OPERATIONS SUPPORT

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Review of the Internal Revenue Service’s
Purchase Card Violations Report (Audit # 201510011)

This report presents the results of our review to assess the Internal Revenue Service’s implementation of and compliance with the Government Charge Card Abuse Prevention Act of 2012¹ requirements for the period October 1, 2014, to March 31, 2015. This review is included in our Fiscal Year 2015 Annual Audit Plan and addresses the major management challenge of Fraudulent Claims and Improper Payments.

Management’s complete response to the draft report is included as Appendix V.

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report recommendation. 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 November 18, 2013, the General Services Administration issued Smart Bulletin No. 021, *OMB Memorandum M-13-21 and Charge Card Compliance Summary*, 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
IRS	Internal Revenue Service
OMB	Office of Management and Budget
TIGTA	Treasury Inspector General for Tax Administration



Review of the Internal Revenue Service's Purchase Card Violations Report

Background

Government purchase cards are an affordable and convenient means for making electronic payments, and according to the Internal Revenue Service (IRS), between October 1, 2014, and March 31, 2015, the IRS purchase card program included 3,160 purchase cardholders. These purchase cardholders made 24,973 purchases totaling more than \$8.7 million with their purchase cards. Additionally, cardholders with the authority to write convenience checks (a program administered by the IRS's Credit Card Services (CCS) Branch¹ as an alternative method of payment used with vendors that do not accept purchase cards for payment of goods and services) wrote 118 checks totaling almost \$108,000.

The Federal Acquisition Regulation 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 that do not accept credit cards, the purchase card program also has a convenience check component. According to the Government Accountability Office, although the use of purchase cards has been credited with reducing administrative costs and simplifying the acquisition process, audits of agency purchase card programs have found varying degrees of fraud, waste, and abuse. In a June 2013 audit of purchase cards,³ we found that, while some controls worked as intended, the IRS's purchase card program lacked consistent oversight to identify and address inappropriate use. However, in January 2015,⁴ we found that the IRS had established policies and controls to mitigate the risk of fraud and inappropriate Government travel and purchase card practices, and the instances of purchase card misuse identified were minimal and all for nominal amounts.

On October 5, 2012, the President signed into law the Government Charge Card Abuse Prevention Act of 2012 (Charge Card Act),⁵ which requires executive branch agencies to establish and maintain safeguards and internal controls for Government charge card programs. Additionally, agencies with more than \$10 million in purchase card spending annually must submit semiannual reports of employee purchase card violations, the disposition of those violations, and any disciplinary actions taken.

¹ The CCS Branch is a part of the Employee Support Services function within the Agency-Wide Shared Services function.

² The Federal Acquisition Regulation limits a single micro-purchase to no more than \$3,000 for goods, \$2,500 for services, and \$2,000 for construction. 48 C.F.R. §13.201(b) (Revised as of Oct. 1, 2013).

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

⁴ TIGTA, Ref. No. 2015-10-021, *Review of the Internal Revenue Service's Purchase Card Violations Report and the Status of Government Charge Card Recommendations* (Jan. 2015).

⁵ Pub. L. No. 112-194 (Oct. 2012).



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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 Office of Management and Budget (OMB) and the General Services Administration have issued guidance and templates for reporting violations.⁶

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 related to centrally billed travel card accounts:⁷

- ***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's individually billed account.
- ***To prevent the Government from spending money on unallowable or erroneous charges*** by ensuring that the agency shall dispute these charges and track the status of disputed transactions to ensure appropriate resolution.
- ***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 those tickets to ensure resolution.

To ensure compliance with the Charge Card Act, 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 the risk of fraud or inappropriate travel and purchase charge card practices. The annual certification is included as part of the existing annual assurance statement under the Federal Managers' Financial Integrity Act of 1982.⁸ In addition, each agency must continue to maintain and annually submit a charge card management plan no later than January 31, as required by OMB Circular A-123, Appendix B,⁹ which provides guidance that

⁶ On September 6, 2013, the OMB issued Memorandum M-13-21, *Implementation of the Government Charge Card Abuse Prevention Act of 2012*, and on November 18, 2013, the General Services Administration issued Smart Bulletin No. 021, *OMB Memorandum M-13-21 and Charge Card Compliance Summary*, which included a summary compliance checklist for agency use and a sample reporting template.

⁷ Centrally billed travel card accounts are corporate accounts issued to an agency business unit that may be used only to pay for common carrier transportation when an employee is authorized to perform official travel but did not receive an individually billed account card (e.g., new employees who have not been issued a travel card or infrequent travelers). Centrally billed accounts are paid directly by the Government to the card-issuing entity.

⁸ 31 U.S.C. § 3512.

⁹ OMB Circular No. A-123, Appendix B (Revised), *Improving the Management of Government Charge Card Programs* (Jan. 2009).



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establishes minimum requirements for Government purchase card programs and suggested best practices.

Within the IRS purchase card program, the Office of Procurement is responsible for providing policy guidance, and the CCS Branch is responsible for managing and providing oversight. In addition, the CCS Branch is responsible for tracking and reporting to the Labor and Employee Relations function (hereafter referred to as Labor Relations)¹⁰ instances of alleged inappropriate purchase card use as part of the process for determining and implementing the appropriate disciplinary action. The Chief Financial Officer (CFO) and CCS Branch share joint responsibility for the centrally billed travel card program. The CFO is responsible for program policy, while the CCS Branch is responsible for program administration and procedures.

The IRS inputs employee misconduct allegations, including those involving purchase cards, into the Automated Labor and Employee Relations Tracking System (ALERTS). The ALERTS records employee misconduct allegations, cases, and management's responses. Additionally, TIGTA's Office of Investigations maintains the Performance and Results Information System, which 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 reviewed charge card misuse cases from each of these systems to ensure that the Purchase Card Violations Report appropriately identified and reported all instances of misuse.

We held discussions with and analyzed information obtained from Agency-Wide Shared Services (AWSS) and CCS Branch management and staff located in Hartford, Connecticut; Jacksonville, Florida; Atlanta, Georgia; Cincinnati, Ohio; Nashville, Tennessee; Seattle, Washington; and Washington, D.C.; Human Capital Office Labor Relations management and staff located in Laguna Niguel, California, and Washington, D.C.; the Office of the Deputy CFO located in Washington, D.C.; and the Office of the Deputy Chief Counsel (Operations) located in Washington, D.C., during the period March through July 2015. It is important to note that the IRS and TIGTA reviews relate to the proper identification and reporting of known cases of purchase card abuse. Uncovering 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.

¹⁰ 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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Results of Review

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

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

TIGTA found that the IRS identified and reported 10 instances of confirmed purchase card misuse. TIGTA's independent review identified one additional case of confirmed purchase card misuse and five additional cases of potential purchase card misuse pending final agency action and/or investigation.¹¹ Of the 10 confirmed cases identified by the IRS, three purchases were for over-the-counter medication; three purchases were for plates, napkins, plastic cutlery, cups, and bottled water; and four purchases were for hand sanitizer or tissues. The 10 confirmed purchase card misuse cases collectively totaled just over \$550. In three instances, employees returned the prohibited items or some of the items that had not yet been distributed. In another instance, the IRS determined that the employee may be required to reimburse the Government for the purchase, but it had not requested restitution by the employee at the time of our report issuance. The one additional confirmed misuse case identified by TIGTA involved the use of a non-priority source (vendor) for the purchase of a permitted item for a valid business need. According to the IRS, its research determined that the use of a non-priority source (vendor) by the purchase cardholder resulted in an additional cost (loss) to the Government of \$168.

Two of the five additional cases of potential purchase card violations identified by TIGTA but not reported by the IRS are currently under TIGTA Office of Investigations review. Details of these two cases were not available to the IRS.¹² The other three potential purchase card violations are still pending IRS final agency action. Two of the three cases have undergone a preliminary review by the IRS and may be determined to be "administrative in nature" and may not meet the requirements for inclusion in the next semiannual Purchase Card Violations Report.¹³ However, a final determination on these cases has not been made, and as a result, TIGTA regards them as pending agency action and therefore required to be reported. These two potential misuse cases involved the purchase of a projector and eight external hard drives.

¹¹ We identified an additional instance of purchase card misuse involving a purchase not from a priority source (vendor). However, the amount of loss to the Government could not be determined.

¹² Because the IRS does not always have access to all case and complaint information contained in the TIGTA Office of Investigations Performance and Results Information System database, discrepancies in reportable figures may occur for this particular category (pending investigation).

¹³ One of the three cases was referred to IRS Chief Counsel and was therefore closed by the CCS Branch; however, the outcome of that case is still pending within Chief Counsel.



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With the exception of these four unreported cases of confirmed and/or potential purchase card misuse for which details were available to the IRS, the Purchase Card Violations Report was prepared by the IRS pursuant to the requirements outlined in the Charge Card Act and in OMB Memorandum M-13-21. See Appendix IV for a copy of the IRS's Purchase Card Violations Report.

With respect to disciplinary action, for one of the 10 cases identified by the IRS, written counseling was provided to the employee, whereas IRS managers closed the other nine cases without disciplinary action. For instances in which the case was closed without disciplinary action, the cardholder does receive notification of the violation. Based on IRS policy, a second offense by the subject cardholders could lead to more formal disciplinary actions.

TIGTA reviewed the violations the IRS identified for the Purchase Card Violations Report, the methodology the IRS used to identify those violations, and related supporting documentation. TIGTA's Office of Audit also reviewed information provided by TIGTA's Office of Investigations on purchase card abuse cases and complaints occurring during the review period. In addition, we followed up on the status of four cases previously reported as pending final agency action and/or under review by the TIGTA Office of Investigations in our prior review. Of the three cases identified by the IRS as pending, all involved personal use violations and have subsequently been confirmed, with one of the cardholders receiving written counseling and two cases closed without management disciplinary action in response to the purchase card abuse. These three cases are included among the 10 confirmed purchase card misuse cases reported by the IRS during the current reporting period. The one case previously reported as under review by the TIGTA Office of Investigations remains under review.

While the IRS has policies and controls in place to reduce the risk of fraud and inappropriate use of purchase cards, we determined that the IRS's practice is to not report instances of purchase card misuse involving purchases made for a valid business need, but not procured from an authorized priority source vendor, which resulted in additional cost (loss) to the Government. On June 9, 2014, the IRS AWSS issued internal guidance titled *Inappropriate Use Referral Criteria*, which provided policy for the CCS Branch to establish criteria for determining when to refer inappropriate purchase card use to Labor Relations. Specifically, the guidance states that the CCS Branch will conduct monthly reviews, identify inappropriate purchase card use, and, if criteria are met, refer those cases to Labor Relations for disciplinary action. Cases involving "proper purchases" (for a valid business need) with processing errors only (such as purchases made outside required sources or items purchased without prior funding and/or management approval) may avoid referral to Labor Relations based on this AWSS policy. Further, the CCS Branch considers such improperly processed purchases to be "administrative in nature" and therefore not reportable for the purposes of the semiannual Purchase Card Violations Report. TIGTA does not concur with this approach.

The Charge Card Act implementing guidance, as outlined in OMB Memorandum M-13-21, specifies that such purchases are not required to be reported only if they do not result in a loss to



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the Government. As a result, TIGTA believes that purchases not procured from an authorized priority source, that result in additional cost (loss) to the Government constitutes waste as defined by the Government Accountability Office¹⁴ and should be addressed by agency management and documented in the IRS's Purchase Card Violations Report.

Review of the Department of the Treasury Charge Card Management Plan and the IRS's charge card guidance

TIGTA reviewed the Department of the Treasury Charge Card Management Plan and determined that it had been updated to include the new internal controls required by the Charge Card Act and OMB M-13-21.¹⁵ Those controls require agencies to verify that payments made directly to the bank from the Government are not also paid to an individually billed account, agencies submit requests to common carriers for partial or full refunds on unused tickets, and agencies develop penalties and disciplinary actions for charge card violations. We will review the IRS's Fiscal Year 2015 annual assurance statement under the Federal Managers' Financial Integrity Act of 1982¹⁶ (due annually on October 1) in our next semiannual report due in January 2016.

We also reviewed the IRS's current charge card guidance and determined that policies and controls were in place to mitigate the risk of fraud and inappropriate Government travel and purchase charge card practices, including internal controls that address centrally billed travel card accounts. For example, the IRS conducts monthly and quarterly reviews of purchase card activity, which are used to identify instances of inappropriate purchase card use and reported in the ALERTS. In addition, the IRS stated that it plans to implement additional internal oversight reviews of all unused tickets, including those charged to its centrally billed card accounts. IRS officials expect to begin these new reviews by the end of Fiscal Year 2015. We will review these new policies in our next semiannual audit report due in January 2016.

Recommendation

Recommendation 1: The Chief, AWSS, should ensure that cases of purchase card misuse involving purchases not procured from an authorized priority source, which result in additional cost (loss) to the Government, are addressed and documented in the IRS's semiannual Purchase Card Violations Report.

¹⁴ Per the Government Accountability Office, waste involves taxpayers not receiving reasonable value for money in connection with any Government-funded activities due to an inappropriate act or omission by persons with control over or access to Government resources (*e.g.*, executive, judicial, or legislative branch employees; grantees; or other recipients). Most waste does not involve a violation of law. Rather, waste relates primarily to mismanagement, inappropriate actions, and inadequate oversight.

¹⁵ The Department of the Treasury provided TIGTA with a copy of the Fiscal Year 2015 Charge Card Management Plan.

¹⁶ 31 U.S.C. §§ 1105, 1113, 3512 (2006).



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Management's Response: The IRS disagreed with the recommendation and stated that non-priority vendors are not considered unauthorized sources. IRS policy requires priority sources to be used first, and if the priority sources cannot provide the goods/services (out of stock, delayed delivery, minimum orders, *etc.*), cardholders are permitted to purchase from the open market. Purchases from open market vendors may result in an additional cost but can also result in reduced costs. When purchasing from the open market, competitive quotes are not required for micro-purchases of \$3,000 or less.

The IRS will continue to require documentation for purchases made from the open market when the items are not available from priority sources. Instances of missing documentation will be addressed as an administrative issue and reported to management for appropriate disciplinary action, but they will not be included in the semiannual Purchase Card Violations Report.

Office of Audit Comment: TIGTA agrees that there are occasions when an open market purchase is appropriate. However, the Federal Acquisition Regulation and IRS policy require purchase cardholders to consider priority sources (vendors) first. Therefore, we continue to believe that when the IRS identifies purchases that do not comply with these procedures, even for a valid business need, and that result in additional cost (waste) to the Government, the additional costs should be considered a loss. According to the Charge Card Act implementing guidance outlined in OMB Memorandum M-13-21, violations that result in a loss to the Government should be included in the Purchase Card Violations Report.



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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 October 1, 2014, to March 31, 2015.² To accomplish our objective, we:

- I. Determined how the IRS implemented legislative requirements of the Charge Card Act for the period October 1, 2014, to March 31, 2015.
 - A. Reviewed Public Law No. 112-194, related OMB implementing guidance Memorandum M-13-21, OMB Circular A-123 (Appendix B), OMB Circular A-50, and any current Department of the Treasury and IRS policies and procedures related to Government charge cards and, specifically, purchase cards.
 - B. Interviewed key IRS personnel from the CCS Branch, the Office of the CFO, and Human Capital's Labor Relations office to determine:
 1. The approach used to prepare the IRS's semiannual Purchase Card Violations Report for the period October 1, 2014, to March 31, 2015, and determined if it is reasonable.
 2. How the IRS establishes when purchase cards have been misused by IRS employees.
 3. What personnel actions the IRS took in response to purchase card misuse.
- II. Reviewed purchase card (and convenience check) violations by IRS employees and identified the actions the IRS took as a result of those violations.³

¹ Pub. L. No. 112-194 (Oct. 2012).

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 abuse. Uncovering fraud and abuse not identified by the IRS system and management controls were beyond the scope of this audit.

³ The review period is from October 1, 2014, to March 31, 2015.



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- 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;⁴ 2) fraud;⁵ or 3) other loss, waste, or misuse.⁶
 - B. Determined the number of adverse personnel actions, punishments, or other actions taken in response to each reportable violation involving misuse of a purchase card for the specified period. We also determined whether the actions involved:
 - 1) demotions, 2) reprimands, 3) suspensions, 4) removals, or 5) any other adverse or administrative personnel actions.⁷
 - C. Determined the total number and status of all pending violations for the specified period. We also determined if these pending violations were: 1) pending investigation, 2) pending a hearing, 3) pending final agency action, or 4) pending decision on appeal.⁸
- III. Determined whether the Fiscal Year 2015 Department of the Treasury draft Charge Card Management Plan had been finalized and reviewed whether it had been updated to include the new controls over travel cards required by the Charge Card Act. Specifically, we reviewed whether the Charge Card Management Plan had controls:
- A. To 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.
 - B. To verify the IRS (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.
 - C. To implement penalties for charge card violations that are jointly developed by agency charge card management and human resources components.
 - D. To define and apply appropriate and consistent employee disciplinary procedures to comply with required joint external reporting.

⁴ 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.

⁵ 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 auditors' professional responsibility.

⁶ These three categories were identified in the General Services Administration's clarifying guidance of OMB Memorandum M-13-21, issued September 6, 2013.

⁷ These five categories were identified in the General Services Administration's clarifying guidance of OMB Memorandum M-13-21, issued September 6, 2013.

⁸ These four categories were identified in the General Services Administration's clarifying guidance of OMB Memorandum M-13-21, issued September 6, 2013.



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E. To comply with joint external reporting required of TIGTA and IRS management.

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 that the following internal controls were relevant to our audit objective: IRS internal policies and procedures and other guidance pertaining to travel cards, purchase cards, and convenience checks and the CCS Branch's inappropriate use forms, logs, and supporting documentation. To assess these 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 the ALERTS and the Performance and Results Information System databases. We also reviewed IRS policies and procedures related to the Charge Card Act, including controls over centrally billed travel card accounts.



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Appendix II

Major Contributors to This Report

Gregory D. Kutz, Assistant Inspector General for Audit (Management Services and Exempt Organizations)

Alicia P. Mrozowski, Director

Seth A. Siegel, Audit Manager

Suzanne Heimbach, Lead Audit Evaluator

George S. Hartman, Senior Auditor

Ahmed M. Tobaa, Senior Auditor



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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Chief Counsel CC
Deputy Commissioner for Services and Enforcement SE
Chief, Agency-Wide Shared Services OS:A
Chief Financial Officer OS:CFO
IRS Human Capital Officer OS:HC
National Taxpayer Advocate TA
Director, Procurement OS:A:P
Director, Office of Program Evaluation and Risk Analysis RAS:O
Director, Office of Audit Coordination OS:PPAC:AC
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

Internal Revenue Service Purchase Card Violations Report

PURCHASE CARD VIOLATIONS DATA	
I. Summary description of confirmed violations involving misuse of a purchase card or integrated card.¹	October 1, 2014, to March 31, 2015
a. Abuse.	0
b. Fraud.	0
c. Other loss, waste, or misuse: <i>Cardholders purchased restricted or prohibited items.</i> ²	10
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.³	October 1, 2014, to March 31, 2015
a. Documentation of Counseling: <i>Oral counseling or cautionary letter issued.</i>	1
b. Demotion.	0
c. Reprimand.	0
d. Suspension.	0
e. Removal.	0
f. Other (no action taken): <i>Closed without IRS management disciplinary action.</i>	9
III. Status of all pending violations.	October 1, 2014, to March 31, 2015
a. Number of violations pending investigation. ⁴	0
b. Number of violations pending hearing.	0
c. Number of violations pending final agency action. ⁵	0
d. Number of violations pending decision on appeal.	0

¹ Terms used are defined in the *Government Auditing Standards* (Government Accountability Office, GAO-12-331G, *Government Auditing Standards* (Dec. 2011)).

² TIGTA's independent review identified one additional case of confirmed purchase card misuse, which incurred a measurable loss (additional cost) to the Government.

³ This summary is for adverse personnel actions, not for administrative errors.

⁴ TIGTA's independent review identified two additional cases of potential purchase card misuse pending TIGTA investigation.

⁵ Two additional pending cases appear in IRS records. However, the IRS did not report those cases because its initial review indicated that the purchase card violations in question may not meet the reporting requirements for inclusion in the next semiannual Purchase Card Violations Report. One additional case found in IRS records was referred to Chief Counsel and is pending final agency action.



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Appendix V

Management's Response to the Draft Report

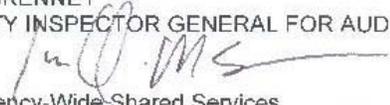


CHIEF
AGENCY-WIDE
SHARED SERVICES

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

July 22, 2015

MEMORANDUM FOR MICHAEL E. MCKENNEY
ACTING DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Kevin Q. McIver 
Acting Chief, Agency-Wide-Shared Services

SUBJECT: Draft Audit Report - Review of the Internal Revenue Service's
Purchase Card Violations Report (Audit #201510011)

Thank you for the opportunity to respond to the subject draft audit report. The overall objective of this review was to assess the Internal Revenue Service's (IRS) implementation of and compliance with the Government Charge Card Abuse Prevention Act of 2012 requirements for the period October 1, 2014, to March 31, 2015.

Effective training and internal controls contribute to the extremely low number of instances of misuse by IRS purchase cardholders. The dollars associated with the identified misuse (approximately \$700) are minimal compared to the total spend of over \$8.7 million for this reporting period.

With respect to the current report, we are providing the following comments:

The reference to five pending cases in the Highlights page is inconsistent with Page 4 of the report, which reflects four pending cases.

We take exception to the characterization of open market purchasing as misuse. We contend that there are occasions when open market purchasing is appropriate and should not automatically be considered as purchasing from "unauthorized sources". IRS policy requires priority sources to be used first and if the priority sources cannot provide the goods/services (out of stock, delayed delivery, minimum orders, etc.), cardholders are permitted to purchase from the open market. Purchases from the open market vendors may result in an additional cost but may also result in reduced cost. When purchasing from the open market, competitive quotations are not required for micro-purchases of \$3,000 or less.

Therefore, we do not agree with the recommendation in the Draft Report. IRS will continue to require documentation for purchases made from the open market when the items are not available from priority sources. Instances of missing documentation will



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be addressed as an administrative issue, reported to management for appropriate disciplinary action, but will not be included in the Semi-Annual Purchase Card Violations Report. Refer to Attachment 1.

If there are technical questions, a member of your staff may contact James O'Reilly, Acting Director, Employee Support Services, at (860) 756-4540. For matters concerning audit procedural follow-up, please contact Pat Alvarado, Resource & Operations Management, Agency-Wide Shared Services, at (202) 622-5542, or Steven Scheer, Resource & Operations Management, Agency-Wide Shared Services, at (901) 546-4515.



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Attachment 1

The Chief, Agency-Wide Shared Services, should implement improved controls that:

RECOMMENDATION 1:

The Chief, Agency-Wide Shared Services, should ensure that cases of purchase card misuse involving the use of unauthorized sources which result in additional cost (loss) to the Government are addressed and documented in the IRS's Semi-Annual Purchase Card Violations Report.

CORRECTIVE ACTION:

We do not agree with this recommendation, and non-priority vendors are not considered unauthorized sources. IRS policy requires priority sources to be used first and if the priority source cannot provide the goods/services (out of stock, delayed delivery, minimum orders, etc.) Cardholders are permitted to purchase from the open market. Purchases from the open market vendors may result in an additional cost but can also result in reduced cost. When purchasing from the open market, competitive quotations are not required for micro purchases of \$3,000 or less.

IRS will continue to require documentation for purchases made from the open market when the items are not available from priority sources. Instances of missing documentation will be addressed as an administrative issue, reported to management for appropriate disciplinary action, but will not be included in the Semi-Annual Purchase Card Violations Report.

IMPLEMENTATION DATE: N/A

RESPONSIBLE OFFICIAL:

Acting Director, Employee Support Services, Agency-Wide Shared Services

CORRECTIVE ACTION MONITORING PLAN: N/A