

# TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



## **Review of the Internal Revenue Service's Purchase Card Violations Report**

July 27, 2021

Report Number: 2021-10-053

**Why TIGTA Did This Audit**

This audit was initiated because the Government Charge Card Abuse Prevention Act of 2012 (Charge Card Act), signed into law on October 5, 2012, requires each agency with more than \$10 million in purchase card spending in the prior fiscal year to submit semiannual reports of employee purchase card violations and the disposition of those violations, including any disciplinary actions taken. These semiannual reports (Purchase Card Violations Reports) are prepared by the agency head, e.g., Department of the Treasury, and reviewed by the Inspectors General prior to the agency submitting the report to the Office of Management and Budget. The overall objective of this review was to assess whether the IRS complied with the Charge Card Act requirements for the period October 1, 2020, through March 31, 2021.

**Impact on Taxpayers**

Federal audits of agency charge card programs have found varying degrees of fraud, waste, and abuse. The Charge Card Act requires Executive Branch agencies to establish and maintain safeguards and internal controls for Government charge card programs. Additionally, inappropriate use of Government charge cards does not promote economic and efficient use of publically funded resources.

**What TIGTA Found**

Our review of the IRS’s purchase card program found that controls are generally effective, and the number of purchase card violations identified by the IRS Credit Card Services Branch were minimal and generally for nominal amounts.

For the period of October 1, 2020, through March 31, 2021, the IRS identified 24 instances of confirmed purchase card misuse totaling approximately \$27,000, including the purchase of items such as headsets, toner cartridges, and desktop supplies without prior management funding approval. There were 22 instances in which the purchase cardholder did not receive required funding approvals prior to conducting the transaction, one that exceeded the single transaction purchase limit, and one altered order. The 24 employees received disciplinary and nondisciplinary actions ranging from no action to admonishment.

**Summary of IRS Purchase Card Violations**

Summary of IRS Purchase Card Violations			
	Type	Number	Dollar Value
	Funding Not Secured Prior to Purchase	22	\$14,608
	Purchase Exceeds the Single Transaction Limit	1	\$11,933
	Altered Order	1	\$48

Source: TIGTA analysis of IRS purchase card violations in the ALERTS.

The Credit Card Services Branch also identified three purchase card transactions, totaling approximately \$300, that did not comply with the IRS’s internal charge card policy guidance (for example, purchasing supplies from unauthorized vendors).

**What TIGTA Recommended**

TIGTA made no recommendations as a result of the work performed during this review.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

**U.S. DEPARTMENT OF THE TREASURY**

**WASHINGTON, D.C. 20220**

July 27, 2021

**MEMORANDUM FOR:** COMMISSIONER OF INTERNAL REVENUE

A handwritten signature in blue ink that reads "Michael E. McKenney".

**FROM:** Michael E. McKenney  
Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – Review of the Internal Revenue Service’s Purchase Card Violations Report (Audit # 202110003)

This report presents the results of our review to assess whether the Internal Revenue Service complied with the Government Charge Card Abuse Prevention Act of 2012<sup>1</sup> requirements for the period October 1, 2020, through March 31, 2021, and the status of the Treasury Charge Card Management Plan. This review is part of our Fiscal Year 2021 Annual Audit Plan and addresses the major management and performance challenge of *Reducing Fraudulent Claims and Improper Payments*.

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report. If you have any questions, please contact me or Heather M. Hill, Assistant Inspector General for Audit (Management Services and Exempt Organizations).

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<sup>1</sup> Pub. L. No. 112-194 (Oct. 2012).

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## **Background**

Government purchase cards are a cost-effective and streamlined means for making payments, and the Federal Acquisition Regulation has designated the purchase card as the preferred method to purchase and pay for goods and services up to the micro-purchase limits.<sup>1</sup> On October 5, 2012, the President signed the Government Charge Card Abuse Prevention Act of 2012 (Charge Card Act) into law to reinforce Administration efforts to prevent fraud, waste, and abuse of Governmentwide charge card programs.<sup>2</sup> The Office of Management and Budget (OMB) provides oversight of Government charge card programs and originally issued guidance in September 2013 to establish minimum requirements and best practices for Government charge card programs. These minimum requirements and best practices may be supplemented by individual agency policies and procedures. In August 2019, the OMB revised its guidance contained in Circular A-123, Appendix B, to consolidate the Governmentwide charge card program management requirements and guidance issued by various agencies.<sup>3</sup> The updates to the OMB guidance provided additional details and definitions for implementation in agencies' charge card programs.

### **Requirements of the Charge Card Act**

The Charge Card Act established additional reporting and audit requirements for oversight of the Government charge card program. For example, it required at a minimum:

- Agencies to compile reports of purchase card violations.
- The establishment and maintenance of safeguards and internal controls.
- Inspector General risk assessments and audits.

Each agency with more than \$10 million in purchase card spending the prior fiscal year is required to submit to the OMB semiannual reports (October 1 through March 31 and April 1 through September 30) of employee purchase or integrated card violations and the disposition of those violations, including any disciplinary actions taken. These semiannual reports (Purchase Card Violations Reports) are prepared by the agency head, reviewed by the Inspectors General, and then submitted to the OMB no more than 120 days after the end of the reporting periods.<sup>4</sup>

Agencies do not have to report on administrative or internal control process inconsistencies that do not result in confirmed fraud, loss to the Government, or misappropriation of funds or assets (whether or not recouped) in their semiannual violations reports. However, the Treasury Inspector General for Tax Administration (TIGTA) comments on all purchase card noncompliance

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<sup>1</sup> See Appendix III for a glossary of terms. The Department of the Treasury issued a Federal Acquisition Regulation deviation that increased the micro-purchase threshold to \$10,000 effective May 25, 2018. As of March 17, 2020, the micro-purchase limit was increased to \$20,000 for supplies or services related to the Coronavirus Disease 2019.

<sup>2</sup> Pub. L. No. 112-194 (Oct. 2012).

<sup>3</sup> OMB, OMB Circular No. A-123, Appendix B (Revised), *A Risk Management Framework for Government Charge Card Programs* (Aug. 2019), provides guidance that establishes minimum requirements for Government purchase card programs and suggests best practices.

<sup>4</sup> As a bureau of the Department of the Treasury, the Internal Revenue Service is required to abide by the Charge Card Act and report charge card violations.

identified by the Internal Revenue Service (IRS) in its semiannual review of purchase card violations reporting. TIGTA also reviews its Office of Investigations Criminal Results Management System to identify potential instances of purchase card misuse that may not have been directly identified by the IRS.

The Charge Card Act requires agencies to establish and maintain safeguards and internal controls over charge card programs. Each agency head is required to annually certify that appropriate policies and controls are in place or that corrective actions have been taken to mitigate the risk of fraud and inappropriate charge card practices. This certification is reported as part of the existing annual assurance statement under the Federal Managers' Financial Integrity Act of 1982.<sup>5</sup> In addition, each agency is required to develop, issue, and maintain written policies and procedures for the appropriate use of charge cards that are consistent with OMB guidance.

The Charge Card Act also provides for additional oversight by requiring the Inspectors General to conduct periodic risk assessments of purchase cards, including convenience checks, combined integrated cards, and travel card programs, to analyze the risks of illegal, improper, and erroneous purchases. Beginning in Fiscal Year 2014, the Inspectors General were also required to annually report to the Director, OMB, by January 31, on the agency's progress in implementing prior audit recommendations related to purchase and travel cards.<sup>6</sup> This progress is compiled and sent to Congress and to the Comptroller General of the Government Accountability Office.

### **IRS roles and responsibilities for administering the purchase card program**

Within the IRS, the Office of Procurement is responsible for providing policy guidance for the purchase card program as it relates to acquisition regulations. The Credit Card Services (CCS) Branch within the Office of the Chief Financial Officer is responsible for managing and providing oversight for the purchase card program and convenience checks. The CCS Branch's responsibilities include overseeing the IRS purchase card program, issuing program guidance, and overseeing periodic program reviews. In addition, the CCS Branch is responsible for tracking and reporting instances of alleged inappropriate purchase card use and compiling the Purchase Card Violations Report for submission to the OMB.<sup>7</sup>

The CCS Branch evaluates compliance with purchase card operating guidance to detect and deter noncompliance with purchase card policy and procedures. According to the IRS, these evaluations include reviews of:

- Merchant categories and names to ensure that purchases are not made from restricted vendors.
- Itemized transaction details reported to the Government credit card contractor by certain merchants to determine if the charge was allowable.

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<sup>5</sup> Title 31 U.S.C. § 3512(d)(2).

<sup>6</sup> TIGTA issued its most recent report to comply with the Act on January 27, 2021. TIGTA, Report No. 2021-10-014, *Review of the Internal Revenue Service's Purchase Card Violations Report and Status of Recommendations* (Jan. 2021).

<sup>7</sup> The process ensures appropriate use of both purchase cards and convenience checks.

- Random samples of purchase card charges to assess compliance with purchase card regulations, including split purchase policy.
- Convenience checks issued by convenience check cardholders to assess compliance with purchase card regulations.

The Labor and Employee Relations function (hereafter referred to as Labor Relations) is the IRS office responsible for advising and supporting managers on employee conduct and performance matters, with the exception of such matters committed by employees of the Office of Chief Counsel. Once an alleged instance of purchase card misuse is referred by the CCS Branch, Labor Relations assists responsible managers by providing procedural advice and guidance in determining whether disciplinary action is appropriate.<sup>8</sup> Although Office of Chief Counsel employee purchase card misuse may be identified by the CCS Branch, the Office of Chief Counsel is responsible for researching and applying disciplinary actions for those employees as well as tracking the disciplinary actions in its own database.

## **Results of Review**

### **Implementation of and Compliance With the Government Charge Card Abuse Prevention Act of 2012**

The IRS stated that, between October 1, 2020, and March 31, 2021, the IRS's purchase card program included 2,201 purchase cardholders. These cardholders made 21,029 purchases totaling almost \$8 million with their purchase cards. Additionally, eight convenience checks totaling more than \$7,200 were written. Our review of the IRS's purchase card program found that controls are generally effective, and the number of purchase card violations identified by the IRS CCS Branch were minimal and generally for nominal amounts. However, we also found that purchase cardholders continue to make unauthorized purchases.

### **Semiannual report on IRS purchase card violations and actions taken by management in response**

We reviewed the violations and related supporting documentation that the IRS identified for the Purchase Card Violations Report. The IRS identified 24 instances of confirmed purchase card misuse for the period of October 1, 2020, through March 31, 2021.<sup>9</sup> The 24 confirmed purchase card misuse cases collectively totaled approximately \$27,000 and included 22 instances in which the purchase cardholder did not receive required funding approvals prior to conducting the transaction, one transaction that exceeded the single transaction limit, and one altered order. These transactions included the purchase of items such as headsets, toner cartridges, and desktop supplies without prior management funding approval. This increase in confirmed violation cases from previous years is due to guidance updates in the 2019 OMB Circular A-123, Appendix B. Prior to the update, certain inappropriate transactions that resulted due to

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<sup>8</sup> IRS employee misconduct cases, including purchase misuse, are recorded in the Automated Labor and Employee Relations Tracking System (ALERTS).

<sup>9</sup> For the purpose of this report, an instance represents a case recorded in the ALERTS.

administrative or internal control inconsistencies were not required to be reported to the OMB. The updated guidance classifies purchases without prior funding approval as reportable violations. Figure 1 summarizes the types and amounts of IRS purchase card violations.

**Figure 1: Summary of IRS Purchase Card Violations**



Source: TIGTA analysis of IRS purchase card violations in the ALERTS.

With respect to disciplinary actions taken by IRS management in response to the 24 confirmed cases, 23 of the 24 employees received nondisciplinary actions such as cautionary notice letters, oral counseling, and written counseling. One employee received a disciplinary action of admonishment. The IRS's internal guidance provides a range of disciplinary and nondisciplinary actions, from no action to suspension, which can be applied for each purchase card policy violation or inappropriate use.<sup>10</sup> Further, the IRS penalty guide provides a range of penalties, from a five-day suspension for a first offense up to removal for a third offense. However, according to IRS policy, use of the penalty guide is not mandatory, and the ultimate decision lies with management.<sup>11</sup> Figure 2 summarizes the disciplinary actions taken by IRS management in response to the 24 confirmed cases.

<sup>10</sup> Internal Revenue Manual 6.751.1, *Discipline and Disciplinary Actions: Policies, Responsibilities, Authorities, and Guidance* (Nov. 4, 2008).

<sup>11</sup> IRS, *IRS Manager's Guide to Penalty Determinations* (Rev. Aug. 1, 2012).

**Figure 2: Summary of IRS Disciplinary Actions for Purchase Card Violations**



Source: TIGTA analysis of IRS ALERTS case information.

Additionally, the CCS Branch identified two cases of potential credit card violations, for more than \$3,500, that occurred during the period of October 1, 2020, through March 31, 2021, and are still pending adjudication by management. We also reviewed information provided by TIGTA's Office of Investigations Criminal Results Management System on purchase card misuse cases and complaints occurring during the review period. There were no purchase card misuse cases that were reported by TIGTA's Office of Investigations.

**Purchase cardholders continue to make unauthorized purchases**

The CCS Branch also identified three purchase card transactions totaling approximately \$300 that did not comply with IRS internal policies and procedures. However, the Charge Card Act requires that only certain inappropriate purchase card transactions be reported to the OMB in the Purchase Card Violations Report. Reportable inappropriate transactions are those indicating that abuse, internal fraud, or misuse has occurred (for example, purchase card transactions that violated the Federal Acquisition Regulation or similar guidance). The OMB excludes from its reporting requirements administrative discrepancies, such as actions that violate operational policies or procedures but do not violate Federal law or regulation. Therefore, a purchase that is prohibited from being made by IRS policy would not be reportable to the OMB. The prohibited transactions, totaling approximately \$300, were all for obtaining calendars from an unauthorized source.

## Status of the Department of the Treasury Charge Card Management Plan

The Department of the Treasury Charge Card Management Plan (CCMP) has not been updated or reissued for Fiscal Year 2021. The Department of the Treasury is responsible for issuing the CCMP, and the IRS is responsible for ensuring that its internal controls over the charge card program adhere to the CCMP. According to OMB Circular A-123, Appendix B, agencies must update their plan every two years from the date of the last update or more frequently if needed to address findings of the Inspector General. The Department of the Treasury issued the last CCMP in January 2019; however, it has issued several supplemental memorandums to the Fiscal Year 2019 plan. For example, a CCMP supplement issued on March 17, 2020, implemented new guidance for designating certain purchase cardholders with increased micro-purchase limits to acquire supplies or services related to the national emergency of the Coronavirus Disease 2019 (COVID-19) outbreak.<sup>12</sup> The IRS has updated its purchase card policies to reflect these changes and designated 44 purchase cardholders who are authorized for these increased purchase limits. Additionally, there have been supplements regarding changes to certify vendors under the William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021.<sup>13</sup> The IRS is currently in the process of making changes to the Internal Revenue Manual in response to these supplements and has issued interim guidance to cardholders regarding changes to their responsibilities. The Department of the Treasury plans to issue a revised CCMP later this fiscal year.

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<sup>12</sup> IRS, *Charge Card Management Plan Supplement (CCMPS) No. 20-01* (March 17, 2020).

<sup>13</sup> Pub. L. No. 116-283.

## Appendix I

### Detailed Objective, Scope, and Methodology

Our overall objective was to assess whether the IRS complied with the Charge Card Act requirements for the period October 1, 2020, through March 31, 2021, and the status of the Treasury Charge Card Management Plan. To accomplish our objective, we:

- Reviewed alleged purchase card (and convenience check) violations by IRS employees and identified the actions the IRS had taken as a result of these violations.
- Determined the methodology and process the IRS uses to determine a confirmed violation.
- Determined whether the IRS is correctly following the process to determine confirmed violations by conducting interviews with key officials within the CCS Branch, Office of Chief Counsel, and Labor Relations to identify their process and the documentation they obtained to reach a determination as to whether suspicious purchase card transactions are confirmed to be reportable violations.
- Determined the total number of confirmed violations involving misuse of a purchase card for the specified period based on the data contained in the ALERTS, Criminal Results Management System, Office of Chief Counsel Credit Card database, and CCS Branch Inappropriate Use Referral Log. We determined whether those violations constituted: 1) abuse,<sup>1</sup> 2) internal fraud,<sup>2</sup> or 3) misuse.<sup>3</sup>
- Determined the number of adverse personnel actions, punishments, or other actions taken in response to each reportable violation involving misuse of a purchase card for the specified period using the ALERTS. Further, we determined whether the actions involved: 1) demotions, 2) reprimands, 3) suspensions, 4) removals, or 5) any other adverse or administrative personnel actions.
- Determined the total number and status of all pending violations for the specified period based on the Labor Relations Open/Closed Report. We determined if these pending violations were: 1) pending investigation, 2) pending hearing, 3) pending final agency action, or 4) pending decision on appeal.

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<sup>1</sup> Intentional use of the purchase, travel, fleet, or integrated charge card in violation of the Federal Acquisition Regulation, Defense Federal Acquisition Regulation Supplement, agency supplements, or Government purchase card policies/procedures. Evidence of intentionality shall be inferred from repeat offenses of the same violation, following administrative and/or disciplinary action taken for this violation.

<sup>2</sup> Any felonious act of corruption or attempt to cheat the Government or corrupt the Government's agents by Government purchase charge card program officials. Use of the Government purchase, travel, fleet, or integrated charge card(s) to transact business that is not sanctioned, not authorized, not in one's official Government capacity, not for the purpose for which the card was issued, or not as part of official Government business.

<sup>3</sup> Unintentional use of the purchase, travel, fleet, or integrated charge card in violation of the Federal Acquisition Regulation, Defense Federal Acquisition Regulation Supplement, Federal Travel Regulations, agency supplements, or agency policies/procedures. These actions are the result of ignorance or carelessness, lacking intent, to include honest mistakes.

- Requested a copy of the Fiscal Year 2021 Department of the Treasury CCMP. However, we were unable to review the Fiscal Year 2021 CCMP to determine whether material revisions had occurred in comparison to the Fiscal Year 2019 CCMP that would necessitate changes to the IRS's processes in identifying and reporting purchase card violations. Department of the Treasury officials informed us that issuance of the Fiscal Year 2020 CCMP has been delayed due to necessities in responding to the COVID-19 pandemic.

### **Performance of This Review**

This review was performed with information obtained from offices of the Chief Financial Officer and CCS Branch management and staff located in Washington, D.C.; Jacksonville, Florida; Richmond, Virginia; and Beckley, West Virginia. We also conducted fieldwork or obtained information from the Office of Chief Counsel located in Washington, D.C., and the Human Capital Office – Office of Human Relation Strategy located in Atlanta, Georgia, during the period February through July 2021. 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 objective.

Major contributors to the report were Heather M. Hill, Assistant Inspector General for Audit (Management Services and Exempt Organizations); LaToya P. George, Director; Seth A. Siegel, Audit Manager; Kanika Kals, Acting Audit Manager, Paige K. Krivda, Lead Auditor; and George S. Hartman, Senior Auditor.

### **Validity and Reliability of Data From Computer-Based Systems**

We performed tests to assess the reliability of data from the ALERTS. We evaluated the data by 1) performing electronic testing of required data elements and 2) reviewing existing information about the data and the system that produced them. We determined that the data were sufficiently reliable for the purposes of this report.

### **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 that the following internal controls were relevant to our audit objective: IRS internal policies and procedures and other guidance pertaining to travel cards, purchase cards, and convenience checks and CCS Branch inappropriate use forms, logs, and supporting documentation. We evaluated these controls by reviewing the IRS's methodology for reporting confirmed and pending violations in the Purchase Card Violations Report and analyzing the CCS Branch inappropriate use forms and logs (including for the Office of Chief Counsel, as applicable), the ALERTS, and the Criminal Results Management System. We also reviewed IRS policies and procedures related to the Charge Card Act.

## Appendix II

### Internal Revenue Service's Purchase Card Violations Report

PURCHASE CARD VIOLATION DATA	PERIOD
<b>I. Summary description of confirmed violations involving misuse of a purchase card or integrated card.<sup>1</sup></b>	<b>October 1, 2020, through March 31, 2021</b>
a. Abuse.	1
b. Internal Fraud.	0
c. Misuse.	23
<b>II. Summary description of all adverse personnel actions, punishment, or other actions taken in response to each reportable violation involving misuse of a purchase or integrated card.</b>	<b>October 1, 2020, through March 31, 2021</b>
a. Documentation of Counseling: <i>Oral or written counseling issued.</i>	6
b. Demotion.	0
c. Reprimand.	1
d. Suspension.	0
e. Removal.	0
f. Other (no action taken): <i>Closed without any IRS management adverse personnel action.</i>	17
<b>III. Status of all pending violations.</b>	<b>October 1, 2020, through March 31, 2021</b>
a. Number of violations pending investigation.	0
b. Number of violations pending hearing.	0
c. Number of violations pending final agency action.	0
d. Number of violations pending decision on appeal.	0

Source: IRS review of inappropriate use forms, logs, and case information contained in the ALERTS.

<sup>1</sup> Terms used are defined in OMB Circular No. A-123, Appendix B (Revised).

## Appendix III

Glossary of Terms

Term	Definition
Admonishment	The lowest level of formal disciplinary action in the administrative process. It consists of a two-step process: (1) The manager has a discussion with the employee to advise them that they have engaged in misconduct and that they should not repeat the misconduct. (2) The manager confirms the discussion with a written summary in a letter.
Altered Order	A purchase that does not match the approved request.
Convenience Check	Checks written against a purchase card account. Convenience checks are a payment and procurement tool intended only for use with merchants that do not accept purchase cards and for other authorized purposes where charge cards are not accepted.
Counseling	Used to correct minor misconduct. Not a disciplinary action. Can be oral or written.
Fiscal Year	Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.
Integrated Card	A combination of two or more business lines in a single card, <i>e.g.</i> , purchase and travel.
Micro-Purchase	An acquisition of supplies or services using simplified acquisition procedures, the aggregate amount of which does not exceed the micro-purchase threshold of \$10,000.
Nondisciplinary Action	Used in situations where the misconduct is not serious or recurring. Oral or written counseling are often used.

## Appendix IV

### Abbreviations

ALERTS	Automated Labor and Employees Relations Tracking System
CCMP	Charge Card Management Plan
CCS	Credit Card Services
IRS	Internal Revenue Service
OMB	Office of Management and Budget
TIGTA	Treasury Inspector General for Tax Administration



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