

GYM MEMBERSHIPS, GIFT CARDS AND HAIR SALONS: EXAMINING THE MISUSE OF GOVERNMENT-SUPPLIED CREDIT CARDS

HEARING

BEFORE THE
SUBCOMMITTEE ON GOVERNMENT OPERATIONS
OF THE

COMMITTEE ON OVERSIGHT
AND GOVERNMENT REFORM
HOUSE OF REPRESENTATIVES
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GYM MEMBERSHIPS, GIFT CARDS AND HAIR SALONS: EXAMINING THE MISUSE OF GOVERNMENT-SUPPLIED CREDIT CARDS

Tuesday, October 14, 2014

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT OPERATIONS,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, D.C.

The subcommittee met, pursuant to call, at 1:04 p.m., in Room 2154, Rayburn House Office Building, Hon. John Mica [chairman of the subcommittee] presiding.

Present: Representatives Mica, and Connolly.

Staff Present: Melissa Beaumont, Assistant Clerk; Molly Boyl, Deputy General Counsel and Parliamentarian; Ashley Callen, Deputy Chief Counsel for Investigations, Linda Good, Chief Clerk; Ashok Pinto, Chief Counsel, Investigations; Andrew Rezendes, Counsel; Laura Rush, Deputy Chief Clerk; Jessica Seale, Digital Director; Jaron Bourke, Minority Administrative Director; Courtney Cochran, Minority Press Secretary; Juan McCullum, Minority Clerk; and Cecelia Thomas Minority Counsel.

Mr. MICA. Good afternoon. I would like to welcome everyone to the Subcommittee on Government Operations.

And this is a subcommittee of the House Oversight and Government Reform Committee for this hearing on October 14.

And, first of all, I thank my ranking member Mr. Connolly for being here and for our negotiating and working together to make this hearing a reality, which hasn't been a very simple process.

We had planned to conduct this hearing I think at least two times before. One time they eliminated votes that eliminated votes that week and members didn't return. Another time we had it scheduled. And this is the convenient time for this hearing. And, also, we have tried to conduct as many oversight hearings as we can. I think it's an important responsibility not only of this committee but the Congress, to see how taxpayer dollars are expended.

So, first, I thank the ranking member for his forbearance and also cooperation in making this—in this campaign season—a top priority in interest of the American people and the taxpayers who pay the bill.

The title of the hearing today is involves gym memberships, gift cards, and hair salons. And the purpose is actually examining the misuse of government-supplied credit cards.

So as we start this hearing, we always—Mr. Issa starts the hearing—and cites a little principle statement of the purpose of our hearings and this committee and subcommittee.

There are appropriators in Congress, and there are authorizers in Congress who write legislation. Everything outside the Constitution is created by law or funded by Congress. Early on, in about 1808, the Founding Fathers created the forerunner of this committee, and that is the Government Reform and Oversight Committee today.

And we've had various names of that purpose, but it's one of the few governments that I know on the planet that has additional check on how money is expended for programs that are authorized by government. And it is an important responsibility because the public has the right to know how their money is spent. It's our duty to see that that money is properly spent.

So with that little opening statement of our principles and purpose of the committee, I want to, again, turn to the order of business, which will be opening statements from myself, the ranking member, Mr. Connolly. Then we'll recognize the witnesses that we have. We have five witnesses today. And then we'll proceed with questions. I appreciate our witnesses appearing.

Again, the purpose of the whole hearing is to look at the way credit cards and micropurchases, small purchases are made. We formed a program several years back—I think it's actually 30 years back, to allow the use of credit cards. And the program allows, again, a government-issued credit card for small purposes.

This program is administered by GSA and actually, we did a hearing prior to 2012 looking at some of the abuses and misuse of credit cards in anticipation of trying to improve that process. The program gives Federal departments and agencies and employees the flexibility for these small purchases, which are currently capped at \$3,000.

One of the key benefits of this program, the credit card program, is it allows the government to avoid burdensome administrative costs and a lot of paperwork. But, unfortunately, while it does simplify the process and it does save money, it does have some serious drawbacks.

In 2008, the Government Accountability Office published a report that found internal control weaknesses in agency purchase card programs exposed the Federal Government to fraud, waste, abuse, and also loss of assets. And that is quoted from that report.

Congress responded to this and some other very serious audit findings by passing a bill that some of us were involved in in 2012 that was called the Government Charge Card Abuse Prevention Act of 2012. And this hearing is actually a follow-up to see what has taken place since we passed that law and how effective it has been.

This act, among other things, required tighter controls and also allowed departments and agencies to fire employees who engage in fraud when using a government card to make purchases. It also directs the inspectors general to engage in annual reviews of the program. We are going to highlight and focus on one of those reviews in this hearing today.

This act does not apply to the Department of Defense. However, today we've invited one representative of the military, the Air Force to testify about how they avoid fraud in the agency's purchase card program. We also will hear from the Air Force about

whether they need a statute like we have, the Government Charge Card Abuse Prevention Act, which, again, we passed in 2012 but exempted the DOD. And we will question as to whether we think that type of law needs to be imposed on DOD.

Today I expect to hear from some of the civilian agencies about the effectiveness of the act. And one of the reports that we are going to cover here—we have actually—this is part of what this hearing was called for back in March. And, again, we’ve had a delay in conducting this hearing. But in March, the Office of Inspector General of EPA issued this report entitled, “Ineffective Oversight of Purchase Credit Cards Results in Inappropriate Purchases at EPA.” And we’ll hear from the EPA IG in that regard.

We will find from that report that the EPA did not provide effective controls required by the 2012 law. The IG found that more than half the credit card purchases sampled—now listen to this. They took a sampling. But half of those that were sampled were either prohibited, improper, or erroneous purchases.

In fact, again in that report—that’s quite startling—but 94 percent of their review of the EPA transactions were not in compliance with EPA—and this is their words—“not in compliance with EPA policies,” according to the law.

We have evidence that DHS spent \$12,000, all purchases and charges at one particular coffee shop in California. I got a little Starbucks here. We are not supposed to show any labels. But they bought \$12,000 worth of Starbucks coffee at this California location in 2013. This is just the Coast Guard in that one Starbucks, a pretty heavy bill with those credit cards. But we now are up to more than \$31,000 that DHS spent at that Starbucks, again, looking at different reports that have been filed.

A recent report suggests that the Bureau of Land Management used government charge cards to buy almost \$800,000 in gift cards. This is another recent report, and this is the Office of Inspector General at the U.S. Department of Interior. So we have another agency that, again, has gone wild with these micro charge card purchases. The bureau is not with us today, but we intend to follow up with that agency and any others we see with abuses.

Another example of abuses in the Department of Labor. The Inspector General Office is with us today to discuss the serious abuses they have found when their office audited the Job Corps program. Let me focus on this report for just a moment because it’s a model for how an IG should operate and interact with the department over which it has oversight.

The Labor Department Office of Inspector General received a request for an audit and a review of the Job Corps in my home State and the city of Miami from the Department of Labor Management. The request related to allegations that the Miami office was abusing this credit card purchase program. The OIG conducted an audit and found that there were, indeed, individuals using government prepaid debit cards for their own personal gain at that Miami office. And they also found similar abuses across the U.S. Specific to Miami, the cards were used for nearly \$100,000 worth of trips to the hair salon, clothing stores, and payment of personal phone bills.

As a result of the OIG's work, again the Department of Labor OIG, and through their work, three Miami employees were terminated and were referred to authorities, and two other employees resigned. This demonstrates how the system should work. And we gave some pretty strong authority in that 2012 law to act. However, again, the Department of Defense is not covered by the act. But it's actually I think the government's largest purchaser. And we had done some preliminary review and found some serious abuses in DOD that need to be addressed.

This committee has examined similar instances of abuse of taxpayer dollars. In 2012, the Oversight Committee and Transportation and Infrastructure Committee, which I chaired at the time, held hearings on the infamous GSA Las Vegas conference. On September 25, that's not too many days ago—Jeff Neely, the now infamous GSA employee responsible for organizing the extravagant Las Vegas conference that caught everybody's eye—I have a picture of him. Everybody recalls this guy thumbing his nose at us in a hot tub. But it took all that time to document and go after the falsely filed travel vouchers and statements that Mr. Neely had made.

Mr. Neely represented GSA on several instances that his travel was for official purposes, and many of Mr. Neely's reported business trips, as we saw, were for pleasure. The individuals in Miami and Mr. Neely are the rare—let me say rare bad examples of Federal workers in our Federal workplace. The vast majority of Federal employees are honest and hardworking, dedicated individuals.

But I hope today's hearing will serve us as both a reminder that we need to do a better job monitoring this credit card program and also act as a deterrent to—and to deter bad actors.

Make no mistake, Congress, the Inspector Generals, your managers, and all of us in Congress will hold the offenders accountable. The American people work hard, send their taxpayer dollars to Washington, and they expect and they deserve to have accountability and responsible use of their tax dollars here.

If the 2012 law needs additional reform, we will reform it. If agencies fail to uphold the law, we will hold them accountable. Congress needs to be informed so that we can take the appropriate action, and I'm hoping this hearing will achieve that goal.

Today we'll be sending—and again, this is not a Republican-Democrat political issue. This is the fiscal responsibility and proper conduct and operations of our Federal Government and agencies. And Mr. Connolly has worked in lockstep, has never faltered a moment in assisting in this effort to go after, again, people who abuse the law. He is joining me today in sending a letter to GAO requesting an update to the audits and investigations they have previously conducted on purchase credit card fraud.

Mr. Connolly has signed on to this request, so it's from the both of us. And without objection, a copy of that letter will be made a part of the record. So ordered, without objection.

Mr. MICA. But I want to thank, again, Mr. Connolly for his steadfast commitment to, again, going after abuses where we see it, his strong support of Federal employees, and we try to make certain that they are rewarded and recognized.

But also, while this is a small and rather quiet hearing today, it is important. And I thank him for his commitment.

I thank the witnesses for their participation and look forward to their testimony.

And let me recognize the distinguished ranking member from the nearby State of Virginia, Mr. Connolly. Thank you sir.

Mr. CONNOLLY. Thank you, Chairman Mica.

And I thank you for the 2 years we've had the opportunity to work together, we have absolutely worked on a bipartisan basis on our agenda for this subcommittee.

And I appreciate that, the commitment of your staff and my staff to making that happen.

It is a model for how I think the broader committee and the committee structure in Congress can work. We don't pretend we don't have disagreements. But we have been able to find common ground. And I really appreciate your leadership in that regard and your friendship. Thank you, Chairman Mica.

And, by the way, I think we're the only show in town today.

Mr. MICA. A small but important activity today. I thank you again for attending.

Mr. CONNOLLY. I was greeting our panel and telling them how lucky they were to be part of the only show in town here on the Hill.

The subcommittee is addressing an issue of Federal financial management that boasts broad bipartisan agreement over the desired outcomes; namely, dramatically reducing incidents of waste, fraud, and abuse involving government charge cards while ensuring agencies are identifying abusers and taking appropriate enforcement actions to deter such conduct. I have long believed that to build trusts in public institutions, it's absolutely vital for public servants to conduct themselves in a manner that reduces both real and perceived risks of such waste, fraud, and abuse.

When I served on the Fairfax County Board of Supervisors and as its chairman for 5 years, I made it the policy of my office never to use or possess a purchase card, which not only eliminated any risk of waste, fraud, and abuse but also carried considerable value with respect to enhancing our community's trust in its local government, a vital characteristic that may be difficult to quantify but I think is absolutely essential for good government. I don't necessarily subscribe to that model for the entire Federal Government, but it has something to commend it.

Ensuring that agencies actually implement corrective actions in response to the IG recommendations is a critically important facet of congressional oversight, and I look forward to receiving a progress update this afternoon.

In addition to reviewing those three IG reports, I also look forward to learning more about how the Air Force is improving its charge card program after examining one specific \$24,000 procurement of what surely must be high quality commercial-grade espresso machines intended to serve thousands of servicemembers on a daily basis. Although this acquisition was certainly not a small dollar charge card purchase, it recently garnered negative press attention due to the cost alone. And I hope our Air Force witness can provide us with the next context to fully understand why the purchase was made for these machines and the costs associated with it.

We must also examine the effectiveness of our own efforts here in Congress. And I look forward to reviewing the implementation of a bipartisan Government Charge Card Abuse Prevention Act of 2012, which you mentioned, Mr. Chairman, which the Oversight Committee considered and favorably reported back in 2011 prior to its unanimous passage by Congress and enactment late in 2012.

Finally, it's also important that our subcommittee provide context to ensure that we do not throw the proverbial baby out with the bath water.

Moving beyond specific cases of abuse that certainly make my own blood boil to truly safeguard taxpayer dollars, one must understand that evidence derived from nearly 16 years of experience with Federal charge card programs seems to indicate that in authorizing frontline Federal employees to use charge cards to make micropurchases, Congress actually facilitated a more efficient procurement system that continues to achieve actual cost savings and cost avoidances that outstrip the estimated costs associated with obviously unacceptable instances of charge card abuse.

According to the GSA, taxpayers benefit from charge card programs because they cost agencies nothing to obtain charge card services and the use of the cards has generated more than \$1 billion in gross agency rebates over the past decade alone, resulting from contractual provisions requiring the credit card companies to pay rebates, also known as refunds, to agencies based on the amounts charged to the cards.

It is vital we not overreact in response to outrageous but isolated incidents of abuse with broad one-size-fits-all restrictions that revert our Federal procurement system back to the pre-1998 era, which featured higher administrative burdens and more cumbersome bureaucracy that resulted from agencies being unable to utilize government charge cards as a low-cost method to streamline acquisition.

As the Office of Management and Budget noted in a government-wide memorandum reminding agencies of the obligations to consider small businesses when making micropurchases, the majority of the approximately 260,000 purchase cards in circulation are in the hands of frontline civil servants to efficiently support mission delivery. To be clear, I'm not minimizing the findings of numerous Government Accountability Office reports and the IG audits in front of us over the last decade that identified inadequate and inconsistent controls across Federal agencies with respect to both purchase and travel cards.

In fact, that's one of the reasons I certainly enthusiastically supported the Government Charge Card Abuse Prevention Act. I further recognize that while Congress codified the majority of the GAO's recommendations in passing that bill, as the findings of DHS, DOL, and EPA reveal, much more work remains to be done. And I certainly am prepared to join with you, Mr. Chairman, in inking an additional legislative remedy, if that's what's required.

As the GS conference scandal demonstrated, the nature of misconduct often results in consequences that go far beyond the pure dollars wasted. For example, in my district, constituents and industry often raise concerns that in our response to that outrageous \$800,000 boondoggle, the Federal Government may have uninten-

tionally swung the pendulum too much in the other direction, preventing effective communication between public and private sectors, inhibiting interagency coordination, and perhaps even having a chilling effect on the innovation that occurs from networking.

The bottom line is that we cannot rest until we have significantly enhanced internal control standards to lessen the risk of waste, fraud, and abuse.

For the disgraced minority of those who abuse government charge cards, we must ensure that the consequences are consistently implemented and appropriate in relation to the severity of the abuse. It's absolutely vital that we enhance enforcement to ensure justice is carried out and to ensure credibility on the part of the Federal Government and with its taxpayers. And also do right by the vast majority of Federal employees who, as you indicated, Mr. Chairman, are hardworking and honest civil servants.

With that, I look forward to this hearing and look forward to our testimony. Thank you, Mr. Chairman.

Mr. MICA. I thank the ranking member, Mr. Connolly, for his statement.

And all members may have 7 days to submit opening statements for the record.

Now let me turn to recognize our panel.

I will introduce them. First we have Janet Kasper. Janet Kasper is the director of contracts and assistance agreements audits in the Office of Inspector General at the U.S. EPA.

Mr. Elliot Lewis is the assistant Inspector General for audits at the U.S. Department of Labor.

Ms. Anne Richards is the Assistant Inspector General for audits at the U.S. Department of Homeland Security.

Mr. John Lyle is the Associate Deputy Assistant Secretary for contracting at the United States Air Force.

And Mr. H.L. Larry is the Deputy Director of Air Force Services at the United States Air Force.

I thank all of the witnesses. I welcome them today. I don't know if you have come before our committee or our subcommittee before, but this is an investigation of an oversight committee of Congress.

And in accordance with our rules, we do swear in our witnesses. So if you will please stand, I will administer the oath.

Raise your right hand, please. Do you solemnly swear or affirm that the testimony you are about to give before this subcommittee of Congress, is the whole truth and nothing but the truth?

All of the witnesses, the record will reflect, answered in the affirmative.

And, again, I welcome you and thank you for coming today.

Of course we don't have as many members today, since we are not voting. But we try to limit you to 5 minutes, which if you have to go a little bit over, I think today would be okay. We do have copies of your statements that were prepared and submitted to the committee, which will be made a part of the record. Without objection, so ordered. So you can, again, try to make some major points to the panel this afternoon.

And we will run the clock. But again we'll try to give you as much leeway as possible. And then we'll go through all of the five

witnesses. And then Mr. Connolly and I will direct questions to the witnesses.

So with that, first let me recognize for the purpose of her testimony Janet Kasper, director of contracts and assistance agreement audits at the U.S. Inspector General's Office of EPA. Welcome and you are recognized.

Pull the mic up, too, as all of you testify so we can hear you. Thank you.

WITNESS STATEMENTS

STATEMENT OF JANET KASPER

Ms. KASPER. Good afternoon, Chairman Mica, Ranking Member Connolly, and members of the subcommittee. Thank you for inviting me to appear before you today.

The government purchase card program was established over 30 years ago to provide—to streamline the Federal acquisition process by providing a low-cost, efficient vehicle for obtaining goods and services. The Government Charge Card Abuse Prevention Act of 2012 was designed to prevent recurring waste, fraud, and abuse of government purchase cards.

In 2012, EPA had 2,071 employees who were assigned purchase cards. Of those, more than half were active cardholders who transacted \$29 million in purchases. In addition, EPA had 1,000 check writers, totaling more than \$500,000. The Charge Card Abuse Prevention Act of 2012 states that the Inspector General is to conduct periodic assessments of the agency's purchase card program to identify risk of illegal, improper, or erroneous payments.

In March 2014, the EPA OIG issued a report on EPA's management of purchase cards. The objective of the audit was to determine whether EPA's use of purchase cards—whether EPA has sufficient controls to identify potentially illegal, improper, and erroneous use of purchase cards. Overall, we found that EPA's oversight is not effective to ensure purchase cardholders and approving officials comply with internal controls.

Of \$152,602 in transactions we sampled, we found \$79,254 of prohibited, improper, and erroneous purchases. The improprieties range from missing approvals to more serious issues of using cards for prohibitive purchases.

Specifically, the internal control oversight issues we identified in one or more transactions included: Cardholders should not verify receipt of purchase items; cardholders did not obtain approval prior to making purchases; cardholders and approvers did not apply closer scrutiny to transactions, such as clothing entertainment and light refreshments.

There were some transactions that, in our opinion, were more egregious than others. EPA policies allow for the purchase of light refreshments for an award recognition ceremony. From one transaction we reviewed, EPA provided four different appetizers, chicken tenderloin, fresh fruit, pasta salad, cookies, soft drinks, and punch, much more than just slight refreshments. The total cost of the food was \$2,900.

In 13 of 80 transactions we reviewed, cardholders did not follow requirements related to restricted transactions. For example, in

three instances, cardholders who were not acquisition professionals purchased gym memberships that required prepayment of services totaling \$2,867. Two of these purchases were for family memberships, not just the EPA employee.

Our audit found the approving officials did not review purchase logs for 14 of the 80 transactions. For one transaction, the approving official incorrectly assumed that since he had preapproved the purchase, he did not have to review the purchase card quarterly—the purchase card log quarterly. Consequently, he was unaware that the funder and cardholder amended his prior approval to purchase an additional item for \$805 for personal use.

In conclusion, 75 of 80 reviewed transactions were not in compliance with EPA policies. These transactions were undetected because EPA approving officials and purchase card team.

Improved purchase card oversight potentially saves money by reducing prohibited, improper, and erroneous purchases which would be especially beneficial in the current budget environment.

To improve transparency, during the past year, the OIG has started to publish reports on its own compliance with laws, regulations, and procedures. As part of this effort, the OIG initiated a detailed audit of its own internal controls over purchase cards. We plan to make that report public very soon.

Mr. Chairman, this concludes my prepared statement. I would like to thank the subcommittee for your continuing support for the OIG's mission and your robust interest in our work.

I would be pleased to answer any questions you or the subcommittee members may have.

Mr. MICA. Thank you for your testimony, Ms. Kasper.

[Prepared statement of Ms. Kasper follows:]

**Statement of
Janet Kasper
Director, Contracts and Assistance Agreement Audits
Office of Inspector General
U.S. Environmental Protection Agency
Before the
House Oversight and Government Reform Committee,
Subcommittee on Government Operations
U.S. House of Representatives
October 14, 2014**

Good afternoon, Chairman Mica, Ranking Member Connolly and members of the subcommittee. I am Janet Kasper, Director of Contracts and Assistance Agreement Audits at the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA). Thank you for inviting me to appear before you today. I appreciate the opportunity to submit a statement for the hearing record about our recent assessment of the agency's purchase card program. This report addresses the agency's theme of "embracing EPA as a high performing organization."

Promoting economy, efficiency, effectiveness, and the prevention and detection of fraud, waste, and abuse through the independent oversight of the programs and operations of the EPA and the U.S. Chemical Safety and Hazard Investigation Board is the mission of our OIG.

BACKGROUND

The government purchase card program was established more than 30 years ago to streamline the federal acquisition processes by providing a low-cost, efficient vehicle for obtaining goods and services directly from vendors. The General Services Administration (GSA) administers the governmentwide purchase card program. GSA contracts with several banks, including J.P. Morgan Chase, the bank the EPA uses to provide purchase cards to its employees.

The Government Charge Card Abuse Prevention Act of 2012 was enacted on October 5, 2012. It is designed to prevent recurring waste, fraud and abuse of government charge cards. The law requires agencies to take appropriate personnel actions for employees who violate purchase card guidelines or make erroneous, improper or illegal purchases. Under the law, the OIG is to look for:

- Potentially illegal, improper or erroneous uses of purchase cards.
- Any patterns of such uses.
- Categories of purchases that could be made by means other than purchase cards in order to better aggregate purchases and obtain lower prices.

Office of Management and Budget Circular A-123, Appendix B, Improving the Management of Government Charge Card Programs, established minimum requirements and best practices for agency purchase card programs. In addition, Appendix B requires that each agency develop and maintain written policies and procedures for the appropriate use of government purchase cards.

EPA PURCHASE CARD PROGRAM

In fiscal year (FY) 2012, the EPA had 2,071 employees who were assigned purchase cards. Of those, 1,370 were active cardholders who transacted more than \$29 million in purchases. In addition, the EPA's 309 convenience check writers wrote more than 1,000 checks totaling more than \$500,000. The bank contract provides refunds based on annual net volume of sales as well as prompt payment, and the EPA estimated that FY 2012 refund dollars totaled \$350,900. Some employees have cards only for emergency response purposes.

Within the EPA, the Office of Acquisition Management, within the Office of Administration and Resources Management, is responsible for administering the purchase card program and serves as the liaison between cardholders and the contracted bank. The EPA purchase card team establishes policies and training requirements. It oversees set up and cancellation of accounts and provides ongoing advice to cardholders and approving officials. In addition, the team conducts purchase card oversight to ensure that the program is operating in accordance with applicable guidance.

AUDIT OF EPA PURCHASE CARD PROGRAM

In March 2014, the EPA OIG issued Report No. 14-P-0128, *Ineffective Oversight of Purchase Cards Results in Inappropriate Purchases at EPA*. We had conducted an audit based on a requirement in the *Government Charge Card Abuse Prevention Act of 2012* that states the Inspector General is to conduct periodic assessments of the agency's purchase card program to identify risks of illegal, improper or erroneous purchases. The objectives of our audit were to determine whether the EPA:

- Has sufficient controls to identify potentially illegal, improper and erroneous use of purchase cards.
- Is analyzing purchase card transactions to identify purchases that could be made by other means to obtain lower prices.

We evaluated the EPA's purchase card and convenience check internal controls by interviewing purchase cardholders, approvers and management responsible for oversight. We used a focused sampling plan and tested the effectiveness of internal controls through review of transactions selected. In total, we reviewed 80 of 67,000 purchase card transactions that occurred during FY 2012. In selecting transactions for review, we focused on atypical transactions and transactions that may have a higher risk. We used this risk-based approach rather than a statistical sample to identify cases of illegal, improper or erroneous purchases as emphasized by the *Government Charge Card Abuse Prevention Act of 2012*.

EPA DID NOT PROVIDE EFFECTIVE OVERSIGHT

Overall, we found that the EPA's oversight is not effective – because of inattention to EPA policies by cardholders, approving officials and the purchase card team – to ensure that purchase cardholders and approving officials comply with internal control procedures. Of \$152,602 in transactions we sampled, we found \$79,254 of prohibited, improper and erroneous purchases.

This lack of compliance indicates a continued risk of prohibited, improper and erroneous purchases.

Although cardholders must evaluate each purchase request to ensure that it complies with federal and agency acquisition rules, in many transactions, they did not. The approving official is responsible for conducting personal and detailed reviews of cardholders' transactions to ensure compliance with all applicable regulations, policy, special approvals and purchase card procedures; however, the approving official frequently did not provide the required oversight.

Specifically, the internal control oversight issues that we identified in one or more transactions were:

- Cardholders did not verify receipt of the purchased items.
- Cardholders did not obtain approval before making the purchase.
- Transactions were not funded prior to purchase.
- Purchase logs were not reviewed by the approving official.
- Policies related to restricted transactions that require purchases be made by an acquisition professional were not followed.
- Required sources were not used.
- Cardholders and approvers did not apply closer scrutiny to transactions such as clothing, entertainment and light refreshments.
- Records were not maintained.
- Prohibited transactions were approved and purchased.

There were some transactions that, in our opinion, were more egregious. We found that the required closer scrutiny was not performed when purchasing food for an awards recognition ceremony. EPA policies allow for the purchase of light refreshments, but not meals, for an award recognition ceremony. Light refreshments, as defined in EPA policy and GSA regulation, include coffee, tea, soft drinks, donuts, bagels, fruit, pretzels, cookies, chips or muffins, but do not include all elements of a meal. For one transaction we reviewed, food and beverages called "light refreshments" amounted to four different appetizers, chicken tenderloin, fresh fruit, pasta salad, cookies, soft drinks and punch. The total cost was \$2,900, just under the purchase card \$3,000 per-transaction limit.

In 13 (or 15 percent) of the 80 transactions we reviewed, valued at \$21,465, cardholders did not follow requirements related to restricted transactions. EPA policy identifies certain transactions as restricted for purchase only by acquisition professional cardholders. Cardholders who were not acquisition officials purchased such items. For example, in three instances, cardholders who were not acquisition professionals purchased gym memberships that required pre-payment for services totaling \$2,867. Two of those purchases were for family memberships, and not just the EPA employee.

It is important that approving officials review the logs the purchase cardholders prepare to document transactions. Our audit found that approving officials did not review purchase card logs for 14 (or 18 percent) of the 80 sampled transactions, valued at \$22,402. For one

transaction, the approving official incorrectly believed it was unnecessary to perform a quarterly review because he had approved the purchase in advance. Consequently, he was unaware that the funder and cardholder amended his prior approval to purchase an additional item for \$805 for personal use. The EPA is now investigating the extent of the situation to determine what action should be taken.

WEAKNESSES IN EPA OVERSIGHT

Internal controls, policies and procedures are critical tools for helping to ensure the efficiency and integrity of purchase card programs by eliminating charge card misuse, fraud, and other forms of waste and abuse. Purchase card program managers are responsible for ensuring that policies and procedures are carried out effectively. The EPA's oversight was not effective in ensuring that purchase cardholders and approving officials complied with internal controls. The EPA's internal controls did not prevent prohibited, improper and erroneous purchases.

The Government Charge Act envisioned agencies using effective systems, techniques and technologies to prevent or identify illegal, improper or erroneous purchases. At the time of our review, the Office of Acquisition Management reviewed purchase card records for transactions that had been split in order to be below the purchase card threshold of \$3,000 per transaction, transactions that were declined by the credit card company, and transactions for employees that were no longer with the agency.

EPA policy requires approving officials to have standard operating procedures in place. However, some of those procedures were inconsistent with federal and EPA policies. For example, one office's procedure classified lab/testing supplies, as well as furniture and computer purchases as routine and therefore did not require prior approval from the approving official. Another office's policy did not require prior approval for the purchase of training by the cardholder's approving official.

To ensure compliance with purchase card policies, the EPA requires program offices to conduct reviews, including testing of transactions, every two years. In 2010, half of the agency's program offices did not conduct these reviews. Since the biennial review process was not followed, corrective actions and improvements to internal controls did not occur, and weaknesses continued to occur from 2008 to 2012.

EPA ACTION TO ADDRESS WEAKNESSES

The EPA agreed to take action to address all of the findings and recommendations in our report. Some of the improvements we have already seen include:

- Stopping the purchase of gift cards until the agency can assess its policy on the use of gift card and gift certificates for employee recognition.
- Requiring all purchase cardholders and approving officials to take a training class focused on the issues identified in the audit report and the proper handling of purchase card transactions.
- Implementing an automated system for documenting and approving purchase card transactions. This will allow the EPA to conduct more oversight of specific transactions

since information will be available electronically in an EPA-wide database, instead of in decentralized manual records.

- Changing the training requirement for purchase cardholders and approvers from every 3 years to every 2 years.

The EPA planned to complete implementation of many of the corrective actions by September 30, 2014. The OIG is required to report to Congress by January 31 of each year on the status of the EPA's implementation of recommendations related to purchase cards. Our next report will include updated information on the status of the EPA's implementation of all corrective actions relative to its purchase card program.

CONCLUSION

In conclusion, 75 of 80 (94 percent) reviewed transactions were not in compliance with EPA policies. The total sample value was \$152,602, of which the OIG identified \$79,254 as prohibited, improper and erroneous purchases. These transactions represented purchases of gym memberships, food, hotel space, and split purchases intended to stay under the \$3,000 threshold for using a purchase card. These transactions were undetected by the EPA's approving officials and purchase card team. Improved purchase card oversight potentially saves money by reducing prohibited, improper and erroneous purchases, which would be especially helpful in the current budget environment.

During the past year the OIG has started to publish reports on its own compliance with laws, regulations, and procedures to improve transparency. As part of this effort, the OIG initiated a detailed audit of its own internal controls over purchase cards. The audit includes testing of OIG purchase card transactions to determine whether any were fraudulent or did not comply with EPA or OIG policies. We plan to make that report public very soon.

Mr. Chairman, this concludes my prepared statement. I would like to thank this subcommittee for your continuing support of the OIG's mission and your robust interest our work. I will be pleased to answer any questions you or the subcommittee members may have.

Mr. MICA. We will now turn to Mr. Elliot Lewis, assistant inspector general for audits, Office of Inspector General, the U.S. Department of Labor.

Welcome. And you are recognized, sir.

STATEMENT OF ELLIOT LEWIS

Mr. LEWIS. Good afternoon, Chairman Mica, Ranking Member Connolly. Thank you for the opportunity to discuss our April 2014 audit that identified wasteful spending due to the misuse and mismanagement of prepaid debit cards and government travel cards in the Job Corps program.

Our audit concluded that more than \$900,000 of government funds were misused or wasted because Job Corps lacked basic internal controls over prepaid debit cards and centrally billed government travel cards used to pay for student travel.

The \$1.7 billion Job Corps program provides residential and non-residential educational training and support services to approximately 60,000 disadvantaged at-risk youth age 16 to 24 at 125 Job Corps centers nationwide. Job Corps student travel costs more than \$20 million annually. Job Corps pays student travel expenses for initial visits, admissions, transfers, and breaks.

The department referred allegations it had received relating to misuse of debit cards at one of its centers. We conducted an audit to determine whether student travel expenses claimed by Job Corps centers were allowable.

In May of 2009, Job Corps centers began issuing prepaid debit cards to students rather than cash so students could pay for checked baggage charges incurred during travel. Job Corps later expanded the use of cards to pay for student meals while in transit.

During our audit, we reviewed the records for nearly 18,000 cards, with a total value of \$600,000 to determine whether they complied with Federal and DOL travel rules. We found that approximately 35 percent of the cards were misused to purchase items such as consumer electronics, clothing, wireless telephone service, and various online purchases. These improper purchases included at 98 of the 104 centers reviewed.

At the Miami center alone, over 1,800 cards were misused to make improper purchases, totaling more than \$96,000. The operator at the Miami center generally agreed with our results and terminated three employees while two others resigned.

Job Corps and most of the other centers we reviewed acknowledged that prepaid debit cards had been used to make more than 6,000 improper purchases, totaling almost \$250,000. However, we could not always determine who made these purchases because the centers did not maintain adequate control over the cards.

Our audit also found that even if the debit cards were properly used, they were not cost-effective. We found Job Corps paid more than \$100,000 in merchant fees for the 18,000 prepaid debit cards purchased by centers from December of 2009 to March of 2013. In addition, completely unused cards could be returned for a refund but partially used cards could not. We identified about 4,000 cards with partially remaining balances, totaling almost \$30,000.

Job Corps and its center operators lacked basic internal controls over these cards. Moreover, Job Corps did not place sufficient emphasis on establishing processes for centers to distribute and monitor the cards, nor did Job Corps monitor centers use of the cards to ensure charges were allowable, necessary, and reasonable.

We also reviewed Job Corps centers use of government-issued travel cards to pay for student travel. Job Corps centers were required to use a government travel card in order to obtain contracted airfares. We found many instances where cards were canceled or suspended because Job Corps had not ensured that the card accounts were paid. When centers were unable to use their government travel cards, they were forced to purchase commercial airfares which were often 50 percent or more above the government fare. Travel card suspensions for the Boston region alone cost Job Corps over \$400,000, the cost savings lost from paying commercial airfares.

As a result of our audit, we made several recommendations for Job Corps to improve internal controls, processes, and oversight. We also recommended Job Corps take corrective action to ensure that government travel cards are not suspended or canceled. The Department responded that it has taken steps to address these issues and will take additional actions to improve the oversight of Job Corps student travel. The Department stated it has eliminated the use of the prepaid debit cards.

In conclusion, Mr. Chairman, it is important that Job Corps ensure that all of its funds are spent efficiently and effectively in support of the program. Although travel is not the largest of Job Corps' costs, the results of this audit demonstrate that Job Corps can do more to ensure its travel funds are spent wisely.

As with all our reports, we will follow up on the Department's actions in response to our recommendations.

Thank you for the opportunity to testify today. I would be pleased to answer any questions that you or any members of the subcommittee may have.

Mr. MICA. Thank you, Mr. Lewis. And we will hold the questions, as I said.

[Prepared statement of Mr. Lewis follows:]

**WRITTEN TESTIMONY OF
ELLIOT P. LEWIS
ASSISTANT INSPECTOR GENERAL FOR AUDIT
OFFICE OF INSPECTOR GENERAL
U.S. DEPARTMENT OF LABOR**

**Before the House Committee on Oversight and Government Reform
Subcommittee on Government Operations
October 14, 2014**

Good morning, Chairman Mica, Ranking Member Connolly, and Members of the Subcommittee. Thank you for the opportunity to discuss our April 2014 audit report that identified wasteful spending as a result of the misuse and mismanagement of prepaid debit cards and government travel cards in the Job Corps program. Our audit concluded that at least \$900,000 of government funds were misused or wasted because Job Corps lacked basic internal controls over prepaid debit cards and centrally billed government travel cards used to pay student travel expenses.

As you know, the Office of Inspector General (OIG) is an independent entity within the Department of Labor (DOL); therefore, the views expressed in my testimony are based on the findings and recommendations of the OIG and are not intended to reflect the Department's position.

Job Corps is the nation's only federally-operated residential training program for at-risk youth and young adults, and is a critical component of the Department's workforce development program. The Job Corps program provides residential and non-residential education, training, and support services to approximately 60,000 disadvantaged, at-risk youths, ages 16-24, at 125 Job Corps centers nationwide. The goal of this \$1.7 billion program is to offer an intensive intervention to this targeted population as a means to help them turn their lives around and prevent a lifetime of unemployment and dependence on social programs. Ensuring the effectiveness, efficiency and integrity of the Job Corps program is one of the major management challenges faced by the Department, and the OIG has focused significant audit efforts over the years towards identifying necessary improvements in the program.

Job Corps student travel costs more than \$20 million annually. Job Corps pays student travel expenses for initial visits, admissions, transfers from one center to another, summer and winter breaks, and the return home after a student graduates or otherwise leaves the program. Job Corps relies on centers to procure their own student travel arrangements for air, bus, rail, or charter service. These expenses are paid by the respective Job Corps centers via government travel cards, which are paid directly by Job Corps, or paid by the center operators, who in turn are reimbursed by Job Corps. Of Job Corps' 125 centers, 114 used the same commercial travel agency.

In April 2012, the travel agency notified Job Corps that a Miami center employee allegedly misused prepaid debit cards intended for student travel. Job Corps asked the travel agency to determine the extent of the alleged misuse and provide documentation of the improper transactions. The travel agency found transactions for a wide array of personal uses, such as hair salons, clothing stores, and online purchases from Amazon.com, T-Mobile.com, and movie ticket websites. Records showed the Miami center had ordered hundreds of cards since 2011, but relatively few were actually used for student travel.

In May 2012, the DOL's Employment and Training Administration referred these instances of alleged misuse to the OIG, and we conducted an audit to determine whether student travel expenses claimed by Job Corps' center operators were allowable and in accordance with applicable policies and requirements.

Prepaid Debit Cards

In May 2009, Job Corps began issuing prepaid debit cards to students, rather than cash, so the students could pay for checked baggage charges incurred during official travel. Job Corps later expanded the use of the cards to pay for meals while in transit.

During our audit, we reviewed 17,796 cards with a total value of \$662,870 issued at 104 of Job Corps' 125 centers from December 2009 through March 2013.

We analyzed the purchases made with each of the 17,796 cards to determine whether they complied with the Federal Travel Regulation (FTR), Department of Labor Manual Series (DLMS), and Job Corps' policy for allowable student travel expenses and spending limits. The FTR and DLMS require that agencies limit the authorization and payment of travel expenses to travel that is necessary to accomplish the agency's mission in the most economical and effective manner, giving consideration to budget constraints, adherence to travel policies, and reasonableness of expenses. Job Corps' student travel policy limits prepaid debit card use to baggage check fees and meals. Any purchases other than those for official travel are considered improper.

We found that 6,198 of the 17,796 cards, or approximately 35 percent, were misused to purchase items such as consumer electronics, clothing, wireless telephone service, and various online purchases totaling \$249,477. These improper purchases occurred at 98 of the 104 centers reviewed.

At the Miami center alone, 1,823 cards were misused to make improper purchases totaling \$96,784. The operator of the Miami center generally agreed with our results and terminated three center employees while two others resigned.

At the Muhlenberg Job Corps Center in Greenville, Kentucky, we identified 478 cards that were used to make improper purchases totaling \$16,331 during the period July 2011 through September 2012. Examples included clothing purchases at Kohl's and JC Penney department stores. The center operator agreed with our results, and after conducting its own review, terminated one employee who had misused almost 1,400 cards totaling approximately \$48,000 during the time she was employed at the Muhlenberg center.

At the Tongue Point Job Corps Center in Astoria, Oregon, we found 51 cards were used to make improper purchases totaling \$897. The center operator generally agreed with our results and determined that a center employee had misused cards for personal gain. The center operator terminated the employee.

Job Corps and most of the other centers where we found improper purchases acknowledged in response to our audit that prepaid debit cards had been used to make improper purchases. However, we could not always determine whether these improper purchases were made by students, center staff, or both, because the centers did not maintain adequate control over the receipt, inventory, and distribution of the cards.

Our audit also found that even if the prepaid debit cards were used properly, they were not a cost-effective means for paying allowable travel expenses.

Each prepaid debit card purchased by Job Corps ranged in value from \$10 to \$60, and cost \$6 in merchant fees, or up to 60 percent of the card's value. These fees could have been avoided if, for example, the centers used their government travel cards to prepay baggage check fees online and used restaurant meal cards or cash in lieu of the prepaid debit cards. We found that Job Corps paid \$106,776 in merchant fees to the travel agency for 17,796 prepaid debit cards purchased by centers during the period December 2009 to March 2013.

In addition, Job Corps prepaid the full value for the debit cards it purchased, regardless of whether the full value was eventually used. We identified 4,026 partially used prepaid debit cards with remaining balances totaling almost \$30,000. Completely unused cards could be returned to the travel agency for a refund of the full value, whereas a partially used card could not be refunded.

- Finally, we found that four centers had excessive amounts of unused cards, which increased the risk of fraud and theft. These four centers collectively held 2,105 unused cards, totaling \$72,240¹.

This mismanagement and abuse of prepaid debit cards, and the resultant waste of government funds, occurred because Job Corps and its center operators lacked basic internal controls over the cards. Center operators did not maintain tracking logs, conduct independent reviews or reconciliations, ensure the volume of cards purchased aligned with actual needs, or periodically review card activity for proper use. Job Corps' national and regional offices did not place sufficient management emphasis on establishing processes for distributing and monitoring the cards to ensure expenses incurred were allowable, necessary and reasonable.

Government Travel Cards

Job Corps Centers use government travel cards to pay for student travel expenses other than those paid through the use of the prepaid debit cards or paid directly by the center operators. In program year 2011 (July 1, 2011 through June 30, 2012), Job Corps spent approximately \$21.2 million on student travel, including \$19 million via government travel cards.

In order to obtain government contracted airfares, centers were required to use a government travel card. However, these cards were often canceled or suspended for non-payment because Job Corps was not adequately monitoring and managing the payment of these accounts. When centers were unable to use their government travel card because it had been cancelled or suspended, they were forced to purchase commercial airfares, which were often as much as 50 percent or more above the government fare. In Job Corps' Boston, Chicago, and San Francisco regions, we found that centers' government travel cards were frequently suspended for delinquency or

¹ Clearfield Job Corps Center, Clearfield, Utah (\$35,660), Earle C. Clements Job Corps Center, Morganfield, Kentucky (\$17,120), Treasure Island Job Corps Center, San Francisco, California (\$10,150), and Frenchburg Job Corps Center, Frenchburg, Kentucky (\$9,310).

non-payment during October 2009 through April 2013, costing Job Corps at least \$500,000 as a result of using commercial instead of government airfares. The travel agency also charged Job Corps additional fees when it had to purchase travel using its own funds and then seek reimbursement from the Department.

Government travel card suspensions for the Boston region alone cost Job Corps at least \$415,758 – the cost savings lost from paying commercial airfares. The travel agency analyzed the impact these suspensions had on the Boston region from March 2010 to November 2011 and informed Job Corps of the lost cost savings in November 2011. The analysis showed Job Corps paid commercial airfares for 2,150 flight segments during this period, totaling \$723,758. According to the analysis, if the centers had been able to use their government travel cards and obtained the discounted government airfares, which averaged 57 percent less than the commercial fares for this period, Job Corps would have paid approximately \$308,000. Job Corps did not take any corrective action in response to the travel agency's analysis, and card suspensions and delinquent payments continued for more than a year until we raised concerns during our audit. According to Job Corps, there have been no suspensions or delinquent payments since April 2013.

Although the Job Corps centers use the government travel cards to procure travel, the Department is billed directly by Citibank. In response to our draft report, the Assistant Secretary for Employment and Training stated that the travel cards were suspended because payments had not been set up properly within the Department's accounting system. While we agree that the improper setup of payments in the accounting system may have contributed to the delinquent payment and card suspension problems, we believe management's inattention allowed this problem to continue for much longer than it should have.

In addition to travel cards being suspended, we found significant charges could not be supported with documentation to show that the costs were for Job Corps students and were for allowable travel. We statistically sampled 215 purchase transactions, totaling

\$624,491, or 2 percent of the \$31 million in student travel costs charged to the centers' government travel cards during July 1, 2011, through September 30, 2012. We questioned 48 of these purchases, totaling about \$40,000, because the centers did not have documentation supporting the costs were for students, did not have invoices or receipts supporting the claimed costs, or did not have documentation demonstrating the travel met Job Corps' requirements for chargeable travel. Based on these results, we estimated center operators may have incurred \$4.2 million of questionable travel costs during the period July 1, 2011, through September 30, 2012.

This mismanagement of Job Corps student travel costs occurred because Job Corps did not regularly review or monitor government travel card expenses to ensure expenses were prudent and allowable in accordance with the Federal Travel Regulation and departmental policy. Instead, Job Corps placed reliance on the centers to verify the reasonableness and allowability of their own expenses. Job Corps also did not require centers to establish and adhere to student travel budgets and utilize discounted government airfares whenever possible. Budgets are essential cost management tools and the budget review process could have helped prevent the wasteful spending on non-government airfares and merchant fees, as well as the unsupported government travel card expenses.

Audit Recommendations

As a result of our audit, we recommended that Job Corps require the centers to improve their internal controls to ensure student travel expenses are allowable, necessary, and prudent. Specifically, centers should review student travel expenses for compliance with the federal requirements, and maintain adequate supporting evidence (e.g., receipts).

We also recommended that Job Corps improve its own management processes and oversight for student travel by establishing budgets for each center and ensuring adherence to established spending limits, and regularly reviewing expenses claimed by centers for compliance with federal requirements. Finally, we recommended that Job

Corps determine why its centers' government travel card accounts were suspended and take corrective action to ensure bills are paid timely, and collect \$289,224 in questioned costs from the applicable center operators.

In response to our audit, the Department stated that it has taken steps to address the issues identified in our report, and will take additional actions to improve the oversight of Job Corps student travel. In particular, the Department stated it eliminated the use of prepaid debit cards at all centers. The Department indicated that all corrective actions are expected to be completed by December 2014.

Finally, the Department stated it will conduct its own review of travel card misuse for the questionable items noted in our report, and will pursue collection of questioned costs to the maximum extent feasible.

In conclusion, it is important that Job Corps ensure that all of its funds are spent efficiently and effectively in support of the program. Although travel is not the largest of Job Corps' costs, the results of this audit demonstrate that Job Corps can do more to ensure its travel funds are spent wisely. As with all of our reports, we will follow-up on the Department's actions in response to our recommendations.

Thank you for the opportunity to testify today. I would be pleased to answer any questions that you or any Members of the subcommittee may have.

Mr. MICA. We will now turn to Anne Richards, and she is the assistant inspector general for audits at the Office of Inspector General at the U.S. Department of Homeland Security.

Welcome. And you are recognized.

STATEMENT OF ANNE RICHARDS

Ms. RICHARDS. Good afternoon, Chairman Mica, Ranking Member Connolly. Thank you for inviting me to discuss our work related to DHS' purchase card program.

My testimony today will focus on our efforts to assess the program and recommend ways to decrease the inherent risk of purchase card use as well as the department's progress in implementing those recommendations.

In fiscal year 2013, DHS purchase cardholders spent about \$439 million in over 924,977 million purchase card transactions, placing the Department among the top purchase card users in the Federal Government.

When used properly, purchase cards decrease administrative costs, increase procurement efficiency, and provide an audit trail. Purchase cards are a low-cost procurement and payment mechanism that eliminates the need for paper purchase orders and expedites vendor payments.

The inherent or natural risk of purchase card misuse is greater because of the number of cardholders and the low dollar decentralized actions which are subject to fewer reviews and controls. But this increased risk was purposely accepted to reap the benefits of a simplified procurement process. That is, less cost and quicker response.

Over the last decade, the DHS OIG and GAO have conducted several audits and investigations addressing the Department's use of purchase cards. Based on that work, we have reported that a weak control environment and breakdowns in key controls have exposed DHS to purchase card fraud and abuse.

In short, purchase card guidance was inconsistent. And inadequate staffing, insufficient training and ineffective monitoring also contributed to the weak control environment. DHS has agreed with our recommendations and taken actions to improve its control environment. To this end, DHS has taken actions to ensure cardholders and approving officials have required training. Cardholders do not exceed single purchase limits or monthly limits without appropriate justification, and that cardholders comply with documentation requirements and approvals before making purchases.

DHS has also taken steps to improve its post payment audit process to include more targeted reviews of potentially questionable transactions, such as those transactions taking place at retail stores, ATMs, or restaurants.

In our audits, we also identified numerous examples of potentially fraudulent, improper, and abusive or questionable transactions. Those transactions were subsequently individually reviewed, and appropriate corrective actions were taken when necessary.

In January of this year, we reported that DHS had an adequate internal control framework to manage its purchase card program

but that the Department needed to continue improving its compliance with regulations and implementing its internal controls. In other words, the internal control design is strong but more vigorous adherence to the design is still needed.

Additionally, new controls are in place based on the Government Charge Card Abuse Prevention Act of 2012, including the periodic risk assessments to be conducted by our office and the annual reporting requirement on the state of charge card internal controls and the status of any outstanding audit recommendations.

Pursuant to that legislation and the results of our 2013 risk assessment, we are currently conducting a purchase card audit to determine whether the department has made progress in improving its implementation and internal controls. This audit includes evaluating a sample of transactions to determine if the internal controls are working as designed. We plan to publish a report on this audit in early 2015.

Consistent application of controls and vigilant oversight by management minimized fraudulent, improper, abusive, or questionable purchase card usage; but the inherent risks cannot be eliminated. Nevertheless, purchase cards give the government flexibility in making purchases and save money on transaction processing.

The Department's actions provide reasonable assurance that potential fraud, waste, and abuse are minimized while the value and benefit of simplified procurements using purchase cards have been maximized.

Mr. Chairman, this concludes my prepared statement. I welcome any questions you or the ranking member may have.

Mr. MICA. Thank you, Ms. Richards. And we will get back to you with questions.

[Prepared statement of Ms. Richards follows:]

STATEMENT OF ANNE L. RICHARDS
ASSISTANT INSPECTOR GENERAL FOR AUDITS
DEPARTMENT OF HOMELAND SECURITY

BEFORE THE
SUBCOMMITTEE ON GOVERNMENT OPERATIONS
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
U.S. HOUSE OF REPRESENTATIVES

CONCERNING
DHS PURCHASE CARDS

October 14, 2014



Good morning Chairman Mica, Ranking Member Connolly, and Members of the Subcommittee. Thank you for inviting me here today to discuss our work related to the Department of Homeland Security's (DHS) Purchase Card Program.

My testimony today will focus on our efforts to assess and recommend ways to decrease the inherent risk of the Purchase Card Program, as well as DHS' progress in implementing controls while continuing to benefit from the positive aspects of its Purchase Card Program.

Background

With the creation of DHS in 2002, the management of thousands of purchase, travel, and fleet cards from 22 separate Federal agencies was combined under one umbrella program, the DHS Charge Card Program. This program office, which is managed by the DHS Chief Financial Officer, issued the *DHS Purchase Card Manual* (DHS manual) to establish purchase card policies and procedures. It also authorized certain components to maintain their own guidance and use the DHS manual as overarching policy. The Department program coordinator is responsible for the centralized DHS online purchase card payment process.

In fiscal year (FY) 2013, DHS authorized about 9,700 employees to use purchase cards, and cardholders made approximately 925 million purchases valued at about \$439 million, ranking DHS among the top purchase card users in the Federal government. As shown in table 1, purchase card purchases dropped slightly from FY 2012 to FY 2013.

Table 1: DHS FY 2012 and FY 2013 Charge Card Total Expenditures

Charge Card Program	FY 2012 Total	FY 2013 Total
Purchase	\$480,886,557	\$438,639,214
Travel	\$668,145,729	\$589,677,713
Fleet	\$228,101,894	\$198,433,965
Total	\$1,377,134,180	\$1,226,750,892

Source: DHS Office of Inspector General (OIG) compilation of DHS data

Benefits and Risks of Purchase Card Use

When used properly, purchase cards decrease administrative costs, increase procurement efficiency by streamlining the buying process, and provide an audit trail. Purchase cards are a low-cost procurement and payment mechanism that eliminate the need for paper purchase orders and expedite vendor payments. They are the preferred way to purchase goods and services under the "micropurchase" limit of \$3,000. At DHS, a component's head of contracting activity may also authorize purchases over the micropurchase limit.

Every transaction has inherent risk — the risk of purchase card misuse is greater because of the number of cardholders and the low-dollar, decentralized actions, which are subject to fewer reviews and controls. However, this increased risk was purposely chosen to reap the benefits — less cost and quicker response — of the simplified procurement process.

Over the last decade, particularly in the wake of Hurricane Katrina, our office and the Government Accountability Office (GAO) initiated a number of audits and investigations addressing DHS' use of purchase cards. In those audits, after analyzing thousands of transactions, reviewing policies and procedures, and interviewing numerous officials, we reported that a weak control environment and breakdowns in key controls exposed DHS to fraud and abuse in purchase card use. Inconsistent guidance led to DHS cardholders following various internal control procedures. Inadequate staffing, insufficient training, and ineffective monitoring also contributed to the weak control environment. GAO and DHS OIG identified numerous examples of potentially fraudulent, improper, and abusive or questionable transactions.

Legislative Changes and Guidance to Prevent Misuse

On October 5, 2012, the President signed into law the *Government Charge Card Abuse Prevention Act of 2012*, Public Law 112-194 (Charge Card Act), which reinforced the Administration's efforts to prevent waste, fraud, and abuse of government-wide charge card programs. Consistent with existing guidance in OMB Circular No. A-123, Appendix B, Revised, *Improving the Management of Government Charge Card Programs* and OMB Memorandum M-12-12, *Promoting Efficient Spending to Support Agency Operations*, the Charge Card Act requires all executive branch agencies to establish and maintain safeguards and internal controls for purchase, travel, and centrally billed accounts.

Recent OIG Audits of the Purchase Card Program

As required by the Charge Card Act and OMB Memorandum M-13-21, *Implementation of the Government Charge Card Abuse Prevention Act of 2012*, we conduct periodic risk assessments of agency purchase cards (including convenience checks), combined integrated card programs, and travel card programs to analyze the risks of illegal, improper, or erroneous purchases and payments. We use these risk assessments to determine the necessary scope, frequency, and number of program audits and reviews. We also report to the Director of OMB 120 days after the end of each fiscal year on the Department's progress in implementing our purchase card program audit recommendations.

Over the past 5 years, we have issued several reports related to DHS' internal controls over purchase card use. In our audits and reviews, we identified areas in which DHS needed to strengthen its processes and policies to minimize the risk of illegal, improper, and erroneous purchases and payments.

In a May 2010 report, *Improving FEMA's Disaster Purchase Card Program* (OIG-10-91), we determined that the Federal Emergency Management Agency (FEMA) needed to improve disaster purchase card guidance and strengthen disaster purchase card internal controls. We made four recommendations to improve FEMA's disaster purchase card program.

In our August 2011 report, *Use of DHS Purchase Cards* (OIG-11-101), we determined that the Department had generally developed an effective internal control framework, but needed to improve specific internal control procedures to mitigate the inherent risks of purchase card use.

Specifically, we reported that DHS needed to:

- Strengthen its post-payment audit process to ensure that component personnel complied with appropriate purchase card controls and ensure that the process identified and tested high-risk transactions.
- Ensure Department personnel verified the results of component reviews and effectively targeted high-risk transactions for review.
- Ensure transactions complied with the internal control elements based on OMB requirements.
- Update the *Purchase Card Manual* and ensure the manual and component guidance were used consistently.

We made three recommendations to improve the Department's internal controls and oversight of its purchase card program.

In April 2013, we issued *FEMA Can Improve Its Purchase Controls at Joint Field Offices* (OIG-13-77), in which we reported that FEMA did not have adequate internal controls over the acquisition process. This resulted in insufficient program oversight, the purchase of unnecessary items, and missed opportunities for cost savings. Some of the conditions might have been avoided if FEMA had implemented corrective actions that we previously identified. We made two recommendations to assist FEMA in its management and oversight of response and recovery operations.

In January 2014 (*Fiscal Year 2013 Risk Assessment of DHS Charge Card Abuse Prevention Program*, OIG-14-29), we reported that DHS had an adequate internal control framework to manage the purchase card program, but needed to ensure compliance with regulations and improve implementation of its internal controls. We determined there was a moderate level of risk that DHS' internal controls over the purchase card program would not prevent illegal, improper, or erroneous purchases. We made no recommendations.

We are currently conducting an FY 2014 purchase card audit, which is due January 31, 2015.

DHS' Progress in Minimizing Risk Through Internal Controls and Oversight

Minimizing the inherent risk of purchase card use requires consistent implementation of internal controls and vigilant oversight to ensure compliance with Federal requirements, as well as internal policies and procedures. Guidance needs to be consistently applied and fully communicated to employees, and cardholders must be trained on the proper use of purchase cards.

To this end, in the past 5 years, DHS has concurred with all recommendations and established and implemented internal controls to minimize the risk, including controls related to training, supervisory review, ensuring compliance with pre-purchase approval procedures, and improving the post-payment audit process. Specifically, DHS has:

- Taken a more active approach in ensuring that cardholders and approving officials are up to date on required training;
- Ensured that cardholders do not exceed their single purchase limits or monthly limits without appropriate justification;
- Ensured cardholders comply with purchase card documentation and approvals prior to making purchases;
- Improved the post-payment audit process to include more targeted reviews of questionable transactions, such as retail stores, automated teller machines, restaurants, and cash purchase transactions;
- Required review of all forced authorization transactions; and
- Emphasized accurate and timely review of all statements for reconciliation of transactions.

The purchase card program is also subject to periodic OIG and GAO audits, as well as internal DHS reviews. DHS created the Risk Management & Assurance Division (RM&A) under the Chief Financial Officer to help govern internal controls by conducting department-wide internal control assessments. RM&A collaborates with components to ensure they are conducting purchase card activity effectively and efficiently and adhering to DHS policies and OMB requirements. RM&A also conducts quarterly reviews of purchase card transactions to test for compliance with the *Purchase Card Manual* and OMB A-123.

Conclusion

DHS has worked to establish and implement strong internal controls and provide effective oversight of its purchase card program. Consistent application of controls and vigilant management oversight minimizes fraudulent, improper, abusive or questionable purchase card usage, but the inherent risks cannot be eliminated. Nevertheless, purchase cards give the Government flexibility in making purchases, and they save money on transaction processing. DHS' actions over the past 7 years helped maximize the value and benefit of purchase cards and provide reasonable assurance the Department is minimizing potential fraud, waste, and abuse.

Mr. Chairman, this concludes my prepared statement. I welcome any questions you or other Members of the Subcommittee may have.

Mr. MICA. I will turn to our next witness, Mr. John Lyle. He is the Associate Deputy Assistant Secretary for Contracting at the U.S. Air Force.

Welcome, sir. And you are recognized.

STATEMENT OF JOHN LYLE

Mr. LYLE. Thank you sir. Good afternoon. And thank you, Chairman Mica and Ranking Member Connolly, for the opportunity to testify this afternoon.

Because I have submitted my complete system for the record and based on your request, I will provide a brief summary of my testimony.

First and foremost, we, in the Air Force, are committed towards ensuring proper spending controls are effectively used in the government-wide purchase card program, referred to as GPC. In summary, when used in place of written purchase orders, the GPC allows us to appreciably reduce delinquent payment interest charges, saves \$70 per transaction in administrative costs, and obtain rebates that further our ability to execute the mission. In fiscal year 2013, Air Force units saved \$105 million on 1.5 million transactions and received \$14.7 million in rebates on total expenditures of \$1.2 billion.

Through a variety of tried and true systemic and human controls, we are confidently able to monitor the activities of over 26,000 cardholders spread across 10 Air Force major commands; four field operating agencies; and three direct reporting units, both domestic and overseas. In accomplishing this, we strongly endeavor to work with the Office of Secretary of Defense's Office of Defense Procurement and Acquisition Policy and our industry partners at U.S. Bank and Visa to augment the fields' ability to protect taxpayer dollars against fraud, waste, abuse, and misuse.

The Air Force leads the Department of Defense with 96 percent of cardholders registered and the Purchase Card Online, or PCOLS, System. PCOLS is an automated tool that audits 100 percent of all GPC transactions. It flags 3 percent of the high-risk transactions from manual audit.

Since 2002, the Air Force Audit Agency has conducted eight audits on the GPC program, with two of the most recent occurring in 2012 and 2013. These audits, used in conjunction with other internal control measures, like data mining reports, ad hoc and scheduled inspections, and a host of checks and balances that separate the roles and functions have proven invaluable in improving the fiduciary stewardship of the program.

Mr. Chairman and ranking member, thank you again for the opportunity to testify today and I look forward to your questions.

Mr. CONNOLLY. Mr. Chairman?

Mr. MICA. Yes.

Mr. CONNOLLY. Could I just ask Mr. Lyle where he is from?

Mr. LYLE. I'm from Maine originally and spent a lot of time in Massachusetts.

Mr. CONNOLLY. Yep. You are pretty good with the Rs. But "charge" and "card." I'm from Boston. We have trouble with those Rs.

Thank you, Mr. Chairman. Thank you, Mr. Lyle.

Mr. MICA. We don't have to bring in an interpreter, fortunately.

[Prepared statement of Mr. Lyle follows:]

DEPARTMENT OF THE AIR FORCE

PRESENTATION TO THE
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
SUBCOMMITTEE ON GOVERNMENT OPERATIONS
U.S. HOUSE OF REPRESENTATIVES

SUBJECT: Air Force Oversight and Audits of Government-wide Purchase Card Program

STATEMENT OF: John M. Lyle, Senior Executive Service
Associate Deputy Assistant Secretary (Contracting)
Assistant Secretary of the Air Force (Acquisition)

October 14, 2014

NOT FOR PUBLICATION UNTIL RELEASED BY
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U.S. HOUSE OF REPRESENTATIVES

I. Introduction

Chairman Mica, Ranking Member Connolly and distinguished members of the subcommittee, thank you for the opportunity to provide information on the oversight and audits of the Air Force Government-wide Purchase Card (GPC) Program. With very limited resources, the GPC program minimizes bureaucracy, greatly reduces paperwork and provides increased Air Force support to the warfighter. To illustrate this point, the Air Force leveraged use of the card during Fiscal Year 2013 executing nearly 1.5 million transactions for a total expenditure of approximately \$1.2 billion. Used in place of a written purchase order, these actions returned \$14.7 million in rebates to Air Force wings, units, and organizations worldwide, and created an estimated \$105 million in administrative savings. However, since the GPC program permits the expenditure of appropriated funds, the Air Force is mindful that this program must be exercised with transparency and proper oversight. The Air Force accepts the responsibility to instill confidence in taxpayers that their dollars are spent properly.

II. Current Environment

In 1989 the GPC was introduced as a pilot program within DoD. Since then, the program has evolved and expanded to where we are today. The use of GPC is the preferred method for all actions below the micro-purchase threshold in accordance with Federal Acquisition Regulation.

The use of the GPC offers tangible benefits and efficiencies for the taxpayer. Through the GPC program, vendors receive payments promptly which avoids interest penalties. Prompt payment assists our small businesses by avoiding cash flow issues. The GPC program also allows the Air Force to reduce administrative costs associated with traditional purchase methods for supplies and services. On average, the Air Force receives 1.23% in rebates for each GPC transaction. Last fiscal year, the Air Force earned significant GPC program rebates which supported our various Air Force missions worldwide.

III. Oversight and Audits

The Air Force has the responsibility to ensure the public trust when spending taxpayer dollars. We accept this responsibility fully with all of the accountability that it implies. While oversight

and surveillance of the purchase card is the responsibility of all program stakeholders, we work diligently with OSD's Office of Defense Procurement and Acquisition Policy (DPAP), and our industry partners at U.S. Bank and Visa, to protect against fraud, waste, abuse, and misuse through business IT systems, processes and practices. The GPC program establishes oversight responsibility under a six-level hierarchy, each level having oversight of the subsequent level below them.

In 2008 OSD developed the DoD-wide electronic system Purchase Card On-Line System (PCOLS), which audits 100% of all DoD purchase card transactions. The Air Force leads DoD in PCOLS usage with an average of 96% cardholders registered. Through a set of risk predictive business rules, PCOLS scores each transaction based on data points such as the type of merchant code used, cardholder spend limits, frequency of card usage, and where the transaction was made. On a monthly basis the PCOLS flags 3% of transactions that score in the highest risk categories and alerts the installation program coordinator to conduct an independent review. Of the 1.5 million Air Force GPC transactions during Fiscal Year 2013, 0.45% were flagged by PCOLS as suspected fraud, waste and abuse. The system also randomly flags 1% of all other transactions for review by the cardholder's immediate supervisor, or someone in his or her chain of command. Each identified transaction is reviewed and addressed by the proper authorities (e.g., the cardholder's commander, base legal office, etc.). If it is determined that due diligence was not exercised by a cardholder, a variety of remedies and punitive actions exist. These include mandatory remedial training, card suspension, and other disciplinary actions under applicable directives, regulations, Federal Law and the Uniform Code of Military Justice (UCMJ) or civilian disciplinary actions. PCOLS data is used to generate quarterly and semi-annual violation reports to OSD which in turn submits the report to the Office of Management and Budget and GSA for analysis and policy recommendations.

Since 2002 the Air Force Audit Agency (AFAA) has conducted a total of eight audits of the Air Force GPC program and recommended actions which were implemented by the Air Force. The Air Force improved processes, fiduciary stewardship among cardholders and the accuracy of financial reporting. The initial AFAA audit in 2008 entitled *Government Purchase Card Use of Convenience Checks*, (Audit No. F2008-0007-FC1000) revealed improper and inadequate convenience check account use, reporting, account inspection and record retention practices at

two major Air Force Installations. Convenience checks are used when the GPC is not accepted and after evaluating all other alternatives. There are no direct fees associated with using the GPC; however, we incur a 1.7% (2.7% overseas) processing fee per convenience check and they require more safeguards. Upon review of the AFAA's recommendation, the Air Force published revised guidance which clarified procedural requirements, facilitated better management of convenience checks and aggressively pushed enforcement of applicable rules and regulations. A follow-up audit conducted on May 2013 confirmed the Air Force lowered convenience check use by 60%, decreased recurring purchases using convenience checks by 14%, and reduced unreported services transactions to the IRS by 28%.

V. Conclusion

We value the confidence Congress and the taxpayers have placed in the Air Force as stewards of public funds. I want to assure you that the Air Force takes this obligation seriously and follows a rigorous oversight process of our GPC program to prevent any misuse. GPC is a valuable tool in supporting the Air Force mission and warfighter. With your support, the Air Force looks forward to continuing its rigorous oversight and control of the GPC program to maximize efficiency minimize bureaucracy and continually improve Air Force support to the warfighter.

Mr. MICA. You are accompanied by Mr. H.L. Larry. And Mr. Larry is Deputy Director of Air Force Services.

Did you have an opening statement, sir?

Mr. LARRY. Yes. Brief comments, sir If I may.

Mr. MICA. Okay. Then you are recognized. Thank you.

STATEMENT OF H.L. LARRY

Mr. LARRY. Good afternoon. Thank you, Mr. Mica and Ranking Member Connolly, for the opportunity today as I respond to your questions regarding the purchase of espresso machines and accessories for Yokota Air Base in Japan.

We appreciate the leadership and support the subcommittee continually provides on matters affecting the readiness and quality of life for our Airmen and their families. And we will remain vigilant for the need to continuously exercise tight fiscal stewardship of our scarce resources.

Resource management in Air Force Services is somewhat unique because we are responsible for funds appropriated by the Congress as well as nonappropriated funds, or NAFs. NAFs are generated by morale, welfare, and recreational activities through sales and fees charged, such as the purchase of goods and services at our bowling centers and by Air Force Services' share of the Army and Air Force exchange service dividends.

In 2007, Air Force Services nonappropriated programs migrated from the government purchase card to the NAF purchase card to gain further manpower, efficiencies, and increase rebates. The NAF purchase card is used to make authorized NAF purchases for supplies and equipment.

In regard to the inquiry into the purchase of espresso machines and accessories for Yokota Air Base in Japan, four espresso machines, along with accompanying accessories, were sourced using nonappropriated funds and installed at two nonappropriated activities, a base coffee shop and the base enlisted club.

This purchase was authorized and approved by the appropriate installation officials and executed by the local servicing contracting office in accordance with Air Force NAF contracting procedures. Pricing was determined fair and reasonable based on requirements and competition.

We will continue to manage and monitor use of nonappropriated funds generated throughout the Air Force and ensure these funds are properly used for all Airmen and their families to enjoy.

We look forward to your continued partnership in delivering the best quality of life to our airmen and their families.

Again, Chairman Mica, thank you for the opportunity to be here today.

I look forward to working with you and your fellow subcommittee members.

And I welcome any questions you may have. Thank you.

Mr. MICA. Thank you.

Mr. MICA. And we will get right into the question, since you brought this subject up, Mr. Larry, about the Air Force base I guess it was in Japan where they purchased these three espresso machines for \$8,000 apiece.

Now, this was nonappropriated funds; is that—that's what you were saying?

Mr. LARRY. That is correct, sir.

Mr. MICA. Okay. Because there was a press account. We get the accounts. Some of them are anecdotal press. And it raised everyone's eyebrows because \$8,000. And that was at one location. But it was not taxpayer money. We want to make that clear.

Was a card used and then paid back? Or how did that work?

Mr. LARRY. Yes, sir.

From the nonappropriated funds side, we had warranted contracting specialist there at the installations, and they have certain dollar thresholds. In this case, when you combine all four of the machines that were purchased, it exceeded the NAF threshold. So we turned to our partners from the appropriated funds side who executed half of the nonappropriated—

Mr. MICA. Okay. Again, the press reports. We get them. And right now, there are millions of Americans out there working hard, trying to pay their bills, put their kids through school, pay their taxes.

And Mr. Connolly and I right now are trying to separate fact from fiction when it comes to some of the credit card gone wild stories that are out there.

So yours is an example of where there was a legitimate expenditure. The press account was not correct, as I understand it. Is that right?

Mr. LARRY. That is correct, sir.

Mr. MICA. Okay. Again, we want the whole truth and nothing but the truth. And, again, the proper expenditure of taxpayer dollars.

But that brings me—okay, as long as we are on coffee and we did espresso machines. You saw the Starbucks. And actually, I buy, just for the record, I buy McDonald's. I try to get the senior coffee for a dollar when it's on sale. This is more expensive. So I'm not promoting any product.

Mr. CONNOLLY. I would like to do that too; but I'm too young, Mr. Chairman.

Mr. MICA. And you get free refills too at McDonald's.

But in any event, that aside. Again, I put up—we were absolutely startled, Ms. Richards, when we saw at one Starbucks in California, \$12,000 worth of purchases.

Are you aware that those purchases took place on the government credit cards?

Ms. RICHARDS. Mr. Chairman, your staff shared the list of purchases that you had with us. We've begun to make some preliminary inquiries. We are going to include those transactions as a separate test in—

Mr. MICA. But you have not—

Well, again, we have from that one Starbucks credit card purchases of \$12,000. And I don't begrudge Coast Guard people or DHS people of, you know, where it's legitimate business and possibly buying some coffee for meetings, official meetings or guests—

Ms. RICHARDS. Mr. Chairman, the Coast Guard has provided some initial information for us on their look at those purchases. And many of those purchases——

Mr. MICA. You don't dispute what we have?

Ms. RICHARDS. No. But, Mr. Chairman——

Mr. MICA. Okay. And then the other thing too is we have found, in looking at other DHS entities, there was \$31,000 that we have found at Starbucks across the other entities. So, I mean, that just jumps out at you, \$12,000 in one California Starbucks location.

Ms. RICHARDS. And the majority of those purchases were to furnish coffee for the dining pantries onboard Cutters for when they were operating at sea.

Mr. MICA. Well, there may be a very legitimate purchase requirement. But for the rest of DHS, it's \$31,000 that we have been able to identify.

So, again, if you can document that, if it's justified. We don't—we don't begrudge.

Ms. RICHARDS. And, as I said, some of the purchases seem to be legitimate use of the card to supply the kitchens or galleys onboard ships.

We will be looking at all of those purchases that you provided to us. And as part of our audit, we will be looking for those types of purchases where the vendor's name, such as this coffee shop, would jump out at you as something you would need to look at.

Mr. MICA. Again, that jumped out, twelve at one location. And we have, again, a wide variety of Coast Guard stations.

In fact, my wife even had one of the Coast Guard Cutters, the small ones, named after her. We are very proud of the Coast Guard and their service. But that kind of catches your eye.

You did testify that we had \$439 million in credit card purchases. Is that DHS-wide?

Ms. RICHARDS. That is DHS-wide, sir.

Mr. MICA. Okay. And, okay, we have three inspector general reports here, March for EPA this year, Ms. Kasper. Mr. Lewis was Department of Labor, April 2014. DHS is January earlier this year—that are a part of what we are reviewing here today.

The other two—well, in the EPA report, Ms. Kasper, you testified—what we calculated about half of the sample purchases, over half, there was something wrong, a misuse, abuse, or noncompliance. Is that correct?

Ms. KASPER. Yes, that's correct.

Mr. MICA. Okay. And Mr. Lewis, in your testimony, you just testified that you found about 35 percent of the purchases with a credit card were abusive or noncompliant.

Mr. LEWIS. That was just with the prepaid debit cards.

Mr. MICA. Okay. Would you guesstimate on credit cards? That was debit cards.

Mr. LEWIS. Well, the issues with the credit cards, travel cards, themselves, were actually cases where they should have been using the cards and were not. So we lost government airfare. We lost \$400,000.

Mr. MICA. So you lost money there. Okay.

So what I am trying to do is, we had 50 percent abuse. Even with a new law, EPA use of credit cards—debit cards, or credit cards, at least 35 percent in your review.

Okay. You have \$439 million, almost half a billion, Ms. Richards, in DHS. You did not speak to what you found as like a percentage of abuse. Is it possible to calculate that or what you reviewed?

Ms. RICHARDS. In 2013, we did a risk assessment because it was a follow-up from the work we had published earlier. So we didn't test the individual transactions in that audit. So I cannot at this time estimate any numbers of purchases that would have been inappropriate, based on that work.

Mr. MICA. Well, again, we are sorting through some of those figures. And that's pretty—I mean, it's almost a half a billion dollars and you said you had how many credit cards issued?

Ms. RICHARDS. The department currently has about 9,700 purchase card users.

Mr. MICA. Okay. And, you know, there's poor management, poor control. Some of that was what you had stated that was identified; is that correct?

Ms. RICHARDS. Yes, sir.

Mr. MICA. Yeah. So, again, we would have to assume that a significant number of those purchases were noncompliant. And I think you spoke about actually the lack of compliance or the lack of training or whatever. Actually, it sounds like a lack of management or administrative oversight and education of employees that causes this. Is that what you found?

Ms. RICHARDS. We've done a number of audits of this topic over the years, both my office and our Office of Emergency Management Oversight, as well as GAO. And we have found over the audits that we have done that there have been a lack of controls and a lack of oversight. But we've also seen the Department take our recommendations and implement them. And so they are working hard to improve their internal control environment and their internal controls and oversight.

That's why we did a risk assessment last year; and we are in the process of doing it going forward.

Mr. MICA. To get them to do that, have you published a manual, a set of guidelines? What is—what have you done? Is it meetings that you conduct on training?

Ms. RICHARDS. We've published a number of reports—

Mr. MICA. Okay.

Ms. RICHARDS. —prior to the—you're looking at our latest report from January 2014. We've published a number of reports, I believe two in '13 and one in '12.

Mr. MICA. I have a copy of your report. But your report talks about some of the problems. It's sort of an audit or overview of what's going on. But is there a simple guideline that you publish for—

Ms. RICHARDS. We don't publish a guideline for the Department. That would be a management function. We've provided recommendations on what they should include in the guidelines they publish.

Mr. MICA. But they—have they published that to—

Ms. RICHARDS. Yes, they have.

Mr. MICA. —your satisfaction?

Ms. RICHARDS. Yes, they have.

Mr. MICA. Okay. Again, we have some noncompliance at significant levels.

Let me see. Mr. Lyle, was it? You testified that we save about—that the Department of Defense or at least the Air Force—you're speaking for Air Force—you calculate that you save about \$70 per transaction by using the credit card, or I don't know if you use debit cards. But there's the—again, you don't have the paperwork, you don't have the administrative costs and all of that. How did—is that how you calculate that savings?

Mr. LYLE. Yes. As opposed to traditional government contracting—

Mr. MICA. Yeah. And probably—I just talked to one of my DOD contractors from my district, who didn't have very kind words about Federal defense contracting. But probably that's one of the most difficult to proceed with, and so that's where you calculate \$70 per transaction.

Mr. LYLE. Correct.

Mr. MICA. And you have \$1.2 billion worth of purchases with credit cards—

Mr. LYLE. With government—

Mr. MICA. —just at Air Force.

Mr. LYLE. Just in the Air Force, yes, sir.

Mr. MICA. So it's got to be huge dollars. I mean, we've gone from, you know, \$12,000 worth of Starbucks purchases to 1.2.

And you said 26,000 credit cards at the Air Force?

Mr. LYLE. Twenty-six thousand cardholders, yes.

Mr. MICA. Okay. And why shouldn't DOD and the Air Force be subject to the same provisions of the 2012 law?

Mr. LYLE. Well, I can't speak for the entire Department of Defense, but I know for the Air Force we're very proud of our accomplishments in that system that I talked about during my brief summary that's also included in my testimony, the Purchase Card On-Line program, PCOLS.

And that system audits 100 percent of all transactions. And then 3 percent of the high-risk items that might have items like gym memberships or hair salons or things like that that are in the merchants' card code, if they pop up in this report, they'll flag a risk item. And then that will require a manual insight or someone from the—either the cardholder's supervisor, which is approving official, or the agency. And the program coordinator will go in and look at each one of those transactions.

Mr. MICA. Do you conduct that—do you have a system that you've set up internally, or are you using a credit card company that does it for you?

Mr. LYLE. That is a system that's been established within the Department of Defense. And the Director of Procurement and Acquisition Policy, that office administers the PCOL System across the Department of Defense.

Mr. MICA. Is that with a private contractor that operates it?

Mr. LYLE. Sir, I have to take that question—

Mr. MICA. Probably would be. I don't think you'd—

Mr. LYLE. —for the record. I don't believe that it is. I believe that the private contractor established that system, and it rides right along with the GPC program.

Is that correct? U.S. Bank?

Okay, U.S. Bank provided that.

Mr. MICA. Okay.

Mr. LYLE. We set it up with U.S. Bank.

Mr. MICA. Because I do know some of the bank credit card folks are incredible. I've had several instances where—in fact, I gave my credit card, an American Express, to buy sandwiches for staff one day. I don't spring that often. But somebody picked up the credit card number. And that was at lunchtime. By 7 o'clock, I was called by—this happened to be American Express, and they said that we've examined your purchases and your wife usually doesn't spend \$5,000 at Nordstrom's. And they had—they had contacted me. They canceled the card immediately. So someone had gotten the number in 6, 7 hours and was charging things.

So you have that type of system that can pick out—

Mr. LYLE. Yes, sir. What you're talking about, though, is a potential fraud abuse—

Mr. MICA. Yeah.

Mr. LYLE. —that someone unauthorized got the card.

Mr. MICA. Yeah, that's a little bit different, but you're using the same principles—

Mr. LYLE. Yes.

Mr. MICA. —that the credit card has—

Mr. LYLE. Correct.

Mr. MICA. —some aberration and purchasing kicked up.

Mr. LYLE. Aberration, risk items.

Mr. MICA. Do we have anything like that in DHS? You're a huge purchaser.

Ms. RICHARDS. I don't know that we have a specific program designed, but we do have the data, and they do do data analytics on that data to identify those kinds of anomalies.

Mr. MICA. That would be interesting to find out. Maybe you can ask staff to pursue that.

Might be a—I don't know if your model is that good. We should also check that out, Mr. Lyle. But, again, we need as many assurances that the cards aren't being abused, that they're properly used. And if there is some dramatic aberration in the use—and you have a system that kicks it out. That would be good, that we mirror that in other agencies.

She's not—DHS hasn't quite caught up with Air Force, but half a billion is—and, again, if you have 20, 30 percent of it, that's—

Mr. LYLE. If I could just make one additional comment?

Mr. MICA. Yes. Go right ahead, Mr. Lyle.

Mr. LYLE. Of the 96 percent that are registered, the 4 percent is usually turnover. One person leaves, another person coming in. So we'll never achieve 100 percent—

Mr. MICA. Yes.

Mr. LYLE. —of cardholders registered in the system, but we are very confident that we're doing very well.

In fact, about 6 months earlier this year, we were down to about 91 percent. We put a big push within the Air Force because this

is our best way to guard against fraud, waste, and abuse. And our commanders took this on, and we elevated our registration back up to the 96 percent, leading DOD.

Mr. MICA. Uh-huh. Well, we have some examples of DOD. My question was originally, would you have a problem if we put you under similar provisions? And we may have to revise some of them after this hearing, look at additional safeguards. But is there any reason that Air Force or DOD should be exempt?

Mr. LYLE. Right. And I started to answer your question by stating that, because of the internal controls that we do have already, with the PCOLS as well as the 30-day audits by the assessing officials as well as by the area or agency and program coordinators, that's been working very well.

About .45 percent of all of our transactions—we had, I believe—and I'll go back to refresh my memory on the total number of—1.5 million transactions, I believe. But of those transactions, .45 percent, we had some potential risk violations. That's a total of about 1,910. Each one of those was reviewed, and we found that 26 resulted in UCMJ or civilian personnel actions that we'll have to take.

Mr. MICA. Okay. So you—

Mr. LYLE. We are finding them.

Mr. MICA. —actually kicked those—when they're kicked out, you do investigate—

Mr. LYLE. Yes.

Mr. MICA. —every one of them and then take action.

Mr. LYLE. Every single one of them. Yes.

Mr. MICA. But that still doesn't answer my question as to whether you would object to being—yeah, I guess you can't speak from that policy—

Mr. LYLE. I can't speak for the policy for the entire Department of Defense. I would have to take that for the record and ask DPAP, Director of Procurement and Acquisition Policy, to answer that.

But from an Air Force perspective, I can see how the act that you passed is definitely something that's viable and worthwhile. And we'd look at it and see how it might apply to the Air Force.

Mr. MICA. Well, it has had some successes; we heard the Department of Labor. But we still have obvious—I don't want to say rampant abuse, but significant abuse. And we don't have credit cards—government credit cards gone wild tamed yet.

But, with that, I have more questions, but let me yield to Mr. Connolly, who has been waiting.

Mr. CONNOLLY. Thank you, Mr. Chairman.

Mr. Larry, I want to make sure I followed your answer to the question of the \$25,000 espresso machines. You said that they were purchased with unappropriated funds; is that correct?

Mr. LARRY. Correct, sir.

Mr. CONNOLLY. What are unappropriated funds?

Mr. LARRY. Sir, we call it a nonappropriated fund. It's the funds—on the base, you're on a golf course, a bowling center. When you go in and you buy a hamburger or you play a round of golf, you bowl a line of bowling, the dollars that that airmen or that

family member take out of his or her pocket and pay for that good or service on the spot, those are nonappropriated fund dollars.

Mr. CONNOLLY. Generated by those activities.

Mr. LARRY. Yes, sir.

Mr. CONNOLLY. Were government-issued purchase cards or debit cards used for that acquisition?

Mr. LARRY. No, sir.

Mr. CONNOLLY. Okay. That's what I wanted to know.

Let me ask our IGs, is it ever permissible to use a government-issued purchase card, debit card, or the like for a hair salon session, gym membership, personal gym membership, or personal gift cards?

Ms. KASPER?

Ms. KASPER. Hair salons, we didn't have it in our transactions. But we did do some research on the idea of gym memberships, and there is a comptroller general decision that says, in some circumstances, it is permissible to purchase gym memberships if it's part of some health and welfare program.

Mr. CONNOLLY. Authorized by your employer.

Ms. KASPER. Right.

Mr. CONNOLLY. Right.

Ms. KASPER. Obviously, it's not a—

Mr. CONNOLLY. But let's put that aside for a minute. Let me re-frame the question. Is it ever permissible to go to a hair salon or your personal gym, unrelated to that exemption, for you or your family or to purchase gift cards and using a government-issued debit card, purchase card, credit card?

Ms. KASPER. Not unless it has a government-associated use, an approved use.

Mr. CONNOLLY. And are the policies you look at at EPA explicit about that prohibition?

Ms. KASPER. They are not explicit about the prohibition.

Mr. CONNOLLY. They are not?

Ms. KASPER. Right. That was part of our recommendation in the report, is that they be more explicit about the issues of gym memberships and gift cards, that EPA needed to improve its internal controls there. EPA is in the process of improving their policies in that area, but they have not completed their policies in that area.

Mr. CONNOLLY. That doesn't sound complicated. I mean—

Ms. KASPER. Yeah.

Mr. CONNOLLY. —what goes through one's mind if you're a Federal employee and you've got a federally issued credit card and you decide, you know, I need groceries tonight, why not just put it on the government card? I mean, I'm not saying anyone has ever done that, but, clearly, some alarm bell ought to go off in your head, that's not a proper use of a government-issued credit card.

Ms. KASPER. Normally, you would expect most people to think that, but there are apparently people out there that think, you know what, no one's looking at this, let me use this.

Mr. CONNOLLY. Well, temptation is a different issue. That's right.

Mr. Lewis—and I look forward to the EPA's explicit prohibition. It is amazing to me, Mr. Chairman, they don't have one.

But, Mr. Lewis, what about the Department of Labor? Is it ever permissible—same question.

Mr. LEWIS. I can't think of a case where it would be permitted. It would be very narrow. As Ms. Kasper said, there would have to be some nexus to government business in order to do that——

Mr. CONNOLLY. Right.

Mr. LEWIS. —and I don't know what that would be in the Department of Labor.

Mr. CONNOLLY. I suppose if you were the Department of Labor employee of the year and you were going to meet Queen Elizabeth, we might say, yeah, get your hair done. But other than that, I can't think of an exemption for a hair salon. Can you?

Mr. LEWIS. No.

Mr. CONNOLLY. Are the policies at DOL, Department of Labor, explicit in this prohibition?

Mr. LEWIS. Well, we are—we currently have an audit looking at the general purchase cards across the Department. So we're still looking at how well that's done. In terms of this audit——

Mr. CONNOLLY. No, that's not my question. Is there an explicit prohibition in the Department of Labor's own policy saying you can't use credit cards for those purposes?

Mr. LEWIS. I do not know exactly what the policy says for the purchase cards in general in the Department. That's what we're currently looking at.

For what we have looked at in the Job Corps program, it was explicit as to what you could use the cards for. And there were—in this case, there were only two uses, which was——

Mr. CONNOLLY. But not explicit in prohibited activities.

Mr. LEWIS. No. Explicit in terms of——

Mr. CONNOLLY. You know, in——

Mr. LEWIS. —the two only things it could be used for.

Mr. CONNOLLY. —my life, I often will be engaged in various and sundry things, and the question that always comes to mind that you ought to ask is, what could go wrong with that? So not having an explicit—you know, thou may not——

Mr. LEWIS. Yes.

Mr. CONNOLLY. —use it for personal purposes, I don't understand what's hard about that, but it's astounding to me they didn't have one.

Mr. LEWIS. Well, I think that's important, like I said, in the general purchase card program. In the case of these debit cards, where there were only two uses—bag claim—baggage claim—or baggage fees when traveling, students are traveling, and the allowance they give them for meals while traveling.

Mr. CONNOLLY. Yeah.

Mr. LEWIS. So, in that case, it's very easy to stipulate there are only two uses. You don't need to stipulate all the things you should not use it for.

Mr. CONNOLLY. Yeah.

Ms. Richards, the Department of Homeland Security?

Ms. RICHARDS. I can't think of an instance where those purchases would be appropriate. But, again, you'd have to look at the individual purchase to see if there wasn't a nexus to government services.

Mr. CONNOLLY. Well, assuming there wasn't, though. My question is predicated on, no, no, there's no nexus, this is personal.

Ms. RICHARDS. The Department of Homeland Security's regulations do state that government purchase cards are to be used for government business only and not for personal business. The——

Mr. CONNOLLY. So you have an explicit prohibition.

Ms. RICHARDS. We don't have an explicit prohibition naming those items. It's——

Mr. CONNOLLY. No.

Ms. RICHARDS. —an explicit prohibition of personal use.

Mr. CONNOLLY. Right. Yeah, that guidance.

Ms. RICHARDS. Yes.

Mr. CONNOLLY. Okay.

Mr. Lyle, understanding that you can't speak for policy for the Air Force—we understand that—but can you think of a reason why we wouldn't want to include the Pentagon, and by extension the Air Force, in a government-wide consistent set of standards and enforcement mechanisms and standard operating procedures with respect to the use of such cards, especially since you are by far the biggest user?

Mr. LYLE. Yes, Department of Defense is the largest user of government purchase cards. And would the Air Force—I mean, I can speak for policy for the Air Force, just not for the Department of Defense. And, as you know, we are part of the Office of Secretary of Defense, Director of Procurement and Acquisition Policy. They set the policy for all of OSD.

But from an Air Force perspective, the internal controls that I mentioned earlier, as far as the PCOLS—and I'm not saying that these internal controls would—wouldn't—would not—would obviate or not need the government control act, as far as the transaction—you know, as far as the Government Charge Card Abuse Prevention Act, I'm not saying that we wouldn't benefit from that act. But I can just tell you a little bit about our internal control process that we have now.

In addition to the PCOLS, we have six levels of control. We also have a separation of function: a requiring organization or a person that has a need, the cardholder, and then the payer. And no one person can have all three of those functions and responsibilities and to have one person to prevent those kind of frauds. And the only way that that could happen is that all three people would have to be in collusion together to be able to execute a fraudulent-type action of that caliber. But that's not to say that it's not impossible. So whether or not the card prevention act would prevent that, that's something that we could certainly look at.

And as far as those six levels, I was talking about the agency or the program coordinator does monthly reviews of every transaction and—excuse me, an annual review of every transaction—but the approval official of the cardholder looks at every single transaction. Once again, the separation of power and control and function so that no one person has all authority and control over the card.

Mr. CONNOLLY. Has the Air Force IG audited the use of these purchase cards for you?

Mr. LYLE. Yes, the Air Force audit agency has. I'm not aware of the IG looking at these particular cards. They usually refer that to the Air Force contracting organization. If they suspect or if anyone

reports a problem with a government purchase card, they refer out—they refer those issues.

Mr. CONNOLLY. It's just that when you're spending \$1.2 billion—

Mr. LYLE. Right.

Mr. CONNOLLY. —with 26,000 purchase cards in distribution in just the Air Force—

Mr. LYLE. Right.

Mr. CONNOLLY. —it's hard to believe that there hasn't been some misuse.

Mr. LYLE. As I mentioned earlier, we have documented 26 actions out of those 1.5 million transactions.

Mr. CONNOLLY. But you heard the statistics here today.

Mr. LYLE. Yes.

Mr. CONNOLLY. That would put you at radical variance from other Federal agencies in the civilian sector.

Mr. LYLE. Yes. That's not to say that we don't have abuses of the card or misuse of the card, fraud abuses. And we have—we know about every single one of them, and we do a check on those particular instances.

Mr. CONNOLLY. Well, if your numbers are accurate, then maybe we need to have the U.S. Air Force take over the issuance of all Federal credit cards, debit cards, purchase cards.

Mr. LYLE. Sir, if you give us the resources, we'll be glad to.

Mr. CONNOLLY. Yeah. We'll transfer some of that management money. I mean, because that's quite a record, Mr. Lyle. Quite a record.

Mr. LYLE. We're very proud of our accomplishments. I'm not aware of any fraudulent issues other than 26 I mentioned. I don't know exactly what each and every one of those are. But I am very proud of the accomplishments of the government cardholders we—

Mr. CONNOLLY. Again, if the numbers you cite are accurate, you should be.

Mr. LYLE. Sir, I have no reason to believe they aren't.

Mr. CONNOLLY. Let me ask again our three auditors—three IGs, excuse me—questions a layman might ask: Are there just too many cards in circulation for us to really get our arms around it, holding in abeyance Mr. Lyle's testimony? And are there too many employees authorized to use such purchase cards? Should that—should those numbers be more manageable and more controlled in terms of the number?

Ms. KASPER. Within EPA, they do—

Mr. CONNOLLY. I can't hear you, Ms. Kasper.

Ms. KASPER. Within EPA, they do conduct an annual review to make sure we've got the right number of people with purchase cards. The idea is also that they be at the local level and that they be supervised locally. Whether or not 2,000 employees is the right number, I can't really say at this point.

Mr. CONNOLLY. Well, if I—how many employees are there in EPA total?

Ms. KASPER. Sixteen thousand.

Mr. CONNOLLY. So what if I said, everyone who's an employee, when you become an employee of the EPA, we're going to issue one

of these cards to you because you might need it, and, you know, they're working so well, why not have everybody have one? What would be wrong with that?

Ms. KASPER. It would be wrong because you'd have to have quite a few controls.

Mr. CONNOLLY. Well, that's my point. Do we have any idea about what is an optimum number versus, "That's too many"? That's what I'm trying to get at. I mean, you withhold judgment on 2,000, but you exercise judgment on 16,000. So——

Ms. KASPER. I don't—I'm not aware of what the optimal number is. And I'm also not aware that EPA knows what the optimal——

Mr. CONNOLLY. Well, when you looked at this problem, was it your impression that the EPA is challenged with managing this number of cards issued to this number of people? Is that beyond their management skill, or you think it's just right?

Ms. KASPER. EPA was challenged in managing that number because they left it up to each of the approving officials to come up with their own standard operating procedures, and that resulted in a lot of variance across the agency.

Mr. CONNOLLY. Yeah, because there's a lack of uniformity in standard-setting.

Ms. KASPER. Right.

Mr. CONNOLLY. Well, that doesn't sound like——

Ms. KASPER. One of the things—one of the things EPA has done, based on the audit report, is now implemented standard operating procedures that will be instituted across the agency in the hopes of trying to level things out and institute more controls.

Mr. CONNOLLY. Well, that's a novel thought.

I mean, I worked for a very large company with 45,000 employees. When credit cards were issued, there was a standard policy company-wide. We didn't just leave it up to local managers to decide how a credit card could be used or when it would be issued or to whom. We had standards. And it worked for a very large worldwide company.

Ms. KASPER. Yes, sir.

Mr. CONNOLLY. Mr. Lewis, you indicated in your testimony that 98 of 104 centers, job centers, had improper travel purchases; is that correct?

Mr. LEWIS. Correct.

Mr. CONNOLLY. Ms. Richards had a piece of testimony where she said she thinks the problem in DHS is not with the design of standards; it's with the enforcement of those standards.

Correct?

Ms. RICHARDS. Yes, sir.

Mr. CONNOLLY. How would you characterize it in the Department of Labor? Do you think the design of standards is satisfactory or even exemplary? Or is there a problem with the design of the standards itself?

Mr. LEWIS. Well, in this particular instance, I think it's the design of the standards, or lack of design, as well as enforcement or oversight over these. But, again, this is a very, I guess, kind of narrow and unique issue within the Job Corps program that utilize these debit cards.

And in answer to your previous question, I think the conclusion in this case was that one debit card was too many debit cards. Even if—they are such small individual purchases that were being handled in this manner, that even if you put all the controls in place to ensure that purchases were proper, it would cost a lot more to administer that than it would be worth.

The Department was buying—or the Job Corps centers were purchasing these cards that ranged in value from \$10 to \$60. They paid \$6 apiece for a card. So a \$10 debit card cost them \$16. So no matter how you administer that, it was not going to be an effective tool.

And the fact that they had so many of these debit cards on hand made it much more tempting to people to misuse them. So they have switched to either using the travel cards, which were available to pay for some of these expenses, or the very smallest things, such as a \$5 meal allowance, it would just be best to give the student cash for that rather than pay an additional \$6 to provide a debit card.

Mr. CONNOLLY. Yeah. Exactly.

And my final question: Ms. Richards, it's my understanding that your office has issued three previous reports on the Department's use of purchase cards since 2010. Is that correct?

Ms. RICHARDS. Yes, sir.

Mr. CONNOLLY. Each report contained recommendations. Has the agency—has the Department of Homeland Security acted on those previous recommendations?

Ms. RICHARDS. Yes, sir, they have. I will have to get back to you with the list of the specific actions they've taken to each one of those recommendations.

Mr. CONNOLLY. Yeah, I would—

Ms. RICHARDS. In general, they have.

Mr. CONNOLLY. —like to see that. Because, obviously, we don't want to see recommendations ignored. And it tells us something here in the Oversight and Government Reform Committee when an agency is making a good-faith effort to comply with recommendations from the IG.

Ms. RICHARDS. Yes, sir.

Mr. CONNOLLY. All right. Thank you very much.

Thank you, Mr. Chairman.

Mr. MICA. Thank you.

A couple of questions. Well, first, Ms. Richards, we were looking through your testimony and then your report, and it said you reported 925 million purchases, totaling \$439 million. That's in the testimony.

Ms. RICHARDS. That's from 2013.

Mr. MICA. But when you divide that up, it comes up to about 50 cents per transaction. Is there—are we missing—is this—is that correct?

Ms. RICHARDS. Sir, those are the numbers that I have. Some transactions are smaller than others.

Mr. MICA. An average of 50 cents a transaction?

Ms. RICHARDS. That average doesn't sound probable. I would have to get back to you, sir.

Mr. MICA. We don't think that these records—I mean, something is missing here. I just don't think that's accurate, but it's—you repeated that in your testimony.

Ms. RICHARDS. Those are the numbers that I had. Those are department-reported numbers. We do not—

Mr. MICA. And that's the report we have, too. But, again, something doesn't make sense there. If you could check that.

Ms. RICHARDS. Yes, sir.

Mr. MICA. And we will be leaving the record open for a period of 2 weeks.

Without objection, so ordered.

So we will have additional questions we'll be submitting after this.

Okay. The number—the 2012 law allowed—and Air Force is out and not under this. But the 2012 law allowed employees to be fired, dismissed, terminated, prosecuted.

Can you tell us, Ms. Kasper, EPA, how many that you know of—terminated, disciplined, or prosecuted?

Ms. KASPER. We recommended in our report that EPA take action. EPA was supposed to be taking action by September 30th. We haven't done the follow-up review yet for those actions.

Mr. MICA. Do you know of any?

Ms. KASPER. I'm not aware of any.

Mr. MICA. Okay. Could you check that?

Ms. KASPER. Yes.

Mr. CONNOLLY. Would the chair yield?

Mr. MICA. Yes. Oh, yeah.

Mr. CONNOLLY. When you say “take action,” does that include—and if so, how many—referrals for prosecution?

Ms. KASPER. That could potentially be among the actions that they could take.

Mr. CONNOLLY. But you didn't make that recommendation.

Ms. KASPER. No. No, we just said that they take the appropriate action among—

Mr. CONNOLLY. Leaving it up to them to—

Ms. KASPER. Right.

Mr. CONNOLLY. Okay.

Thank you, Mr. Chairman.

Mr. MICA. Well, again, we can pass a law, but the law has to be enforced, and there has to be consequences.

I remember we had—I had Rudy Giuliani here years ago when he became mayor of New York. I think I chaired criminal justice, drug policy. And I was fascinated by his zero tolerance. Man, they threw the book at you. And New York today has the residual effect of the zero-tolerance policy. People, you know, were taken to task, prosecuted, gone after.

But we passed the 2012 law, we put tools, and then EPA can't cite anyone.

Labor—Mr. Lewis, you had cited several. Were there others—I mean, that was in the Miami instance—terminated? Anyone prosecuted or disciplined?

Mr. LEWIS. To my knowledge, there is no one prosecuted, but I'd have to get back to you on that. I don't have—

Mr. MICA. We'd like to know because—

Mr. LEWIS. —the latest—we did refer all the instances we found in the Job Corps audit to our investigators. But my current knowledge is that no one was actually prosecuted.

I am not aware of any departmental employee that's been fired since this law has been in place for such actions. I think, in this case, these were contractor employees, and so they already had more latitude in terms of addressing that than we would've had in the past with the Federal employees.

Mr. MICA. All right.

Just for the record, I have to put this in, Mr. Connolly. In my own area in central Florida, I had a housing director and a director who came in after I had gotten the housing authority taken over by HUD. It was so mismanaged, they brought in another housing authority director. Actually, when I came to office, the first thing was the housing authority director coming to me complaining that the state attorney was going after her, and part of it was credit card abuses, making false payments, and asked me to weigh in for her. I asked her to find the door because the list of charges were just incredible.

Mr. CONNOLLY. I remember that.

Mr. MICA. Then I go back to having HUD take over the same housing authority. They put in another housing director, who, when I found out about his reputation, tried not to get him appointed. Washington overrode me, Atlanta overrode me, Jacksonville—they hired him. And we had spent millions to bring the thing back up; turned it back over. We took—HUD took control. And within 7, 8 years, he ran it down. I think there was—there were thousands of dollars of credit card abuses. And I wish I'd remembered this before we did this hearing today. I should've had HUD in here. But HUD investigated the IG, made a criminal referral to the Department of Justice, and they never—we asked Justice—they never pursued it.

So we have agencies who are abusing—well, some employees who are abusing the public trust, and we have some mechanisms to go after them. And then I was—I was just stunned. The Department of Justice refused to go after them. If you'd gone in with a mask and a gun held up and taken 10 percent of what they—what was gone.

But, again, I just have to recall that for the record.

Ms. Richards, you're next. Anyone prosecuted, terminated, or disciplined in DHS?

Ms. RICHARDS. Sir, I'm aware that some employees have been disciplined and terminated for credit card abuse. But at DHS those records would not be managed centrally, so I would not have the ability to get the scope of all the actions that might have been taken.

Mr. MICA. Well, if you could review that, let us know for the record, too. We're leaving that open.

We're trying—we passed the law in 2012 to try to be better stewards of public money. We can save money—the Air Force has cited in testimony that you can save money by using these for small transactions, and there is a lot of benefit, but there are also a lot of abuses. EPA today, about half of the sampling abused. Labor, 35

percent on the debit cards. DHS, she hasn't come totally clean with us, but we'll get the information one way or the other.

We have our methods, Ms. Richards, of extracting the information. Just teasing. Just teasing. We will—we are relying on you to report to us. Again, we would like to kind of get a better handle on what is taking place and if the law needs—and my last question, too, to each of you: Is there any recommendations for tightening up the law?

This is interesting because some of it is poor management practices or poor administration. Some is not having the proper protocols in place that are sort of standard and can take the law to implementation with better understanding and performance and compliance by Federal employees.

But tell us, if you can, if there's any—any tool missing or anything we can do.

The other thing, too, is OMB should possibly have some role in this, or requiring at least that an agency come up with some set of protocols that are missing in some of the agencies who are compliant.

So, Ms. Kasper, any recommendations for myself, Mr. Connolly, the committee?

Ms. KASPER. The law contains many of the controls that are necessary and almost all the controls that are necessary regarding purchase cards. The issue at EPA was EPA was not overseeing to make sure that those actual controls were being implemented.

Mr. MICA. Again, like Ms. Richards said, lack of compliance.

Ms. KASPER. Right.

Mr. MICA. Okay. And we might look at some mechanism to ensure that.

Mr. Lewis?

Mr. LEWIS. We haven't found anything that we believe would require legislation to address. Ours, as well, was simply a case of, you know, just a complete lack of oversight or attention to this. And the requirements are already there for that to be in place.

The focus that this act has put on, you know, the periodic risk assessments and audits, I think, has been good. And that is working to start bringing these things to the surface.

Mr. MICA. Well, and you have cited some successes in bringing about compliance and also implementing the intent and purpose of the law. And Mr. Lyle with the Air Force has cited what they've done to try to, again, get the proper use of these cards.

Ms. Richards, any changes, anything you see we need to do from a law or procedural standpoint?

Ms. RICHARDS. No, sir, not at this time. The law, very wisely, puts in place the regular risk assessments and reporting to the OIGs, and the requirement is for us to take a look back at what the departments are doing. And I think, as that plays out over time, it will better inform any changes you might have to make in the future.

Mr. MICA. Okay.

Mr. Connolly, did you have something?

Mr. CONNOLLY. Yeah, could I just follow up on that, Mr. Chairman?

First of all, I'll answer your question. Certainly, one thing that came out of this hearing, for me, is we need an explicit prohibition on the use of—personal use of these cards, period. There cannot be any circumstance of un-job-related use of a credit card that's issued by the government. That is wrong, and we ought to make it an explicit prohibition, it seems to me. And it ought to be required of every Federal agency that issues such cards.

At any rate, that would be certainly one thing I'd answer to your question in terms of how we might update the law. Other than that, I'm glad to hear the 2012 law is helpful. We——

Mr. MICA. Does OMB enforce the law or put out any guidelines? Is that their role? I'm not sure.

Mr. CONNOLLY. Could be.

Mr. MICA. If they're the fiscal—Ms. Kasper? Mr. Lewis? Mr.——

Ms. KASPER. OMB put out a Circular A-123, and I think it's Appendix B of that circular. I think it was updated to comply with the new law.

Mr. CONNOLLY. You mean the 2012 law.

Mr. MICA. The 2012 law.

Ms. KASPER. The 2012 law.

Mr. MICA. And you think that's adequate? I'm not aware of the provisions.

Ms. KASPER. I'm not aware that there's any issues or problems with that.

Mr. MICA. Okay.

Mr. Lewis, anything?

Mr. LEWIS. No, that's correct. They have put out some guidance, and they are publishing reports where they are collecting information from the departments and the IGs on, you know, what issues we're identifying with purchase cards and the status of recommendations.

Mr. MICA. Ms. Richards?

Ms. RICHARDS. I agree with my fellow assistant IGs that OMB has put out additional guidance and they are following up on publishing the results from the OIGs.

Mr. MICA. But they really don't go back that much to check. Have you seen them—any compliance of their——

Ms. RICHARDS. OMB puts out the guidance, and it's up to the individual departments to enforce it.

Mr. MICA. Okay. And you all oversee some of that as inspector generals.

Mr. CONNOLLY. Mr. Chairman, the only thing that strikes me here, though—correct me if I'm wrong, but, in a sense, neither the 2012 law nor the OMB guidance give explicit guidance for criteria of who gets a card and when can a card be used. Is that—would that be fair?

Because if I understand you, Ms. Kasper, you were saying even within EPA there was, kind of, broad discretion about that guidance. So that would suggest there isn't government-wide guidance.

Ms. KASPER. I'm not aware of any guidance as to who can get it or how many can be distributed.

Mr. CONNOLLY. And both Mr. Lewis and Ms. Richards would agree with that?

Mr. LEWIS. Same here. In our current audit, we are looking at the utilization of these cards because we know some people have them and they don't use them, so——

Mr. CONNOLLY. Yeah.

Mr. LEWIS. —evidently they do not need them.

Ms. RICHARDS. We're also looking at it. And it's a matter of—in the Department of Homeland Security, because we're geographically widely dispersed, you would want to have a card available at a location, but you may not need two cards. So that's one of the ways that we're looking at it——

Mr. CONNOLLY. Yeah.

Ms. RICHARDS. —to make sure that we minimize the number of cards out there.

Mr. CONNOLLY. And that's always a challenge for us up here, too. You don't want to have—you don't want to codify things like guidance and unwittingly make it impossible to achieve the savings and the efficiencies such cards can provide. On the other hand, the absence of any guidance does allow for, even within an agency, a myriad of standards that can lead to misuse, deliberate and nondeliberate. And, obviously, that is of concern to us.

So I would echo the chairman's invitation to all of you to, if, upon reflection upon this hearing, if you've got suggestions for how we might improve the law, we would certainly welcome them.

Thank you, Mr. Chairman, for holding the hearing.

Mr. MICA. Thank you.

Well, one final thing. I'm a renowned tightwad, and I try to get as much for my buck, whether it's the taxpayers' buck or my own. Just out of curiosity—like, I use several cards. You get a cash back with one. Do we—any of you have enough—any detail in negotiating with these?

Do we get—because, again, right now the Federal Government's broke. You know, we're borrowing 40 cents on every dollar, something in that range. So we're—our job is not only to see that waste, fraud, and abuse is eliminated, but the maximum revenue we can get in with the least going out.

Mr. Lyle, you're shaking your head "yes." Have you found some good return for the government and the taxpayer?

Mr. LYLE. Yes. In addition to the transaction savings that we discussed earlier, we did receive \$14.7 million in rebates this past year.

We're also increasing the use on the government purchase card above the micro-purchase threshold for preestablished contract instruments that are pre-priced so that it will protect the taxpayers' dollars from that perspective. We wouldn't want government purchase cardholders to go out and negotiate contracts per se, but if it's pre-priced, we're going to increase the use of the card up to the simplified acquisition threshold of \$150,000 to take advantage of that transaction savings as well as the rebates. That's what we're really going after, is those rebates from U.S. Bank.

Mr. MICA. Okay.

Ms. Richards, DHS, 2012–2013, \$2.6 billion in credit card purchases. Just heard the success story of Air Force. Are you familiar with any savings?

Ms. RICHARDS. I don't have the dollar figures available, but the Department does receive a rebate when they use the purchase cards.

Mr. MICA. Would you also make that part of the record?

Ms. RICHARDS. I will, sir.

Mr. MICA. Again, it's—we're looking for waste, fraud, and abuse, but we're also looking for savings.

Mr. Lewis and Ms. Kasper?

Mr. LEWIS. The same as Ms. Richards. I know there are rebates, but I do not know the dollar amount for Labor.

Mr. MICA. Okay.

Ms. Kasper?

Ms. KASPER. I also know there are rebates. They get rebates depending on how fast they pay—they approve the purchase to be paid. But I don't know exactly—

Mr. MICA. Okay.

Ms. KASPER. —what the amount of rebates was during the last year.

Mr. MICA. Well, again, this is a small sampling of Federal agencies. And we appreciate your cooperation. We're looking to see how a law that we passed in 2012 worked. There are a number of IG reports dating back to January of this year and subsequent reports that we've reviewed for this hearing.

I'm pleased that each of you would take time to come in today, where our job is, again, to be good stewards of taxpayer dollars, and yours are, too, particularly the inspector generals—well, all of us—as Federal employees.

Any closing comments, Mr. —

Mr. CONNOLLY. No. Thank you.

Mr. MICA. I thank Mr. Connolly again and the staff for working during this particular timeframe to make certain we did this. I think we've done a record number of hearings—appreciate your cooperation—and many of them like this, meat and potatoes, but important to the people we represent.

There being no further business before the Subcommittee on Government Operations, this hearing is adjourned. Thank you.

[Whereupon, at 2:48 p.m., the subcommittee was adjourned.]

APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD

GARRETT E. ISAAC, CALIFORNIA
CHAIRMAN

JOHN L. MICA, FLORIDA
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LAWRENCE J. BRADY
STAFF DIRECTOR

The Honorable Gene L. Dodaro
Comptroller General of the United States
U.S. Government Accountability Office
441 G Street NW
Washington, D.C. 20548

Dear Mr. Dodaro:

As Chairman of the Oversight and Government Reform Subcommittee on Government Operations I am writing to request that the U.S. Government Accountability Office conduct an investigation into potential waste, fraud, mismanagement and abuse in the use of federally issued purchase cards, with a focus on transactions involving small purchases (also known as *micro purchases*). Although micro purchases are capped at \$3,000 per transaction, such purchases can easily add up to billions of dollars if not properly managed. Federal government managers across the board need to ensure that that departments and agencies are guarding against potential abuses. The GAO has looked at the use of purchase cards over a number of years and issued a comprehensive report on this topic in March 2008.¹

In this report, GAO found that internal control weaknesses in agency purchase card programs exposed the federal government to waste, fraud, abuse, and loss of assets. The report provided a number of examples illustrating such instances that totaled millions of dollars and made 13 recommendations to the Office of Management and Budget and the General Services Administration to instruct federal agencies to, among other things, strengthen relevant controls and impose financial liability for unauthorized purchases.

With the 2008 report as context, and following initial discussions with GAO, I request that your office conduct a comprehensive review of the government's purchase card program, to include an investigative component as appropriate. In particular, GAO's review should include the following:

- Determine the extent to which, if any, internal and other control weaknesses identified in earlier GAO reports persist in the government purchase card program;

¹ GAO, *Governmentwide Purchase Cards: Actions Needed to Strengthen Internal Controls to Reduce Fraudulent, Improper, and Abusive Purchases*, GAO-08-333 (Washington, D.C.: March 14, 2008).

ONE HUNDRED THIRTEENTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
2157 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515-6143

ASSEMBLY: (202) 225-1074
FACSIMILE: (202) 225-2074
MAILING: (202) 225-2034
<http://oversight.house.gov>

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RANKING MINORITY MEMBER

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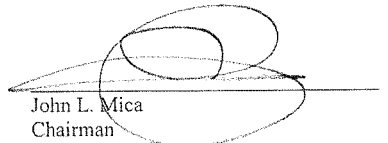
October 14, 2014

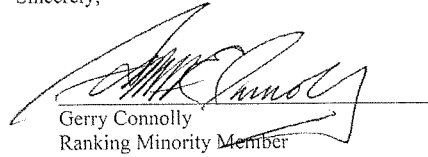
The Honorable Gene L. Dodaro
October 14, 2014
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- Assess what actions, if any, OMB and GSA have taken in response to past GAO recommendations and to what extent these actions have been effective at various agencies; and,
- Identify specific examples that help illustrate various types of fraudulent, abusive, or other improper transactions or loss of assets.

The GAO review will help inform the Subcommittee's oversight responsibilities, policy deliberations, and decision making related to this very important issue. If you have any questions regarding this request, please contact Ashley Callen of the Committee staff at (202) 225-5074.

Sincerely,


John L. Mica
Chairman
Subcommittee on Government Operations


Gerry Connolly
Ranking Minority Member

**HOUSE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
SUBCOMMITTEE ON GOVERNMENT OPERATIONS**

Questions for the Record

For the hearing held on October 14, 2014

Ms. Janet Kasper, Director, Contracts and Assistance Agreement Audits
U.S. Environmental Protection Agency - Office of Inspector General

1. How many EPA employees were terminated, disciplined or prosecuted as a result of improper transactions related to the government-supplied credit cards?

The U.S. Environmental Protection Agency's (EPA's) Office of Acquisition Management (OAM) reviewed the list of 80 transactions provided by the Office of Inspector General (OIG), as well as supplemental documentation requested from and received by purchase cardholders/approving officials (AOs)—with the exception of one transaction because of an OIG ongoing investigation. For that one transaction, the OIG investigation revealed that a GS-13 employee improperly used an EPA purchase card to order an iPad for personal use. EPA's decision regarding planned administrative action has not been communicated to the OIG.

Of the 80 transactions, only 75 were cited in the OIG report as not complying with EPA policies. Based on the supporting documentation provided by cardholders/AOs, OAM did not identify any instances of fraud or any prohibited purchases of supplies and/or services in any of the transactions. For the 75 transactions, OAM confirmed that there was evidence improper purchases (process/procedural non-compliance). On July 23, 2014, OAM began distributing purchase card violation letters to those cardholders/AOs who were identified in the OIG report for making alleged improper transactions, and the distribution was completed in early August 2014.

OAM suspended a total of 33 purchase card accounts pending the successful completion of the Purchase Card Supplemental Training for transactions that: failed to obtain third party verification; reflected split purchases; and paid in advance for services restricted for purchases by program office cardholders. Additionally, all other cardholders/AOs cited in the report were required to complete the training no later than September 13, 2014. Failure to complete the training resulted in suspension of purchase card privileges. In addition, 43 purchase accounts were suspended because the cardholders/AOs did not complete the training.

2. What were the amount of rebates received from the banks?

The amount of rebates for FY 2014 and FY 2013 are as follows:

FY 2014 = \$268,514.71

FY 2013 = \$283,843.07