

**STATEMENT OF
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BEFORE THE
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS
COMMITTEE ON VETERANS' AFFAIRS
U.S. HOUSE OF REPRESENTATIVES**

MAY 14, 2015

Good morning, Chairman Coffman, Ranking Member Kuster, and Members of the Subcommittee. Thank you for the opportunity to discuss the Department of Veterans Affairs' (VA) implementation and oversight of our Government Purchase Card Program. I am accompanied today by Mr. Gregory Giddens, Principal Executive Director, Office of Acquisitions, Logistics and Construction (OALC), Mr. Jan Frye, Deputy Assistant Secretary for the Office of Acquisition and Logistics and Mr. Norbert Doyle, Chief Procurement and Logistics Officer for the Veterans Health Administration (VHA).

VA has a robust Government Purchase Card Program with 25,515 card accounts generating \$3.7 billion worth of purchases in 6.1 million transactions as of the end of Fiscal Year (FY) 2014. We rely on this program to aide in the expeditious acquisition of supplies and services in support of our Veterans. For example, purchase cards are used for acquisition of prosthetics and sensory aids that promote health, independence and quality of life for Veterans. As with many large programs, we have experienced challenges in implementing the Government Purchase Card Program as noted in recent reports by VA's Office of the Inspector General (OIG). We value the recommendations provided by OIG and have implemented needed improvements to strengthen controls over VA's purchase card program.

Background

Implementation, including oversight and internal controls, of VA's purchase card program is a collaborative effort across the Department. Key Department-level

participants include OALC, VHA, and the Office of Management (OM). In implementing our program we are acutely aware of the need to effectively manage taxpayer resources; as such, we maximize use of the Government Purchase Card Program to reduce administrative overhead costs while earning rebates.

OALC is responsible for the acquisition policy for the Department. In this role, OALC manages the delegation from the Secretary for the micro-purchase authority (less than \$3,000). OALC further delegated the micro-purchase authority, which is specific to the Governmentwide commercial purchase card program, to OM. OALC maintains responsibility for procurement policy of the program above the micro-purchase threshold, while OM is responsible for providing policy up to the micro-purchase threshold.

OM establishes purchase card policies and procedures defining roles and responsibilities, ensuring separation of duties, and overseeing the management of VA's purchase card program. OM also ensures that VA purchase card policies are in compliance with Appendix B of the Office of Management and Budget (OMB) Circular A-123, 'Improving the Management of Government Charge Card Programs,' and with the Government Charge Card Abuse Prevention Act of 2012.

In October 2011, VA took a significant step toward strengthening internal controls by consolidating the purchase card program under the Financial Services Center (FSC). This action enabled centralized oversight, management, and consolidation of the purchase card program, thus reducing the number of purchase card accounts VA-wide by 31 percent from approximately 37,000 in FY2011 to 25,515 by the end of FY2014.

VA is committed to continuous monitoring and improvement of its Government Purchase Card Program and has implemented a number of processes and internal controls to minimize and eliminate fraud, waste, and abuse. For example, we close or reduce card spending limits due to inactivity, invalid training certificates, lack of valid warrants, or for separated employees. Controls have been implemented with the U.S. Bank to limit the use of the government purchase card for specific types of merchants. We also have mandated the use of the U.S. Bank on-line portal for reconciliations of purchase card transactions and monitor the completion of reconciliations on a monthly basis. Training is required prior to the issuance of a card, with refresher training

required every two years. In addition, controls have been implemented to ensure active government purchase card holders are compliant with these training requirements. As noted, with centralized control within FSC, we are able to monitor purchase card activity across VA on a daily, weekly and monthly basis. Using these controls, we have not identified any cardholders with single purchase limits above the micro-purchase threshold who were not warranted since January 2013.

OM also conducts two types of oversight reviews of the purchase card program at the transactional level - data mining and statistical sampling. The data mining process involves collecting, filtering, and analyzing approximately 1.5 million transactions each Fiscal Quarter to seek patterns or relationships in the data and identify areas of potential non-compliance with policy requirements. The statistical sampling seeks to select and evaluate a representative sample of transactions from the same population to review for compliance with policy. OM issues quarterly memoranda to responsible officials to notify them of potential unauthorized commitments such as split purchases and transactions that exceeded micro-purchase limits that may require ratification. Beginning in 2015, if no response is received from the initial responsible official, OM elevates the potential unauthorized commitments to officials in the cardholder's chain of command – with 30 day intervals between each elevation. In calendar year 2014, we issued nine elevation memos for 95 ratifications pending completion at the time of the OIG review. We also continue to aggressively elevate unresolved ratifications identified during quarterly reviews, and have issued eight additional elevation memos to date in 2015 for 49 open ratifications.

Within VA, VHA has the largest number of government purchase cardholders, generating a little over 98 percent of purchase card transactions in the Department in FY2014. VHA purchase cardholders spend about \$3.7 billion annually on approximately 6 million transactions. VHA has approximately 11,000 cardholders and 6,000 approving officials (AOs); typically the AO is a supervisor within the cardholder's chain of command. VHA's Procurement and Logistics Office provides additional oversight over VHA's purchase card program.

Government Charge Card Abuse Prevention Act of 2012

On October 5, 2012, the President signed into law the Government Charge Card Abuse Prevention Act of 2012 (Charge Card Act), Public Law 112-194, which reinforced Administration and Congressional efforts to prevent waste, fraud, and abuse of Governmentwide charge card programs. In September 2013, OMB issued guidance to Departments and Agencies on implementation of the Charge Card Act. In December 2013, VA's Financial Policy was updated to comply with the Charge Card Act and OMB guidance.

A chief purpose of the Charge Card Act was to deter employee misuse of government cards, by implementing penalties for charge card violations. Additionally, VA revised Human Resources policy to outline penalties, adverse personnel actions, or other appropriate disciplinary actions for misuse of the purchase card.

Corrective Actions to Address OIG Findings

In the report "Administrative Investigation of VA's FY2011 Human Resources Conferences in Orlando, FL", issued September 2012, OIG found that at least one VA employee held at least 3 purchase cards with single purchase limits above the micro-purchase threshold and had inappropriately made purchases above the micro-purchase threshold. OIG recommended that VA complete a special review of purchase card transactions in support of VA Learning University conferences. OM took this weakness in internal controls very seriously and opted to expand this review VA-wide across the entire purchase card program.

During its review, OM identified a total of 2,022 unwarranted purchase card accounts with single purchase limits over the micro-purchase threshold. OM initiated a reconciliation and corrective action process, which resulted in the systematic reduction of single purchase limits as prescribed in the cardholder's valid warrant. That process was completed by January 2013.

Concurrent to the review, in December 2012, the FSC became the single centralized point of control in VA for setting the single purchase limit for a cardholder. All requests to raise or lower the single purchase limit on a purchase card account must be submitted to the FSC. Requests to raise the single purchase limit over the micro-purchase threshold are reviewed to verify that the cardholder possesses a valid warrant

on the most recent OALC warrant report. In addition, as of December 2013, US Bank routes the request for the issuance of new government purchase cards to FSC for review and approval or rejection. FSC then works to ensure full compliance with policy and validates training and warrants during the review process.

In May 2014, OIG issued a report on the “Review of Alleged Unauthorized Commitments”, which reviewed purchase card transactions from FY2012, substantiated allegations that cardholders had made unauthorized commitments, and that VA had not performed ratification actions on identified unauthorized commitments. In total, OIG made nine recommendations to VA, all of which were closed by April 2015.

In its report, OIG also projected 15,600 potential unauthorized commitments, valued at approximately \$85.6 million in FY2012 and FY2013. OIG recommended OM review FY2012 and FY2013 purchase card transactions exceeding \$3,000 to identify unauthorized commitments made by cardholders who did not have appropriate warrant authority. In 2014, OM conducted the review of 57,577 high risk transactions valued at \$586.5 million. OM determined that roughly 29 percent, 16,686 transactions, valued at \$221.2 million were potentially unauthorized commitments and needed research and validation from Heads of Contracting Activity (HCA) before a final ratification determination could be made. The result of the initial review of the 16,686 transactions by HCAs identified 4 percent or 680 unauthorized commitments totaling \$10.7 million. VA continues to review these transactions for appropriate action.

Path Forward

VA has made tremendous strides in recent years in its purchase card program, however, we recognize the need to continue to expand and improve our oversight and internal controls. The Charge Card Act has supported our improved program and we continue to develop and refine training for all Government Purchase Card Program participants; to develop and continuously monitor data analytics to identify trends of misuse and abuse and elevate for appropriate remediation; and to seek ways to develop a cross-functional mechanism of continuous improvements.

DRAFT TESTIMONY – FOUO – PREDELIBERATIVE DOCUMENT

Mr. Chairman, this concludes my testimony. My colleagues and I are prepared to answer any questions you, or other Members of the Committee, may have.