

Government Purchase Card Audit Framework

Special Topic

Government Purchase Cards

Objective

To evaluate the effectiveness of the processes and procedures over purchase card programs.

Introduction

This guide is a general framework work for auditing Government Purchase Card programs. It provides audit steps designed to determine the effectiveness of a purchase card program's processes and procedures.

Background

Purchase cards provide federal agencies a flexible and efficient way of: (1) obtaining commercial goods and services through over-the-counter purchases, phone orders, mail/catalog orders, and Internet purchases; and (2) making vendor payments. When well controlled, purchase cards facilitate improved mission support and reduce transaction-processing costs.

Liability for transactions made by authorized purchase cardholders rests with the Government. If the card is used by an authorized purchase cardholder to make an unauthorized purchase, the Government is liable for payment and the agency is responsible for taking appropriate action against the cardholder.

Definitions

Blocked Merchant Category Codes (MCCs) – MCCs that agency cardholders are blocked from using.

Data-mining - Data mining is designed to identify potentially fraudulent, improper, and abusive purchase card transactions. Data mining searches the data to find transactions or patterns of activity that exhibit predetermined characteristics, associations, or anomalies between different pieces of information.

Merchant Category Codes - A categorization of the type of business the merchant is engaged in and the kinds of goods and services provided.

Micro-purchase - “Micro-purchases” , according to the Federal Acquisition Regulation, means an acquisition of goods or services using simplified acquisition procedures, the aggregate amount of which does not exceed \$3,000, except for acquisitions of: (1) construction subject to the Davis-Bacon Act, \$2,000; (2) services subject to the Service Contract Act, \$2,500; and (3) goods or services that are to be used to support a contingency operation or to facilitate defense against or recovery from nuclear, biological, chemical, or radiological attack.

Recommended Blocked MCCs – All agencies shall consider the recommended blocked MCCs for implementation as a safeguard against questionable transactions.

Splitting Purchases – Breaking up a larger or higher value purchase (or requirement) so it “fits” under the single-purchase limit established for the cardholder, such as by placing two or more separate orders for a supply/service to avoid exceeding the single-purchase or competition threshold. This practice is strictly prohibited.

Applicable Laws and Regulations

The following laws and regulations prescribe the criteria applicable to purchase card use:

- Federal Acquisition Regulations – Part 13 – Simplified Acquisition Procedures - This part prescribes policies and procedures for the acquisition of supplies and services, including construction, research and development, and commercial items, the aggregate amount of which does not exceed the simplified acquisition threshold. (Part 12 addresses policies applicable to the acquisition of commercial items exceeding the micro-purchase threshold.) [FAR Part 13](#)
- OMB Circular A-123 Appendix B, revised – This appendix prescribes policies and procedures to agencies regarding how to maintain internal controls that reduce the risk of fraud, waste, and error in government charge card programs. This revision responds to recommendations made by the Government Accountability Office (GAO) regarding the Federal purchase card program as well as agency comments and suggestions made by Agency/Organization Program Coordinators. [OMB A-123](#)
- Standards for Internal Control in the Federal Government (GAO/AIMD-00-21.3.1) Internal control environment – 1) defines the minimum level of quality acceptable for internal control in a government purchase card program; and 2) provides reasonable assurance that the objectives of effective and efficient operations and compliance with applicable laws and regulations are being achieved. [GAO/AIMD-00-21.3.1](#)

You will also need to become familiar with any additional requirements specific to your agency regarding the use of purchase cards.

Audit Steps/Procedures

Gain an understanding of the relevant laws, regulations and agency policies and procedures that govern the audited purchase card program.

- Review existing laws, regulations, and policies and procedures relevant to the Government Purchase Card program (both required and recommended).

Assess the Internal Control Environment.

- Gain an understanding of how the purchase card program operates, the flow of transactions from request to payment, and the key controls over the entire process including transaction authorization, approval, review, and reconciliation. (See attachment A for suggested key controls.)
- Interview program officials responsible for managing the purchase card program to gain an understanding of changes in the program or deviations from laws, regulations, and policies, if any.
- Identify and gain an understanding of computer-based controls established to:
 - Authorize cardholder purchases;
 - Obligate and expend government funds for purchase card activity;
 - Record the receipt of goods and services;
 - Track and reconcile cardholder purchases to the bank monthly, billings, and prevent the payment of unauthorized / disputed purchases;
 - Authorize payments to bank;
 - Prevent duplicate payments; and
 - Prevent unauthorized physical or logical access to purchase card transaction, payment, and master file data.
- Identify key controls and potential control weaknesses. Confirm understanding of process with responsible program officials.
- Compare existing key controls with requirements in the laws and regulations to determine whether the policies and operations comply with requirements set forth in laws and regulations that govern federal purchase card programs.

Preliminarily assess the effectiveness of controls over purchase card use.

- Obtain access to the database containing purchase card transactions;
- Pull purchase card transaction data for a certain period of time (4 months, 6 months, 1 year);

- Based on the information gained about key operating controls determine whether the controls are implemented effectively. Tests using the data can include:
 - Determine whether the amount spent during the selected time period is within the overall purchase card credit limit;
 - Determine whether cardholders have appropriate levels of credit – Are default profiles or limits used when establishing new cardholder accounts?;
 - Determine whether the policy for issuing purchase cards is followed – Are purchase cards only issued to individuals who need them to accomplish their duties?;
 - Compare the total number of open purchase card accounts for the period and the number of cardholders for the same period - Do some cardholders have more than one card? If so, why?; and
 - Determine appropriate span of control by identifying the total number of Approving Officials and calculating the average number of employees to cardholders, and cardholders to Approving Officials.

Apply data mining techniques to test the effectiveness of key controls.

- Using the same purchase card transaction data sample, conduct data mining to find transactions or patterns of activity that exhibit predetermined characteristics, associations, or anomalies between different pieces of information;
- Identify high-risk transactions and set data mining parameters. Examples of high-risk transactions include:
 - Potential split purchases to circumvent micro-purchase or other single-purchase limits;
 - Blocked or recommended blocked Merchant Category Code (MCC) purchases for restricted goods or services;
 - Purchases made outside normal business hours (weekends and holidays);
 - Repetitive buying pattern – even dollar amounts, amounts near purchase limits;
 - Fewer than 5 purchase cardholders buying from a specific vendor; and
 - A purchase for a number of items that seems out of the ordinary.
- Interview cardholders and gather purchase card transaction supporting documentation directly from cardholder. As part of your review, consider determining whether the transactions in the test sample contained information based on OMB requirements. (See Appendix B for checklist)
- Summarize and perform analysis of the results of the test of purchase card transaction documentation to determine the effectiveness of the key controls.

Assess the Data Reliability.

- Review existing information to determine what is already known about the accuracy and the completeness of the entry and processing of the data, as well as how data integrity is maintained.
- Perform initial testing of electronic data files or hard copy reports or summarized results. Test for things like:
 - Missing data;
 - The relationship of one data element to another;
 - Values outside of a designed range; and
 - Dates outside valid time frames or in an illogical progression.
- Assess risk related to data reliability – Risk assessment can include the following considerations:
 - How big a role the data will play in answering the audit objective;
 - The extent to which corroborating evidence is likely to exist and will independently support your findings and recommendations; and
 - The likelihood of using data of questionable reliability could have significant negative consequences to the decisions of policymakers and others.
- Summarize preliminary data reliability results – Your preliminary assessment should conclude that the data is either:
 - Sufficiently reliable;
 - Insufficiently reliable; or
 - Of undetermined reliability.
- Make a final assessment of data reliability based on the overall assessment of reliability on combined judgments of the strength of the corroborating evidence and the degree of risk involved. If the final data reliability assessment is that the data is of undetermined reliability, more work may be called for in order to determine whether or not to use the data. Suggested additional testing techniques include:
 - Tracing to and from source documents;
 - Using advanced electronic testing;
 - Unconditional and conditional tests; and
 - System control reviews.

Recommendations may include strengthening specific internal controls based on assessment of key controls and data-mining of purchase card transactions, and training for cardholders or referrals to appropriate units for disciplinary action.

Attachment A (Suggested key controls)

- Tone at the top related to use an control over purchase cards;
- Delegation of contracting authority;
- Span of control for approving officials (e.g. one approving official for every seven purchase cardholders);
- Training requirements for program coordinators, approving officials and cardholders;
- Management identification of knowledge and skills, and the training provided to cardholders;
- Setting of reasonable single purchase and monthly limits and blocking of merchant category codes;
- Annual reviews to evaluate the number of cardholders and approving officials, cardholder limits and transactions;
- Uses of the card;
- Receipt and acceptance of supplies and services;
- Reconciling accounts and certification of transactions;
- Procedures for appointment of approving officials who can determine proper transactions and act independently;
- Criteria for establishing accounts;
- Criteria for deactivation/cancellation of cards;
- Disciplinary actions taken against individuals who abused or otherwise engaged in potentially fraudulent activities related to the purchase cards; and
- Allocation of purchase/reviewing authority.

Attachment B (Checklist based on OMB Requirements)

1	Name of Cardholder (CH)
2	Approving Official (AO)
3	Merchant Name
4	Transaction Date
5	Transaction Amount
6	Item or Service Purchased
7	Does the documentation include a Requisition, Purchase Card worksheet, or other written requirement?
8	Did the AO approve for the purchase?
9	Date of Approval by AO (or other official).
10	Date Ordered or Date of Purchase.
11	Did CH provide evidence the procurement was approved prior to the purchase?
12	Did the CH provide evidence that funds were available prior to the purchase?
13	If the purchase is potentially inappropriate for government use (for example, expensive artwork or I-pods) is there documented government need for the purchase?
14	Does the amount on the invoice match the amount on the requisition, worksheet, or other written requirement?
15	What is the invoice date?
16	What is the date of shipment?
17	Is the invoice date prior to the date of shipping? (for example, some guidance may prohibit billing for the merchandise before shipping)
18	Was sales tax charged?
19	If sales tax was charged, was a credit or refund received?
20	Is there evidence the CH found unauthorized charges (other than sales tax)?
21	If there is evidence the CH found unauthorized charges, did CH dispute the transaction(s) within 60 days?
22	Did the CH provide evidence the purchase was from the required sources of supply or service?
23	Did the CH provide evidence an independent third-party signed for the merchandise or service?
24	Was there a separate carrier's invoice for freight greater than \$100?
25	Did the CH provide evidence the component established accountability over property?
26	Is there evidence the CH or AO authorized or allowed someone else to use the card?
27	Is there evidence the CH split the purchase? If yes, explain in remarks section.

Audit Guide Sources

Auditing and Investigating the Internal Controls of Government Purchase Card Programs, GAO-04-87G, November 2003.

Forensic Audit and Automated Oversight, presentation by Dr. Brett Baker, CPA, CISA, Assistant Inspector General for Audit, U.S. Department of Commerce Office of Inspector General for the Federal Acquisition Executive, January 21, 2010.

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Improving FEMA's Disaster Purchase Card Program, DHS-OIG-10-91, May 2010.

Improving the Management of Government Charge Card Programs, OMB Circular A-123, Appendix B, Revised, January 15, 2009.

Purchase Card Audit Guide Exposure Draft, GAO-03-678G, May 2003.

Statement of Patricia Mead, Acting Deputy Assistant Commissioner, Office of Acquisition, Federal Supply Service, General Services Administration, before the Subcommittee on Government Efficiency Financial Management and Intergovernmental Relations Committee on Government Reform and the United States House of Representatives, July 30, 2001.

Use of DHS Purchase Cards, DHS-OIG ongoing purchase card audit, project code 09-173 (in draft).