Treasury Inspector General for Tax Administration
Office of Audit

CONTROLS OVER THE PURCHASE CARD PROGRAM WERE NOT EFFECTIVE IN ENSURING APPROPRIATE USE

Issued on August 31, 2011

Highlights

Highlights of Report Number: 2011-10-075 to the Internal Revenue Service Deputy Commissioner for Operations Support and the Deputy Commissioner for Services and Enforcement.

IMPACT ON TAXPAYERS

From September 1, 2007, through March 31, 2009, the Internal Revenue Service (IRS) made more than 174,000 purchases totaling more than $80 million using purchase cards. However, the IRS does not have the necessary controls in place to ensure that improper and abusive purchases do not occur, any such transactions are promptly detected, and appropriate corrective action is taken.

WHY TIGTA DID THE AUDIT

While the use of purchase cards has been credited with reducing administrative costs, audits of Federal agency purchase card programs have found varying degrees of waste, fraud, and abuse. One of the most common risk factors cited by auditors is a weak internal control environment. The overall objective of this review was to determine whether the IRS's controls over Federal Government micro-purchase cards are sufficient to ensure that the IRS's use of purchase cards is in compliance with all applicable regulations and procedures.

WHAT TIGTA FOUND

While some controls were working as intended, overall management controls were not effective to ensure the appropriate use of IRS purchase cards. TIGTA found violations of applicable laws and regulations that included purchases made without necessary approvals and verification of funding, purchases that were potentially split into two or more transactions to circumvent micro-purchase limits, and purchases made from improper sources. In addition, the IRS did not have a policy to provide guidance for establishing an appropriate span of control over the number of purchase cardholders assigned to approving officials.

Until management controls are effectively strengthened, implemented, and enforced, the IRS will continue to be at risk for noncompliance with applicable laws and regulations, and the IRS cannot ensure that improper and abusive purchases do not occur. In addition, if such purchases do occur, the IRS cannot ensure the transactions are promptly detected and that appropriate corrective action is taken.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Deputy Commissioner for Operations Support and the Deputy Commissioner for Services and Enforcement emphasize to cardholders that split-purchase transactions will not be tolerated. The Chief, Agency-Wide Shared Services, should emphasize the importance of preparing an order log prior to purchase, improve oversight reviews by using data analysis techniques to identify potential split-purchase transactions, and expand oversight reviews to include evaluating the requirement for purchasing office supplies from contract vendors and preferred sources. Finally, the Chief, Agency-Wide Shared Services, should develop and implement guidance for determining an appropriate span of control for approving officials.

In their response to the report, IRS officials agreed with all of our recommendations. The IRS has changed its reviews of split-purchase transactions and expanded oversight reviews to include the use of contract vendors and preferred sources. The IRS plans to provide guidance on oversight and enforcement responsibilities, develop examples and scenarios that constitute a split purchase, review the potential split purchases TIGTA identified, and review the current span of control to identify relevant factors in the development of a policy on span of control. The IRS also plans to emphasize corrective actions regarding the verification of funding prior to purchase and the IRS policy on split-purchase transactions.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

http://www.treas.gov/tigta/auditreports/2011reports/201110075fr.pdf.