



*Management Oversight of the
Small Business/Self-Employed Division's
Fuel Compliance Fleet Card Program
Should Be Strengthened*

September 27, 2011

Reference Number: 2011-10-125

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

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HIGHLIGHTS

MANAGEMENT OVERSIGHT OF THE SMALL BUSINESS/SELF-EMPLOYED DIVISION'S FUEL COMPLIANCE FLEET CARD PROGRAM SHOULD BE STRENGTHENED

Highlights

Final Report issued on
September 27, 2011

Highlights of Reference Number: 2011-10-125 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

Fleet cards are used to purchase fuel and minor vehicle repairs and maintenance related to fleet vehicles leased by the Internal Revenue Service (IRS). The Small Business/Self-Employed (SB/SE) Division's Fuel Compliance Fleet Card Program (Fleet Card Program) lacks sufficient management oversight and internal controls to prevent, detect, and deter fraud, waste, and abuse. Without adequate internal controls, IRS management risks losing track of the vehicles and assigned fleet cards. Management also cannot be assured that fuel and repair charges incurred are only for official business and risks paying for inappropriate vehicle expenses.

WHY TIGTA DID THE AUDIT

This review was initiated as part of the TIGTA Fiscal Year 2010 Annual Audit Plan and addresses the major management challenge of Erroneous and Improper Payments and Credits. The overall objective was to determine whether the SB/SE Division has established effective controls over the Fleet Card Program and whether those controls are sufficient to identify and prevent errors and instances of fraud, waste, and abuse.

WHAT TIGTA FOUND

IRS management's oversight and internal controls over the Fleet Card Program were not effective and did not ensure that all transactions were appropriate and legitimate. Although TIGTA did not identify specific transactions

indicative of fraud, waste, or abuse of the fleet cards, TIGTA determined that the SB/SE Division did not retain adequate documentation to justify that all transactions charged to the fleet cards during the audit period were appropriate and legitimate.

Additionally, TIGTA established that in some cases (16 instances on 14 separate statements), reconciliation and certification of the monthly Citibank statements were not conducted by group managers and agents in accordance with procedures. Finally, from October 1, 2001, until July 28, 2010, the Fleet Card Program did not have approval by the Secretary of the Treasury for home-to-work authority but used its fleet vehicles for that purpose. As a result, inappropriate charges were placed on fleet cards.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, SB/SE Division, develop and implement formal fleet card policies, procedures, and management controls in compliance with Office of Management and Budget Circular A-123 Appendix B, *Improving the Management of Government Charge Card Programs*; the *Standards for Internal Control in the Federal Government*; and IRS vehicle inventory procedures. In addition, these policies should prevent the use of fleet cards for home-to-work transactions unless authority has been obtained in accordance with Treasury Directive 74-06 and Federal regulations.

IRS management agreed with our recommendations. SB/SE Division Specialty Tax Program staff plans to develop formal fleet card policies, procedures, and management controls to enhance procedures not covered in the interim guidance and ensure compliance with Circular A-123, Appendix B; the *Standards for Internal Control in the Federal Government*; and IRS vehicle inventory procedures. In addition, the IRS plans to include specific guidance directly related to the home-to-work authorization requirements in its fleet card use policies and procedures in accordance with the Treasury Directive 74-06 and Federal regulations. The current home-to-work authority expires on July 15, 2013.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

September 27, 2011

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED
DIVISION

Michael R. Phillips

FROM:

Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT:

Final Audit Report – Management Oversight of the Small
Business/Self-Employed Division’s Fuel Compliance Fleet Card
Program Should Be Strengthened (Audit # 200910026)

This report presents the results of our review of the Internal Revenue Service (IRS) Small Business/Self-Employed (SB/SE) Division’s Fuel Compliance Fleet Card Program. The overall objective of this review was to determine whether the SB/SE Division has established effective controls over its Fuel Compliance Fleet Card Program and whether those controls are sufficient to identify, address, and prevent errors and instances of fraud, waste, and abuse. This audit is one of a series of audits planned to assess how the IRS is managing its travel, fleet, and purchase cards. This audit was included in our Fiscal Year 2010 Annual Audit Plan and addresses the major management challenge of Erroneous and Improper Payments and Credits.

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

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Nancy A. Nakamura, Assistant Inspector General for Audit (Management Services and Exempt Organizations), at (202) 622-8500.



*Management Oversight of the Small Business/
Self-Employed Division's Fuel Compliance
Fleet Card Program Should Be Strengthened*

Table of Contents

BackgroundPage 1

Results of ReviewPage 3

 Policies, Procedures, and Established Internal Controls
 Over the Fleet Card Program Are Weak.....Page 4

Recommendation 1:.....Page 10

 Fleet Card Charges Related to Home-to-Work Use
 Were Inappropriate Because the Associated Vehicles
 Were Driven Without the Proper Authorization.....Page 10

Recommendation 2:.....Page 12

Appendices

 Appendix I – Detailed Objective, Scope, and MethodologyPage 14

 Appendix II – Major Contributors to This Report.....Page 17

 Appendix III – Report Distribution ListPage 18

 Appendix IV – Outcome Measures.....Page 19

 Appendix V – Management’s Response to the Draft ReportPage 21



*Management Oversight of the Small Business/
Self-Employed Division's Fuel Compliance
Fleet Card Program Should Be Strengthened*

Abbreviations

IRS	Internal Revenue Service
ITAMS	Information Technology Assets Management System
MCC	Merchant Category Code
SB/SE	Small Business/Self-Employed



*Management Oversight of the Small Business/
Self-Employed Division's Fuel Compliance
Fleet Card Program Should Be Strengthened*

Background

The Excise Tax Program in the Small Business/Self-Employed (SB/SE) Division's Specialty Programs Branch is the Internal Revenue Service's (IRS) program responsible for fuel tax compliance. Fuel Compliance Officers and Agents (hereafter referred to as agents) rely on Government-leased fleet vehicles¹ and fleet cards while conducting their official duties. Agents' duties include site visits to retail and wholesale fuel facilities to enforce fuel excise tax laws. There are currently nine field offices and three training groups in the Fuel Compliance Fleet Card Program (Fleet Card Program) that use the fleet cards to purchase fuel and maintenance related to the use of Government-leased fleet vehicles in the Excise Tax Program. As of April 2010, there were 105 fleet vehicles assigned to the agents. These vehicles are to be used for official business purposes only.² Expenses related to the vehicles are charged to Government fleet cards; specifically, fleet fuel cards are used to purchase fuel and minor vehicle repairs and maintenance, while fleet repair cards are used for major fleet vehicle repairs and services.³ According to financial data we obtained from the IRS's Integrated Financial System,⁴ the Fleet Card Program had incurred over \$500,000 in charges during our audit period of October 1, 2007, through March 31, 2009.

The structure of the Fleet Card Program is different from the structure of the other credit card programs used by the IRS, such as travel cards or purchase cards. For example, fleet fuel cards are issued by Citibank to the Fleet Card Program and are embossed with the vehicle tag number instead of an agent's name. Fleet repair cards are assigned to individual Fuel Compliance group managers for their group's use.⁵ The Fuel Compliance Program Coordinator/Agency Organization Program Coordinator (hereafter referred to as Program Coordinator) has the oversight responsibility for the Fleet Card Program. Both the fleet fuel and fleet repair cards are centrally billed accounts, meaning the individual agent or group manager is not responsible for payment of the bill. Instead, the IRS makes payments to Citibank for all charges incurred on

¹ Fleet vehicles are either leased or purchased by the IRS and provided for official use by employees who require transportation to perform their assigned duties.

² The use of Government vehicles is regulated by 31 U.S.C. Section (§) 1344, Passenger carrier use. Section 1344(a) (1) specifies that "Funds available to a Federal agency, by appropriation or otherwise, may be expended by the Federal agency for the maintenance, operation, or repair of any passenger carrier only to the extent that such carrier is used to provide transportation for official purposes."

³ The SB/SE Division explained that the fleet cards can only be used for these types of maintenance expenses if they are not covered by maintenance agreement plan provisions.

⁴ The Integrated Financial System is an administrative accounting system used to input, track, and report financial data.

⁵ Fleet repair cards are embossed with the designated organizational group number at the time the fleet repair card was assigned (e.g., "Truck-6307").



*Management Oversight of the Small Business/
Self-Employed Division's Fuel Compliance
Fleet Card Program Should Be Strengthened*

either type of fleet card after the Program Coordinator ensures that group managers have certified that the charges are proper and services were received.

Federal law and regulations provide guidance on the appropriate use of Government-provided vehicles and restricts their use to the conduct of official business. IRS Government vehicles are not to be used to transport employees between their homes and places of work, "home-to-work transportation," except as approved in advance by the Secretary of the Treasury.⁶ The vehicles are intended to be used to transport employees between their office and field site locations, which does not require preapproval. In some instances, it may be necessary or more efficient for agents to use the vehicle for transportation from their home to their field site visits or from the official field site to their home. In these specific situations, where this type of home-to-work transportation is essential to conduct official business and will substantially increase the IRS's efficiency, approval must be obtained prior to using the vehicle for home-to-work transportation.

This review was performed at the IRS Fleet Motor Vehicle Program Office in Saint Paul, Minnesota, and the SB/SE Division Excise Tax Field Offices in Decatur, Georgia; Brockton, Massachusetts; and Buffalo, New York, during the period of August 2009 through January 2011. The fieldwork and issuance of this report were delayed by an inspection on IRS Fleet Vehicles⁷ being performed by the Treasury Inspector General for Tax Administration Office of Inspections and Evaluations.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

⁶ Treasury Directive 74-06 and 41 C.F.R. Subpart 102.5 require that authority for home-to-work transportation be granted in writing by the Secretary of the Treasury.

⁷ *Inspection of the Internal Revenue Service's Home-to-Work Programs (IE-10-01)*, dated June 6, 2011.



*Management Oversight of the Small Business/
Self-Employed Division's Fuel Compliance
Fleet Card Program Should Be Strengthened*

Results of Review

IRS management's oversight and internal controls over the Fleet Card Program were not effective and did not ensure that all transactions were appropriate and legitimate. Although we did not identify specific transactions indicative of fraud, waste, or abuse of the fleet cards, we determined that the SB/SE Division did not retain adequate documentation to justify that all transactions charged to the fleet cards during our audit period were appropriate and legitimate. Additionally, we established that in some cases reconciliation and certification of the monthly Citibank statements were not conducted by group managers and agents in accordance with procedures. The reconciliation and certification of fleet card monthly statements must be performed by the SB/SE Division to determine whether charges billed by Citibank are accurate.

To test controls over fleet cards, we selected a judgmental sample of monthly Citibank statements and fleet vehicle inventory records. Our review of 229 fleet fuel card and 12 fleet repair card statements did not reveal any charges or unusual transactions that appeared to be questionable. However, we did find 16 instances, on 14 separate statements, for which SB/SE Division fleet card statement reconciliation procedures were not followed. We found instances of no managerial approval, no employee certification of charges, and missing receipts. We reviewed the fleet vehicle data posted to the Information Technology Assets Management System (ITAMS)⁸ as of October 5, 2009, and found discrepancies in 10 (11 percent) of the 89 vehicle records. In some cases, we found vehicles that were assigned to employees who were no longer working at the IRS or who were working in another division within the IRS. IRS procedures require that vehicle inventory records must be accurate and periodically reconciled so that control over the vehicles and their assigned fleet cards is maintained. Without adequate internal controls, IRS management risks losing track of the vehicles and assigned fleet cards. Management also cannot be assured that fuel and repair charges incurred are for official business and risks paying for inappropriate⁹ vehicle expenses.

Finally, from October 1, 2001, until July 28, 2010, the Fleet Card Program did not have approval by the Secretary of the Treasury for home-to-work authority but used its fleet vehicles for that purpose. As a result, all expenses related to the use of the fleet vehicles to transport agents to or from their residence to their official place of duty were unauthorized transactions. IRS management advised us that they believed they had approval for home-to-work use based on the IRS delegation order received from IRS management in February 2001. However, they were

⁸ The ITAMS is the IRS's asset inventory system. For SB/SE Division fleet vehicles, the ITAMS contains information such as the name of the employee who has been assigned the vehicle, a description of the vehicle, and tag and vehicle identification numbers. At the end of audit fieldwork, auditors became aware that the ITAMS was replaced by a new system called Knowledge Incident/Problem Service Asset Management.

⁹ Inappropriate expenses are those which are not in compliance with the applicable guidance and regulations.



*Management Oversight of the Small Business/
Self-Employed Division's Fuel Compliance
Fleet Card Program Should Be Strengthened*

unable to determine the amount of vehicle usage during our audit period that related to its unofficial home-to-work travel. Therefore, the SB/SE Division does not have the ability to determine the amount of inappropriate charges incurred to fleet cards related to home-to-work travel.

Policies, Procedures, and Established Internal Controls Over the Fleet Card Program Are Weak

Informal guidance did not include procedures to identify fraud, waste, or abuse

The SB/SE Division is unable to determine whether charges placed on fleet cards properly reflect the fleet vehicle usage to conduct official business. The informal and unapproved Fuel Compliance Officers Fleet Card Guidance the SB/SE Division developed and distributed in February 2009 does not require the group manager to conduct reasonableness reviews of accounts to ensure transactions are only for official business. Reasonableness reviews include performing an analysis of each agent's scheduled fieldwork completed and comparing this workload data against the vehicle mileage, fuel costs, vehicle miles per gallon data, employee work plans, and leave schedules to determine whether the expenses charged to Government fleet cards were appropriate, legitimate, and only for official business. In addition, these informal procedures do not include other types of tests or analyses designed to detect fraud, waste, or abuse in the use of fleet cards beyond their current practice of matching receipts for fleet vehicle expenses to the monthly Citibank credit card statements.

Management Action: During and after our fieldwork, the IRS issued new guidance which includes:

- **Memorandum for the Fuel Compliance Territory, Interim Guidance on Mileage Log Policy for the Fuel Compliance Program, dated January 19, 2011.**

This memorandum issues interim guidance for completing mileage logs to record the use of the Government-leased trucks by Fuel Compliance Officers and Agents. The field personnel in the Fuel Compliance Program have been granted home-to-work authority under the field work designation in Treasury Directive 74-06, *Home-to-Work Transportation Controls*.¹⁰ This authority allows the field personnel to use the Government-leased vehicle to drive from their residence to various field locations. Adequate recordkeeping of the use of the vehicles by field employees with home-to-work

¹⁰ The Department of the Treasury's Treasury Directive (TD) 74-06, *Home-to-Work Transportation Controls*, establishes the policy and sets forth responsibilities and reporting requirements concerning official use of a Government passenger carrier between an employee's home and place of employment. The Directive prescribes how requests for the Secretary of the Treasury authorization for home-to-work use are to be completed, what they should contain, and when they are due. Further, the Directive requires that employees maintain daily mileage logs and other records necessary to establish that home-to-work transportation was used for official purposes.



*Management Oversight of the Small Business/
Self-Employed Division's Fuel Compliance
Fleet Card Program Should Be Strengthened*

authority must be maintained and available for audit. In addition to the requirements of Treasury Directive 74-06, other regulations require the Excise Tax Program to maintain records regarding fuel and other purchases using the fleet card. The mileage log recently distributed also serves as a record to comply with requirements.

- **Memorandum for the Fuel Compliance Territory, Interim Guidance on Required Managerial Review of Mileage Log for the Fuel Compliance Program, dated May 11, 2011.**

This memorandum issues interim guidance for reviewing mileage logs and related records completed by Fuel Compliance Officers and Agents. The field personnel in the Fuel Compliance Program have been granted home-to-work authority under the field work designation in Treasury Directive 74-06. The Directive requires certain records be maintained and reviewed. Home-to-work authority is integral to the efficient operation of the Fuel Compliance Program. Following the procedures explained in this memorandum will enable the IRS to support the need for home-to-work authority in the future, encourage proper use of the vehicles operated under the home-to-work authority, and uncover potential fraud and misuse of the vehicle. There are two types of reviews the managers will perform each month—standard reviews and comprehensive reviews. Regardless of the type of review performed, the purpose of the review is to determine whether:

1. The vehicle was used for official use only.
2. The records provided are accurate and complete.
3. The field employee purchased E-85 (alternative fuel), as directed.

While we did not test these new processes and procedures, we believe that the guidance is an improvement over the informal guidance that was in place at the time of our audit testing. However, we noted that the new guidance does not fully address all of the concerns identified during our review (the following section describes deficiencies, control weaknesses, and risks we identified with the Fleet Card Program). The guidance does not include fleet card policies, procedures, and management controls to ensure fleet cards are used in compliance with the Office of Management and Budget Circular A-123, *Management's Responsibility for Internal Controls*, Appendix B, *Improving the Management of Government Charge Card Programs* (hereafter referred to as Circular A-123, Appendix B).

Fleet Card Program procedures are not consistently followed or effective to ensure all charges are legitimate and approved

The SB/SE Division's informal guidance requires receipts for charges placed on the fleet cards to be reconciled to monthly Citibank statements to ensure accurate billing. To test controls over fleet cards, we selected a judgmental sample of the monthly Citibank statements. We reviewed



*Management Oversight of the Small Business/
Self-Employed Division's Fuel Compliance
Fleet Card Program Should Be Strengthened*

the SB/SE managers' certification reviews of 229 fleet fuel card and 12 fleet repair card statements and determined that the statements did not reveal any charges or unusual transactions that appeared to be indicative of fraud, waste, or abuse based on the type of vendor. We did, however, find 16 instances on 14 separate statements for which the SB/SE Division fleet card statement reconciliation procedures were not followed, as Figure 1 shows.

Figure 1: TIGTA's Review of Small Business/Self-Employed Division's Fleet Card Statement Managerial Certification Reviews

Fleet Fuel Card Statements	229
Fleet Repair Card Statements	12
Statements Reviewed	241
Exception Types	
No Managerial Approval	7
No Employee Certification	7
Missing Receipts and Forms	2
Number of Exceptions¹¹	16

Source: TIGTA analysis of a sample of Citibank fleet card statements.

The informal Fuel Compliance Officers Fleet Guidance states that an agent must compare charges on the monthly statement with purchase receipts, sign the statement self-certifying that the charges are for official use, and forward the statement and original receipts to the group manager for approval of payment to Citibank. In the event original transaction receipts are missing, the agent must prepare a missing receipt form and submit it to the group manager with the statement. The group manager is responsible for reviewing and signing the statement certifying the expenses were for official business and that goods and services were received and for ensuring original receipts were submitted. Group managers forward the certified statements with original receipts and any missing receipt forms to the Program Coordinator, who reviews the transactions, ensures the documents received from the group managers are complete, and reconciles the individual statements to the master statement received from Citibank before authorizing payment.

IRS procedures also require that accurate and complete vehicle usage logs which include mileage and fuel cost (including type and gallons purchased) be maintained. SB/SE Division management did not establish internal control procedures to ensure that charges made to the fleet cards reasonably reflect the usage of the Government vehicles to perform official business activities. Also, the Program Coordinator stated that there is no system currently available to obtain complete and accurate mileage data to conduct such an analysis.

In May 2009, the SB/SE Division discontinued the use of the automated system, Excise Fuel Tax On-Line Network, which captured workload and vehicle usage type data, and implemented a

¹¹ Some monthly statements contained more than one exception.



*Management Oversight of the Small Business/
Self-Employed Division's Fuel Compliance
Fleet Card Program Should Be Strengthened*

new tracking system using a Global Positioning System. Both systems had the capability to capture the mileage and fuel expenses for a vehicle in addition to the agent's workload information. However, SB/SE Division staff members were not consistent or diligent in recording this information in the Excise Fuel Tax On-Line Network system, and the new Global Positioning System equipment was either not installed or was not properly functioning in some fleet vehicles. If the vehicle did not have a functioning Global Positioning System, agents were instructed to record mileage and fuel expenses manually and submit the logs to their group managers; however, mileage and fuel expenses were not consistently recorded on the manual logs.

Due to the lack of available data and analysis, the SB/SE Division was unable to maintain accurate and complete records as required by the *Standards for Internal Control in the Federal Government*.¹² Since accurate and complete mileage data was not available, group managers and the Program Coordinator cannot readily determine whether vehicle fleet card expenses are appropriate for agents' workload. Neither the Program Coordinator nor the group managers document any reviews to identify fraud, waste, and abuse or perform reviews of the fleet card activities to ensure charges were appropriate and legitimate based on the official fieldwork performed.

Without additional analysis of the agent's workload data, the group managers can only determine that the transaction on the statement matches the receipt provided. This limited control does not determine whether the transaction was valid and required for official business. The Program Coordinator's reports on the Fleet Card Program performance issued to SB/SE Division management were limited to an annual summary of fleet fuel and repair expenses, broken out by organizational groups,¹³ and the submission of monthly updates to the SB/SE Division's Strategy and Finance Operational Reviews.¹⁴ Circular A-123, Appendix B, prescribes policies and procedures to agencies regarding how to maintain internal controls that reduce the risk of fraud, waste, and abuse in Government charge card programs and requires that agencies identify specific risks with charge card programs and implement internal controls to mitigate these risks to the greatest possible extent. Circular A-123, Appendix B, also requires charge card managing officials (the Program Coordinator for the Fleet Card Program) to perform transaction analysis

¹² *Standards for Internal Control in the Federal Government* (GAO AIMD-00-21.3.1, dated November 1999).

¹³ This report is intended to track the spending fluctuations of individual drivers from month to month.

¹⁴ The Program Coordinator updates the monthly operational reviews by broadly providing business events within the fleet vehicle program, some of which contain periodic entries specific to SB/SE Division fleet cards (e.g., the May 2009 submission discussed the Government Accountability Office audit on the timely submission and processing of IRS fleet card statement payments; the November 2009 submission noted difficulties that SB/SE Division employees were having accessing the Citibank online Card Management System; and the June 2010 submission discussed the transfer of Citibank fleet cards to the Wright Express Fleet Card Program for General Services Administration vehicles). However, we did not identify any policy or practice during our fieldwork that demonstrated any efforts to identify the specific risks, schemes, or fraud indicators that fleet cards may be subject to nor the development of any related mitigating management controls to prevent or detect potential fraud.



*Management Oversight of the Small Business/
Self-Employed Division's Fuel Compliance
Fleet Card Program Should Be Strengthened*

and program trends in managing costs and other relevant indicators of a credit card program's performance.

The SB/SE Division Program Coordinator cannot provide management any assurances of Fleet Card Program performance without complete and accurate information. Additionally, these weaknesses in internal controls could result in misuse and allow inappropriate charges to go undetected, resulting in potential monetary losses to the Federal Government.

The types of analysis and reasonableness testing described above should be performed by the Program Coordinator. Although the reconciliation of receipts to Citibank statements and self-certification of expenses is a sound business approach, we believe that this practice alone is not sufficient to identify instances of fraud, waste, or abuse in the Fleet Card Program and provides no assurance that fleet card charges were used only for official business.

We obtained a data extract directly from Citibank containing all of the transactions for the Fleet Card Program from September 1, 2007, through March 31, 2009. We performed data analysis tests on over 9,000 expenses contained in this data to determine whether any of these transactions contained a Merchant Category Code (MCC)¹⁵ that was not on the SB/SE Division MCC inclusion template (authorized MCCs) for the Fleet Card Program. We found 29 purchase transactions that contained MCCs that were not on the template and initially appeared to be improper purchases. Of these 29 transactions, we determined 2 were transactions at a hotel that should not have accepted the card, and both of these transactions had been credited back to the card. The other 27 purchases were determined to be legitimate purchases at businesses that supplied auto-related goods or services; however, these goods and services were not their primary business and, therefore, the MCCs appeared to be for improper purchases.

Additionally, we performed an analysis reviewing limits contained on the fleet fuel and repair cards. All active fleet fuel cards had credit limits of \$2,500, and the fleet repair cards had credit limits of \$10,000. We determined these credit limits to be reasonable based on the needs of the Fleet Card Program. We did, however, identify 2 fleet fuel cards that were reported stolen and 31 fleet fuel cards reported lost during our audit period. While the number of lost cards is excessive, there were no indications of fraud, abuse, or improper transactions on any of the accounts after they were reported lost.

¹⁵ A MCC is a four-digit number used by the bankcard industry to classify suppliers into market segments. There are approximately 600 MCCs that denote various types of business (e.g., 5541 Service Stations). The MCC is assigned based on the supplier's primary line of business. For example, if a supplier primarily sells tires, it may be assigned MCC 5532 "Automotive Tire Stores." Fleet card MCCs would limit the use of the card to vendors whose primary line of business is supplying fuel and automotive repair goods and services.



*Management Oversight of the Small Business/
Self-Employed Division's Fuel Compliance
Fleet Card Program Should Be Strengthened*

Inaccurate fleet vehicle inventory information hinders management's ability to control the associated fleet cards

To test controls over fleet cards, we reviewed all 89 fleet vehicle records from the ITAMS as of October 5, 2009, and found discrepancies in 10 (11 percent) of the 89 vehicle records. Specifically, seven vehicles were assigned to employees that were no longer employed with the IRS. These employees left the IRS between 1 and 11 months prior to October 2009.¹⁶ Three other vehicles were assigned to employees who were working for other IRS divisions, making it appear that someone other than an SB/SE Division employee was using a vehicle assigned to the SB/SE Division. We discussed the discrepancies with the Program Coordinator and the ITAMS system operator; they corrected the discrepancies in the inventory records. We verified that the January 2010 inventory report contained no discrepancies.

Subsequently, we compared a May 18, 2010, vehicle inventory listing to the May 13, 2010, ITAMS report and identified 10 vehicles that were not included in the ITAMS listing. Further, we reviewed a Citibank report as of March 3, 2010, and determined there were charges on 6 of the 10 fleet fuel cards associated with the vehicles not reported on the ITAMS. Since these cards are assigned to vehicles, the IRS did not have an accurate inventory of the 10 fleet fuel cards. We brought this to the attention of the Program Coordinator. We subsequently reviewed inventory reports as of September 2010 and found that the inventory records for the 10 vehicles had been updated in the ITAMS, correctly assigning the vehicles and fleet fuel cards. Since the fleet fuel cards are assigned to a vehicle instead of the agent using the vehicle, proper and accurate fleet vehicle inventory must be maintained to ensure an accurate inventory of the fleet fuel cards.

The *Standards for Internal Control in the Federal Government* states that managers need reliable and timely operational data to ensure the effective use of resources. In addition, these standards require the ongoing validation of operational data to ensure data reliability. IRS guidance¹⁷ also requires functions with motor vehicles to maintain custody and accountability for all vehicles assigned to personnel through the use of accurate recordkeeping and reporting systems to ensure the accountability of motor vehicle acquisition, use, operation, maintenance, and disposition. The SB/SE Division established fleet vehicle inventory procedures to manage and safeguard its fleet vehicles to minimize the risk of fraud, waste, and abuse; however, current controls do not appear to be operating effectively. For example, group managers are required to immediately notify the Program Coordinator when a vehicle is reassigned to a different agent. Additionally, vehicle inventory procedures require the Program Coordinator to enter the changes into the IRS's ITAMS within 10 business days. However, the Program Coordinator does not have access to the ITAMS. The Program Coordinator prepares and sends an inventory list to the ITAMS system operator, who works in the IRS's Agency-Wide Shared Services, Real Estate and Facilities

¹⁶ The average time the employees had been separated from the IRS was 4 months.

¹⁷ Internal Revenue Manual section 1.14.7, Motor Vehicle Management.



*Management Oversight of the Small Business/
Self-Employed Division's Fuel Compliance
Fleet Card Program Should Be Strengthened*

Management division. The Program Coordinator must rely on the ITAMS system operator to timely update the inventory system and provide reports reflecting the updates. Vehicle inventory records must be accurate and complete to ensure accountability over the associated fleet cards.

Recommendation

Recommendation 1: The Commissioner, SB/SE Division, should develop and implement formal fleet card policies, procedures, and management controls to address the additional deficiencies and control weaknesses identified in the audit that are not covered in the interim guidance to ensure fleet cards are used in compliance with Circular A-123, Appendix B; the *Standards for Internal Control in the Federal Government*; and IRS vehicle inventory procedures. In addition, these policies should require periodic evaluations of the effectiveness of the procedures and management controls put in place.

Management's Response: IRS management agreed with this recommendation. SB/SE Specialty Tax Program staff plan to develop formal fleet card policies, procedures, and management controls to enhance certification and reconciliation procedures not covered in the interim guidance and ensure compliance with Circular A-123, Appendix B; the *Standards for Internal Control in the Federal Government*; and IRS vehicle inventory procedures. In addition, the IRS will continue to require periodic evaluations of the effectiveness of the procedures and management controls established.

Fleet Card Charges Related to Home-to-Work Use Were Inappropriate Because the Associated Vehicles Were Driven Without the Proper Authorization

We determined that inappropriate charges were made to fleet cards because the SB/SE Division did not have the proper authority from the Secretary of the Treasury, in accordance with Treasury Directive 74-06, to use fleet vehicles and their associated fleet cards for home-to-work travel. The agents used the fleet cards for a portion of their fleet vehicle usage that involved unofficial travel between home and work. Agents operated the Government fleet vehicles to transport themselves both between their residences and various locations to conduct official business (i.e., field inspections) and between their residences and regular places of work (office). The SB/SE Division did not have home-to-work authorization from the Secretary of the Treasury from October 2001 until July 28, 2010, for this usage, therefore violating Department of the Treasury regulations. As a result, all the transactions associated with this home-to-work travel during this period were inappropriate charges.

Circular A-123, Appendix B, stipulates that a Government fleet card can be used to purchase fuel, authorized repairs, parts, or services for Government-owned or leased vehicles, fueled



*Management Oversight of the Small Business/
Self-Employed Division's Fuel Compliance
Fleet Card Program Should Be Strengthened*

appliances and equipment, small marine craft, and aviation in support of official Government business. Additionally, Federal regulations¹⁸ detail specific guidance for the use of Government passenger carriers to transport employees between their homes and places of work. According to the Federal regulations, the head of the agency (which for the IRS is the Secretary of the Treasury) must make the determination to authorize home-to-work transportation using Government vehicles. This determination should be completed before the employee is provided with the home-to-work transportation, unless it is impracticable to do so.

Agents operated the fleet vehicles without the proper home-to-work authorization for over 8 years, from October 1, 2001, until July 28, 2010. In 2001, IRS management distributed a Delegation Order¹⁹ providing authority to SB/SE Division management officials to designate employees authorized to use Government vehicles between home and work. The IRS was not authorized to issue this Delegation Order, so the issuance represents a violation of Federal regulations. Subsequent to this delegation, IRS management requested authorization from the Secretary of the Treasury. However, this request was never approved by the Secretary of the Treasury. IRS management indicated they did not realize until September 2009 that the authorization request was not approved. IRS management submitted a subsequent request for the authorization that was approved by the Secretary of the Treasury on July 28, 2010, providing home-to-work authority, but limiting the period to a 1-year term instead of the normal 2 years. IRS management was required to resubmit a new home-to-work request prior to the expiration of the approved authorization.

The IRS was unable to determine and did not have records of the use of home-to-work authority prior to 2001. Since the IRS submitted a request to the Secretary of the Treasury for this authority in 2001, we determined that our cutoff period for determining the lack of authorization would be the beginning of Fiscal Year 2002 (October 1, 2001). As a result, all of the charges related to home-to-work transportation for fuel, maintenance, and repairs during this period were inappropriately charged on the fleet cards. In order to quantify these charges, we asked the IRS to identify the vehicle usage and other data necessary and then determine any inappropriate expenses charged to the fleet cards from September 1, 2007, through March 31, 2009.

SB/SE Division management could only provide an estimate of the total fleet card charges from June 1, 2009, through May 31, 2010, as the necessary data for the requested period was not maintained. The data provided by SB/SE Division management, totaling over \$300,000, included only the agents they determined periodically traveled from their residences to their places of work from June 1, 2009, through May 31, 2010. Management estimated that only 1.7 percent (approximately \$6,000) of the more than \$300,000 charges during this period was related to home-to-work transactions. We were unable to perform a verification of these

¹⁸ Code of Federal Regulations Title 41: Public Contracts and Property Management, Part 102-5, Home-to-Work Transportation.

¹⁹ IRS Delegation Order Number 193, dated February 2, 2001.



*Management Oversight of the Small Business/
Self-Employed Division's Fuel Compliance
Fleet Card Program Should Be Strengthened*

amounts because management could not provide the source documentation used to calculate the estimate. They advised us that the historical information (e.g., mileage for home-to-work travel) necessary to determine the actual portion of the transactions that was inappropriate was not maintained. As a result, SB/SE Division management does not have reasonable assurance that the transactions related to home-to-work travel on the fleet cards during this period were appropriate and cannot determine the amount and circumstances under which any inappropriate charges were made.

The Treasury Inspector General for Tax Administration's Office for Inspections and Evaluations has issued a report regarding the IRS's home-to-work authority and fleet vehicle policies, including IRS Criminal Investigations and the Fleet Card Program.²⁰ Because our audit was not intended to evaluate controls over the home-to-work authority, we did not determine control weaknesses between October 2001 and July 2009 or what controls the IRS would need to establish to ensure the home-to-work authority is timely requested, in accordance with Treasury Directive 74-06, before the authority expires in future years. Our findings and recommendations are related specifically to the use of the SB/SE Division's fleet cards and how the SB/SE Division's lack of authority for home-to-work transportation impacts fleet cards.

Recommendation

Recommendation 2: The Commissioner, SB/SE Division, should ensure that fleet card use policies and procedures include specific guidance directly related to the home-to-work authorization requirements in accordance with the Treasury Directive 74-06 and Federal regulations. The guidance should prevent the use of the fleet cards for home-to-work transactions unless authority has been obtained.

Management's Response: IRS management agreed with this recommendation. The SB/SE Specialty Tax Program will include specific guidance directly related to the home-to-work authorization requirements in its fleet card use policies and procedures in accordance with the Treasury Directive 74-06 and Federal regulations. The current SB/SE Specialty Tax Program home-to-work authority expires on July 15, 2013. Use of fleet cards for home-to-work transactions will be prevented after that date unless authority has been obtained.

However, IRS management did not concur with the methodology used to calculate the second Reliability of Information outcome measure cited in this report. While they agreed the IRS did not obtain the proper authorization for home-to-work vehicle use, IRS management stated that their analysis of the mileage records maintained by fuel compliance officers for the period July 2010 through July 2011 showed that "commuting

²⁰ The Office of Inspections and Evaluations conducted this review at the request of the Assistant Secretary for Management and Chief Financial Officer, Department of the Treasury.



*Management Oversight of the Small Business/
Self-Employed Division's Fuel Compliance
Fleet Card Program Should Be Strengthened*

miles” accounted for less than 3 percent of total travel miles, which amounted to approximately \$84,000 in fleet card charges for the period October 2001 through July 2010 for home-to-work commuting.

Office of Audit Comment: We understand that some portion of the approximately \$2.8 million in SB/SE Division fleet card transactions may have been appropriately spent on travel between employees’ offices and field site locations of retail and wholesale fuel facilities. However, SB/SE Division management did not maintain historical records (e.g., mileage for home-to-work travel) and could not determine the actual portion of the transactions that were related to home-to-work travel, and were therefore inappropriate. In addition, SB/SE Division management’s estimate provided to us during the audit of home-to-work travel for the 1-year period, June 1, 2009, through May 31, 2010, was not reliable because management could not provide the source documentation used to calculate the estimate. As a result, we continue to believe our outcome measure of approximately \$2.8 million is valid.



*Management Oversight of the Small Business/
Self-Employed Division's Fuel Compliance
Fleet Card Program Should Be Strengthened*

Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to determine whether the SB/SE Division has established effective controls over its Fuel Compliance Fleet Card Program (Fleet Card Program) and whether those controls are sufficient to identify, address, and prevent errors and instances of fraud, waste, and abuse. To accomplish our objective, we:

- I. Determined whether the SB/SE Division has established an effective process for controlling fleet cards and for identifying instances of waste, fraud, and abuse.
 - A. Interviewed SB/SE Division managers and the Agency Organization Program Coordinator and identified the procedures the IRS follows to:
 1. Ensure the fleet cards are properly used.
 2. Identify and address instances of fleet card fraud, waste, or abuse.
 - B. Reviewed the procedures established by the IRS and by the SB/SE Division to ensure accurate, current, and reliable data are maintained on fleet cards.
 - C. Analyzed the results of the latest inventory performed on the fleet cards.
 - D. Reviewed the controls established over fleet card use and determined whether employees are trained before they receive fleet cards and whether there is periodic refresher training.
 - E. Determined actions taken by management to identify and resolve patterns of activity indicative of potential fraud, waste, or abuse.
 - F. Selected a judgmental sample due to resource constraints and the extensive amount of documentation that would be required for a statistical sample. The judgmental sample included 229 reviewed and approved monthly fleet fuel card statements and 12 fleet repair card statements dated September 8, 2008; December 8, 2008; and March 8, 2009. We reviewed the statements and identified any unusual trends or anomalies. In addition, we determined whether there were any questionable charges that might be indicative of fraud, waste, or abuse.
 - G. Reviewed the MCC on the transaction data obtained directly from Citibank and determined whether all charges are restricted to items listed in IRS procedures and the Motor Vehicle Program Desk Guide.



*Management Oversight of the Small Business/
Self-Employed Division's Fuel Compliance
Fleet Card Program Should Be Strengthened*

- II. Reviewed vehicle issuance and reporting procedures to verify that fleet vehicles are appropriately assigned and their use is appropriately authorized.
 - A. Compared the current inventory of the fleet vehicles in the ITAMS¹ to the Treasury Integrated Management Information System² records and determined whether only current employees are assigned vehicles.
 - B. Compared the current vehicle inventory with the inventory of fleet cards and determined that cards are only assigned to current vehicles and that cards corresponding to vehicles not in circulation are no longer in use.
 - C. Reviewed authorization documents and determined whether the SB/SE Division currently has home-to-work authority for fleet vehicles.
- III. Reviewed fleet card activity from an independent validation of data received from Citibank and determined whether there were any indications of fraud, waste, or abuse.
 - A. Obtained billing records from Citibank of all IRS fleet card activity for September 1, 2007, through March 31, 2009.
 - B. Analyzed the data received from Citibank to identify patterns of activity indicative of potential fraud, waste, or abuse.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined the following internal controls were relevant to our audit objective: Office of Management and Budget Circular A-123, *Management's Responsibility for Internal Controls*, Appendix B, *Improving the Management of Government Charge Card Programs*; Treasury Directive 74-06; and the SB/SE Division's policies, procedures, and practices established to manage the fleet card program.

¹ The ITAMS is the IRS's asset inventory system. For SB/SE Division fleet vehicles, the ITAMS contains information such as the name of the employee who has been assigned the vehicle, a description of the vehicle, and tag and vehicle identification numbers. At the end of audit fieldwork, auditors became aware that the ITAMS was replaced by a new system called Knowledge Incident/Problem Service Asset Management.

² The Treasury Integrated Management Information System is an official automated personnel and payroll system for storing and tracking all employee personnel and payroll data. It is outsourced to the United States Department of Agriculture National Finance Center and managed by the Department of the Treasury.



*Management Oversight of the Small Business/
Self-Employed Division's Fuel Compliance
Fleet Card Program Should Be Strengthened*

To assess these controls, we:

- Interviewed management and program participants to identify the internal controls established and practices followed to determine that all fleet cards and vehicles were used only for official business purposes.
- Analyzed relevant policies, laws, and regulations established for the management of Government charge card programs to determine whether controls in place were adequate and effective as required by relevant guidance.
- Reviewed vehicle inventory records and usage logs to determine whether effective controls were established and functioning as intended to control the use of the fleet vehicles and assigned fleet cards.
- Analyzed a sample of fleet card bank statements for questionable transactions and to verify that certification and payment processes were followed in accordance with applicable guidance.
- Analyzed data received from Citibank to determine whether fleet card activity contained instances or indicators of fraud, waste, or abuse.



*Management Oversight of the Small Business/
Self-Employed Division's Fuel Compliance
Fleet Card Program Should Be Strengthened*

Appendix II

Major Contributors to This Report

Nancy A. Nakamura, Assistant Inspector General for Audit (Management Services and Exempt Organizations)
Alicia Mrozowski, Director
John Ledford, Audit Manager
Michelle Philpott, Audit Manager
Doris Hynes, Acting Audit Manager
Susan Price, Lead Auditor
Ahmed Tobaa, Lead Auditor
Andrew Burns, Senior Auditor
Stephen Holmes, Auditor
Brett Thornock, Auditor



*Management Oversight of the Small Business/
Self-Employed Division's Fuel Compliance
Fleet Card Program Should Be Strengthened*

Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Deputy Commissioner, Small Business/Self-Employed Division SE:S
Director, Strategy and Finance, Small Business/Self-Employed Division SE:S:SF
Director, Specialty Programs, Small Business/Self-Employed Division SE:S:SP
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaisons:
 Commissioner, Small Business/Self-Employed Division SE:S
 Deputy Commissioner for Services and Enforcement SE



*Management Oversight of the Small Business/
Self-Employed Division's Fuel Compliance
Fleet Card Program Should Be Strengthened*

Appendix IV

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Reliability of Information – Actual; 10 fleet fuel cards were assigned to 10 SB/SE Division fleet vehicles which were missing from the ITAMS asset inventory (see page 4).

Methodology Used to Measure the Reported Benefit:

We compared a May 18, 2010, vehicle inventory listing to the May 13, 2010, ITAMS report and identified 10 vehicles that were not included in the ITAMS. Further, we reviewed a Citibank report as of March 3, 2010, and determined there were charges on 6 of the 10 fleet fuel cards associated to the vehicles not reported in the ITAMS. Since the cards are assigned to vehicles, the IRS did not have an accurate inventory of the 10 fleet fuel cards. We brought this to the attention of the Program Coordinator. We subsequently reviewed inventory reports as of September 2010 and found that the inventory records for the 10 vehicles had been updated in the ITAMS, correctly assigning the vehicles and fleet fuel cards. Since the fleet fuel cards are assigned to a vehicle instead of the agent using the vehicle, proper and accurate fleet vehicle inventory must be maintained to ensure an accurate inventory of the fleet fuel cards (see page 9).

Type and Value of Outcome Measure:

- Reliability of Information – Actual; \$2,799,237 in SB/SE Division fleet card transactions that did not have adequate records available to quantify the portion of inappropriate charges from October 2001 until home-to-work authorization was received from the Secretary of the Treasury on July 28, 2010 (see page 10).

Methodology Used to Measure the Reported Benefit:

The SB/SE Division's Fuel Compliance Fleet Card Program (Fleet Card Program) did not have the proper authorization to allow agents to use the fleet vehicles for transportation between their residences and places of regular work; hence, all the expenses related to home-to-work travel for fuel, maintenance, and repairs were inappropriately charged on the fleet cards.

In order to quantify these expenses, we asked the SB/SE Division management to identify the vehicle usage and other data necessary and then determine any inappropriate expenses charged to



*Management Oversight of the Small Business/
Self-Employed Division's Fuel Compliance
Fleet Card Program Should Be Strengthened*

the fleet cards during our audit period. Management provided an estimate of the cost for the past year that included only the agents who periodically traveled from their residences to their places of work. When the IRS provided the summary estimate, we requested the source documentation to enable reasonable verification of the amount determined in the IRS estimate. The IRS could not provide the source documentation used to calculate the estimate.

The IRS did not have adequate records available to quantify the portion of inappropriate expenses from October 2001 until the home-to-work authorization was received on July 28, 2010. Since we were unable to determine the portion of unauthorized expenses from the inadequate records maintained by the IRS, we are reporting a reliability of information outcome measure for all the expenses related to the program from the beginning of Fiscal Year 2002 (October 1, 2001) until July 28, 2010.

In order to determine this amount, we requested from the office of the Chief Financial Officer all SB/SE Division fleet card expenses that were paid by the Beckley Finance Center from October 1, 2001, until July 28, 2010. According to the data provided, the fleet fuel and repair expenses that were paid on the fleet cards from October 1, 2001, until July 28, 2010, totaled \$2,799,237 million.



*Management Oversight of the Small Business/
Self-Employed Division's Fuel Compliance
Fleet Card Program Should Be Strengthened*

Appendix V

Management's Response to the Draft Report



COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

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

SEP 07 2011

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Faris R. Fink *Faris R. Fink*
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report - Management Oversight of the Small
Business/Self-Employed Division's Fuel Compliance Fleet Card
Program Should Be Strengthened (TIGTA #200910026)

Thank you for the opportunity to review your draft report, "Management Oversight of the Small Business/Self-Employed Division's Fuel Compliance Fleet Card Program Should Be Strengthened." We recognize the importance of policies, procedures, and effective controls over the fuel compliance fleet cards and have taken steps to improve our oversight.

As acknowledged in your report, we issued guidance to Excise Tax Program employees for completing mileage logs including the recording of commuting mileage and use of the government vehicle outside normal duty hours. We also issued interim guidance to field managers regarding the required monthly reviews of mileage logs. The Internal Revenue Manual will be updated as necessary to reflect home-to-work, government vehicle usage, and fleet card requirements.

We agree with the recommendations contained in the report; however, we do not concur with the methodology used for the second Reliability of Information outcome measure cited in Appendix IV of your report. While we agree we did not have proper authorization for home-to-work, we have no reason to believe any fleet charges were inappropriate. As indicated in your report, no indicators of fraud, waste, or abuse of the fleet cards were identified. The \$2.8 million figure is the total of all fleet fuel and repair expenses for a nine year period. Our analysis of mileage records maintained by field compliance officers and agents for the period July 2010 through July 2011 shows that commuting miles account for less than three percent of the total miles traveled in a government vehicle. Based on the three percent figure, only approximately \$84,000 of fleet charges for the period October 2001 through July 2010 would have been related to home-to-work commuting.



*Management Oversight of the Small Business/
Self-Employed Division's Fuel Compliance
Fleet Card Program Should Be Strengthened*

2

Attached is a detailed response outlining our corrective actions. If you have any questions, please contact me, or a member of your staff may contact John H. Imhoff, Jr., Director, Specialty Programs, SB/SE, at (215) 861-1176.

Attachment



*Management Oversight of the Small Business/
Self-Employed Division's Fuel Compliance
Fleet Card Program Should Be Strengthened*

Attachment

RECOMMENDATION 1:

The Commissioner, SB/SE Division, should develop and implement formal fleet card policies, procedures, and management controls to address the additional deficiencies and control weaknesses identified in the audit that are not covered in the interim guidance to ensure fleet cards are used in compliance with Circular A-123, Appendix B, the *Standards for Internal Control in the Federal Government*, and IRS vehicle inventory procedures. In addition, these policies should require periodic evaluations of the effectiveness of the procedures and management controls put in place.

CORRECTIVE ACTION:

We agree with this recommendation. The SB/SE Specialty Tax Programs staff will develop formal fleet card policies, procedures, and management controls to enhance certification and reconciliation procedures not covered in the interim guidance. We will ensure that fleet card use complies with Circular A-123, Appendix B, the *Standards for Internal Control in the Federal Government*, and IRS vehicle inventory procedures. In addition, the Program will continue to require periodic evaluations of the effectiveness of the procedures and management controls established.

IMPLEMENTATION DATE:

February 15, 2012

RESPONSIBLE OFFICIAL:

Director, Specialty Programs, Small Business/Self Employed

CORRECTIVE ACTION MONITORING PLAN:

The Director, Specialty Programs SB/SE, will advise the Commissioner, SB/SE of any delays in implementing this corrective action.

RECOMMENDATION 2:

We agree with this recommendation. The SB/SE Specialty Program will ensure that fleet card use policies and procedures include specific guidance directly related to the home-to-work authorization requirements in accordance with the Treasury Directive 74-06 and federal regulations. The current SB/SE Specialty Program home-to-work authority expires on July 15, 2013. Use of fleet cards for home-to-work transactions will be prevented after that date unless authority has been renewed.

CORRECTIVE ACTION:

We agree with this recommendation. The SB/SE Specialty Program will ensure that fleet card use policies and procedures include specific guidance directly related to the home-to-work authorization requirements in accordance with the Treasury Directive 74-06 and federal regulations. Use of fleet cards for home-to-work transactions will be prevented unless authority has been obtained.



*Management Oversight of the Small Business/
Self-Employed Division's Fuel Compliance
Fleet Card Program Should Be Strengthened*

2

IMPLEMENTATION DATE:

February 15, 2012

RESPONSIBLE OFFICIAL:

Director, Specialty Programs, Small Business/Self Employed

CORRECTIVE ACTION MONITORING PLAN:

The Director, Specialty Programs SB/SE, will advise the Commissioner, SB/SE of any delays in implementing this corrective action.