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Identifying Procurement Fraud in Defense Agencies: An Analysis of the Government Purchase Card Program

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- Introduction
- Government Purchase Card Program (GPCP) Background
- GPCP Incidents of Fraud
- GPCP Fraud Indicators
- GPCP Internal Control Issues
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- Summary and Conclusion
- Areas for Further Research



- Purpose: To identify procurement fraud indicators in Defense agencies, specifically in the area of Government Purchase Card Programs (GPCP).
- As of 2006, the GPCP was 8 times larger than the next largest PCP in the world (Fischer, 2006)
- The General Public
 - Demands better stewardship
 - Efficient management of funds
 - Greater accountability for resources by government organizations

(Mills, Normand, & Palmer, 2008)



Government Purchase Card Program Background

Highlights

- 1982: President Ronald Reagan issued an Executive Order
- 1986: Charge card first available
- 1994-2010: GPCP grew from less than \$1 Billion to over \$30 Billion
 - Goals: Decrease admin. procurement costs, red tape, & lead time (streamline process)
 - Micro-purchases : \$3,000
- Key Players in GPCP:
 - Program Coordinators
 - Approving Officials or Certifying Officials
 - Cardholders
- GSA SmartPay Program:
 - over 350 agencies
 - Citibank, JP Morgan Chase; U.S. Bank
 - Types: Purchase, travel, fleet, integrated
 - Spend: \$30 B
 - Transactions: 100 M
 - # of Cards: 3M



Government Purchase Card Program Background (Cont.)

Oversight

- ❖ Office of the Under Secretary of Defense for Acquisition, Technology, & Logistics
- ❖ The Purchase Card Program Management Office (PCPMO) reports to the director of OUSD(AT&L)
- ❖ Defense Procurement and Acquisition Policy (DPAP)
- ❖ Defense Acquisition University (DAU) provides training
- ❖ Office of Charge Card Management within General Services Administration (GSA) oversees the SmartPay Program
- ❖ Federal Acquisition Streamlining Act of 1994
- ❖ OMB Circular A-123 Appendix B Revised “Improving the Management of Government Charge Card Programs”
- ❖ FAR Part 13
- ❖ DoD PC Guidebook (2009) (GSA, 2011)



Government Purchase Card Program Background (Cont.)

GSA Statistics

- ❖ As of FY 2001, DoD Agencies used purchase cards for over 95% of qualified transactions
- ❖ Only 2% of total federal government spending are purchases under \$2,500, but constitute over 85% of total procurement transaction volume
- ❖ In FY 2010, DoD was top agency with program spend of over \$13B (44% of total spend)

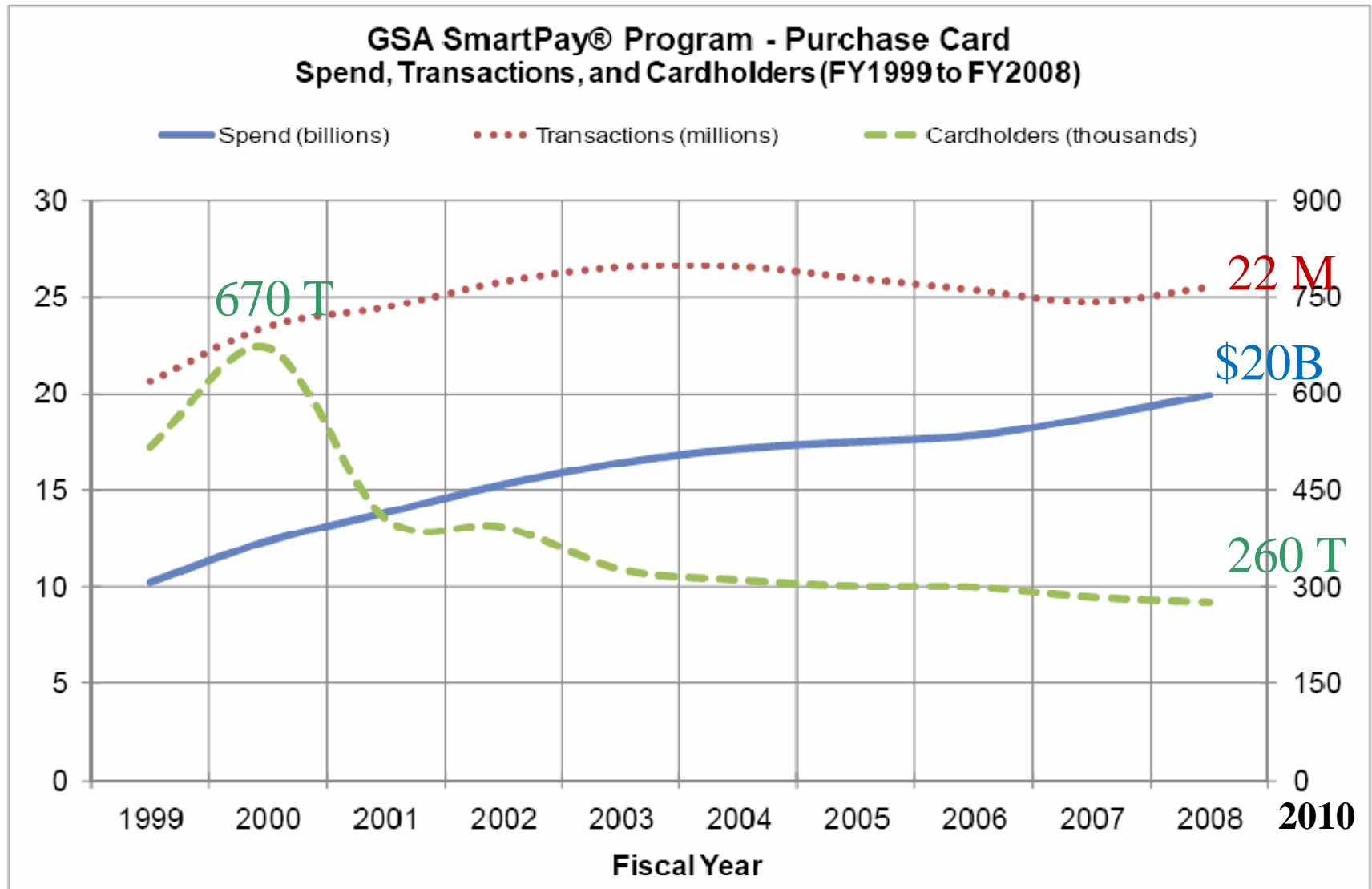
- ❖ DoD Charge Card Task Force (2002) (estimated \$20 saving per transaction)
- ❖ Other studies estimate saving to be \$54 - \$92 per transaction
- ❖ 2010 Est. savings \$7.1B
- ❖ Average government purchase card transaction has increased from \$436 in 1997 to \$779 in 2008



((Palmer, Gupta, & Dawson, 2010; GSA, 2011))



Government Purchase Card Program Background



Source: GSA SmartPay Performance Summary retrieved from <https://smartpay.gsa.gov>



GPCP Incidents of Fraud

FRAUDULENT

IMPROPER

ABUSIVE

➤ Not permitted by law, regulation, or agency policy

- Unauthorized
- Intended for personal use
- Intentional/Deliberate
- Deceive/Falsify/Omit Material Facts
- Cause Injury/Damages or Deprive others
- Personal gain/enrichment

- Deficient/inappropriate use of authority or position
- Mismanagement
- Non prudent behavior
- Not reasonable
- Not necessary



GPCP Incidents of Fraud

Fraudulent, Improper, and Abusive Purchases by Cardholders

Type of purchase	Agency	Amount	Activity
Fraudulent	Department of Agriculture	\$642,000	Cardholder used convenience checks to embezzle public funds for over 6 years. The \$642,000 was used for personal expenditures, such as gambling, car and mortgage payments, and other retail purchases.
Improper	Department of Energy	112,300	Cardholder improperly used convenience checks—and consequently had to pay thousands in fees—for relocation services. Agency policy generally prohibits convenience checks above \$3,000.
Abusive	Department of Defense	77,700	Four cardholders purchased expensive suits and accessories from Brooks Brothers and other high-end clothing stores to outfit several servicemembers.

Source: GAO analysis of bank data and supporting documentation.

Source: (GAO, 2008, March)



GPCP Incidents of Fraud (Cont.)

Type of items purchased	Where or how identified	Total amount	Individuals involved
Various items for personal use, such as computer game station, computer, digital camera, and surround sound system	Eisenhower Army Medical Center	\$100,000 (estimated)	Cardholder, approving official, and others
Computer, rings, purses, and clothing from such vendors as Victoria's Secret, Calvin Klein, and others	Eisenhower Army Medical Center	30,000 (estimated)	Cardholder
Various items for personal use and cash advances	Fort Benning	30,000	Cardholder
Rental cars, cruises, cell phones, hotels, Payless Car Rental, Extended Stay America, and other vendors	Fort Benning	20,751	User of alleged stolen card
Car repairs, groceries, clothing, and other personal items	Eisenhower Army Medical Center	12,832	Cardholder and vendor
Personal clothing, trip to Las Vegas, payments of personal bills	Fort Benning	10,748	Cardholder
Sunglasses and other items for personal use from Sunglass Hut, Discovery Channel store, and others	Fort Hood	1,452	Separated cardholder, user of alleged compromised account
Various personal use items such as food and gas for personal vehicles at Shell and other vendors	Fort Benning	1,170	User of alleged stolen card
Digital camera from Office Max and other personal items from Circuit City and various other vendors	Fort Hood	786	Unknown
Escort services	Army-wide data mining	630	Cardholder
Prepaid phone cards from MCI, Sprint, and Ameritech, and pizza from Larry's Pizza and Po Boys	Fort Hood	524	Under investigation
Athletic shoes	Army-wide data mining	458	User of alleged compromised account
Internet site subscriptions	Fort Hood	210	Under investigation

Source: GAO analysis of Army purchase card transactions and related documentation.

Source: (GAO, 2002, June, p 44)



Red Flags/Fraud Indicators Individual Level

Situational (Incentive)	Opportunity Red Flags
High personal debt or losses	Familiarity with operations and position of trust
Living beyond one's means	Close association with suppliers/vendor and key people
Gambling or speculation	Dishonest or unethical management
Excessive Use of alcohol or liquor	Too much trust in key employees
Perceived inequities in the organization	Weak or dishonest personnel evaluations
Resentment of supervisors	Inadequate training programs
Inadequate income or greed	Rapid turnover of key employees

(Source: Air Force Audit Agency, 1997)



Red Flags/Fraud Indicators

Organizational Level
Related party transactions
Poor accounting records
Poor internal controls
Inexperienced people in key positions
Reluctant to give auditors needed data
Continuous problems with inspectors
Inadequate staffing in critical positions

(Source: Air Force Audit Agency, 1997)



GPCP Fraud Indicators (Cont.)

DoD IG Purchase Card Fraud Indicators

❖ Numerous missing invoices, receipts, and purchase justifications.	❖ Pattern of repeat favoritism to a specific vendor or group of vendors.
❖ Purchases fall slightly below, the purchase threshold of \$3,000.	❖ Cardholder and vendor have the same name.
❖ Cardholder makes unauthorized week-end or evening purchases.	❖ Similar invoices from different vendors.
❖ Separated employees continue to make purchases using the GPC.	❖ Purchased items are not recorded in inventory records
❖ Inadequate separation of duties such as cardholders approving their own purchase authorizations.	❖ Pattern of suspect cardholder purchases from unauthorized vendors such as clothing stores
❖ An excessive number of cardholders are assigned to one approving official.	❖ Pilferable items are repeatedly reported as lost, missing, or stolen.

(Source: Purchase Card Fraud Indicators, DoD IG, 2010)
WWW.NPS.EDU



GPCP Internal Control Issues

- ❖ Common Threads in GAO and IG reports:
 - ❖ Weak Internal Controls
 - ❖ Existing Internal Controls not properly implemented
- ❖ Standards for Internal Control in the Federal Government (1999)
- ❖ Serious breakdowns in internal controls over GPCPs can leave government agencies vulnerable to fraud and abuse

(GAO, 2001)



DoD Audit Coverage Report (FY1996 - FY2001)

Federal Agency	Number of Reports Issued
General Accounting Office	3
DoD Inspector General	3
Army Audit Agency	32
Naval Audit Service	1
Air Force Audit Agency	255
Defense Agencies Inspector General & Internal Review Offices	27
Army Internal Review Office	61

Source: ("DoD PCP Audit Coverage," 2001)



Identified Systemic Issues (FY1996 - FY2001)

- Account Reconciliation and Certification (88 reports)
- Administrative Controls (70 reports)
- Management Oversight (115 reports)
- Property Accountability (79 reports)
- Purchase Card Use (50 reports)
- Purchases (222 reports)
- Separation of Duties (22 reports)
- Training (52 reports)

(“DoD PCP Audit Coverage,” 2001)



Recommendations

- (1) Improve Controls over the Segregation Of Duties
- (2) Improve Training of Cardholders and Approving Officials
- (3) Improve Oversight of Its Purchase Card Program
- (4) Implement Existing Internal Control Policies and Procedures
- (5) Monitor and Improve weak Internal Control Procedures
- (6) Improve span of control for approving officials
- (7) Make better use of bank electronic tools
- (8) Provide anti-fraud training
- (9) Require credit worthiness evaluations for all cardholders,
not just travel cardholders

(DoD IG, 2002; GAO, 2008; “DoD IG USAID audit,” 2002)



Areas for Further Research

- ❖ Expand on the identified fraud indicators in GPCP:
 - ❖ by developing an assessment tool to help identify fraud vulnerabilities in GPCPs in federal agencies

- ❖ Conduct an analysis by specific government agencies such as Navy, Army, Air Force, etc.



Summary/Conclusions

- Federal Government officials, such as approving officials and cardholders, in the GPCP
 - hold a public trust
 - are expected to meet the highest ethical standards.
- Every dollar that is fraudulently spent takes away from funds that could be spent on goods and services needed to meet the mission of federal agencies in support of the overall goal of public service to the American people
- Taxpayers should not be footing the bill for fraudulent and abusive purchases
- Senator Charles Grassley and others in Congress introduced the bill “*Government Charge Card Abuse Prevention Act of 2011*” (S. 300; 112th Congress)

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