

**STATEMENT OF LINDA A. HALLIDAY
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BEFORE THE
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS
COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES
HEARING ON
"WASTE, FRAUD, AND ABUSE IN
VA'S PURCHASE CARD PROGRAM"**

MAY 14, 2015

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to provide testimony concerning the Office of Inspector General's (OIG) work related to VA's Purchase Card Program. I am accompanied today by Mr. Quentin G. Aucoin, Deputy Assistant Inspector General for Investigations (Field Operations), Mr. Kent Wrathall, Director, Atlanta Office of Audits and Evaluations, and Mr. Murray Leigh, Director, Financial Integrity Division, Office of Audits and Evaluations.

BACKGROUND

The General Services Administration's SmartPay program provides purchase cards to Federal agencies through contracts negotiated with contractor banks to provide a purchase and payment tool that implements simplified acquisition procedures, which creates a way for agencies to streamline Federal acquisition processes by providing a low-cost, efficient vehicle for obtaining goods and services directly from vendors. In Fiscal Year (FY) 2014, Government-wide purchase card spending totaled \$17.1 billion through over 20 million transactions completed by approximately 265,000 cardholders.¹

VA's Purchase Card Program enables authorized employees to make purchases on behalf of the Federal government to support VA's mission. From FY 2011 to FY 2014, the value of VA purchase card transactions increased by just over 100 percent from \$1.8 billion to \$3.7 billion. During the same period, the number of VA purchase card transactions increased by about 130 percent from 2.7 million to 6.2 million. The increased number of purchase card transactions during this period makes it increasingly important to have strong controls over these purchases. Considering the high dollar amount and volume of purchase card transactions, ensuring VA has strong controls over the use of purchase cards is critical to ensuring VA uses taxpayer funds effectively and efficiently to serve our Nation's veterans.

VA requires purchase cards to be used for all purchases under certain dollar thresholds (referred to as the micro-purchase thresholds). If a purchase exceeds the applicable

¹ GSA SmartPay Statistics Overview. <https://www.smartpay.gsa.gov/about-gsa-smartpay/program-statistics>. Accessed May 7, 2015.

threshold and the cardholder does not have warrant authority, then the purchase is considered an unauthorized commitment and must be ratified in order to be binding on the Government.

Unauthorized commitments are purchases that are not binding because the Government representative who made them lacked the authority to make the purchase. Unauthorized commitments circumvent acquisition regulations and increase the risks of misusing taxpayer funds. Unauthorized commitments include purchases by cardholders who do not have valid warrants, exceed the limitations of their warrant authority, or split purchases, which is the practice of improperly dividing what should have been a single purchase into separate purchases to avoid micro-purchase thresholds and Federal Acquisition Regulation (FAR) competition requirements. When these actions occur, they often result in improper payments.

The FAR provides contracting procedures designed to maximize competition and obtain needed goods and services at fair and reasonable prices. The FAR requires agencies to review all records and documents for each identified unauthorized commitment when performing ratification actions that protect the Government's interest when goods and services are acquired using unauthorized commitments. Ratification is the act of approving an unauthorized commitment by an official who has the authority to do so. If VA decides not to ratify unauthorized commitments already paid using purchase cards, VA may pursue collections from VA cardholders who made the purchases.

RECENT OIG AUDIT WORK

Risk Assessments

The *Government Charge Card Abuse Prevention Act of 2012* (Charge Card Act) requires agencies to establish and maintain safeguards and internal controls for purchase cards.² Under the Charge Card Act, Inspectors General must conduct periodic risk assessments of agency purchase card programs to analyze the risks of illegal, improper, or erroneous purchases. Inspectors General then use these risk assessments to determine the necessary scope, frequency, and number of audits or reviews of these programs.

For the fiscal year (FY) 2015 risk assessment, we performed data mining on credit card transactions using a set of defined criteria designed to identify transactions or patterns of activity that appear to represent potential fraud, waste, or abuse. Our risk assessment examined:

- Cardholders with a high volume of transactions.
- Multiple transactions made on the same day with the same vendor, amount, and purchase card.
- Credit card purchases that exceeded established purchase card limits.
- Recurring transactions made with the same vendor.

² Public Law 112-194, October 5, 2012.

- Transactions occurring on holidays, weekends, in the last 2 months of the FY, and during unusual times of the day.
- Transactions made by a facility that were more than double the nationwide average number of transactions and costs per purchase card for VHA facilities.

From this work, we identified seven high risk areas that included:

- Cardholder transactions that exceed authorized purchase limits including unauthorized commitments.
- Inadequate financial controls prohibiting duplicative and split payments.
- An excessive number of cardholders making purchases with inadequate justifications.
- An unmanageable span of control resulting from an unbalanced ratio of cardholders to approving officials.
- Inadequate recording or reporting of financial information.
- Insufficient oversight of year-end spending.
- Inadequate review of purchases by approving officials.

Based on our risk assessments, we plan audits and reviews that can continue to identify control weaknesses, strengthen program control, and address inefficiencies in VA's Purchase Card Program. Our recent work has identified significant control weaknesses that did not prevent transactions involving unauthorized commitments, improper payments, split purchases, and purchases that lacked appropriate supporting documentation.

Review of Alleged Unauthorized Commitments Within VA

In our report dated May 21, 2014, we substantiated allegations that purchase cardholders made unauthorized commitments and VA violated the law by not performing ratification actions on identified unauthorized commitments in compliance with the FAR. Specifically, we estimated that during FYs 2012 and 2013, VA made about 15,600 potential unauthorized commitments valued at approximately \$85.6 million of the nearly \$1.8 billion transactions over the micro-purchase threshold.

For decades, inadequate VA controls have allowed cardholders to make thousands of unauthorized commitments resulting in violations of law by deviating from FAR ratification requirements. Instead of following FAR requirements to perform ratification actions for individual unauthorized commitments, VA institutionally ratified bundled unauthorized commitments. This practice does not hold individuals accountable for this serious offense. In addition, VA did not complete ratification actions for unauthorized commitments identified during internal and OIG reviews. Although aware it was making unauthorized commitments, VA did not implement needed controls to prevent future unauthorized commitments and avoid the need to complete ratification actions.

During the course of our work, VA's Office of Acquisition, Logistics, and Construction (OALC) and Office of Management (OM) implemented changes to reduce the number of purchase cards held by cardholders without warrants with spending limits above the

micro-purchase threshold. OM also began performing weekly comparisons between OALC's database of warranted individuals with US Bank's list of purchase cardholders. Additionally, OM reduced purchase card spending limits to the micro-purchase threshold for all cardholders not appearing on OALC's database. Although these changes to the warrant and purchase card approval process strengthened purchasing controls and can help reduce the risk of unauthorized commitments, we identified three specific control areas that needed strengthening:

- **Inadequate Warrant Information.** VA lacked a complete and accurate database of contracting officers' warrant information that OALC and OM could use to verify warrant status for cardholders with spending limits above micro-purchase thresholds. Instead, VA relied on a database compiled using warrant information extracted from VA's Electronic Contract Management System, which previous OIG audits had repeatedly found to be inaccurate because facility staff had not entered required information in the system.
- **Insufficient Verification of Warrant Authority.** VA facility approving officials did not verify cardholders had valid warrants before approving purchase cards with spending limits above the micro-purchase threshold. Approving officials and Purchase Card Program coordinators are responsible for ensuring cardholders who make purchases exceeding micro-purchase limits have a valid warrant and that their purchase card single and monthly purchase limits do not exceed their warrant authority.
- **Insufficient Unauthorized Commitment Training.** Purchase cardholders and approving officials did not receive sufficient training on unauthorized commitments. VA's mandatory training for purchase cardholders does not adequately explain what constitutes an unauthorized commitment and the resulting consequences for the cardholder. The training did not clearly explain that unauthorized commitments include purchases above the micro-purchase financial thresholds made by cardholders without a warrant. In addition, the training did not explain that purchases made by cardholders outside the limits of their warrant authority are unauthorized commitments and cardholders can potentially be personally liable for exceeding their written authority.

We made eight recommendations to strengthen controls over VA's Purchase Card Program. VA officials agreed with the recommendations and implemented corrective actions to strengthen program controls.

Audit of Engineering Service Purchase Card Practices at the Ralph H. Johnson VA Medical Center, Charleston, South Carolina

In our April 17, 2014, report, we substantiated an allegation that Ralph H. Johnson VA Medical Center (VAMC) Engineering Service cardholders split purchases to circumvent micro-purchase limits and made improper purchase card payments. Of 139 sampled purchases made by Engineering Service cardholders from October 2011 through May 2013, 40 were unauthorized commitments totaling \$83,100 that avoided competition requirements. The 40 unauthorized commitments included 35 purchases valued at about \$69,300 that cardholders split and 5 purchases valued at about \$13,800 that

exceeded the micro-purchase limit for services. Engineering Service employees also made 33 purchases that we could not determine whether payment was proper because of insufficient documentation. The value of these improper payments was about \$55,000.

We identified two specific areas that needed strengthening:

- Oversight. Engineering Service approving officials did not use the Veterans Health Administration's required checklist to monitor cardholders' use of purchase cards. The checklist provides a methodical procedure for approving officials to review purchases for inappropriate practices, such as split purchases, illegitimate expenditure of funds, spending that exceeds purchase card limits, and documenting that vendors used are not debarred. Additionally, the VAMC Purchase Card Coordinator did not use two VA financial system reports to identify purchase card risks and abuses such as split purchases.
- Purchase Card Training. Six of 14 Engineering Service cardholders and 3 of 5 approving officials had not completed required refresher training every 2 years. Adequate training is essential for cardholders and approving officials to perform their duties effectively.

We made four recommendations to strengthen the facility's Purchase Card Program controls over Engineering Service. The Veterans Integrated Service Network (VISN) Director agreed with the recommendations and provided corrective action plans that were supposed to address our recommendations by September 2014. The VISN implemented corrective actions for two of the four recommendations. On May 11, 2015, the VISN submitted additional information and requested that we close the remaining two recommendations to perform data mining and detailed reviews of high-risk transactions to identify unauthorized commitments and purchases lacking sufficient documentation, and to take appropriate actions. We are reviewing this information to determine whether it is appropriate to close these recommendations.

Administrative Investigation of VA's FY 2011 Human Resources Conferences in Orlando, Florida

In our September 30, 2012, report on the results of our administrative investigation into allegations of wasteful expenditures related to two Office of Human Resources and Administration (OHRA) conferences in Orlando, FL, we found that a VA employee made unauthorized commitments totaling more than \$100,000 for conference expenses. We recommended VA perform a special review of purchase card transactions made in support of VA Learning University conferences. Additionally, we recommended the Deputy Secretary conduct a review to determine if obligation of funds without the appropriate authority is a systematic issue. Our report instructed VA to review the unauthorized commitments and determine if ratification actions are in the best interest of VA.

VA's review found that just six cardholders made potentially \$5.4 million of the unauthorized commitments between October 2009 and September 2012. In January

2013, the Head of Contracting Activity for OALC reported that VA could not ratify \$5.2 million of the transactions because of insufficient documentation to assess compliance with Federal and VA acquisition regulations. OHRA reported taking disciplinary action against these six cardholders.

OIG OVERSIGHT WORK IN PROGRESS

Given the seriousness of the types of purchase card abuses we previously identified, we are examining compliance with VA purchase card requirements in VA conference management activities for FY 2015 through two reviews. The first review relates to information we received during the course of our review of the two OHRA conferences in Orlando, FL, indicating that individuals lacking the appropriate authority placed hotel contract actions associated with other unrelated conferences. As a result, on September 20, 2012, the then Inspector General, George Opfer, issued a memorandum to the then Deputy Secretary, Scott Gould, requesting actions be taken to identify any unauthorized commitments of funds made either through contract actions or the use of Government purchase cards in support of conferences without appropriate authority to do so. We are assessing the completeness of actions VA took in response to this memorandum. Additionally, as directed by House Report 112-491, to accompany H.R. 5854, *Military Construction and Veterans Affairs and Related Agencies Appropriations Act, 2013*, we are conducting a second review to examine the effectiveness of corrective actions taken in response to the recommendations in our report regarding the OHRA conferences in Orlando, FL.

CRIMINAL INVESTIGATIONS

Since FY 2012, the OIG Office of Investigations has opened 21 cases involving employee misuse of VA purchase cards. Nine cases are closed and the remaining 12 cases are ongoing. As a result of these investigations, there have been nine arrests and six convictions, as well as the termination or resignation of nine VA employees.

The most significant investigation involved a Supervisory General Engineer at the VA New Jersey Health Care System in East Orange, New Jersey, who conspired with another individual to defraud VA with regard to construction-related projects valued at over \$6 million. The engineer misused his position to award certain construction and repair projects at the East Orange Campus to companies owned by another defendant and then approved the use of purchase cards to pay these companies approximately \$3.4 million. The engineer took inappropriate actions to split single projects into multiple separate work orders to avoid approvals and bidding regulations. The engineer also assisted this defendant in falsely representing to VA that a separate company owned by the defendant was eligible for a set-aside Service-Disabled Veteran-Owned Small Business contract valued at \$3.3 million, which constituted a second misuse of his official position. In exchange for his official action to steer contracts to the defendant's companies, the engineer accepted kickbacks valued at over \$1.25 million. Both individuals pled guilty and are awaiting sentencing. The OIG is performing additional work at this facility in light of the criminal activity identified to ensure controls over purchase cards have been strengthened.

Another case involved an employee at the VA Loma Linda Healthcare System in Loma Linda, CA, who used his purchase card to buy and resell 117 computer-related items totaling nearly \$330,000. This individual's employment was terminated and he was ultimately sentenced to prison time, home confinement, and restitution.

A third case involved a former Atlanta, GA, VAMC Police Service clerical employee who misused her purchase card to procure and negotiate 681 prepaid gift cards, which he subsequently used to purchase items at retailers, to pay personal financial obligations, and for entertainment purposes. The loss to VA was over \$88,000. The defendant's employment was terminated, he was sentenced to 13 months of incarceration followed by 36 months of supervised probation, and ordered to pay restitution for the value of the unauthorized purchases and a \$1,200 special assessment.

In another case, an OIG investigation led to a Program Manager in VA's Office of Information and Technology in Birmingham, AL, pleading guilty to six counts of fraudulent use of a credit card in violation of State law. The investigation revealed that the employee misused her travel charge card for approximately \$3,500 of unauthorized car payments and hotel expenses. We provided local managers with a full briefing on the results of our investigation and the conviction of the employee, who was sentenced to serve 36 months of supervised probation and ordered to pay restitution for the value of the unauthorized purchases. While on probation, the employee misused her purchase card to buy approximately \$6,215 in unauthorized items that she converted to personal use. The employee resigned after discovery of the conduct that led to the second conviction. The employee was convicted again on Federal fraud charges and sentenced to 4 months of home detention, 48 months of supervised probation, and ordered to pay restitution for the value of the unauthorized purchases.

CONCLUSION

The number of purchase card transactions is voluminous and the value represents significant financial expenditures. Overall, we consider VA's Purchase Card Program at medium risk for waste, fraud, and abuse. However, within the Program we have identified seven areas of high-risk practices that we will continue to target for oversight. Effective and efficient purchase card use can only be ensured by implementing and maintaining stringent internal controls that prevent mismanagement and improper actions resulting in unauthorized commitments, improper payments, and other violations of fiscal laws and regulations. Any misuse of purchase cards is unacceptable and contributes to an erosion of public trust that Federal taxpayer dollars are being spent wisely and effectively. VA must significantly strengthen Purchase Card Program internal controls to prevent further misuse of taxpayer dollars intended to serve veterans and their families.

Mr. Chairman, this concludes my statement. We would be pleased to answer any questions that you or Members of the Subcommittee may have.