



# Office of Inspector General

## AUDIT OF THE DEPARTMENT OF VETERANS AFFAIRS PURCHASE CARD PROGRAM

*Management controls were not effectively implemented to ensure the integrity of the Purchase Card Program and maximum benefits of the program were not realized.*

Report No. 9R3-E99-037

Date: February 12, 1999



**DEPARTMENT OF VETERANS AFFAIRS**  
**Office of Inspector General**  
**Washington DC 20420**

**Memorandum to:**  
**Under Secretary for Health (10)**  
**Assistant Secretary for Financial Management (004)**

**Audit of the Department of Veterans Affairs Purchase Card Program**

1. The Office of Inspector General (OIG) audited the Department of Veterans Affairs (VA) Purchase Card Program for making small purchases. The purpose of the audit was to evaluate the effectiveness and efficiency of VA's use of the Purchase Card Program. VA-wide use of the Purchase Card Program grew from 170 cards and processing 2,400 transactions valued at \$567,000 in Fiscal Year (FY) 1994, to over 26,600 cards and 1.5 million transactions valued at \$797 million in FY 1997, including \$762 million in Veterans Health Administration (VHA) transactions. As of April 1998, there were over 34,100 cards issued to VA cardholders who processed about 1.1 million transactions valued at about \$592 million. Purchase card expenditures for FY 1998 are expected to exceed \$1 billion. The Office of Financial Management is responsible for implementation and administration of the Purchase Card Program.

2. VA's Purchase Card Program is sound in principle and has clearly created opportunities for cost-savings and other benefits. VA has developed and provided facility managers with procedures to monitor and control purchase card use. However, VA facilities did not effectively implement these management controls to ensure the integrity of the Purchase Card Program. Reconciliations of billing statements were either not performed, or were not performed timely; and, approving officials were not certifying the reconciliations timely. Reviews performed by the OIG and VA's Financial Management and Fiscal Integrity Act (FMFIA) staff identified fundamental control weaknesses relative to account reconciliations. In addition, VA did not have a system in place to monitor facility reconciliations of billing statements. In October 1997, a review of unreconciled transactions at 115 facilities indicated that VA had about 38,000 unreconciled transactions valued at about \$21.9 million, including over 33,200 valued at \$19.2 million that were not reconciled timely. About 11,600 of these transactions valued at \$6.7 million were over 60 days old. As a result, we believe that reconciliation of card transactions should be considered for reporting by VA management as a material weakness because basic controls against erroneous and unauthorized transactions were not implemented.

3. We also found that VA did not achieve the cost-efficiencies expected from reengineering the acquisition and payment processes made possible by implementation of the Purchase Card Program. While VA has realized efficiencies from implementing the Purchase Card Program, staffing efficiencies have not met expectations as defined by a contractor-conducted study of VHA's Acquisition and Payment Process. Attainment of the efficiencies outlined in the study could result in additional staff reductions totaling over \$22 million.

4. We recommended that the Assistant Secretary for Financial Management strengthen controls over the Purchase Card Program by: i) considering the reporting of the purchase card reconciliation process as a material weakness; ii) establishing mechanisms to monitor unreconciled transactions; and iii) ensuring that deficiencies identified by FMFIA staff are corrected. We also recommended that the Under Secretary for Health realign staff commensurate with anticipated savings from implementing the Purchase Card Program.

5. The Under Secretary for Health and Assistant Secretary for Financial Management concurred with the findings and recommendations in the report and provided acceptable action plans. The Under Secretary also agreed with our monetary estimate. Therefore, we consider the issues discussed in the report to be resolved, based on actions taken or planned. However, we will continue to follow up on planned actions until they are completed.

For the Assistant Inspector General for Auditing

JAMES R. HUDSON  
Director, Atlanta Operations Division

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## **RESULTS AND RECOMMENDATIONS**

### **1. Controls Should Be Reinforced to Ensure Program Integrity**

Management controls to ensure the integrity of the Purchase Card Program were not effectively implemented. Although VA has developed and provided facility managers with procedures to monitor and control purchase card use, we found that:

- Cardholders frequently did not timely reconcile their billing statements;
- Cardholders did not input orders into the Integrated Funds Distribution, Control Activity, Accounting and Procurement (IFCAP) system within one day;
- Cardholders did not maintain supporting documentation;
- Approving officials frequently did not timely certify billing statements;
- Transactions were not charged to the proper accounts;
- Disputes were not reported to the vendor within 30 days; and,
- Credit cards were not properly secured.

These conditions occurred because the Department of Veterans Affairs (VA) did not have a system in place to identify individual cardholders and facilities that were not reconciling or approving transactions timely, or meeting other basic financial management responsibilities. While VA's Financial Management and Fiscal Integrity Act (FMFIA) staff conducted monthly samples of credit card transactions which also identified these problems on a VA-wide basis, it did not identify specific individual cardholders or facilities requiring corrective action, and as a result, none was taken. We estimated that in October 1997, the Veterans Health Administration (VHA) had about 38,000 outstanding unreconciled credit card transactions valued at about \$21.9 million, including over 33,200 valued at \$19.2 million that were not reconciled timely. About 11,600 of these credit card transactions valued at \$6.7 million were over 60 days old. Failure to reconcile transactions timely, within 60 days, prevents VHA from recovering erroneous amounts paid the credit card vendor. As a result, we believe that reconciliation of card transactions should be considered for reporting by VA as a material weakness because basic controls against erroneous and unauthorized transactions were not implemented.

### **Controls to Safeguard Resources Are Required**

The Purchase Card Program has resulted in several changes in VA's acquisition and payment process. Under the purchase card process, the cardholder orders the items, initiates payment, and participates in certifying that the items paid for were authorized. The Purchase Card Program decentralized or shifted the procurement review process from several administrative support services to the requesting services exclusively, and shifted the reconciliation process from the VA Financial Service Center (FSC) to the requesting services. The processes eliminated under the Purchase Card Program were inter-office review functions that controlled unnecessary losses. The decentralization of oversight responsibilities from a centrally-controlled staff to over 30,000 cardholders nationwide reduced overall centralized management and increased the vulnerability for error in the logistics process. Consequently, the Purchase Card Program is dependent upon timely reviews and account reconciliation at the authorization level. Timely reconciliation and

certification of billing statements are essential because the purchase card contractor is paid on a 1-day cycle, sometimes before the item is received, and VA has only 60 days to dispute erroneous charges.

Procedures for reconciling billing statements have evolved since the inception of the program in 1994. Initially, the credit card vendor mailed monthly paper statements to individual cardholders and VA paid the statements after the cardholder had manually reconciled the statement to their receipts. Under this procedure, the credit card vendor was not paid until the items had been received and the statement reconciled, usually about 25 days after receipt of the statement. In May 1996, VA began receiving daily statements and individual charges electronically and making payments to the credit card vendor daily. Under this procedure, VA paid the vendor prior to reconciling the statements and frequently before items were received. When VA went to the 1-day payment cycle, policy was issued requiring cardholders to (i) reconcile charges within 5 days, (ii) approving officials to certify reconciled statements within 14 days, and (iii) FMFIA staff to conduct monthly samples of purchase card transactions to determine if management controls were ensuring the integrity of the Purchase Card Program. To assist cardholders in reconciling charges, VA developed procedures to track purchases in the IFCAP system, and electronically compare this information with daily charges received from the credit card vendor. These procedures were made available to VA facilities in November 1996 and a number of improvements have been made since the procedures were initially developed. (*See APPENDIX III concerning program controls and responsibilities.*)

### **Paid Transactions Are Not Reconciled Timely**

Questionnaires sent to 151 VA facilities disclosed that 109 (72 percent) had experienced reconciliation problems, with causes ranging from IFCAP programming and erroneous bills to insufficient training time. Further review showed that VA had no system in place that provided timely and reliable information about unreconciled paid transactions for the Department as a whole. Although existing automated data processing systems at the field level were adequate to process purchase card transactions, they were not programmed to inform management whether the Department as a whole had control problems. VA Central Office officials and managers would have to compile data on unreconciled transactions from each VA field activity in order to determine the number and value of the transactions VA-wide that were potentially at risk.

A limited review of unreconciled transactions at one Veterans Integrated Service Network (VISN) showed a significant problem with unreconciled transactions. As a result, we requested unreconciled transaction data from all VHA field stations to determine if this was a VA-wide problem. We received data from only 115 of the 159 stations; consequently, a full assessment of the unreconciled transactions was not made. However, based on the October 10, 1997 data, we estimate that VA had about 38,000 unreconciled transactions valued at about \$21.9 million, including over 33,200 valued at \$19.2 million, that were not reconciled timely. About 11,600 of these transactions valued at \$6.7 million were over 60 days old.

The significance of the reconciliation problem was confirmed by monthly statistical analyses of purchase card transactions conducted by VA's FMFIA staff. The FMFIA monthly statistical samples of all VHA credit card transactions showed that for the period June 1997 through January 1998, between 26.7 to 42.9 percent of all transaction were not reconciled timely. Based

on an average value of unreconciled transactions in each sample, the value of the unreconciled transactions ranged from \$19.9 to \$38.3 million. *(See APPENDIX IV concerning untimely reconciliations of transactions.)*

### **Approving Officials Did Not Monitor and Approve Purchase Card Purchases Consistently**

We reviewed purchase card transactions billed to VA during 2 cycles and found that the approving official had not certified the cardholder's reconciled billing statements in 25 of 136 statements reviewed. The approving official is responsible for ensuring that:

- Purchases are within the cardholder's assigned limits;
- Purchases are not fragmented to stay within limits;
- Purchases are for items designated for that card;
- Purchases have applicable supporting documentation; and,
- Acquisition regulations, both federal and local, are followed.

In addition, approving officials are required to certify the reconciled billing statements within 14 days of receipt from the cardholder.

FMFIA staff's monthly samples of purchase card transactions also showed that approving officials were not consistently reviewing and certifying reconciled billing statements. Sample results showed that the percent of transactions not certified within 14 days by the approving official increased from 8.5 percent in June 1997 to 18.8 percent January 1998. The estimated values of these transactions were \$6.4 million and \$15 million, respectively. Transactions that have not been certified have not been reviewed or approved by anyone other than the cardholder. Therefore, the appropriateness of the purchases also has not been reviewed if billing statements have not been reconciled and submitted to approving officials for certification. *(See APPENDIX V for FMFIA results concerning untimely certification of transactions by approving officials.)*

### **Results of the Monthly Samples Performed by FMFIA Staff Were Not Used to Effectively Monitor the Purchase Card Program**

Management has not used the results of the FMFIA samples to correct identified problems. In addition to problems with reconciliation and certifications of transactions by approving officials, FMFIA staff have identified other discrepancies that require management attention. Sample results showed that established management controls were not implemented and carried out in the day-to-day operations of the program. These discrepancies include:

- Lack of supporting documentation for purchase card purchases;
- Not resolving disputes within 30 days;
- Not costing purchases to the appropriate accounts;
- Incorrect billings by vendors;
- Security violations of the purchase card; and,
- Fragmenting purchases.

*(See APPENDIX VI for details concerning other discrepancies identified by FMFIA.)*

The FMFIA samples indicated that there has not been any appreciable improvement in compliance with key Purchase Card Program controls since the samples were initiated in June 1997. FMFIA staff provided VHA a detailed analysis of the June 1997 results; however, subsequent reports to VHA contained only raw data and did not project the results to the universe. Consequently, the significance of the discrepancies was not apparent. In discussing these issues with FMFIA officials, we were told that they plan to reinstitute the formal reporting process on a quarterly basis to include trending of results by issue and facility. This information will be made available to the Chief Financial Officer and VISN directors. Discussions with VHA program officials indicated that to date, no actions have been taken to resolve the FMFIA-reported discrepancies, but they plan to begin addressing these issues. Because these controls are the cornerstone to the success of the Purchase Card Program, the lack of improvement demonstrates the need for VA program officials to more aggressively monitor the program, including cardholders and approving officials, to ensure program integrity.

### **Automated Data Processing Systems Should Be Enhanced or Developed to Track Purchase Card Transactions**

Electronic methods to monitor critical aspects of the program at the Departmental level should have been in place prior to implementation. Although data relating to billings are available in some form on a nationwide basis through the Financial Management System (FMS) program, FMS was not designed to validate billing information. Consequently, VA-wide data on unreconciled paid transactions is fragmented and resides only in the individual Veterans Health Information System and Technology Architecture (VISTA)<sup>1</sup> databases at the field station level. In addition, VA has no way of easily consolidating the information for the Department as a whole. Thus, VA management is unable to determine whether program controls are operating satisfactorily. VA should establish electronic data-links with VISTA and other databases that would automatically draw purchase card data from VA facilities at predetermined and unannounced intervals. Also, unannounced reviews and data gathered independently of field station personnel would eliminate non-responses, increase reliability of the data, and serve as a deterrent against unauthorized transactions and poor administration.

### **Conclusion**

VA needs to take immediate action in addressing the control weaknesses identified in the Purchase Card Program. Using purchase cards is sound in principle and has clearly created opportunities for cost savings and other benefits. However, we were unable to assure that program resources were safeguarded against unnecessary losses because the reconciliation process was not effectively implemented and applied in day-to-day operations. We performed numerous reviews that indicated fundamental control problems, and because the results of FMFIA reviews were the same as ours, we believe the Purchase Card Program has a control weakness relative to account reconciliation. Moreover, the reconciliation of purchase card transactions should be considered by VA management for reporting as a material weakness because this element of the control structure does not minimize the risk that errors of material amounts will occur and not be detected. Account reconciliation, the basic control against

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<sup>1</sup> VISTA was previously designated the Decentralized Hospital Computer Program. VISTA is VHA's main hospital information system.

erroneous and unauthorized transactions, is ineffective. Thus, any such unnecessary losses are not readily identified by Departmental review or management.

VA management should establish appropriate mechanisms to monitor unreconciled transactions. In addition, management should establish mechanisms to ensure that deficiencies identified by FMFIA staff are effectively communicated to program officials and corrective actions are monitored to ensure desired results are achieved.

### **For More Information**

- *Detailed information about the audit scope and methodology is provided in APPENDIX I.*
- *Background information is provided in APPENDIX II.*
- *Details of audit pertaining to “program controls and responsibilities” are contained in APPENDIX III.*
- *Details of audit pertaining to “untimely reconciliations of transactions” are contained in APPENDIX IV.*
- *Details of audit pertaining to “untimely review and certification of transactions by approving officials” are contained in APPENDIX V.*
- *Details of audit pertaining to “other discrepancies identified by FMFIA that require management actions” are contained in APPENDIX VI.*

### **Recommendation 1**

We recommend that the Assistant Secretary for Financial Management strengthen controls over the Purchase Card Program by:

- a. Considering the reporting of the purchase card reconciliation process as a material weakness.
- b. Establishing appropriate mechanisms to monitor unreconciled transactions on a VA-wide basis.
- c. Establishing mechanisms to ensure that deficiencies identified by FMFIA staff are effectively communicated to program officials and corrective actions are monitored to ensure desired results are achieved.

## **Comments of the Assistant Secretary for Financial Management**

The Assistant Secretary concurred in the findings and recommendations and stated that due to the current and growing magnitude of the Purchase Card Program, the integrity and management of the program should be further improved. He stated that they have implemented and continue to initiate activities to improve management controls, and agrees that purchase card reconciliation should be reported as an internal high priority area. The Assistant Secretary also stated that VHA will provide comments on findings and recommendations regarding realigning staff resources saved from implementing the Purchase Card Program.

## **Implementation Plan**

1a. The Assistant Secretary stated that VA notes the overall average value of each card transaction is less than \$600. The overall value of transactions not approved by cardholders is also less than \$600. Considering the average value of purchase card transactions and compensating controls built into the Purchase Card Program not only by VA, but also by the card issuer, they believe deficiencies in monitoring the transaction approval process do not rise to the level of a material weakness. However, because of the potential and acknowledged need to improve internal controls, they will report this as an internal high priority area.

1b. In his comments, the Assistant Secretary stated that IFCAP has a feature for reporting unapproved transactions by purchase card at the facility level, but the reporting does not rollup nationally. VHA has agreed such a rollup would provide the required VA-wide oversight for monitoring the transaction approval process at the station level. A memorandum is being prepared for the VHA CFO's approval, directing the Washington Chief Information Officer's field office to develop and implement a national rollup. This report will be provided to the staffs of the VHA CFO and the Financial Services Center (FSC) for monitoring and follow up. The CFO has asked facilities to demonstrate they are complying with the established policy and procedures for purchase cards. Reports will be sent to the field on a monthly basis, which will enable local management and the VHA CFO to identify out-of-line situations and to have necessary adjustments made to correct and eliminate unreconciled transactions.

1c. The Assistant Secretary stated that FMFIA staff at the FSC will continue its statistical sampling program, which draws a sample transaction from each station and will continue making their findings available to VHA and VBA CFO staffs. Those results will be assessed in concert with the previously mentioned IFCAP reports to determine specific additional actions.

*(See APPENDIX VIII on page 31 for the full text of the Assistant Secretary for Financial Management's comments. Comments concerning corrections we have made to the report have been deleted from APPENDIX VIII.)*

## **Office of Inspector General Comments**

The Assistant Secretary for Financial Management's comments are responsive to our recommendations. Based on the implementation plan prepared by the Assistant Secretary and concurred in by the Under Secretary for Health, and discussion with program officials, we agree that the program should be reported as an internal high priority area. We will review this area

during the Consolidated Financial Statement audit as the dollar value of the transactions is material. We consider the recommendations resolved. However, we will continue to follow up on planned actions until they are completed.

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## **2. VA Should Capitalize on Opportunities Created by Acquisition Reform**

VA has not fully realized the cost-efficiencies expected from implementation of the Purchase Card Program. While VA has implemented using the purchase card, it has not reduced the administrative staff necessary to realize available cost-efficiencies. Removing staff from nonessential components of the acquisition and payment process would make staff resources costing over \$22 million available for other VA needs.

### **Program Objectives Included Reducing Costs and Improving Operations**

The objectives of the Purchase Card Program are to:

- Reduce administrative costs to acquire supplies and services within existing Federal Acquisition Regulations;
- Streamline payment procedures and improve cash management practices; and,
- Provide procedural checks and feedback to improve management controls and decision making.

### **Administrative Cost Reductions Are Based on Changes in the Acquisition and Payment Processes**

Cost-savings expected from the use of purchase cards emanate from a redesign of the procurement process. Certain control activities traditionally involved in the acquisition and payment processes for supplies and services were eliminated with the introduction of the credit card program, thereby reducing the costs to process a transaction. Formerly, VA's supplies and services were acquired through a labor-intensive, paper-based system involving the use of purchase orders, which were processed through the Department's FMS. Staff assigned primarily to Acquisitions and Materiel Management Service (A&MMS), Financial Services Center (FSC), Fiscal Service, Requesting Service, and Warehouse comprised VA's logistics process.

The Purchase Card Program was designed to streamline the acquisition and payment process, significantly reducing A&MMS, FSC, Fiscal Service, and Warehouse staffs' participation in the process. The duties previously performed by these services were shifted to the requesting service. The shifting of these responsibilities reduced the workload of A&MMS purchasing agents, contracting officers, and warehouse personnel, thereby providing VHA opportunities to shift these resources to other areas. To a lesser extent, the Purchase Card Program was designed to reduce the workload of Fiscal and FSC activities. (*See APPENDIX VII for a description of the acquisition and payment process.*)

### **Staff Levels Have Not Been Reduced Sufficiently to Realize Available Cost-Savings**

In July 1996, the Deputy Assistant Secretary for A&MM and Under Secretary for Health appointed the VA Logistics System Evaluation Task Force to evaluate VA distribution systems. The Task Force was to review private sector trends, identify best practices and inhibitors, and develop appropriate recommendations and or actions for improvement to existing and future VA procurement and distribution processes and strategies. The Task Force hired a consultant to visit

selected VA facilities to perform a cost benefits analysis comparing the use of VA's Electronic Commerce System with the VA purchase card. The consultant found that the costs of purchasing items with the purchase card were \$22.36 cheaper per transaction than using the purchase order process.

In order to achieve these savings, VA needs to reduce or reassign staff performing acquisition and payment functions. Based on the consultant's study, the purchase order acquisition and payment processes were no longer required under the purchase card process; and with the current volume of purchase card transactions, staff reductions or reassignments totaling about 821 positions valued at \$27 million would be possible, as shown in the following table.

<b>POSITIONS AND COSTS THAT COULD HAVE BEEN REDUCED</b>		
<b>Positions Subject to Reduction</b>	<b>Number of Positions That Could Have Been Eliminated</b>	<b>Costs That Could Have Been Avoided</b>
Purchase Agent	596	\$19,949,770
Material Handler	120	\$3,224,692
Accounting Tech	105	\$3,813,075
Totals	821	\$26,987,537

To determine whether anticipated benefits from the Purchase Card Program were achieved, we reviewed data on selected positions associated with functions no longer required from VA's personnel files for FYs 1994–1997. Using the Purchase Card Program implementation dates for each facility as points of origin, we calculated the changes in full-time equivalent employees (FTEE) associated with these positions at each VHA facility. We found only limited net reductions in these positions (151) valued at \$5.1 million, as shown in the following table:

<b>POSITIONS AND COSTS THAT WERE REDUCED</b>		
<b>Positions Subject to Reduction</b>	<b>Number of Positions That Were Eliminated</b>	<b>Estimated Costs That Were Avoided</b>
Purchase Agent	126	\$4,215,157
Material Handler	1	\$26,829
Accounting Tech	24	\$891,272
Totals	151	\$5,133,258

Analysis of the impact of the purchase card on staffing in these positions at individual VHA facilities found that almost half of the 156 facilities showed no decrease in the individual positions. Over one-third of the facilities showed no net decrease in these positions. As the following table illustrates, only 86 facilities reduced the number of purchasing agents, 67 reduced material handlers, and 66 reduced accounting technicians.

<b>CHANGE IN STAFFING SINCE IMPLEMENTATION OF PURCHASE CARD PROGRAM</b>				
<b>Position</b>	<b>Number of Facilities / Change in Positions</b>			
	<b>Decreased</b>	<b>No Change</b>	<b>Increases</b>	<b>Net Positions</b>
Purchasing Agent	86 / (215)	36 / 0	34 / 89	(126)
Material Handler	67 / (126)	53 / 0	36 / 125	(1)
Accounting Technician	66 / (129)	55 / 0	35 / 105	(24)
Net Change	99 / (470)	20 / 0	35 / 319	(151)

Our analysis found that 99 facilities showed a net decrease in these positions totaling 470 positions, 35 other facilities increased staffing in these positions by 319, and 20 other facilities showed no change in staffing these positions.

We limited our review of the positions associated with the acquisition and payment processes to VHA activities because VHA had sole responsibility for VA procurement prior to implementation of the Purchase Card Program. However, we recognized that there were other benefits associated with the Purchase Card Program. For example, we noted that since the advent of electronic commerce, the FSC has reduced staffing by 87 positions. Because of the number of electronic commerce initiatives, it was not possible to determine the staffing reductions specifically associated with the Purchase Card Program at the FSC.

While VA's reorganization and the creation and elimination of various programs make it difficult to precisely determine the impact that the use of purchase cards have had on the Department's staffing levels, it is clear from the contractor's study that greater cost savings are possible. Our audit showed that VA did not sufficiently reduce staffing to realize savings available through the use of the Purchase Card Program. Consequently, staff resources costing an estimated \$22 million could be used to meet other VA requirements. VA should identify these resources and redistribute them to meet other VA needs.

### **For More Information**

*Details of audit pertaining to "description of acquisition and payment process" are contained in APPENDIX VII on page 29.*

### **Recommendation 2**

We recommend that the Under Secretary for Health realign staff commensurate with anticipated savings from implementing the Purchase Card Program.

The associated monetary benefits for Recommendation 2a are shown in *APPENDIX X* on page 39.

### **Comments of the Under Secretary for Health**

The Under Secretary for Health concurred in the findings and recommendations and stated that based on the numerical FTEE counting methodology used to determine the extent of staffing reductions and reassignments that should accompany the purchase card implementation, he agreed with the estimate of potential cost savings. The Under Secretary also stated that the sole counting of obsolete functional positions does not fully reflect many other reorganizational and program changes that directly impact VHA staffing assignments. Despite our best estimates, including findings identified in the consultant's study, it is almost impossible to specifically pinpoint an exact number of staffing decreases that would be required to achieve desired cost efficiencies, given the diverse number of variables that are involved. We nevertheless agree that greater cost savings are possible and that our managers must be accountable in assuring that necessary controls are in place to monitor and justify actions taken in response to program

implementation. The Under Secretary also said that VHA is making concerted efforts to strengthen both administrative and fiscal controls, and is also in the process of implementing several software modifications to the IMPAC system to address reconciliation and security issues.

### **Implementation Plan**

The Under Secretary stated that they recognize the need for program officials to carefully monitor and justify staffing redistribution and reduction in these areas in order to assure that maximal savings and efficiencies are achieved as planned. A copy of this report will be provided to all Network Directors with a cover memo from the Chief Network Officer. The memo will highlight issues addressed by the OIG auditors, particularly in relation to the anticipated reduction or reassignment of staff performing acquisition and payment functions that should be commensurate with implementation of the purchase card program. The Network Directors, in turn, will take necessary steps to communicate issues and expectations to the facility managers and to monitor facility follow-up actions. According to the plan, this process will be an on-going effort and will begin in December 1998.

*(See APPENDIX IX on page 35 for the full text of the Under Secretary's comments.)*

### **Office of Inspector General Comments**

The Under Secretary for Health's comments and implementation plan are responsive to the recommendations. We consider the recommendations resolved. However, we will continue to follow up on planned actions until completed.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

### **Objective**

The purpose of the audit was to evaluate the effectiveness and efficiency of VA's use of the Purchase Card Program for small purchases. The audit included three objectives: (1) determine whether program operations were in compliance with applicable laws and regulations; (2) evaluate controls against unnecessary losses; and (3) determine whether the benefits expected from using the cards had been realized.

### **Scope and Methodology**

We collected, analyzed, and summarized Purchase Card Program operating data for FYs 1993 through May 1998.

We performed onsite reviews at VA Medical Centers (VAMCs) Augusta, Atlanta (Decatur), Georgia; Bay Pines, Lake City, Miami, and Tampa, Florida; Nashville, Tennessee; St. Cloud, Minnesota; VA Central Office in Washington, DC; and the FSC in Austin, Texas. We solicited survey responses from 270 VA activities, including VHA, VBA and VBA Area Offices, VA Medical and Regional Office Centers, VA Regional Counsels, Veterans National Cemeteries (NCS) and NCS Area Offices, VISNs, and the VA OIG.

We examined laws, legislative history, regulations, policies, procedures, and guidelines pertinent to Federal and VA acquisition and accounting processes. We discussed the strengths and weaknesses of the Purchase Card Program, including management concerns, and our proposed audit methodology, with appropriate VA officials. We also discussed user satisfaction with operating staff during our site visits to VA field facilities.

The audit included an evaluation of the Purchase Card Program's management controls and compliance with applicable laws and regulations. We validated computer generated billing data that the purchase card contractor submitted to FSC for payment for two cycles during March 1997. We also compared the data to the cardholders' statements of accounts for selected transactions. The results of those reviews did not show any reason why the data could not be used to evaluate the Purchase Card Program.

The audit was conducted in accordance with generally accepted government auditing standards and included such tests of procedures, practices, and records, as we considered necessary under the circumstances.

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## **BACKGROUND**

In 1985, the Office of Federal Procurement Policy approved a study under Executive Order 12352 to evaluate the use of a general-purpose bankcard for small purchases in the government. Under Section 15(a) of the Federal Procurement Policy Act, the U.S. Department of Commerce was authorized to initiate the pilot test. Test results were considered positive and in January 1989, the General Services Administration awarded a contract for government-wide commercial credit card services.

Office of Management and Budget (OMB) Circular A-123 requires that agencies establish management controls to eliminate fraud and waste in the Federal Government. Management controls refer to the internal checks and accounting controls that help ensure that all accounting and related operations are carried out as efficiently and economically as practicable, and that departmental operations are within the limits of applicable laws, departmental policies, and directives. Agency accounting and information systems and management controls should safeguard assets against waste, loss, or improper use, and assure the accuracy and reliability of accounting data and financial reports. Controls over purchase card transactions should ensure that use of funds are properly authorized, items are received, and invoiced amounts are accurate.

In 1993, the Vice-President of the United States initiated a government-wide National Performance Review (NPR). The goal of the NPR was to reinvent the federal government for the 21st century to deliver better value and service at less cost to the citizens of the United States. The NPR report, entitled *From Red Tape to Results: Creating a Government that Works Better and Costs Less*, included hundreds of major recommendations contained within separate reports covering each Department, as well as independent agencies and 14 systems reports focusing on government-wide systems and topics.

VA's NPR contained 5 areas<sup>2</sup> encompassing 16 initiatives, which were designed to enable VA to significantly improve delivery of health care and benefits, as well as the public's perception of how these services are delivered. There were six initiatives in the *Doing More For Less* category, including Improving Business Practices Through Electronic Commerce. This initiative appeared to be based upon the premise that electronic commerce represented significant potential for cost savings and improved accountability of funds. In October 1995, VA's Under Secretary for Health, citing current fiscal realities and the fact that NPR had identified procurement, finance, and personnel services as areas in which numerous efficiencies can be achieved, made use of the purchase card mandatory for procurement transactions under \$2,500. This class of procurement transactions is referred to as micro-purchases.

VA-wide use of the Purchase Card Program grew from 170 cards and processing 2,400 transactions valued at \$567,000 in FY 1994, to over 26,600 cards and 1.5 million transactions valued at \$797 million in FY 1997, including \$762 million in VHA transactions. As of April 1998, there were over 34,100 cards issued to VA cardholders who processed about 1.1 million

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<sup>2</sup> The five areas containing NPR initiatives for VA were: (1) Cutting Red Tape to Get Results, (2) Creating Competitive Government, (3) Empowering Employees, (4) Doing More for Less, and (5) VA Reinvention Labs.

## APPENDIX II

transactions valued at about \$592 million. Purchase card expenditures for FY 1998 are expected to exceed \$1 billion. VA received about \$8.8 million in rebates since the beginning of the Purchase Card Program, as shown in the table below:

<b>Purchase Card Program Rebates VA Received</b>	
<b>Fiscal Year</b>	<b>Amount</b>
1996	\$1,428,745
1997	\$5,186,638
1998	<u>\$2,154,155</u>
<b>Total</b>	<b><u>\$8,769,538</u></b>

VA transactions for FY 1997, the last full year for which information is available, showed the following breakdown by major VA component:

<b>PURCHASE CARD FISCAL YEAR 1997 WORKLOAD</b>			
<b>VA Component</b>	<b>Transactions</b>		
	<b>Number</b>	<b>Amount</b>	<b>Percent (\$)</b>
Veterans Health Administration	1,464,506	\$762,465,530	95.6
Veterans Benefits Administration	30,536	14,903,672	1.9
National Cemetery System	15,503	3,925,992	0.5
Administration	16,238	16,193,857	2.0
<b>TOTAL</b>	<b>1,526,783</b>	<b>\$797,489,051</b>	<b>100.0</b>

**DETAILS OF AUDIT**

**Program Controls and Responsibilities**

The following lists the key internal and management controls applicable to the Purchase Card Program and responsibilities of key participants.

**Reporting Systems:**

**Management Information Systems (MIS)** – VA’s Purchase Card Program is monitored via the following three computer applications:

- **Credit Card System (CCS)** - CCS is an Oracle database with Internet access, which was developed by VA’s Austin Finance System. The CCS uses innovative electronic commerce and database management technologies designed to improve the accuracy of accounting reports. In addition, the CCS uses an interface that allows the Austin Finance Service Center to upload billing data directly from the purchase card contractor, which automates the input of purchase card obligations. Billing and payment data are transmitted from the CCS to the other two MIS applications.
- **Financial Management System (FMS)** – VA’s financial management system, FMS is an integrated, on-line (real-time), comprehensive accounting system, with interfaces to both CCS and Veterans Health Information System and Technology Architecture (VISTA). FMS is VA’s system of record and supports a range of financial activities, including budget, purchasing, accounts payable, general ledger, accounts receivable, travel, and fixed assets. FMS is based on American Management’s proprietary software package, Federal Financial System (FFS), which is used by over 30 federal agencies.
- **Veterans Health Information System and Technology Architecture (VISTA)** –A local field station application that allows users to initiate computerized requests for goods or services and to track the status of the requests. VISTA is integrated with other facility clinical and business processes. It has the capability to process non-purchase card requests through the A&MMS function, forwards the requests to Fiscal activities for obligation of funds, then transmits the requests to FMS for payment. Using an interface referred to in VA as a Patch, purchase card procurements are keyed into the IFCAP program. Billing data is transmitted from the CCS to the VISTA to aid cardholders in reconciling purchases with billings.

### **Internal Management Controls**

**Reconciliation** – The procedural guidance for the Purchase Card Program requires cardholders to verify the accuracy of *each* procurement listed on their account statement from the purchase card contractor. Reconciliations are to be performed within 5 days of the statement date.

**Spending Limitations** - Purchase authorization codes provided by the purchase card contractor control an organization's spending activity, as follows:

- **Single Purchase Limit** – Single procurements for unwarranted cardholders cannot exceed the micropurchase threshold of \$2,500. Procurements may not be split to avoid exceeding the cardholder's authorized single purchase limit.
- **Monthly Cardholder Limit** – The total of all procurements cannot exceed the authorized 30-day limit established for each cardholder.
- **Monthly Office Limit** – The total of individual monthly limits for each cardholder must be consistent with the organization's operating budget.

Established limitations are encoded into each I.M.P.A.C.<sup>®</sup> card, which allows electronic authorizations by the merchant at the point of sale.

**Purchase Card Contractor Reports** – The government's statement of work requires the purchase card contractor to provide specific reports that can be used in the control process.

- **Quarterly Declined Transaction (G088)** – The G088 can be used to track misuse or to identify training needs. The G088 lists all transactions declined for authorization in cardholder order.
- **Quarterly Merchant Activity (R900)** - The R900 can be used to review and manage how and where cards are being used. This is possible because the purchase card contractor categorizes each merchant according to type of business, and the kinds of goods and services provided. The contractor then assigns each merchant a corresponding Merchant Type Code. The Merchant Type Code is used as an authorized activity type code on the purchase card to identify goods or services that cardholders are not authorized to acquire.

### **Responsibilities of Key Participants**

#### **Chief Financial Officer**

Overall responsibility for the implementation of the Purchase Card Program.

### **Finance Service Center (formerly Austin Finance Center)**

Payment office responsible for making payments to the contractor and:

- Providing FMFIA random sampling reports on a monthly basis to Billing Office,
- Providing rebate and appropriate documentation to the Billing Office, and
- Distributing reports to all VA facilities electronically.

### **Purchase Card Contractor**

Responsible for issuing purchase cards, processing purchases and billing transactions, and submitting timely reports.

### **VISN and/or Facility Director**

Responsible for:

- Designation of Program Coordinator, Billing Office Official, and Dispute Officer (cannot be the same person), and
- Ensuring the decentralization of local purchasing through the dissemination of credit cards to fund control officials (approving officials), and other personnel in all services.

### **Program Coordinator**

Responsible for overall implementation of the program, including:

- Assuring participants are appropriately trained,
- Retrieval and cancellation of cards,
- Conducting audits of cardholders and approving officials to ensure compliance with applicable policy and procedures,
- Making on-line cardholder and approving official account setups, and
- General credit card administration.

### **Disputes Officer**

Responsible for coordinating and monitoring disputed procurements, credits, and billing errors that cannot be resolved by the cardholder within 30 days.

### **Cardholders**

Responsible for:

- Complying with all acquisition regulations (federal, VA, and local),
- Verifying funds availability prior to making purchase, and complying with single purchase and monthly cardholder limits,
- Inputting orders into IFCAP within one workday of purchase,
- Reconciling payment charges within 5 days of IFCAP purchase card message,
- Ensuring receipt of goods ordered,
- Maintaining appropriate receipt records,
- Providing approving official applicable receipts to enable certification of payment,
- Safeguarding the purchase card, and
- Resolving disputes with vendors - if not resolved, a Statement of Questioned Item is prepared for submission to the purchase card contractor.

### **Approving Official**

Responsible for:

- Recommending individuals as cardholders and recommending single purchase limits and monthly purchase limits in conjunction with the Program Coordinator and billing office, and
- Monitoring use of the purchase card by the cardholder, to ensure that purchases made are:
  - Within assigned limits,
  - Not fragmented to stay within cardholder limits,
  - Items designated for that card,
- Certifying all transactions made by cardholders and assuring applicable documentation is maintained,
- Ensuring that federal, VA, and local acquisition regulations are followed,
- Certifying that all procurements are legal and proper and that items are received, and
- Certifying reconciled payment charges in IFCAP within 14 days of receipt from the cardholder.

### **Billing Office**

Responsible for:

- Ensuring that single purchase and monthly purchase limits are within fund control limits,
- Establishing default code string and merchant codes for all cards,
- Conducting audits of cardholders and approving officials to ensure compliance with applicable policy and procedures, in conjunction with the Program Coordinator,
- Ensuring rebates are credited to the correct appropriation,
- Final certifying authority on the legitimacy of any procured item, and
- Collecting amounts from cardholders for inappropriate procurements.

**DETAILS OF AUDIT****Untimely Reconciliation of Transactions**

VA's FMFIA staff, an internal quality review body, reviewed monthly statistical samples of purchase card transactions. FMFIA staff sampled VHA transactions monthly to create a control mechanism that evaluates the process used to purchase items with the purchase card, and to determine if management controls are sufficient to assure the integrity of the Purchase Card Program.

The following table shows the results of samples performed during the period June 1997 to January 1998, and the projected value when applied to the universe.

**ESTIMATED VALUE OF UNRECONCILED TRANSACTIONS BASED ON FMFIA SAMPLES**

Month	Sample Size	Not Reconciled	Percent	Universe	Value of Transactions in Universe	Projected Transactions	Value of Unreconciled Transactions
Jun 97	550	147	26.73%	136,912	\$74,467,624	36,597	\$19,905,426
Jul 97	557	203	36.45%	142,953	\$80,427,296	52,106	\$29,315,542
Aug 97	556	218	39.21%	144,403	\$84,789,901	56,620	\$33,245,876
Sep 97	182	61	33.52%	152,225	\$95,206,154	51,026	\$31,913,215
Oct 97	184	79	42.93%	140,423	\$89,163,126	60,284	\$38,277,988
Nov 97	178	59	33.15%	132,909	\$70,311,518	44,059	\$23,308,092
Dec 97	177	51	28.81%	132,193	\$73,494,019	38,085	\$21,173,736
Jan 98	177	56	31.64%	146,566	\$83,010,236	46,373	\$26,264,165
Total	2,561	874	34.13%	1,128,584	\$650,869,874	385,150	\$223,404,040

As shown in the table above, the number of unreconciled transactions ranged from 26.7 percent in June 1997 to 42.9 percent in October 1997. Overall, about 874 (34 percent) of the 2,561 transactions sampled were not reconciled timely. When projected, this represented about 385,000 of the 1,128,580 transactions in the universe. The projected transactions were valued at about \$223.4 million of the \$650.9 million transactions in the universe.

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**DETAILS OF AUDIT****Untimely Review and Certification of Transactions by Approving Officials**

The appropriateness of the purchases had not been reviewed because approving officials did not certify the reconciled billing statements within 14 days. The table below illustrates the results of FMFIA's review of approving officials' certification of transactions.

**ESTIMATED VALUE OF TRANSACTIONS ON BILLING STATEMENTS NOT CERTIFIED BY APPROVING OFFICIALS**

Month	Sample Size	Not Certified	Percent	Universe	Value of Transactions in Universe	Projected Over Universe	Value of Transactions Not Certified
Jun 97	550	47	8.55%	136,912	\$74,467,624	11,706	\$6,366,995
Jul 97	557	90	16.16%	142,953	\$80,427,296	23,101	\$12,996,936
Aug 97	556	89	16.01%	144,403	\$84,789,901	23,119	\$13,574,910
Sep 97	182	23	12.64%	152,225	\$95,206,154	19,241	\$12,033,908
Oct 97	184	32	17.39%	140,423	\$89,163,126	24,420	\$15,505,747
Nov 97	178	20	11.24%	132,909	\$70,311,518	14,939	\$7,903,030
Dec 97	177	21	11.86%	132,193	\$73,494,019	15,678	\$8,716,341
Jan 98	177	32	18.08%	146,566	\$83,010,236	26,499	\$15,008,175
Total	2,561	354	13.82%	1,128,584	\$650,869,874	158,703	\$92,106,042

As indicated above, the number of transactions on billing statements not certified ranged from 8.6 percent in June 1997 to 18.1 percent in January 1998. Overall, about 354 (14 percent) of the 2,561 transactions sampled were not certified timely. When projected, this represented about 158,700 of the 1,128,580 transactions in the universe. The projected transactions were valued at about \$92.1 million of the \$650.9 million of transactions in the universe.

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**DETAILS OF AUDIT****Other Discrepancies Identified by FMFIA That Require Management Actions**

Management has not used the results of the FMFIA samples to correct identified problems. In addition to problems with reconciliation and certifications of transactions by approving officials, FMFIA staff have identified other discrepancies that require management attention. Sample results showed that established management controls were not implemented in the day-to-day operations of the program. Table A below shows that there are essential areas in management controls that were not effectively implemented.

**TABLE A**  
**CONTROL WEAKNESSES IDENTIFIED BY FMFIA**

Errors	Rate of Non-Compliance (Percent)								
	Jun 97	Jul 97	Aug 97	Sep 97	Oct 97	Nov 97	Dec 97	Jan 98	Overall
Orders Not Input Within One Day	8.9%	12.0%	18.5%	13.2%	17.4%	11.2%	7.9%	14.1%	13.0%
Improper Costing	4.0%	12.6%	10.6%	7.1%	7.6%	7.3%	13.6%	6.8%	8.9%
No Support Documents	10.0%	9.2%	6.3%	5.5%	4.4%	6.2%	7.3%	7.9%	7.7%
Incorrect Vendor Billing	0.4%	1.6%	2.0%	5.0%	4.9%	0.0%	2.8%	3.4%	2.0%
Disputes Not Resolved Within 30 Days	2.0%	3.1%	4.1%	3.3%	1.6%	1.1%	3.4%	2.8%	2.9%
Fragmentation	0.7%	3.4%	1.8%	8.8%	9.2%	3.4%	2.8%	0.0%	3.0%
Card Security Violations	1.3%	2.5%	1.8%	1.1%	3.3%	2.8%	1.7%	2.8%	2.0%

**Transactions Not Input Into IFCAP Within One Day**

Since VA is billed on a 1-day cycle, it is imperative that cardholders enter their purchases into IFCAP within one day in order for the unreconciled transactions to match against items purchased. FMFIA sample results showed that about 13 percent of the transactions were not entered into IFCAP within one day. This could affect the reconciliation process and may result in some items not reconciled timely. Table B provides the sample results for June 1997 through January 1998. The number of transactions that were not entered into IFCAP within one day ranged from 7.9 percent in December 1997 to 18.5 percent in August 1997. Overall, about 334 (13 percent) of the 2,561 transactions sampled were not entered into IFCAP timely. When projected, this represented about 147,000 of the 1,128,580 transactions in the universe. The projected transactions were valued at about \$85.5 million of the \$650.9 million of transactions in the universe.

TABLE B

## ESTIMATED NUMBER AND VALUE OF TRANSACTIONS NOT INPUT INTO IFCAP WITHIN ONE DAY

Month	Sample Size	Not Input Timely	Percent	Universe	Value of Transactions	Projected Transactions	Value of Transactions Not In IFCAP Timely
Jun 97	550	49	8.91%	136,912	\$74,467,624	12,199	\$6,635,142
Jul 97	557	67	12.03%	142,953	\$80,427,296	17,197	\$9,675,265
Aug 97	556	103	18.53%	144,403	\$84,789,901	26,758	\$15,711,642
Sep 97	182	24	13.19%	152,225	\$95,206,154	20,078	\$12,557,393
Oct 97	184	32	17.39%	140,423	\$89,163,126	24,420	\$15,505,747
Nov 97	178	20	11.24%	132,909	\$70,311,518	14,939	\$7,903,030
Dec 97	177	14	7.91%	132,193	\$73,494,019	10,456	\$5,813,118
Jan 98	177	25	14.12%	146,566	\$83,010,236	20,695	\$11,720,978
Total	2,561	334	13.04%	1,128,584	\$650,869,874	146,742	\$85,522,315

**Transactions With Improper Costing**

For the most part, purchase card transactions are automatically costed to the appropriate cost centers, budget object class, etc., based on cost data embossed on the purchase card. There are times when purchase card data does not match the cost data for items purchased for projects or activities that do not have assigned purchase cards. Consequently, these purchases need to be manually adjusted when the cardholders receive billing statements. However, there are also times when the wrong purchase card is used to purchase items for activities that have an assigned purchase card. Unless the facility has established procedures for reviewing these charges, they may not be identified. The FMFIA samples indicated that this might be a problem at some facilities. The sample results showed that overall, about 227 (9 percent) of the 2,561 transactions sampled were not costed to the correct cost center, budget object class, etc. This represented about \$56.4 million of the \$650.9 million in the universe. Results of the monthly samples are shown in Table C below:

TABLE C

## ESTIMATED NUMBER AND VALUE OF TRANSACTIONS WITH IMPROPER COSTING

Month	Sample Size	Improperly Costed	Percent	Universe	Value of Transactions	Projected Transactions	Value of Improper Costed Transactions
Jun 97	550	22	4.00%	136,912	\$74,467,624	5,476	\$2,978,444
Jul 97	557	70	12.57%	142,953	\$80,427,296	17,969	\$10,109,603
Aug 97	556	59	10.61%	144,403	\$84,789,901	15,321	\$8,996,116
Sep 97	182	13	7.14%	152,225	\$95,206,154	10,869	\$6,797,804
Oct 97	184	14	7.61%	140,423	\$89,163,126	10,686	\$6,785,193
Nov 97	178	13	7.30%	132,909	\$70,311,518	9,702	\$5,132,552
Dec 97	177	24	13.56%	132,193	\$73,494,019	17,925	\$9,965,583
Jan 98	177	12	6.78%	146,566	\$83,010,236	9,937	\$5,627,995
Total	2,561	227	8.86%	1,128,584	\$650,869,874	97,885	\$56,393,290

**Supporting Documentation Not Maintained**

Purchase card procedures require that the cardholder maintain supporting documentation for purchases made with the purchase card. In addition, when certifying the statements of account (billing statements), the approving official is required to check for the supporting documentation. The monthly samples of purchase card transactions showed that 197 (8 percent) of the 2,561

## APPENDIX VI

transactions did not have supporting documentation. When projected to the universe, about 79,800 transactions valued at about \$ 45.6 million, lack supporting documentation. Monthly sample results are shown in Table D.

**TABLE D**  
**ESTIMATED NUMBER AND VALUE OF TRANSACTIONS WITH NO SUPPORTING DOCUMENTATION**

Month	Sample Size	Unsupported Transactions	Percent	Universe	Value of Transactions	Projected Transactions	Value of Unsupported Transactions
Jun 97	550	55	10.00%	136,912	\$74,467,624	13,691	\$7,446,654
Jul 97	557	51	9.16%	142,953	\$80,427,296	13,094	\$7,366,862
Aug 97	556	35	6.29%	144,403	\$84,789,901	9,083	\$5,333,315
Sep 97	182	10	5.49%	152,225	\$95,206,154	8,357	\$5,226,722
Oct 97	184	8	4.35%	140,423	\$89,163,126	6,108	\$3,878,342
Nov 97	178	11	6.18%	132,909	\$70,311,518	8,214	\$4,345,370
Dec 97	177	13	7.34%	132,193	\$73,494,019	9,703	\$5,394,480
Jan 98	177	14	7.91%	146,566	\$83,010,236	11,593	\$6,565,900
Total	2,561	197	7.69%	1,128,584	\$650,869,874	79,843	\$45,557,645

### **Incorrect Billed Amounts**

Each cardholder is required to determine if transactions charged to VA were appropriate. The cardholder should ensure that the prices were correct, the correct item or services were provided, and that there were no unauthorized transactions charged to the purchase card. In addition, any inappropriate charges should be disputed by the cardholder within 30 days. The FMFIA samples showed that overall, VHA was incorrectly billed for about 28,800 (2 percent) of the 1.1 million transactions in the universe. The amount of the billing errors was not specifically identified by FMFIA. However, the total value of the transactions was about \$17.2 million, as shown below:

**TABLE E**  
**ESTIMATED NUMBER AND VALUE OF TRANSACTIONS BILLED INCORRECTLY**

Month	Sample Size	Incorrectly Billed	Percent	Universe	Value of Transactions	Projected Transactions	Value of Incorrectly Billed Transactions
Jun 97	550	2	0.36%	136,912	\$74,467,624	493	\$268,147
Jul 97	557	9	1.62%	142,953	\$80,427,296	2,316	\$1,303,013
Aug 97	556	11	1.98%	144,403	\$84,789,901	2,859	\$1,678,735
Sep 97	182	9	4.95%	152,225	\$95,206,154	7,535	\$4,712,619
Oct 97	184	9	4.89%	140,423	\$89,163,126	6,867	\$4,360,277
Nov 97	178	0	0.00%	132,909	\$70,311,518	0	\$ 0
Dec 97	177	5	2.82%	132,193	\$73,494,019	3,728	\$2,072,619
Jan 98	177	6	3.39%	146,566	\$83,010,236	4,969	\$2,814,281
Total	2,561	51	1.99%	1,128,584	\$650,869,874	28,767	\$17,209,691

### **Transactions Not Disputed Timely**

Cardholders are required to dispute charges that have been inappropriately charged to VA, including erroneous charges, duplicate charges, and incorrect billing amounts. However, the sample showed that overall, about 30,500 (3 percent) of the 1.1 million transactions valued at about \$17.7 million, had not been disputed within 30 days. Since these items were paid for, it is imperative that VA perform these functions timely to ensure VA is properly charged for items

and is properly credited for inappropriate charges made by the purchase card company. FMFIA did not identify the specific amounts in question.

**TABLE F**  
**ESTIMATED NUMBER AND VALUE OF TRANSACTIONS NOT DISPUTED WITHIN 30 DAYS**

Month	Sample Size	Not Disputed Within 30 Days	Percent	Universe	Value of Transactions in Universe	Projected Transactions	Value of Transactions Not Disputed
Jun 97	550	11	2.00%	136,912	\$74,467,624	2,738	\$1,489,222
Jul 97	557	17	3.05%	142,953	\$80,427,296	4,360	\$2,452,995
Aug 97	556	23	4.14%	144,403	\$84,789,901	5,978	\$3,510,135
Sep 97	182	6	3.30%	152,225	\$95,206,154	5,023	\$3,141,537
Oct 97	184	3	1.63%	140,423	\$89,163,126	2,289	\$1,453,426
Nov 97	178	2	1.12%	132,909	\$70,311,518	1,489	\$787,711
Dec 97	177	6	3.39%	132,193	\$73,494,019	4,481	\$2,491,257
Jan 98	177	5	2.82%	146,566	\$83,010,236	4,133	\$2,340,797
Total	2,561	73	2.85%	1,128,584	\$650,869,874	30,491	\$17,667,080

### **Fragmented Purchases**

Purchase cardholders are not authorized to fragment purchases in order to stay within their card limits. However, the FMFIA monthly samples indicated that about 43,000 transactions appeared to have been part of a fragmented purchase during June 1997 through January 1998. Table G shows the results of the monthly samples.

**TABLE G**  
**ESTIMATED NUMBER AND VALUE OF TRANSACTIONS INCLUDED IN FRAGMENTED PURCHASES**

Month	Sample Size	Fragmented Transactions	Percent	Universe	Value of Transactions in Universe	Projected Transactions	Value of Fragmented Transactions
Jun 97	550	4	0.73%	136,912	\$74,467,624	999	\$543,365
Jul 97	557	19	3.41%	142,953	\$80,427,296	4,875	\$2,742,741
Aug 97	556	10	1.80%	144,403	\$84,789,901	2,599	\$1,526,069
Sep 97	182	16	8.79%	152,225	\$95,206,154	13,381	\$8,368,885
Oct 97	184	17	9.24%	140,423	\$89,163,126	12,975	\$8,238,619
Nov 97	178	6	3.37%	132,909	\$70,311,518	4,479	\$2,369,481
Dec 97	177	5	2.82%	132,193	\$73,494,019	3,728	\$2,072,619
Jan 98	177	0	0.00%	146,566	\$83,010,236	0	\$ 0
Total	2,561	77	3.01%	1,128,584	\$650,869,874	43,036	\$25,861,779

### **Card Security**

FMFIA staff requested information concerning the security of the purchase card. The results indicated that in 52 instances (2 percent) of 2,561 purchases, the cardholder and/or the person responding to the sample indicated that the cardholders' purchase cards were not appropriately secured. This was a self-reporting discrepancy; therefore, it is difficult to determine how significant this problem is at VA facilities. Also, it is difficult to document the monetary losses due to insecure cards. However, without good reconciliation procedures being in place and approving officials certifying reconciled statements of accounts, VA will not be able to identify when cards are being misused.

**DETAILS OF AUDIT**

**Description of Acquisition and Payment Process**

Prior to implementing the Purchase Card Program, procedures for processing requests for supplies and services were as follows:

- Requesting service staff identified the need for supplies or services; determined the availability of funds; either manually or electronically, initiated a requisition (VA Form 90-2237 or EF2237) that defined the needed supplies or services.
- Designated service official reviewed the requisition for appropriateness and approved it, then forwarded the requisition to A&MMS for processing.
- A&MMS staff contacted a vendor, determined availability of the item, placed the order for the item, created a Purchase Order (PO), then forwarded the PO to Fiscal Service.
- Fiscal Service staff reviewed the PO for completeness, appropriateness, and availability of funds; effected the proper cost transfers; returned the PO to A&MMS, and transmitted a copy of the PO to the FSC.
- When the supplies arrived, Warehouse staff inspected and accepted the items, prepared and forwarded a receiving report to Fiscal Service, then notified the requesting service.
- Fiscal Service reviewed the receiving report, entered the information into the FMS, and transmitted the data to the FSC.
- The FSC reconciled the receiving report or PO with an invoice, converted the invoice into an electronic entry in the Document Management System (DMS), and processed payment through FMS.

Based on a cost-benefits analysis<sup>3</sup> of VHA's facility acquisition and payment process, almost half (45 percent) of the costs to operate the acquisition and payment system were generated by A&MMS staff. The requesting services incurred 25 percent, warehouse functions accounted for 15 percent, Fiscal Service 10 percent, and the FSC 5 percent.

The procedures for processing requests using the purchase card are:

- Requesting service staff identify the needed supplies or services, verify the availability of funds, and then electronically initiate a PO that records the required supplies or services in IFCAP.
- Requesting service staff contact the vendor, place the order, follow up on delayed deliveries, inspect and accept deliveries, and initiate the receiving report via IFCAP.

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<sup>3</sup> VHA Medical Facility Acquisition and Payment Processes, Cost Benefit Analysis, Prepared by Systems Flow, Inc.

## **APPENDIX VII**

- The FSC receives a schedule of payments from the purchase card contractor, processes the payment, then transmits the payment data to VA's CCS, FMS, and IFCAP.

**COMMENTS OF THE ASSISTANT SECRETARY FOR FINANCIAL MANAGEMENT<sup>4</sup>****Department of  
Veterans Affairs****Memorandum**

Date: **FEB 2 1999**

From: Assistant Secretary for Management (004)

Subject: DRAFT REPORT: Audit of the Department of Veterans Affairs Purchase Card Program (Project No. 7R3-042)

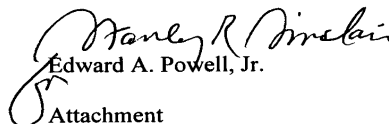
To: Assistant Inspector General for Auditing (52)

We share and appreciate your recognition of VA's purchase card program as being sound in principal and creating opportunities for cost savings and other benefits. The financial benefits derived from this program have been significant. Rebates totaling over \$5 million and \$7 million in FYs 1997 and 1998, respectively, have been returned to VA operating activities and used to further benefit veterans. This was due solely to our implementation of the daily invoicing and payment processing options available under the GSA purchase card contract. This tremendous benefit, in addition to the over \$5 million in reduced personnel costs directly attributable to the purchase card program, certainly seems worthy of note. Another financial benefit not mentioned in the report is the elimination of the actual and potential interest and penalty payments resulting from the use of credit cards.

The purchase card program has explicit and sound policy and procedures in place addressing reconciliation, oversight, and approvals. In meetings with IG personnel, the policy and procedures were discussed and recognized as strong and when implemented correctly, ensure a sound purchase card program with solid internal controls. The policy and procedures include: VA Directive 4070, "Cash Management – April 21, 1997"; "IMPAC Purchase Card Procedures Guide – February 1996"; and VHA Handbook 1730.1, "Use and Management of the Government Purchase Card Program – July 22, 1998." We recommend your report acknowledge our established policy and procedures as sound ones, promoting good internal controls, and explicitly recommend their full implementation.

Due to the current and growing magnitude of the purchase card program, we concur with your view that the integrity and management of the purchase card program should be further improved. In fact, we have implemented and continue to initiate activities to improve management controls. We believe this should be reported as an internal high priority area.

Our comments to recommendations applicable to my office are provided in the attached document. VHA will provide comments on your findings and recommendations regarding realigning staff resources saved from implementing the purchase card program. We appreciate the opportunity to comment on and work with your staff to further improve this program. Should you have additional questions, please have a member of your staff contact Frank W. Sullivan, Deputy Assistant Secretary for Financial Management, at (202) 273-5504.

  
Edward A. Powell, Jr.  
Attachment

cc: W. Todd Grams, VHA Chief Financial Officer (17)  
Frank W. Sullivan, Deputy Assistant Secretary for Financial Management (047)  
Gary J. Krump, Deputy Assistant Secretary for Acquisition and Materiel Management (90)

<sup>4</sup> Title change effective January 27, 1999.

**COMMENTS OF THE ASSISTANT SECRETARY FOR FINANCIAL MANAGEMENT**

**Comments from the Assistant Secretary for Management (004) on  
Audit of the Department of Veterans Affairs Purchase Card Program  
(Project No. 7R3-042)**

- **Recommendation 1a: Consider reporting the purchase card reconciliation process as a material weakness.**

**Comment:** We note the overall average value of each card transaction is less than \$600. The overall value of transactions not approved by cardholders is also less than \$600. In any payment processing operation, we consider it a prudent business practice to assess relative degrees of risk and audit/review findings in determining the appropriate level at which each billing transaction must be specifically approved before payment processing can occur. For example, VA policy now allows the payment of certain vendor invoices valued up to \$2,500 without prior approval. We have not set such a specific level for purchase card transactions, but will do so shortly.

Considering the average value of purchase card transactions and compensating controls built into the purchase card program not only by VA, but also by the card issuer, we believe deficiencies in monitoring the transaction approval process do not rise to the level of a material weakness. However, because of the potential and acknowledged need to improve internal controls, we will report this as an internal high priority area.

- **Recommendation 1b: Establish appropriate mechanisms to monitor unreconciled transactions on a VA-wide basis.**

**Comment:** As noted in the report, nearly 96% (\$762,000 of \$797,000) of the purchase card transactions are processed by VHA. Thus, VHA would have the greatest percentage of transactions not approved. Therefore, our main efforts at this time will focus on VHA.

As you know, VHA purchase card transactions are recorded in IFCAP. That system has a feature for reporting unapproved transactions by purchase card at the facility level, but the reporting does not rollup nationally. VHA has agreed such a rollup would provide the required VA-wide oversight for monitoring the transaction approval process at the station level. We are preparing a memorandum for the VHA CFO's approval, directing the Washington Chief Information Officer's field office to develop and implement a national rollup. This report will be provided to the staffs of the VHA CFO and the Financial Services Center (FSC) for monitoring and follow-up. We will provide you a copy of the memorandum after it is signed. In addition, we are sending a memorandum to the VBA CFO advising him of your findings and requesting a report within 60 days on their oversight program and the status of transaction approvals.

The VHA CFO sent a strong message to field facility finance officers regarding the necessity to have nothing less than a clean audit opinion on the financial statements. To this end, the CFO has asked facilities to demonstrate they are complying with the established policy and procedures for purchase cards. Reports will be sent, on a monthly basis, which will enable local management and the VHA CFO to identify out-of-line situations and to have necessary adjustments made to correct and eliminate unreconciled transactions.

**COMMENTS OF THE ASSISTANT SECRETARY FOR FINANCIAL MANAGEMENT**

Page 2.

- **Recommendation 1c: Establish mechanisms to ensure that deficiencies identified by FMFIA staff are effectively communicated to program officials and corrective actions are monitored to ensure desired results are achieved.**

**Comment:** The FMFIA staff at the FSC will continue its statistical sampling program which draws a sample transaction from each station and will continue making their findings available to VHA and VBA CFO staffs. Those results will be assessed in concert with the previously mentioned IFCAP reports to determine specific additional actions.

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COMMENTS OF THE UNDER SECRETARY FOR HEALTH

Department of  
Veterans Affairs

# Memorandum

Date: DEC 13 1998

From: Under Secretary for Health (10/105E)

Subj: OIG Draft Report: *Audit of the Department of Veterans' Affairs Purchase Card Program*

To: Assistant Inspector General for Auditing (52)

1. This report has been reviewed by appropriate VHA program officials, and we concur in your findings and recommendations. Based on the numerical FTEE counting methodology you utilized in determining the extent of staffing reductions and reassignments that should accompany purchase card implementation, we also agree with your estimate of potential cost savings. I think you will agree, however, that the sole counting of obsolete functional positions does not fully reflect many other reorganizational and program changes that directly impact VHA staffing assignments. Despite our best estimates, including findings identified in the consultant's study, it is almost impossible to specifically pinpoint exact numbers of staffing decreases that would be required to achieve desired cost efficiencies, given the diverse number of variables that are involved.

2. We nevertheless agree that greater cost savings are possible and that our managers must be accountable in assuring that necessary controls are in place to monitor and justify actions taken in response to program implementation. As detailed below, and in the accompanying action plan, VHA is making concerted efforts to strengthen both administrative and fiscal controls, and is also in the process of implementing several software modifications to the IMPAC system to address reconciliation and security issues.

3. In July 1998, VHA issued an updated Purchase Card Handbook (1730.1), which provides in specific detail all aspects of program administration. As part of the new directives, station fiscal officers and medical center directors are now required to certify on their Annual Certification of Financial Records that facility purchase card processes are adhering to Handbook policies. Our overall performance improvement plan for the purchase card program also includes the implementation of a special reconciliation report for use by each VA facility that provides a listing of all reconciled items, all unreconciled items over 5 days old, and all unreconciled items over 30 days old. During the first quarter of FY 1999, the CFO's office will review all of these reports on a monthly basis and identify any problem facilities that might require special intervention. These reviews will then be conducted on a quarterly basis for the

COMMENTS OF THE UNDER SECRETARY FOR HEALTH

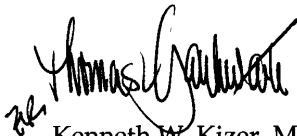
Page Two VHA Response to OIG Draft Report: **Purchase Card Program**

remainder of the year. The CFO/CIO staff will work together to coordinate the eventual automation of nationwide rollup data. It is also VHA's intention to add a fiscal indicator to monitor timely reconciliations and authorizations of purchase card transactions when the reconciliation process is automated. In supplementing these activities, the CFO has also sent a memorandum to all VISN Directors reminding them of our policy requiring purchase card transaction reconciliations within five days and of the need to keep purchase cards secure. The VISNs will also be provided with copies of the November 1998 reconciliation report for review and appropriate follow-up as indicated.

4. In regard to staffing realignment that is commensurate with anticipated savings from program implementation, we recognize that anticipated levels have not yet been fully achieved. Nevertheless, as the OIG is aware, the staffing trends show consistent decreases, and we fully support ongoing realignments as our priorities to establish purchasing/contracting consolidations within the VISNs continue to gain momentum. At least half of our Networks have completed or are in the process of completing Network-wide integration of purchasing and contracting activity. This, of course, will continue to directly impact traditional purchasing/materiel management FTEE designations. As we note in our action plan, purchase agents are often re-assigned directly to the using Services or to the Network Offices to assist in the consolidations even though they might still retain the facility purchasing agent job classifications.

5. To assure that issues identified by your auditors are communicated throughout the system, the Chief Network Officer will provide all VISN Directors with a copy of this report, with a memo highlighting the need to carefully monitor the programs within each facility to assure that maximal savings and efficiencies generated by program implementation are achieved.

6. We appreciate the thoroughness and cooperation of your auditors, who have assisted us in prioritizing areas for improvement relating to the purchase card program. If additional assistance is required, please contact Paul C. Gibert, Jr., Director, Management Review and Administration, Office of Policy and Planning, at 273.8355.



Kenneth W. Kizer, M.D., M.P.H.

Attachment

**COMMENTS OF THE UNDER SECRETARY FOR HEALTH**

Action Plan in Response to OIG/GAO/MI Audits/Program Evaluations/Reviews

Name of Report: OIG Draft Report: *Audit of the Department of Veterans Affairs Purchase Card Program*

Report Number: 7R3-042

Date of Report: none

Recommendations/ Actions	Status	Completion Date
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**Recommendation 2**

**We recommend that the Under Secretary for Health direct program officials to realign staff commensurate with anticipated savings from implementing the Purchase Card Program.**

**Concur**

VHA acknowledges that anticipated levels of staffing reductions attributable solely to implementation of the purchase card program have not yet been fully realized, although we do not currently have an updated accounting of staff reductions and reassignments. VHA did not even begin to utilize the purchase cards to any significant degree until mid-FY 1996. That timeframe might therefore be a better starting point to measure staffing decreases than the OIG's FY 1994 measure. We intend to compute the most recent personnel figures. However, we point out that that the trend has been, and continues to be, towards significant downsizing. This is especially true as related to purchasing and materiel management-related functions. As the OIG is aware, consolidation of purchasing functions on a Network-wide basis is strongly supported throughout the system, and at least half of our 22 VISNs have already completed or are in the process of integrating Network-wide purchasing and contracting activity. These steps will dramatically impact the configuration of traditional service staffing levels in our facilities. Many of the designated facility purchasing/materiel management staff are already providing direct support to the Networks in implementing these functions. Other purchasing agents are being re-assigned to the using Services (i.e., Pharmacy, Surgery) to handle all materiel management duties, including stock control, ordering and account maintenance – even though they might still retain the purchasing agent job classifications.

There are obviously many variables that come into play when determining the economies of medical facility functional staffing assignments, and the OIG's

**COMMENTS OF THE UNDER SECRETARY FOR HEALTH**

Page Two VHA Action Plan/OIG Draft Report: *Purchase Card Program*

application of a position classification "body count" in making that determination is just one of numerous components that must be taken into consideration. Nevertheless, we recognize the need for program officials to carefully monitor and justify staffing redistribution and reduction in these areas in order to assure that maximal savings and efficiencies are achieved as planned. A copy of this report will be provided to all Network Directors with a cover memo from the Chief Network Officer. The memo will highlight issues addressed by the OIG auditors, particularly in relation to the anticipated reduction or reassignment of staff performing acquisition and payment functions that should be commensurate with implementation of the purchase card program. The Network Directors, in turn, will take necessary steps to communicate issues and expectations to the facility managers and to monitor facility follow-up actions.

Planned

December 1998 and Ongoing

**MONETARY BENEFITS**  
**IN ACCORDANCE WITH OIG ACT AMENDMENTS**

**REPORT TITLE:**            Audit of the Department of Veterans Affairs Purchase Card Program

**PROJECT NUMBER:**    7R3-042

<b>Recommendation Number</b>	<b>Category/Explanation of Benefits</b>	<b>Better Use of Funds</b>	<b>Questioned Costs</b>
2	Realign staff commensurate with anticipated savings from implementing Purchase Card Program	\$22 million	

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