

# U.S. Department of Labor

Office of Inspector General—Office of Audit

**OFFICE OF THE ASSISTANT  
SECRETARY FOR  
ADMINISTRATION AND  
MANAGEMENT**



**THE OFFICE OF THE ASSISTANT SECRETARY FOR  
ADMINISTRATION AND MANAGEMENT NEEDS TO STRENGTHEN  
ITS OVERSIGHT OF THE PURCHASE CARD PROGRAM**

Report Number: 06-09-003-07-001

Date Issued: September 3, 2009

## **BRIEFLY...**

Highlights of Report Number 06-09-003-07-001, *OASAM Needs to Strengthen its Oversight of the Purchase Card Program*, to the Assistant Secretary for Administration and Management, issued September 3, 2009.

### **WHY READ THE REPORT**

The purchase card program was established in the late 1980s as a way for agencies to streamline Federal procurement processes through a low-cost, efficient means of attaining goods and services directly from merchants. Cardholders can initiate, pay for, and receive items in less time than it takes under the normal procurement process. Typically, these cards are used for transactions of \$3,000 or less — the micro-purchase threshold.

For the Department of Labor (DOL), overall control for the purchase card program lies with the Office of the Assistant Secretary for Administration and Management (OASAM). OASAM manages the program and is responsible for providing management oversight, controls, and technical assistance. During June 1, 2007 – May 31, 2008, DOL procured \$21.2 million in goods and services using purchase cards. Approximately 1,266 cardholders used these cards and made 60,694 purchase and refund transactions.

### **WHY OIG CONDUCTED THE AUDIT**

Our audit objective was to answer the following question:

Was OASAM's oversight of the DOL purchase card program sufficient to prevent and detect unauthorized charges?

### **READ THE FULL REPORT**

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

<http://www.oig.dol.gov/public/reports/oa/2009/06-09-003-07-001.pdf>

**September 2009**

### **WHAT OIG FOUND**

OASAM needs to strengthen its oversight of the DOL purchase card program. An extensive part of the purchase card process is delegated to program agencies, which is further delegated to the respective agency/organization program coordinators (A/OPC). Although OASAM did conduct monitoring of high risk purchase card transactions in 2007 and again in 2008, it has not monitored A/OPCs to ensure they are effectively implementing established controls over purchase card activity for their respective program agencies.

Based on our testing of a statistical sample of purchase card transactions, we estimate with a 95 percent confidence level that between 44,040 to 49,915, or 73 to 82 percent, of the 60,694 purchase card transactions occurring during our audit period did not comply with established controls. Such non-compliant transactions increase the risk that fraudulent, improper, or other abusive activity could occur without detection.

In addition, 17 of 287 transactions in our review did not have sufficient documentation to substantiate their legitimacy. We estimate with 95 percent confidence level that between 1,930 to 5,232, or three to nine percent, of the 60,694 purchase card transactions occurring during our audit period lacked documentation to substantiate their legitimacy.

### **WHAT OIG RECOMMENDED**

We made four recommendations to the Assistant Secretary for Administration and Management to improve management controls over the DOL purchase card program.

OASAM's Deputy Assistant Secretary for Operations generally agreed with the findings and stated that OASAM plans to take actions to address the findings and recommendations to improve program oversight and compliance.

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**U.S. Department of Labor**

Office of Inspector General  
Washington, D.C. 20210



September 3, 2009

**Assistant Inspector General's Report**

Mr. T. Michael Kerr  
Assistant Secretary  
for Administration and Management  
U.S. Department of Labor  
200 Constitution Ave., NW  
Washington, DC 20210

The U.S. General Services Administration (GSA) administers the Federal government's SmartPay® purchase card program, which was established in the late 1980s. The purchase card program was created as a way for agencies to streamline Federal procurement processes through a low-cost, efficient means of attaining goods and services directly from merchants. Cardholders can initiate, pay for, and receive items in less time than it takes under the normal procurement process. Typically, these cards are used for transactions of \$3,000 or less — the micro-purchase threshold. For the Department of Labor (DOL), overall control for the purchase card program lies with the Office of the Assistant Secretary for Administration and Management (OASAM). OASAM manages the program and is responsible for providing management oversight, controls, and technical assistance. During June 1, 2007 – May 31, 2008, DOL procured \$21.2 million in goods and services using purchase cards. Approximately 1,266 cardholders used these cards and made 60,694 purchase and refund transactions.

We conducted an audit of the DOL purchase card program to determine whether OASAM's oversight of the DOL purchase card program is sufficient to prevent and detect unauthorized charges.

Our audit covered the DOL purchase card program for the period June 1, 2007 through May 31, 2008.

To accomplish our objective, we reviewed applicable federal laws and regulations as well as DOL's *Procedures for the Use of the Government Purchase Card for Micro-Purchases* (DOL policies and procedures); analyzed management information reports; and interviewed and surveyed staff from OASAM and the Office of the Chief Financial Officer (OCFO). To assess compliance with purchase card controls, we tested a statistical sample of transactions that occurred during the period between June 1, 2007 and May 31, 2008.

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. Our objective, scope, methodology, and criteria are detailed in Appendix B.

## **RESULTS IN BRIEF**

OASAM needs to strengthen its oversight of the DOL purchase card program. OASAM has delegated an extensive part of the purchase card process to program agencies, which is further delegated to the respective agency/organization program coordinators (A/OPC). Although OASAM did conduct monitoring of high risk purchase card transactions in 2007 and again in 2008, OASAM has not monitored A/OPCs to ensure they are effectively implementing established controls over purchase card activity for their respective program agencies. Based on our testing of a statistical sample of purchase card transactions, we estimate with a 95 percent confidence level that between 44,040 to 49,915, or 73 to 82 percent, of the 60,694 purchase card transactions occurring during our audit period did not comply with established controls. Such non-compliant transactions increase the risk that fraudulent, improper, or other abusive activity could occur without detection.

In addition, 17 of 287 transactions in our review did not have sufficient documentation to substantiate their legitimacy. We estimate with 95 percent confidence level that between 1,930 to 5,232, or three to nine percent, of the 60,694 purchase card transactions occurring during our audit period lacked documentation to substantiate their legitimacy.

We made four recommendations that OASAM improve oversight and compliance in the DOL purchase card program by monitoring DOL program agencies and their A/OPCs; ensuring cardholders complete mandatory training; coordinating with DOL property managers to develop better controls over agency assets; and recovering funds for unauthorized purchases. In response to our draft report, OASAM concurred with our findings and each of our recommendations. OASAM's written response to our draft report is provided in its entirety in Appendix D.

## **RESULTS AND FINDINGS**

**Objective – Is OASAM's oversight of the DOL purchase card program sufficient to prevent and detect unauthorized charges?**

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**Finding – OASAM needs to strengthen its oversight of the DOL Purchase Card Program.**

Our audit disclosed that OASAM's oversight of the DOL purchase card program is not sufficient to prevent and detect unauthorized charges. Our testing of a sample of 287

transactions totaling \$409,035 found that two key transaction-level controls — authorization and independent receipt of goods — were not adequately followed. We found 222 of the 287 transactions were either not properly authorized or the goods purchased were not independently received. Specifically, of these 222 exceptions totaling \$338,239:

- 150 transactions (68 percent) totaling \$287,591 were not properly authorized
- 72 transactions (32 percent) totaling \$50,648, were not independently received by someone other than the purchaser.

According to the Government Accountability Office (GAO) Standards for Internal Control in the Federal Government (GAO Internal Control Standards), transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority, as this is the principal means of assuring that only valid transactions to exchange, transfer, use, or commit resources and other events are initiated or entered into. The GAO Internal Control Standards also state that the key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. Segregating duties entails separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling related assets. The GAO Internal Control Standards further state that no one individual should control all key aspects of a transaction or event. Independent receipt and acceptance of goods helps provide assurance that purchased items are acquired for only legitimate government need and not for personal use.

Of the 222 transactions where evidence was not available to show proper segregation of duties was in place, we identified instances of unauthorized purchases related to: (1) assets not recorded in the DOL Property Management System; (2) sales taxes inappropriately paid; (3) purchases made with cards assigned to former DOL employees; (4) a purchase of a prohibited item; and (5) a purchase that exceeded the cardholder's authorized spending limit. The results are as follows:

- For 14 transactions totaling \$67,174, accountable assets such as printers, laptop computers, copiers, flat screen monitors, wireless speakers, and keyboards were not recorded in the Property Management System. These items can easily be converted for personal use resulting in a loss to the Agency. Section 3.6.4, Micro-Purchase of Reportable Equipment, of DOL policies and procedures states “when sensitive or mission-critical, non-expendable personal property is purchased with a purchase card, the cardholder shall follow normal procedures for assuring that the purchase is recorded in the appropriate Departmental Property Management System.”
- For 5 transactions totaling \$6,553, sales taxes were improperly paid on purchases and no evidence was provided to show that the sales tax amounts were recovered. According to Office of Management and Budget (OMB) Circular A-123, Appendix B, *Improving the Management of Government Charge Card Programs*, Section 11.1, the Federal Government is not liable to pay taxes to State and local governments, and thus, any such taxes paid must be recovered. When making purchases, Section 3.4,

Tax-exempt Status, of DOL policies and procedures instructs cardholders to “... always request tax-exempt status for their purchases.”

- For 2 transactions totaling \$5,063, charges were made on purchase cards assigned to former employees. One purchase was made using a card assigned to a former DOL employee two months after that person had left the agency. Another transaction occurred seven months after the cardholder separated from the agency. Section 3.7, Cancelling Purchase Cards, of DOL policies and procedures states “if the cardholder is separating from DOL, the purchase card should be destroyed and discarded by the A/OPC”.
- For 1 transaction of \$47, a purchase was made for an item prohibited by DOL policy. The cardholder improperly used the card to purchase gasoline for an agency vehicle. According to Section 3.3.1, Prohibited Micro-Purchase, of DOL policies and procedures, specific items should not be acquired using the purchase card which include travel-related expenses.
- For 1 transaction of \$6,000, a cardholder exceeded the authorized spending limit. Despite having a spending limit of \$3,000, the cardholder was able to make a \$6,000 purchase. According to Section 1.2, Policies and Limitation, of DOL policies and procedures, “the maximum cardholder purchase allowed for a single agency requirement will generally not exceed \$3,000.”

In addition, we found 17 of the 287 transactions tested totaling \$12,934 did not have sufficient documentation to substantiate their legitimacy. Four of these unsubstantiated transactions were initiated by cardholders who no longer work for the affected agency. Although DOL policies and procedures instruct cardholders to retain receipts for 3 years, they do not address the disposition of these documents when a cardholder leaves the agency. We estimate with 95 percent confidence level that between 1,930 to 5,232, or three to nine percent, of the 60,694 purchase card transactions occurring during our audit period lacked documentation to substantiate their legitimacy.

We attribute the weaknesses identified in the purchase card program to a lack of effective monitoring. OASAM delegates an extensive part of the purchase card process to program agencies which, in turn, assign A/OPCs to manage the program, including the overseeing of agency approving officials and cardholders. However, we found that many A/OPCs were not performing their assigned duties. OASAM officials acknowledged that A/OPCs have not always performed as expected. In 2007 and again in 2008, OASAM conducted reviews of high risk transactions, such as split purchases, transactions that exceeded the micro-purchase threshold (\$3,000), and prohibited purchases. While the results of these reviews identified questionable transactions, our audit revealed that OASAM has not taken effective actions to prevent future occurrences of similar types of transactions. By strengthening the monitoring of program agencies and their A/OPCs, OASAM can ensure the key controls of proper authorization and segregation of duties for purchase card transactions are in place and working as intended.



The structure of delegating a significant portion of the monitoring process to the program agency level is outlined in DOL policies and procedures. This control structure is reasonable since A/OPCs better understand the types of purchases required to fulfill their respective program agencies' mission and can more appropriately manage approving officials and cardholders. Spreading the monitoring responsibilities throughout the agency reduces the risk of unauthorized charges occurring.

We also noted that cardholders must complete federally-mandated training every three years. A-123, Appendix B, 3.4, requires that "... all program participants ... be trained prior to appointment (and) ... take refresher training, at a minimum, every 3 years...." Cardholder competence in using purchase cards is enhanced by completion of this training, which provides updates on laws, regulations, and control activities specific to the purchase card program. Upon completion of this training, Section 2.1, Mandatory Training, of DOL policies and procedures states "a certificate of completion must be provided to the A/OPC ..."

Of 172 purchase cardholders that we sampled, evidence was not available to show that 78 (45 percent) of the cardholders had fulfilled their training requirements. These same cardholders were responsible for initiating 20 percent of the unauthorized purchases in our sample.

OASAM's oversight over the DOL purchase card program has not been effective in preventing and detecting unauthorized charges. We estimate with a 95 percent confidence level that between 44,040 to 49,915, or 73 to 82 percent, of the 60,694 purchase card transactions occurring during our audit period did not comply with established controls. Such non-compliant transactions increase the risk that fraudulent, improper, or other abusive activity could occur without detection.

In response to our draft report, OASAM concurred with our findings.

## **Recommendations**

To reduce the vulnerability of the DOL purchase card program to potential improper acquisitions, DOL program agencies must cooperate and comply with the directives, regulations, reviews and guidance provided by OASAM. To improve OASAM's oversight of the DOL purchase card program, we recommend that the Office of the Assistant Secretary for Administration and Management:

1. Implement an effective monitoring and review process to ensure program agencies and their delegated A/OPCs are complying with Federal and DOL policies for purchase card transactions.
2. Comply with the federal mandate for all cardholders to complete purchase card training every 3 years; and require A/OPCs to comply with DOL policies for tracking and documenting cardholders' completion of this training.

3. Coordinate with the DOL property managers to develop controls that ensure accountable property paid for with purchase cards has been properly accounted for.
4. Provide guidance to assist A/OPCs in recovering potentially unauthorized purchases identified in our audit.

We appreciate the cooperation and courtesies extended to us by OASAM personnel during the audit.



Elliot P. Lewis  
Assistant Inspector General  
for Audit

# Appendices

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## Appendix A

### Background

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Purchase cards are a low-cost, efficient means for Federal agencies to streamline the acquisition process in obtaining supplies and services directly from vendors. GSA created and administers the SmartPay® program which provides charge cards to agencies through contracts negotiated with five national banks<sup>1</sup>. OMB issued Appendix B to A-123, *Improving the Management of Government Charge Card Programs*, to provide agencies guidance on the minimum requirements, as well as suggested best practices, for operating their charge card programs.

DOL contracts with Citibank Visa for its purchase cards. During fiscal years 1999 through 2007, acquisitions made using the Citibank cards averaged \$17.6 million, peaking at more than \$22 million in 2007.

The objectives of the DOL purchase card program are to:

- Reduce the time necessary to obtain small-dollar items;
- Reduce the cost of processing purchase/delivery orders, etc.;
- Replace or provide an alternative to the use of the Standard Form 44 (SF-44), "Purchase Order-Invoice-Voucher"; and
- Replace the imprest fund operations with bank convenience checks.

To fulfill these objectives, management has documented policies and procedures for operating and managing the program. DOL policies and procedures, *Procedures for the Use of the Government Purchase Card for Micro-Purchases*, outline management's expectation for a control and organizational structure that provides reasonable assurance purchase cards will be used in authorized transactions that comply with Federal and agency regulations. Responsibility in implementing these controls has been delegated throughout the organization - to the OASAM, A/OPCs, approving officials, and cardholders.

### OASAM

OASAM is responsible for providing management oversight, controls, and technical assistance to program agencies and their designated A/OPC(s). This oversight includes providing policy guidelines for acquisitions and training.

### Agency/Organization Program Coordinators (A/OPC)

Program agencies designate A/OPCs to manage their purchase cards. Some of the duties assigned to A/OPCs include maintaining records to show cardholders have completed required training; reviewing purchase card activity to identify and close or

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<sup>1</sup> Subsequent to our audit, GSA revised the government charge card program which now is called SmartPay® 2. Three banks, Citibank, JPMorgan Chase Bank, and U.S. Bank, have been contracted to provide charge cards to Federal agencies.

suspend inactive accounts; establishing controls to ensure that cardholders and approving officials submit reconciled bank memo statements and the appropriate supporting documentation within predetermined time frames; conducting periodic desk reviews to ensure that micro-purchases comply with program policies; conducting an agency annual self-assessment/evaluation to review a statistically significant number of agency purchase card transaction files, bank memo statements, inactive accounts, single/monthly limits, and training requirements; noting the approval certification for payments; and signing receiving reports.

## Appendix B

### Objective, Scope, Methodology, and Criteria

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#### Objective

We conducted an audit of the DOL Purchase card Program to answer the following question:

Is OASAM's oversight of the DOL Purchase card Program sufficient to prevent and detect unauthorized charges?

#### Scope

Our audit period was June 1, 2007 – May 31, 2008. During this period, DOL purchase cards were used in 60,694 transactions totaling \$21,256,253. This is the total of transactions incurred by all DOL program agencies. Our work was based on a statistical sample of 287 transactions totaling \$409,035. All DOL program agencies were subjected to this review.

OASAM assisted the auditors in obtaining a Citibank data file containing transaction details for purchases made during the audit period. We tested the reliability of the data file and found a discrepancy between the file totals and reported totals in the GSA SmartPay® Program Statistics. From June 2007 – May 2008, GSA report DOL purchase cards were used in 59,738 transactions totaling \$21,656,988. Whereas the Citibank data file showed 60,694 transactions totaling \$21,256,253. Inquiries with OASAM and OCFO provided no explanation regarding the difference. While the data file did not reconcile to the GSA Smartpay® report amounts, we considered the file to be materially complete for purposes of meeting our audit objective.

#### Methodology

We reviewed Federal regulations and DOL policies and procedures; evaluated OASAM's Monitoring Reports; interviewed staff from OASAM and OCFO; analyzed reports on separated and current DOL employees and cross matched this data against reports listing active DOL purchase cardholders; and surveyed A/OPCs on their job responsibilities.

- A. To assess compliance with purchase card controls, we statistically tested a sample of 287 transactions from a population of 60,694 that occurred during the period June 1, 2007 – May 31, 2008. To test authorization, we reviewed purchase requests or requisitions from a responsible official, e-mails, and blanket authorizations for routine purchases with subsequent review by an approving official. As evidence of independent receipt of goods, we accepted any signature or initials of someone other than the cardholder on the sales invoice, packing slip, bill of lading, or any other shipping or receiving document.

To accomplish our audit objective, we stratified the population of 60,694 transactions. The population was stratified into categories based on transactions:

1. initiated on a weekend day or holiday,
2. involving cash advances,
3. in excess of the micro-purchase threshold, \$3,000,
4. made during fiscal yearend,
5. by the same cardholder, on the same day, to the same merchant, and when these transactions are combined the total exceeds \$3,000
6. prohibited by policy and regulations
7. with questionable merchant category codes
8. with questionable merchant names
9. charged to cards assigned to former DOL employee

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.

In planning and performing our audit, we considered internal controls of the DOL purchase card program by obtaining an understanding of the program's internal controls, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of internal controls in order to determine our auditing procedures for the purpose of achieving our objective. Therefore, we evaluated the internal controls pertaining to our objective. Our consideration of the program's internal controls would not necessarily disclose all matters that might be reportable conditions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected.

### **Criteria**

Procedures for the Use of the Government Purchase Card for Micro-Purchases (DOL policies and procedures)

OMB Circular A-123, Appendix B, "Improving the Management of Government Charge Card Programs"

U.S. Department of Labor Manual Series – DLMS 2 - Administration – Chapter 100 – DOL Property Management

GAO Standards for Internal Control in the Federal Government



**Appendix C**

**Acronyms and Abbreviations**

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A/OPC	Agency/Organization Program Coordinator
DOL	Department of Labor
GAO	Government Accountability Office
GSA	U.S. General Services Administration
OASAM	Office of the Assistant Secretary for Administration and Management
OCFO	Office of the Chief Financial Officer
OMB	Office of Management and Budget

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Appendix D

Agency Response to Draft Report

U.S. Department of Labor

Office of the Assistant Secretary  
for Administration and Management  
Washington, D.C. 20210



AUG 24 2009

MEMORANDUM FOR ELLIOT P. LEWIS

Assistant Inspector General

Handwritten signature of Edward C. Hugler in black ink.

FROM:

EDWARD C. HUGLER  
Deputy Assistant Secretary for Operations,  
Senior Procurement Official

SUBJECT:

Audit of the Office of the Assistant Secretary for Administration  
and Management's Oversight of the Purchase Card Program,  
Draft Report (06-09-003-07-001)

This responds to the Office of the Inspector General (OIG) July 27, 2009, draft audit report of the Office of the Assistant Secretary for Administration and Management's (OASAM) oversight of the DOL purchase card program.

While OASAM has taken steps to increase the oversight of the purchase card program—comprised of some 1,200 purchase card holders who execute approximately 65,000 transactions annually—we acknowledge that more can be done to strengthen oversight and compliance. We also endorse the audit report's recommendation that essential to the effectiveness of the oversight of this program is DOL program agencies' cooperation and compliance with directives, regulations, reviews, and guidance from OASAM, which are designed to ensure effective controls are in place. In addition, OASAM concurs with the OIG's assessment that the A/OPCs are the proper individuals to provide oversight within the program agencies. As acknowledged in the draft report, the structure of delegating a significant portion of the monitoring process to the program agency level is a reasonable control structure.

OASAM concurs with the draft audit report's findings. Our response to the recommendations follow:

**Recommendations:**

**1. Implement an effective monitoring and review process to ensure program agencies and their delegated A/OPCs are complying with Federal and DOL policies for purchase card transactions.**

Response: OASAM will issue guidance during the 4<sup>th</sup> quarter of FY 2009 which will include a purchase card checklist to be use by A/OPCs to conduct assessments of a sampling of the purchase card transactions and provide their findings to OASAM for review. OASAM will also continue to conduct periodic assessments of the agencies' purchase card transactions. In addition, OASAM will work with OCFO to require agency heads to certify, on a quarterly basis as part of the OCFO's financial management certification process, that they have fulfilled their purchase card oversight responsibilities.

**2. Comply with a federal mandate for all cardholders to complete purchase card training every 3 years; and require A/OPCs to comply with DOL policies for tracking and documenting cardholders' completion of this training.**

Response: OASAM will issue guidance during the 4<sup>th</sup> quarter of FY 2009 to all DOL purchase cardholders, approving officials, and A/OPCs reminding them of the requirements to properly complete the appropriate training and require that a copy of their training certificates be maintained by the A/OPCs. Compliance checks with this guidance will be included in the periodic assessments of the agencies' purchase card transactions.

**3. Coordinate with the DOL property managers to develop controls that ensure accountable property paid for with purchase cards has been properly accounted for.**

Response: OASAM will issue guidance during the 4<sup>th</sup> quarter of FY 2009 to all purchase cardholders, approving officials, and A/OPCs reminding them of the requirement to properly input information into the property management system. Compliance checks with this guidance will be included in the periodic assessments of the agencies' purchase card transactions.

**4. Provide guidance to assist A/OPCs in recovering potentially unauthorized purchases identified in our audit.**

Response: During the 4<sup>th</sup> quarter of FY 2009, OASAM will issue guidance to all purchase cardholders, approving officials, and A/OPCs reminding them of the proper methodologies for recovering unauthorized purchases. Compliance checks with this guidance will be included in the periodic assessments of the agencies' purchase card transactions.

Based on the foregoing responses, we anticipate that the draft audit report's recommendations are resolved and can be closed upon completion of the corrective actions.

cc: T. Michael Kerr, ASAM  
Al Stewart, OASAM  
Valerie Veatch, OASAM  
Lisa Fiely, OCFO

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