



THE SECRETARY OF VETERANS AFFAIRS

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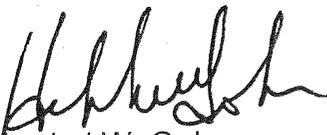
JAN 19 2001

The Honorable Elaine Kaplan
The Special Counsel
1730 M Street, NW
Suite 300
Washington, DC 20036-4505

Dear Ms. Kaplan:

This is a final reply to your letter dated September 6, 2000, concerning purchase card irregularities at the Department of Veterans Affairs Chicago Health Care System, Lakeside Division, Chicago, Illinois (OSC File No. DI-98-2117). The final Office of Inspector General (OIG) report is enclosed. I have reviewed the report and agree with its findings and recommendations. The Director of the Chicago Health Care System will take appropriate corrective action to address the issues raised in the report. The OIG will provide the necessary follow-up to ensure that the recommendations are fully implemented.

Sincerely,



Hershel W. Gober

Enclosure

Department of
Veterans Affairs

Memorandum

Date: December 6, 2000

From: Assistant Inspector General for Auditing (52)

Subj: Review of Hotline Complaint: Misuse of Government Purchase Card
— Report No. 00-02285-19

To: Director, VA Chicago Health Care System (535/00)

1. The Office of Inspector General (OIG) reviewed the following allegations to determine their validity and whether or not corrective actions are called for:

- The Interior Designer at the Lakeside Division of the VA Chicago Health Care System (CHCS) misused his government purchase card by acquiring landscaping services that exceeded micro-purchase threshold limits by splitting purchases into two or more transactions.
- The former Director of Lakeside (and eventually CHCS) knew of this practice and failed to review it.

2. We concluded that the first allegation was substantiated. We recommend that action be taken to:

- a. Discontinue use of a government purchase card to acquire recurring landscaping services at the Lakeside Division.
- b. Improve internal purchase card audit procedures and audit results reporting.
- c. Reduce the level of expenditures for landscaping at the Lakeside facility.
- d. Use standard government contracting procedures to acquire all such services in the future.
- e. Appropriately counsel employees involved in misusing the government purchase card.

3. The second allegation was not substantiated. We were unable to conclude whether the former Director knew or approved of the interior designer's practice of splitting purchase card transactions. Therefore, we make no recommendations.

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4. You concurred with our recommendations and provided satisfactory implementation plans. We consider all issues in this report resolved, although the OIG may follow up on planned actions at a later date.

5. In addition to our review, Office of Investigations staff conducted a review to determine if any conflict of interest laws were violated with respect to the misuse of the government purchase card. That investigation did not substantiate any criminal violations.

6. Thank you for your cooperation. If you have any questions, please contact me (708-202-2670) or Audit Manager William Gerow (708-202-2344).

For the Assistant Inspector General for Auditing



WILLIAM V. DEPROSPERO
Director, Chicago Audit Operations Division (52CH)

Attachment

**OIG REVIEW OF HOTLINE COMPLIANT:
MISUSE OF GOVERNMENT PURCHASE CARD
Report No. 00-02285-19**

SUMMARY

The Office of Inspector General (OIG) conducted a review at the Department of Veterans Affairs (VA) Chicago Health Care System (CHCS) to determine the validity of allegations of misuse of a government purchase card by the interior designer at the Lakeside Division. The first allegation claimed that the interior designer repeatedly split large purchases into several credit card transactions to circumvent micro-purchase thresholds that apply to purchase card use. The second allegation maintained that this was done with the knowledge of the former Director, who is now deceased.

We found that the first allegation was substantiated, but we were unable to substantiate the second allegation. To determine the validity of the allegations, we interviewed the designer's supervisor, the current Director, and staff responsible for administering CHCS' purchase card program. We also reviewed documents related to numerous specific purchase card transactions executed by the designer. Our review was conducted onsite from June 19 to 23, 2000.

Below are the two specific allegations. Following each allegation is the conclusion we reached, a description of the review work performed and, where appropriate, our recommendations.

RESULTS OF REVIEW

Allegation 1: That the interior designer at the Lakeside Division of the CHCS, continually made purchases of just below the \$2,500 micro-purchase threshold for purchase cards. Many of the purchases were executed on the same day and for similar services, leading one to conclude that the reason for dividing up the purchases was to keep the amount of each purchase under the \$2,500 limit.

The allegation was substantiated. Credit card and purchase order transaction records provided by the complainant and records obtained during our review revealed that on four occasions from April 1997 through September 1997, the interior designer acquired landscaping services far exceeding the \$2,500 purchase card limit. He did this by breaking large purchases into several purchase card transactions. For example, on September 5, 1997, the interior designer acquired \$12,250 in unspecified landscaping services by breaking the acquisition down into five separate purchase card transactions of

exactly \$2,450 each. We refer to this practice as “purchase splitting,” and it is prohibited under government purchase card rules. Although clear examples of purchase splitting seemed to stop about October 1997,¹ questionable use of a government purchase card to acquire landscaping and related services continued in a modified form thereafter.

After October 1997, the interior designer continued to make large purchases of landscaping services using a government credit card. However, the pattern of transactions changed to what might be called “piecemeal purchasing,” rather than obvious cases of purchase splitting. After September 1997, multiple transactions on or around the same date were generally of different amounts or were for slightly different work, as described on purchase order documents. For example, on January 27, 1998, the interior designer acquired \$9,550 in landscaping services broken down into 4 purchase card transactions as follows:

Landscape – Huron	\$2,489
Landscape – Erie	\$2,289
Landscape – McClure	\$2,413
Landscape – Fairbanks ²	\$2,359

Each transaction represented a different scope of work and a different dollar amount. In another example, the designer executed 7 credit card transactions between May 30 and June 2, 2000 totaling about \$9,295. Although all the transactions were for unspecified “landscaping services,” no 2 were for the same amount, and they ranged from \$728 to \$1,680.

While it is less clear that these examples, and others like them after October 1997, represented “purchase splitting,” they did involve the acquisition of landscaping services on a regular and recurring basis, for which the use of a government purchase card is prohibited. The government purchase card is intended to be used for small, non-recurring purchases. These purchases, in total, were not small, nor were they non-recurring. Between April 23, 1997 and June 2, 2000, the designer acquired \$169,331 worth of landscaping and landscaping-related³ services, using 94 separate purchase card transactions. While some of these transactions clearly showed purchase-splitting (April to September 1997), all of them represented a violation of the intent of the government purchase card program in that they were for recurring needs.

¹ The designer’s supervisor, the Chief of Environmental Management Service, told us that he had been made aware of the designer’s practice of purchase splitting “a year or 2 ago” and had put a stop to it. If the time frame is adjusted by about 1 year, this could explain the change in purchase patterns occurring around October 1997.

² Huron, Erie, McClure, and Fairbanks are the names of the streets that surround the medical center.

³ There was one transaction involving “pest control” and several transactions involving repairs or maintenance of a lawn sprinkler system.

Internal Controls - As part of our review, we examined internal control procedures that should have ensured that the practices of purchase splitting or piecemeal purchasing were identified and appropriately dealt with. We interviewed the purchase card program coordinator and a staff person assigned to conduct periodic internal audits of purchase card transactions. The auditor informed us that she reviewed each month's charge card statement from the charge card company. She looked primarily for purchases from unlikely vendors, such as surgery staff making purchases from a toy store, and anything else "odd" that caught her eye. It was not a systematic or in-depth review of each transaction. If she identified a transaction that "looked suspicious," she referred it to VA police staff for their disposition. She would make no other referral and did not prepare written reports of audit results. Neither was she aware of the disposition of her referrals to the VA police.

We interviewed the police lieutenant assigned to follow-up on such referrals. He informed us that his focus was on cases of potential fraud. If he received a referral involving only a "procedural violation," he would not pursue it. However, he did not recall having received such referrals anytime recently.

We concluded from these interviews that internal audits of purchase card transactions were not sufficiently systematic to identify examples of purchase splitting or piecemeal purchasing. Even if these violations were identified, referral of such cases to police staff would not result in corrective action, because police staff pursue only potential fraud cases, not procedural violation cases. OIG investigators conducted a review to determine if any conflict of interest laws were violated with respect to the misuse of the government purchase card. That investigation did not substantiate any criminal violations.

Based on interviews with the auditor, the purchase card coordinator, and police staff, we concluded that staff with the authority to take corrective or remedial action were not routinely made aware of examples of improper purchase card use. We believe that audit and audit reporting procedures need to be reviewed. Procedures need to be revised to ensure that cases of improper credit card use, including procedural violations, are detected and that corrective actions are taken.

Cost of Landscaping Services - Our review also raised concerns about the amount of money spent on landscaping services at the Lakeside Division, as well as about making those expenditures without the use of standard government contracting procedures. The Lakeside facility occupies one square block of "downtown" property in a high-rise section of Chicago. The landscape areas (areas not occupied by structures and pavement) are minimal. However, over about 4 years, the facility spent \$169,331 on landscaping services procured by purchase card, or an average of about \$42,333 a year. This does not

include any landscaping that may have been procured through other means or performed by facility employees.⁴

By way of comparison, annual landscaping costs at the West Side Division of CHCS were \$23,900, according to Engineering Service staff. Landscaping services at the much larger West Side campus were obtained through a contract with a private vendor and included, among other things, mowing, fertilizing, weed control, and flower planting. We believe that CHCS management should use standard government contracting procedures for acquiring landscaping services at the Lakeside facility, similar to the method used at West Side. We also believe that expenditures for landscaping at the Lakeside campus documented in this report are excessive, and that the rate of such expenditures in the future should be reduced to be more in line with the rate of expenditures for landscaping at the much larger West Side campus.

Allegation 2: That the former CHCS Director was aware of the interior designer's practice of acquiring services by splitting purchase card transactions, and that he failed to review the matter.

The allegation was not substantiated. The former Director of the Lakeside facility (and eventually of CHCS) retired in September of 1998 and died in June of 2000. According to the interior designer's supervisor, the former Director probably did not have knowledge of the specific purchase-splitting practices we found. Otherwise, we were unable to conclude whether the former Director knew or approved of the practice of splitting purchase card transactions for landscaping services. The current Director assumed his position in November 1999. He told us that he was not aware of these purchase-splitting activities. In addition, no one else with whom we spoke made any suggestion that the current Director was aware of this issue.

CONCLUSION

We conclude that the first allegation is substantiated. The interior designer did split large purchases of landscaping services into numerous small purchase card transactions, presumably to avoid exceeding micro-purchase limits established for government purchase cards. We also concluded that use of a government purchase card, whether purchase splitting occurred or not, was inappropriate given the dollar amount and the recurring nature of these purchases. In addition, we found that internal audit and audit reporting procedures were not sufficient to prevent or correct inappropriate use of the government purchase card. We also questioned the propriety of spending such large

⁴ We did not review costs for landscaping that may have been obtained by means other than the use of the government purchase card.

sums on landscaping at the relatively small Lakeside facility, as well as the propriety of doing so without the use of standard government contracting procedures.

The second allegation was not substantiated. We were unable to conclude whether the former Director knew or approved of the practice of splitting purchase card transactions for landscaping services.

RECOMMENDATION 1

The CHCS Director should:

- a. Discontinue the inappropriate use of a government purchase card to acquire recurring landscaping services at the Lakeside Division.
- b. Review and appropriately revise procedures for conducting internal audits of purchase card transactions and establish policies for the reporting of audit findings to appropriate management officials so that corrective action can be taken when necessary.
- c. Assure that the level of expenditures for landscaping at the Lakeside facility is commensurate with the reasonable needs of the facility.
- d. Use standard government contracting procedures to meet Lakeside Division landscaping needs, as is done at the West Side Division.
- e. Appropriately counsel employees involved in misusing the government purchase card.

CHCS Director's Comment

Concur. The following corrective measures have been taken:

- a. Landscaping services are no longer being purchased with a government purchase card.
- b. I have established an *ad hoc* group lead by the Agency Program Coordinator. This group is to: 1) review the new VHA Handbook 1730.1 dated June 14, 2000, Use and Management of the Government Purchase Card Program; and 2) update the facility's Memorandum 00-23 dated May 14, 1999, Procedures for Using the Government Commercial Purchase Card, including reporting requirements, by January 19, 2001.
- c. The financial and administrative responsibilities for all landscaping services have been transferred to the Engineering Service at the VA Chicago Health Care System. The Environmental Management Service is only providing technical design support.

In order to monitor the use of landscaping services, I am requiring the Environmental Management and Engineering Services to report to me quarterly on the expenditures relating to landscaping services at both divisions — Lakeside and West Side.

- d. Landscaping services are now acquired through the VISN 12 Great Lakes Acquisition Center.
- e. The employee in Environmental Management Service who misused the government purchase card has been counseled to not use this practice in the future. I am confident this will resolve the issue.

Office of Inspector General Comment

The CHCS Director's comment and implementation plans are responsive to these recommendations, and we consider all issues in this report resolved. However, the OIG may follow up on planned actions at a later date.