

# **Purchase Cards – Audits & Investigations**

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*Cindy Barnes*

*US Government Accountability Office*

*Forensic Audits & Special Investigations*

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# Outline of Presentation

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- FSI Background
  - Overview of Fraud, Waste, and Abuse
  - Purchase Card Program
  - Key Internal Controls
  - Summary of FSI Audit Approach
  - Case Studies
  - Concluding Remarks
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# Forensic Audits and Special Investigations Unit Background

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- FSI is on GAO's first line of defense against fraud, waste, and abuse in the federal government.
  - Formed in May 2005, our mission is to
    - provide Congress with high quality forensic audits and investigations of fraud, waste, and abuse; evaluations of security vulnerabilities; and other requested investigative services; and
    - monitor and manage fraud, waste, and abuse tips received through the FraudNet hotline.
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# FSI Background

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- To accomplish our goals, FSI
    - systematically tests the design and effectiveness of federal systems, processes, or controls;
    - uses innovative and proactive methodologies;
    - develops practical solutions (recommendations or matters for consideration by Congress) for problems that we identify; and
    - as appropriate, refers criminal matters or other cases identified to the Department of Justice, federal agency Inspectors General, or other relevant officials (e.g., state governments)
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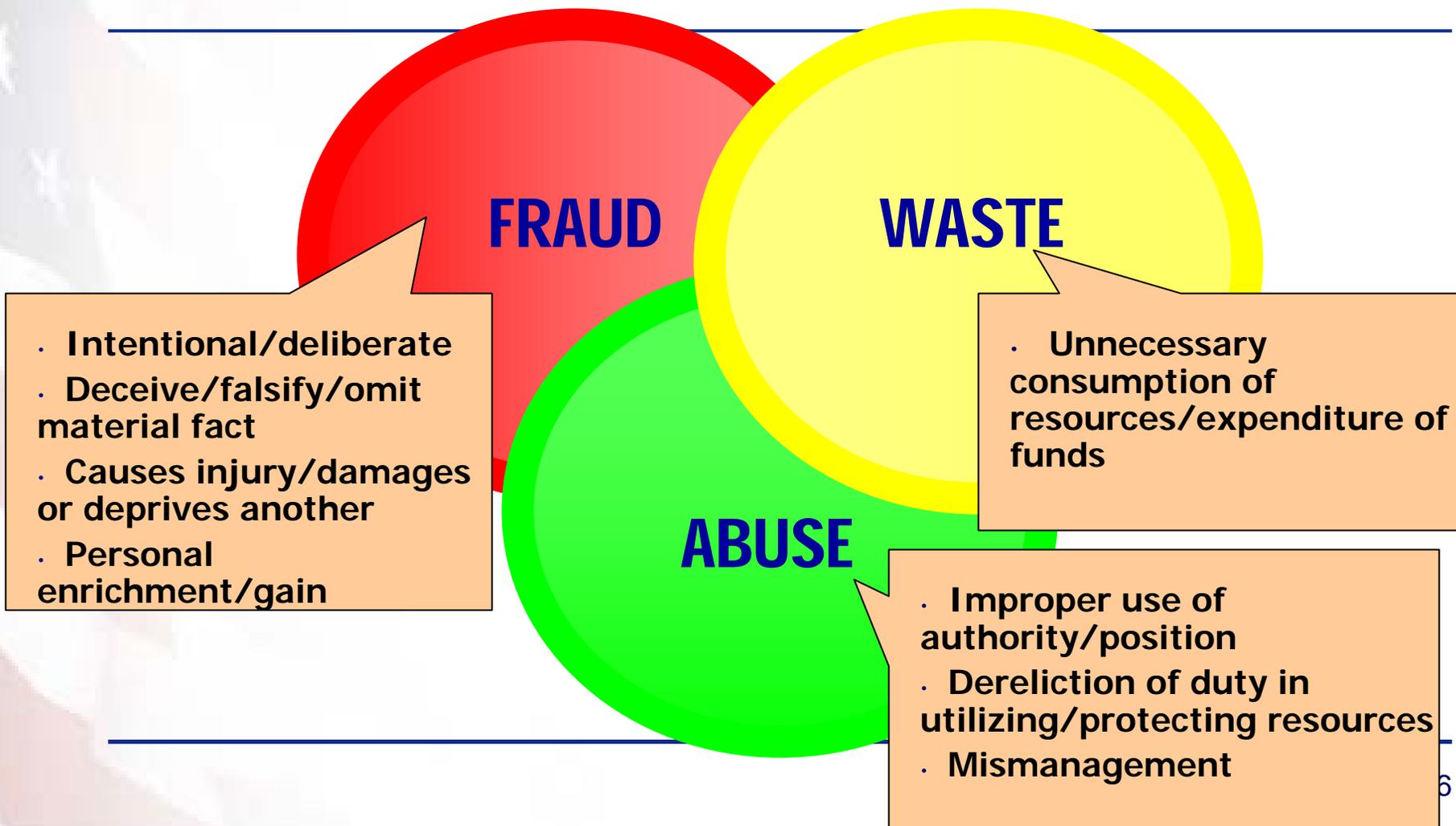
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# FSI Video

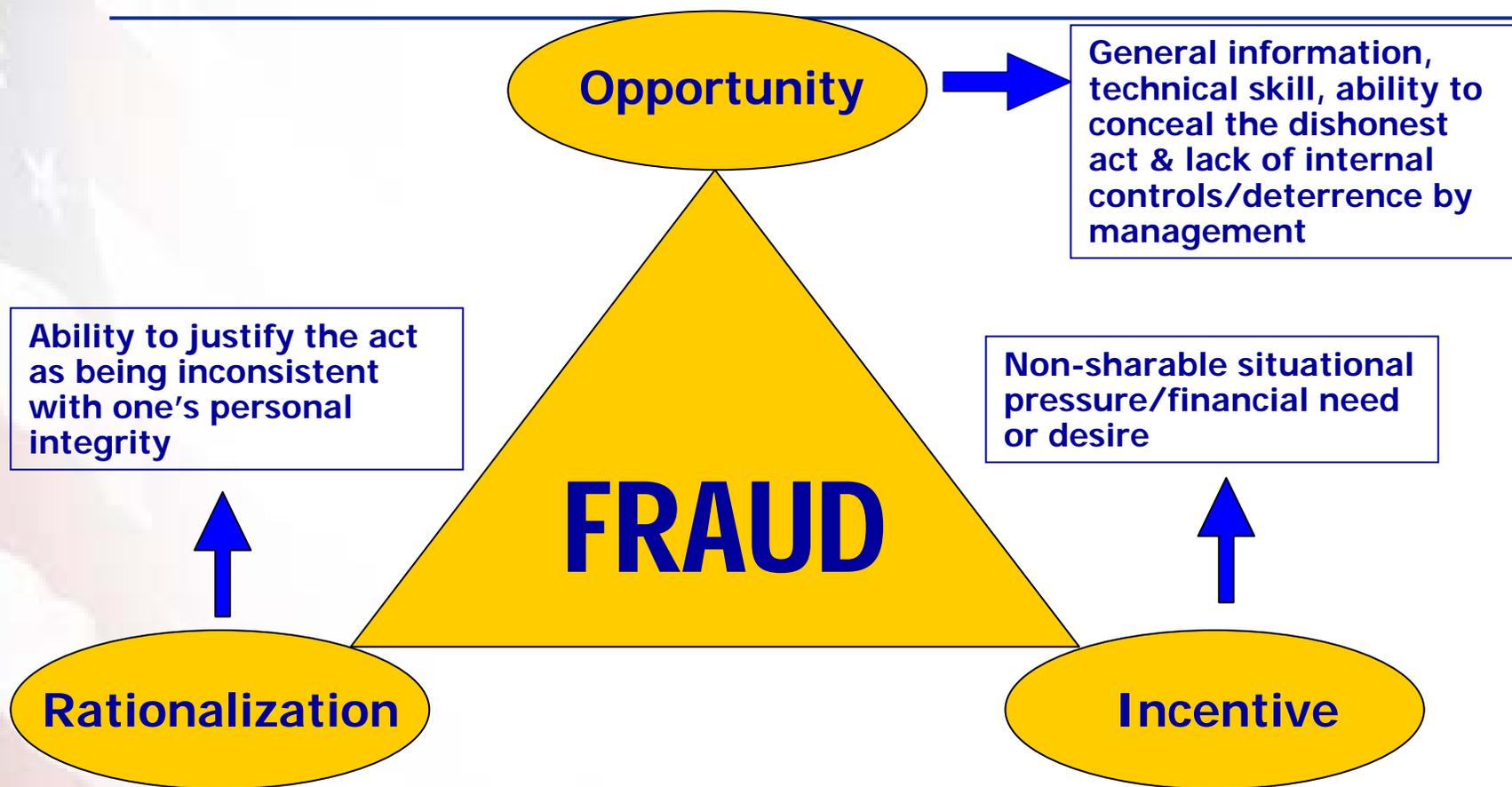
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## Video Clip

# Overview of Fraud, Waste & Abuse



# Fraud Triangle

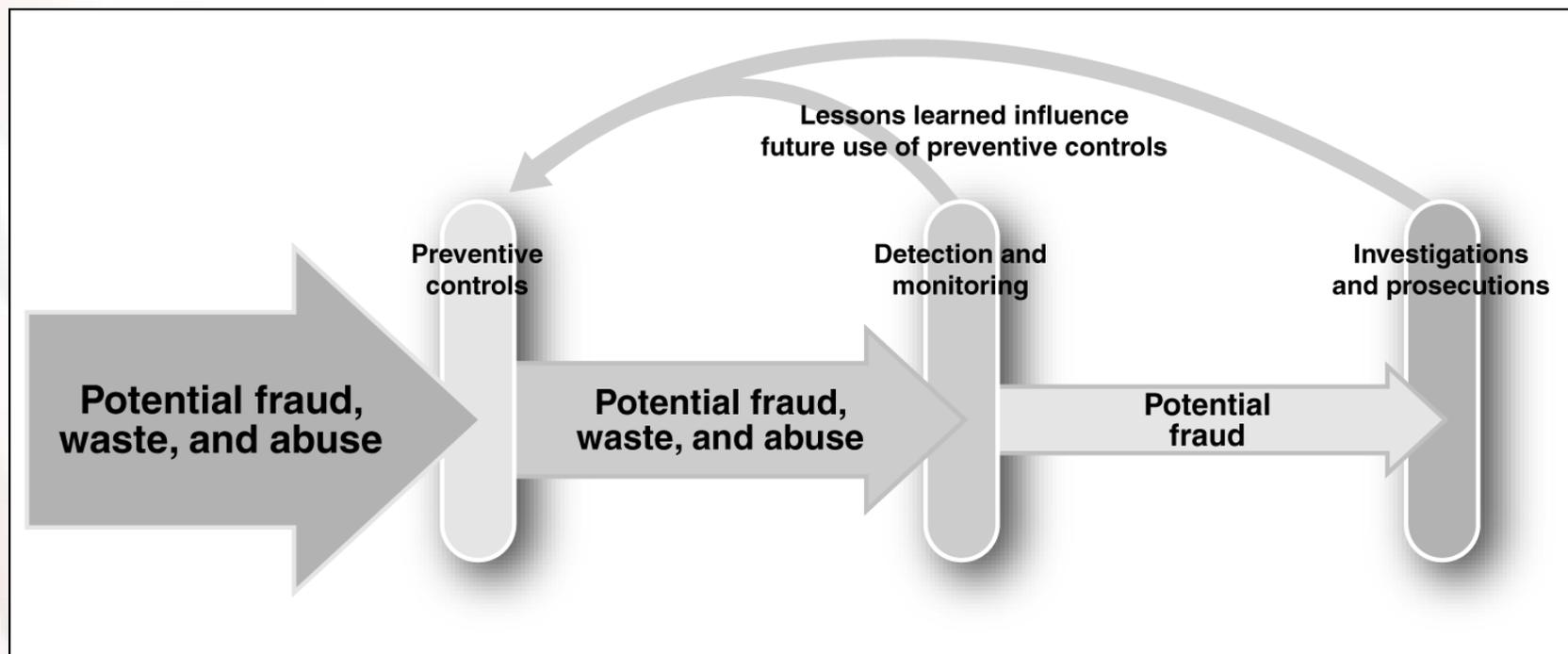


# Fraud 101

- It is easier to deter fraud than detect it
- Fear of detection is the greatest deterrent to fraud
- Determining the total cost of fraud is impossible; but what is determinable is substantial



# Fraud Prevention Program Model



Source: GAO.

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# Procurement Auditing 101

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- **Do we need what we are buying?**
- **Are we getting what we are paying for?**
- **Did we follow the appropriate procurement rules?**

# Purchase Card Program

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- The Federal Purchase card program
    - Grew from less than \$1 billion in 1994 to about \$20 billion in 2008.
    - Initial focus was on getting programs up and running.
    - Audits identified control weaknesses and vulnerabilities to fraud.
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# Government Purchase Card – Navy/Marine Corps Example



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# Key Internal Controls

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- Attention to internal controls by top management
  - Control over the number of cards
  - Training
  - Internal audit and review
  - Consequences for abuse
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# Key Internal Controls

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- Segregation of duties
  - Payment approval process
  - Sensitive property controls
  - Cancellation of cards
  - Hotline tips and complaints
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## Definition of Fraudulent, Improper, and Abusive Activity

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- Fraudulent purchases including unauthorized cardholder charges and vendor fraud
  - Improper purchases are those not permitted by law or regulation, including split purchases
  - Abusive purchases are those at an excessive cost or for a questionable government need
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# Summary of FSI Audit Approach

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- Obtain a detailed understanding of the process
  - Identify key controls and obvious vulnerabilities
  - Sample transactions to test the effectiveness of key controls
  - Obtain data file of all transactions
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# Summary of FSI Audit Approach

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- Use data mining and file comparisons to identify unusual transactions
  - Analyze supporting documentation
  - Consult with investigators and legal counsel to identify improper payments
  - Verify that real property was actually recorded in the agency's property records
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## Key FSI Work

# Waste Related to Purchase Cards



FSI identified wasteful purchases made using DHS purchase cards, including this warehouse full of unused meals-ready-to-eat (MREs)

# Key FSI Work

## “Lost” FEMA Boat



Source: FBI.

# GAO August 2003 Report

## Forest Service Purchase Cards

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- Examples of Wasteful and Questionable Purchases
    - \$34,950 in cancellation fees at Doubletree Hotel and Rain Country Bed and Breakfast
    - \$16,050 in specialty costumes and a decorative tent
    - \$14,134 in awards and gifts from Warner Bros., Eddie Bauer, and Mori Luggage and Gifts
    - \$10,414 in casinos and party items from Party Time and Tribal Bingo Casino
    - \$5,089 in electronics for fitness room and vehicles
    - \$2,929 aquarium for regional office from Hair of the Dog
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# GAO April 2003 Report HUD Purchase Cards

- Examples of Wasteful and Questionable Purchases
  - \$27,000 from Dillard's, JCPenney, Lord & Taylor, Macy's Sears
  - \$74,500 for computers and electronics from Ritz Camera, Sharper Image, Comp USA, PCMall
  - \$9,700 from Legal Seafood, Levis Restaurant, The Cheesecake Factory, TGI Fridays
  - \$8,900 from music and audio stores such as Sound Craft Systems, J&Rs Music Store, Guitar Source

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# GAO March 2008 Report

## Governmentwide Purchase Cards

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- Internal control weaknesses exposed federal government to:
  - Fraudulent, improper, and abusive purchases
  - Loss of assets
- 41% of transactions were not properly authorized or lacked evidence of independent receipt and acceptance
- Agencies could not provide evidence of possession for 458 of 1,058 accountable and pilferable items

# GAO March 2008 Report

## Governmentwide Purchase Cards

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- Examples:
  - \$1,100 – Subscription to Internet dating services
  - \$642,000 – Convenience checks to live-in boyfriend
  - \$80,000 – Year-end purchase of vehicles
  - \$8,000 – Laptop computers from preferred vendor
  - \$13,000 – Dinner & alcohol for 81 at Ruth's Chris
  - \$77,700 – Clothing from Brooks Brothers, Talbots and  
Johnston Murphy

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## Concluding Remarks

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- Purchase card abuse has received high-level attention through audits, congressional oversight, and legislative mandates.
  - Federal agencies have taken action to improve purchase card program controls and strengthen oversight and monitoring.
  - Continuing efforts on data mining, investigations of fraud and abuse, and disciplinary actions are key to an effective purchase card program.
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# Questions

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- Your turn-
  - Questions
  - Comments
  - Experiences

# Contact Information

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**Cindy Barnes**  
**202-512-9345**

**[brownbarnesc@gao.gov](mailto:brownbarnesc@gao.gov)**

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