



CIGIE Purchase Card Initiative—USDA Controls over Purchase Card Use

Audit Report 50024-0001-22

OIG reviewed USDA's controls over purchase card transactions.

OBJECTIVE

Our objective was to determine whether USDA made purchase card transactions that were potentially illegal, improper, or erroneous. Additionally, we evaluated the Department's and applicable agencies' key internal controls to prevent such transactions from occurring.

REVIEWED

We reviewed purchase card transactions and supporting documentation for the first half of fiscal year 2017. We used a data analysis tool to identify high-risk transactions and then selected a statistical sample of 100 transactions for review. We also reviewed previous audits, laws, regulations, policies, and procedures regarding the purchase card program and interviewed agency officials.

RECOMMENDS

We recommend establishing requirements for documenting the use of non-required sources, issuing guidance for identifying split purchases, and creating guidelines for documenting the recovery of sales tax.

WHAT OIG FOUND

The Department of Agriculture (USDA) has over 12,000 cardholders who use commercial credit cards to procure and purchase needed supplies and services. Within USDA, the Office of Procurement and Property Management (OPPM) administers these purchase cards and provides policy and oversight to USDA agencies regarding their use.

We found that OPPM needs stronger controls over its purchase card program. We used a data analysis tool to identify "high risk" purchase card transactions that were potentially illegal, improper, or erroneous such as transactions that occurred on weekends or holidays, transactions made to prohibited or questionable vendors, transactions with sales tax, transactions to third-party vendors, transactions indicating they were split transactions, etc. From the universe of all these transactions, we selected a statistical sample of 100 to determine if they were proper. We found that 34 of these 100 transactions had commonly acquired supplies available from required sources, but cardholders had purchased them improperly or erroneously from non-required sources; 8 of the 100 included potential split purchases, of which 4 of the 8 allowed the cardholder to avoid requirements applicable to transactions in excess of purchase limits; 7 of the 100 included sales taxes which were found to be improperly paid; and 28 of the 100 were missing the required documentation needed in order to properly approve the transaction. In all, 58 of the 100 transactions had one or more of these multiple issues.

We reached management decision on 3 of the 4 recommendations. Further action from OPPM is needed before management decision can be reached on the remaining recommendation.



United States Department of Agriculture
Office of Inspector General
Washington, D.C. 20250



DATE: March 8, 2018

AUDIT
NUMBER: 50024-0001-22

TO: George M. Cabaniss, Jr.
Director
Office of Procurement and Property Management

ATTN: Michelle Countess
Audit Liaison Officer

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: CIGIE Purchase Card Initiative - USDA Controls over Purchase Card Use

This report presents the results of the subject audit. Your written response to the official draft report, dated February 5, 2018, is included in its entirety at the end of the report. Your response and the Office of Inspector General's (OIG) position are incorporated into the relevant sections of the report. Based on your written response, we are accepting management decision for Recommendations 1, 2, and 4. Management decision has not been reached for Recommendation 3. The actions needed to reach management decision for this recommendation are described under the relevant OIG Position section.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned, and timeframes for implementing the recommendation for which management decision has not been reached. Please note that the regulation requires management decision to be reached on all recommendations within 6 months from report issuance, and final action to be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Financial Report. For agencies other than the Office of the Chief Financial Officer (OCFO), please follow your internal agency procedures in forwarding final action correspondence to OCFO.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions. This report contains publicly available information and will be posted in its entirety to our website (<http://www.usda.gov/oig>) in the near future.

Table of Contents

Background and Objectives	1
Section 1: OPPM Needs Stronger Controls over Purchase Cards.....	4
Finding 1: OPPM Lacks a Unified, Agency-wide Method for Documenting Purchases from Non-required Sources	4
Recommendation 1	5
Finding 2: OPPM Needs to Issue Additional Guidance to Avoid Split Purchases	6
Recommendation 2	8
Recommendation 3	8
Finding 3: Cardholders Paid Sales Tax Improperly	10
Recommendation 4	11
Finding 4: Controls over Maintaining Documentation Need Strengthening..	12
Scope and Methodology.....	14
Abbreviations	18
Exhibit A: Sampling Methodology and Projections.....	19
Agency's Response	23

Background and Objectives

Background

The Department of Agriculture (USDA) has over 12,000 cardholders who use commercial credit cards to procure and purchase needed supplies and services. Within USDA, the Office of Procurement and Property Management (OPPM) administers these purchase cards and provides policy and oversight to USDA agencies regarding their use. In the first half of fiscal year (FY) 2017, USDA cardholders made over 420,000 transactions totaling more than \$145 million.¹

U.S. Bank provides USDA's purchase cards through the General Services Administration (GSA) SmartPay® master contract. As part of this contract, U.S. Bank provides Access® On-Line (AXOL), an online system for maintaining purchase card data. It provides immediate access for stakeholders to manage and monitor purchase card transactions. AXOL also allows stakeholders to create, monitor, and review cardholder accounts, dispute transactions, and create reports necessary for program integrity and results.

Purchase cards are USDA's primary method for making purchases of \$3,500 or less. USDA's objectives in using the purchase card "are to reduce procurement and related payment paperwork by reducing/eliminating the number and dollar amounts of imprest funds, reducing purchase order transactions for supplies and services, including construction, and reducing administrative processing costs and lead times."² For purchases of \$3,500 or less (known as the Micro-Purchase Level), cardholders may acquire supplies without soliciting competitive quotations if reasonably priced. Purchases above \$3,500 are limited to warranted personnel and require competitive quotations for all purchases, if not already contracted.³

The cardholder is responsible for all purchases made with the purchase card and ensuring compliance with the Federal Acquisition Regulation (FAR), Departmental, and agency regulations. The cardholder is also responsible for verifying each transaction in AXOL. Other cardholder responsibilities include:

- Making purchases within authorized spending limits and funds availability;
- Maintaining adequate documentation of all purchase card transactions; including documentation of funds availability, receipts, packing lists, invoices, etc.;

¹ GSA SmartPay®, *Statistics – Sales, Transactions, Account Holder Data*, <http://smartpay.gsa.gov> (last visited Sept. 22, 2017).

² USDA OPPM, *USDA Purchase Card Program Guide*, § 2.1, "USDA Government-wide Commercial Purchase Card" (July 26, 2017).

³ Warranted personnel are those with authority delegated to the employee (Contracting Officer, Purchasing Agent, etc.) by a duly authorized appointing official in accordance with 48 C.F.R. § 1.6 and USDA Departmental Regulation 5001-1, Acquisition Workforce Training, Delegation, and Tracking Systems. The warrant, Standard Form (SF)-1402, states the level of contracting authority delegated to an individual, including any limitations on that authority. Above the micro-purchase threshold, only individuals with warrant authority may bind USDA contractually.

- Completing annual refresher training to maintain knowledge of the program’s new, revised, and existing ethics requirements, policies, and procedures;
- Approving purchase card transactions using AXOL on a monthly basis, ensuring entry of proper accounting codes, budget codes, and purchase information; and
- Obtaining proper authorization prior to purchasing goods/services.

The Government Charge Card Abuse Prevention Act of 2012⁴ requires heads of executive agencies that issue and use purchase cards to “establish and maintain safeguards and internal controls” over their usage. USDA management and oversight of the purchase card program includes several levels of control to assist in preventing or detecting illegal, improper, or erroneous transactions. The approving officials, who are often the cardholders’ supervisors, are the “first line of control over the purchasing activity of cardholders in their units.”⁵ An approving official’s duties include verifying the following: necessary purchases, receipt of supplies and services, and cardholders’ documentation. He or she must also approve the cardholder’s transactions and recommend disciplinary action for misuse of the purchase card.

Local agency program coordinators (LAPC) are the next level of control and are usually a contracting or purchasing specialist that administers the program for multiple cardholders. Each quarter, these LAPCs must review 25 percent of the cardholders’ transaction information in AXOL, conduct a physical review of actual documentation, and certify these results to the agency program coordinator (APC). As a result, LAPCs review 100 percent of cardholders by the end of the year. APCs are the final level of control for their agency. They have overall responsibility for management and oversight of the purchase card program for their agency and coordinate directly with OPPM. The APC answers inquiries regarding questionable transactions from a sample selected for review by OPPM.

Prior Audits

Since 2001, the USDA Office of Inspector General (OIG) has performed three audits of the internal controls for the Department’s purchase cards.⁶ These audits recommended that USDA:

- Ensure agency and local coordinators timely complete reviews,
- Ensure immediate supervisors are required to periodically review cardholders’ purchases and reconciliations, and
- Strengthen internal controls to prevent and detect improper payments such as reconciling cardholders’ transactions, making system alerts more effective, and strengthening policies governing supervisory oversight.

⁴ Government Charge Card Abuse Prevention Act of 2012, Pub. L. No. 112-194, 126 Stat. 1445.

⁵ USDA Departmental Regulation 5013-6, Use of the Purchase Card and Related Alternative Payment Methods (Nov. 14, 2012).

⁶ Audit Report 50099-26-FM, *Some Changes Would Further Enhance Purchase Card Management System Internal Controls* (Aug. 2001). Audit Report 11099-44-FM, *Purchase Card Management System Controls Need Strengthening* (Aug. 2005). Audit Report 50024-0001-13, *Review of the Department’s U.S. Bank Purchase Card and Convenience Check Data* (Mar. 2015).

In 2015, we reported findings regarding missing documentation and recommended periodic training and additional Departmental oversight of quarterly reviews by APCs.⁷ In response to this OIG recommendation, OPPM required at the beginning of FY 2016 that APCs quarterly certify their reviews of cardholders' accounts. APCs are to certify 25 percent of cardholders each quarter with 100 percent to be completed by December 2016 (FY 2017). In February 2017, the Government Accountability Office (GAO) reported that missing documentation for purchases has been a government-wide issue in a similar finding.⁸ In response, GSA issued a bulletin to Federal Departments and agencies re-emphasizing the importance of maintaining purchase documentation.⁹

USDA OIG conducted this audit as part of a government-wide initiative by the Council of the Inspectors General on Integrity and Efficiency (CIGIE) Information Technology (IT) committee.¹⁰ This initiative provided common data analytical and statistical tools to assist the OIG community in data-mining purchase card transactions for potentially illegal, improper, or erroneous transactions. Additionally, we conducted this audit to comply with the Government Charge Card Abuse Prevention Act of 2012, as it requires OIGs to periodically assess risk and perform audits, as necessary, of purchase card transactions designed to identify potentially illegal, improper, or erroneous uses of purchase cards.¹¹

Objectives

Our objective was to determine whether USDA made purchase card transactions that were potentially illegal, improper, or erroneous. Additionally, we evaluated the Department's and applicable agencies' key internal controls to prevent such transactions from occurring.

⁷ Audit Report 50024-0001-13, *Review of the Department's U.S. Bank Purchase Card and Convenience Check Data* (Mar. 2015).

⁸ GAO-17-276, *Government Purchase Cards: Little Evidence of Potential Fraud Found in Small Purchases, but Documentation Issues Exist* (Feb. 2017).

⁹ GSA Federal Acquisition Service, *GSA SmartPay® – Re-emphasizing Record Keeping Requirements (Issued pursuant to Government Accountability Office (GAO) Audit Report # GAO-17-276)*, Smart Bulletin No. 028 (Mar. 29, 2017).

¹⁰ The committee's mission is to facilitate effective IT audits, evaluations, and investigations by OIGs, and to provide a vehicle to express the OIG community's perspective on government-wide IT operations. Under its operating principles, this committee strives to promote participation by the OIG community members in its activities; encourage communication and cooperation with colleagues in the IT field (including Federal Chief Information Officers and staff, and IT security professionals); and promote effective teamwork in addressing government-wide initiatives, improving Federal Government IT activities, and safeguarding national IT assets and infrastructure.

¹¹ Government Charge Card Abuse Prevention Act of 2012, Pub. L. No. 112-194, 126 Stat. 1445.

Section 1: OPPM Needs Stronger Controls over Purchase Cards

Finding 1: OPPM Lacks a Unified, Agency-wide Method for Documenting Purchases from Non-required Sources

We found 34 of 100 high-risk¹² purchase card transactions where cardholders improperly or erroneously purchased supplies and services from a third-party when required sources were available.¹³ This represents an estimated 6,846 of 20,133 high-risk transactions, or 34 percent.¹⁴ This occurred because OPPM lacked a unified, agency-wide method for documenting purchases from non-required sources. As a result, USDA is not achieving cost savings by leveraging its purchasing power through required or strategic sourcing, which may include small businesses or AbilityOne®.¹⁵

FAR Part 8 requires purchasers to acquire supplies and services from pre-established, mandatory sources whenever possible. For example, USDA established USDA Advantage! ®, a website in partnership with GSA, to leverage its buying power to negotiate better prices, ordering methods, and delivery terms for commonly acquired items and services such as office supplies, computer peripherals, grounds maintenance, etc. USDA Advantage! ® includes USDA discounted Blanket Purchase Agreements negotiated specifically for USDA users along with GSA-negotiated items. Open market commercial sources, which are sources without a government contract (such as a local store), are the last priority for supplies and services after the purchasers have explored all other sources. Additionally, agencies are required to requisition items listed in the GSA Supply Catalog in lieu of procuring similar items from other sources when the GSA items will adequately serve the purpose.¹⁶

Our review of 100 transactions sampled revealed that in 34 instances the Department could have purchased items from required sources available on USDA Advantage! ®, but instead purchased commercially from non-required sources. Purchasing from non-required sources means that USDA purchases may not be achieving cost savings from strategic sourcing. For instance, one cardholder purchased a discontinued model global positioning system device from a third-party vendor for \$295.00 when a newer model was available on USDA Advantage! ® for \$252.06. Although Federal regulations preclude procuring similar items from other sources when GSA items will adequately serve the purpose, the cardholder searched only for the exact model and was unaware that the newer model, or several other acceptable models, were available. Additionally, cardholders purchased common supply items such as batteries, which one

¹² We data-mined purchase card transactions using algorithms to identify and weigh potentially at risk purchases such as split purchases, prohibited or questionable vendors, sales tax, third-party vendors, etc. From these transactions, we defined, by weight and dollar amount, the top 25 percent as “high-risk” and selected a statistical sample of 100 transactions to review as described in the Scope and Methodology section of this report.

¹³ FAR Part 8 establishes mandatory and priority sources for acquiring supplies and services such as from the agencies’ own stock, Federal Prison Industries, Committee for Purchase from People Who are Blind or Severely Disabled, Federal Supply Schedule contracts, etc.

¹⁴ Using a 95 percent confidence interval, the rate of avoiding required sources fell between 25 percent and 43 percent of the high-risk transactions.

¹⁵ The AbilityOne® program, administered by the Committee for Purchase from People Who Are Blind or Severely Disabled, provides supplies and services.

¹⁶ 41 C.F.R. § 101-26.301.

cardholder purchased for \$64.49 from a third-party vendor, when the same batteries were available on USDA Advantage! ® for \$11.42. Other common supply items that cardholders purchased from third-party vendors included phone headsets, computer monitors, webcams, office and cleaning supplies, etc., without documenting whether the item was available from required sources.

In general, cardholders in our sample lacked documentation to support the use of a non-required source, making it difficult for approving officials or other reviewers to determine whether the cardholder explored required sources. In our discussions with OPPM officials, we noted that some cardholders had documentation and used memorandums or other forms to annotate attempts to use required sources; however, OIG did not see a uniform method across or even within agencies. OPPM stated they would encourage agencies to use a vendor approval form similar to the one OPPM currently uses for purchase card transactions. OPPM generally agreed with OIG that a memorandum or other similar form would assist an approving official in reviewing cardholders' purchases from required sources and strengthening agencies' controls over erroneous or improper purchase card transactions.

Recommendation 1

Establish requirements for documenting the use of non-required sources for approval by approving officials.

Agency Response

In its February 5, 2018, response, OPPM concurred with this recommendation. OPPM will update the USDA Purchase Card Program Guide to add a form that cardholders must complete for purchases that are made when using a non-required source. OPPM estimates this corrective action will be completed by March 31, 2018.

OIG Position

We accept management decision for this recommendation.

Finding 2: OPPM Needs to Issue Additional Guidance to Avoid Split Purchases

We found that 8 of the 100 high-risk transactions we reviewed included potential split purchases.¹⁷ Of these eight transactions, in four¹⁸ instances the cardholder did not comply with the requirements applicable to transactions in excess of the micro-purchase threshold.¹⁹ This occurred because OPPM has not provided uniform guidance to agencies that clearly defines split transaction and ensures consistent identification of split purchases. Rather, OPPM relies on each agency to follow its own way of determining what constitutes a split purchase, which we found inconsistently applied across the Department. As a result, USDA has reduced assurance that agencies are complying with requirements applicable to transactions in excess of the micro-purchase threshold or are procuring services and goods at the best value available to the government.

The FAR establishes additional requirements for purchases above the micro-purchase threshold, such as obtaining competitive quotations. Agencies may not “break down requirements aggregating more than ... the micro-purchase threshold into several purchases that are less than the applicable threshold merely to ... [a]void any requirement that applies to purchases exceeding the micro-purchase threshold.”²⁰ This policy does not apply if an agency can meet its requirement using: (1) required sources of supply under Part 8 (for example, Federal Prison Industries, Committee for Purchase from People Who are Blind or Severely Disabled, and Federal Supply Schedule contracts); (2) existing indefinite delivery/indefinite quantity contracts; or (3) other established contracts. Purchases above the micro-purchase threshold are restricted to USDA’s warranted contracting/purchasing officials.

In the first of four transactions, a non-warranted cardholder purchased six copier maintenance agreements totaling \$6,960 from the same vendor, on the same day, for different offices throughout the State. Although these agreements were for different offices in different locations, Departmental Regulations state that if a requirement is for an ongoing repetitive service that may exceed \$2,500 a year, “the best solution is to forward the requirement for the service through the agency servicing contracting office.”²¹

When we discussed this transaction with the agency, the APC initially stated that the purchase was not considered a split because it was charged to multiple accounting codes based on location, and each purchase was less than the micro-purchase threshold. The APC went on to state that a different official requisitioned each transaction. However, we pointed out that the same official signed each of the requisitions, which the APC acknowledged. The APC explained

¹⁷ Split purchases can occur if there are transactions where cardholders made multiple purchases from the same vendor on the same day. For example, a split purchase occurs when the cardholder’s single purchase limit is \$3,500, the total requirement of items needed at the time of purchase is \$4,500, and the cardholder “splits” the requirement into multiple transactions of \$2,000, \$1,500, and \$1,000, each one less than the cardholder’s single purchase limit.

¹⁸ Using a 95 percent confidence interval, we project that the rate of split transactions is below 8 percent of the high-risk transactions and could be associated with one or more other transactions in the population.

¹⁹ The micro-purchase threshold is \$3,500 for supplies, \$2,500 for services, and \$2,000 for construction.

²⁰ 48 C.F.R. § 13.003(c)(2)(ii).

²¹ USDA Departmental Regulation 5013-6, Use of the Purchase Card and Related Alternative Payment Methods (Nov. 14, 2012).

that she sought guidance when a similar issue arose and was advised that as long as the purchases were funded by separate accounting codes, it was not a split transaction. However, this guidance is not documented. The APC stated that she would not take exception when performing reviews of potential split transactions if each purchase is for a different location because OPPM has not issued any definitive guidance in this area.

In the second transaction, we identified that a single cardholder made multiple purchases for nitrogen and related equipment on the same day, with the same vendor, with costs exceeding \$11,000. In this case, we noted that more than \$3,500 was charged to the same accounting code. As such, this example would not follow guidance described in the previous transaction (separate accounting codes) and thus should be treated as a split purchase. Furthermore, because these purchases represent an ongoing need that exceeds \$2,500 a year, the best practice in accordance with USDA regulations would be to contract these services. When asked by OIG, the agency's APC responsible for these transactions did not respond on whether he or she thought this transaction was a split purchase.

In the final two transactions, the cardholder made separate purchases for related items on the same day, from the same vendor, with total purchases in excess of the cardholder's single purchase limit. In both cases, the agency officials stated that these were not considered split transactions because each purchase represented a separate requirement. However, for one of these potential split purchases, two identical laboratory services were presented on the same requisition, showing the same order date. This indicates that the total requirement was known at the time of purchase and, therefore, did not represent separate requirements. In the other case, which involved the purchase of antenna mounts and antenna installation, the agency official stated that the requirement for the antenna mounts was unknown until after the installation was purchased. However, the invoice identified the purchase of the antenna mounts as "task 2.2" and the purchase of the antenna installation as "task 2.3," indicating both were part of the same project and therefore did not represent separate requirements.

For each of these four transactions, OIG concluded that the cardholders made aggregate purchases from the same vendor, on the same day, in totals that exceeded the cardholder's single purchase limit. Splitting purchases can allow cardholders to avoid certain requirements of the FAR, such as competitive quotations. Without competition, USDA cannot ensure that agencies are obtaining the best value for the government. Furthermore, when cardholders exceed their purchase limit, they lack the authority to enter into an agreement on behalf of the government, creating an unauthorized commitment.²² These unauthorized commitments require the agency's head of contracting activity to ratify the transaction. During ratification, a contracting officer determines if the transaction would otherwise have been proper if made by an appropriate contracting officer based on the availability of funds, reasonableness of the cost, and the receipt and acceptance of the supply or service.

²² FAR 1.602-3 defines an unauthorized commitment as "an agreement that is not binding solely because the Government representative who made it lacked the authority to enter into that agreement on behalf of the Government." Ratification is "the act of approving an unauthorized commitment by an official who has the authority to do so."

In reviewing the guidance provided to cardholders, approving officials, LAPCs, and APCs, we noted that USDA's OPPM does not define "split purchase" and did not provide any written guidance to account for these differing scenarios, such as purchases for multiple locations or purchases charged to different accounting codes. Instead, OPPM defines micro-purchase as "the acquisition of goods ... or services (except construction) the aggregate amount of which does not exceed \$3,500."²³ However, as we observed, there are inconsistencies in how agencies determined "the aggregate amount" to identify and address potential split transactions. Therefore, additional guidance for the USDA purchase card program is needed to help ensure that agencies are consistently identifying and addressing potential split purchases. OPPM stated that they were aware the agencies within the Department have unique requirements and apply different methods in determining what constituted split purchases, but had not considered providing additional guidance. However, OPPM's Charge Card Service Center is responsible for managing the use of purchase cards within USDA and, therefore, should provide guidance to identify what constitutes a split purchase.

Recommendation 2

OPPM should issue guidance for the USDA purchase card program to identify what constitutes a split purchase. Specifically, this guidance should address situations where one cardholder is making purchases for multiple offices or purchases charged to multiple accounting codes.

Agency Response

In its February 5, 2018, response, OPPM concurred with this recommendation. OPPM will update the USDA Purchase Card Program Guide to include examples of split transactions to clarify what constitutes a split transaction. There will be added guidance for cardholders making purchases for multiple offices or purchases charged to different accounting codes. OPPM estimates this corrective action will be completed by March 31, 2018.

OIG Position

We accept management decision for this recommendation.

Recommendation 3

OPPM should require the agencies to review and either ratify the four split transactions OIG identified or seek reimbursement for the purchases from the approving official if the transactions cannot be ratified.

Agency Response

²³ USDA OPPM, *USDA Purchase Card Program Guide*, § 6.1.2 "Micro-Purchases" (July 26, 2017).

In its February 5, 2018, response, OPPM stated that it will engage the Office of General Counsel to identify if these split purchases qualify to be ratified.

OIG Position

We are unable to accept management decision for this recommendation. We agree that OPPM should engage the Office of General Counsel; however, the proposed corrective action does not agree to ratify the split purchases if possible, or address what the agency will do if the split purchases cannot be ratified. To reach management decision, OPPM needs to state how it plans to proceed after identifying whether the split purchases qualify for ratification.

Finding 3: Cardholders Paid Sales Tax Improperly

The Federal Government is generally exempt from paying sales tax.²⁴ However, we found that, of the 100 sampled high-risk transactions, 7 cardholders paid sales tax improperly. This represents an estimated 1,410 of 20,133 high-risk transactions, or 7 percent.²⁵ None of the seven documented why they paid it or did not attempt to recover those taxes paid.²⁶ This occurred because USDA does not have a policy requiring cardholders to document reasons for paying or attempting to recover sales tax, such as documenting on the receipt or using the AXOL system to describe the transaction. As a result, cardholders are improperly paying sales tax and not documenting why sales taxes were paid or if recovered, making it difficult for approving officials to determine why State and local sales taxes were paid or if any recovery was attempted.

Cardholders should not pay sales tax, as Office of Management and Budget's (OMB) purchase card guidance states, "[the] Federal Government is not liable to pay taxes to State and local governments, and thus, any such taxes paid must be recovered."²⁷ OMB A-123 Appendix B states in instances where the tax-exempt status is not recognized at the point of sale, agencies should work with their charge card merchants and State or local authorities to accomplish tax recovery and agencies are required to make good-faith attempts to recover the taxes. Departmental guidance instructs cardholders that if a merchant refuses to waive the sales taxes, cardholders should pay them; however, the guidance does not address recovery of these taxes.²⁸

We found that the sales tax data in AXOL were not reliable in determining if sales tax was actually paid. Merchants are incentivized to provide sales tax data to receive discounts on their interchange fees charged by VISA for processing credit card transactions, thus some merchants might enter data just to receive the discount. Conversely, other merchants may not report sales tax data, as they are not taking advantage of the interchange fee discount. Due to these factors, we did not rely on the sales tax data in AXOL and based our conclusions on the invoices we reviewed, which have data that are more reliable.

During our review of invoices, we discovered that three invoices included sales tax as part of the transaction amount, although AXOL had no sales tax documented. Conversely, we discovered sales tax documented in AXOL that was not included on six invoices. Of the 100 transactions we sampled, 10 had sales tax in AXOL, but only 4 transactions had sales tax on invoices.

Cardholders documenting why sales taxes are paid or if they attempted to recover the sales tax would assist approving officials in determining why they were paid and if attempts to recover were attempted. OPPM officials stated cardholders have issues with merchants charging sales tax even though the purchase card has "US Government–Tax Exempt" printed on the front of the

²⁴ 48 C.F.R. § 29.

²⁵ Using a 95 percent confidence interval, the rate of improperly paid sales tax fell between 2 percent and 12 percent of the high-risk transactions.

²⁶ Of the seven that paid sales tax, two did later receive refunds for the sales tax paid before our fieldwork started.

²⁷ OMB, *Improving the Management of Government Charge Card Programs*, Circular A-123, Appendix B Revised (Jan. 15, 2009).

²⁸ USDA OPPM, *Cardholder's Quick Guide* (Sept. 30, 2013).

card. OPPM generally agreed that cardholders should document why sales tax was paid and any attempts to recover sales tax.

Recommendation 4

Establish a requirement to document sales taxes paid including attempts to recover any State and local sales taxes paid, and explain when recovery was attempted but not achieved.

Agency Response

In its February 5, 2018, response, OPPM concurred with this recommendation. OPPM will update the USDA Purchase Card Program Guide to require cardholders to notate the receipt or invoice that the sales tax paid was unavoidable or unrecoverable.

OIG Position

We accept management decision for this recommendation.

Finding 4: Controls over Maintaining Documentation Need Strengthening

We found that 28 of the 100 high-risk transactions were missing required documentation needed for properly approving purchases. This documentation was missing because cardholders neither properly maintained purchase requests nor receipt and acceptance documentation. Missing documentation can limit the ability of OPPM to provide effective oversight of the purchase card program and increases the risk that potentially illegal, improper, or erroneous transactions could occur without detection. Given that USDA spent over \$145 million in purchases for quarters one and two of FY 2017, it is critical that the Department and its agencies monitor documentation requirements to ensure the integrity of the purchase card program.

According to GAO's *A Framework for Managing Fraud Risks in Federal Programs*, control activities for managing fraud risks include the policies, procedures, techniques, and mechanisms related to three interdependent and mutually reinforcing categories of control activities—prevention, detection, and response.²⁹ GAO previously found that requiring documentation of transactions is a preventative control, which mitigates the risk of fraud occurring and generally offers the most cost-effective use of resources.³⁰ In addition, the Government Charge Card Abuse Prevention Act of 2012 requires cardholders and approving officials to reconcile charges on monthly statements using receipts and other supporting documentation.³¹

Transactions with missing requisitions included those where agencies were unable to provide written requests, authorized officials did not sign the requisitions, or cardholders placed orders before the requisition date. According to OMB guidance, cardholders should maintain documentation of written requests from agency personnel and preapprovals for self-generated purchases to minimize erroneous and improper purchases.³² OPPM requires a requisition for all purchases, and cardholders must obtain proper authorization prior to making a purchase. Requisitions may be in the form of a written request such as email or generated by the Department's Integrated Acquisition System.³³ Of the 100 high-risk sample transactions, 16 had missing requisitions. Based on this observation of errors, we estimated that 3,221 of the 20,133 high-risk transactions, or 16 percent, were missing requisitions.³⁴

Transactions with missing receipt and acceptance documentation included those where the agency was unable to provide proof of goods or services received by the cardholder or third party, or the proof was limited to the date recorded in AXOL. According to OMB guidance, agency policies and procedures must address the documentation of independent receipt and acceptance, when appropriate, to ensure that items purchased were actually received. Of the 100 high-risk sample transactions, 17 had missing receipt and acceptance documentation. Based on

²⁹ GAO-15-593SP, *A Framework for Managing Fraud Risks in Federal Programs* (July 2015).

³⁰ Audit Report GAO-17-276, *Government Purchase Cards: Little Evidence of Potential Fraud Found in Small Purchases, but Documentation Issues Exist* (Feb. 2017).

³¹ Government Charge Card Abuse Prevention Act of 2012, Pub. L. No. 112-194, 126 Stat. 1445.

³² OMB, *Improving the Management of Government Charge Card Programs*, Circular A-123, Appendix B Revised (Jan. 15, 2009).

³³ Integrated Acquisition System is a web-based procurement management system designed to help USDA acquire goods and services more efficiently and transparently.

³⁴ Using a 95 percent confidence interval, the rate of missing requisitions fell between 9 percent and 23 percent of the high-risk transactions.

this observation of errors, we estimated that 3,422 of the 20,133 high-risk transactions, or 17 percent, were missing receipt and acceptance documentation.³⁵

Although we identified similar documentation issues in our previous purchase card audit, we found improvement, as there were no high-risk sample transactions missing all required documentation.³⁶ OPPM did not fully implement one of our previous recommendations related to documentation issues until December 2016.³⁷ OPPM completed final action in September 2016, but the APCs certified quarterly reviews about 10 weeks after quarter end. As such, we were unable to determine the impact of final action in response to our previous recommendations. During our review, GAO issued a report in February 2017 recommending that management provide guidance to purchase card managers re-emphasizing the need to obtain and retain complete documentation in support of purchase card transactions.³⁸ In response, GSA provided Smart Bulletin No. 028 to all Departments re-emphasizing record keeping requirements “to obtain, maintain and retain complete documentation of all purchases.”³⁹ As such, we do not make any formal recommendations regarding missing documentation.

³⁵ Using a 95 percent confidence interval, the rate of missing receipt and acceptance documentation fell between 9 percent and 25 percent of the high-risk transactions.

³⁶ Audit Report 50024-0001-13, *Review of the Department’s U.S. Bank Purchase Card and Convenience Check Data* (Mar. 2015).

³⁷ December 2016 was halfway through the scope of our review (October 2016-March 2017).

³⁸ Audit Report GAO-17-276, *Government Purchase Cards: Little Evidence of Potential Fraud Found in Small Purchases, but Documentation Issues Exist* (Feb. 2017).

³⁹ GSA Federal Acquisition Service, *GSA SmartPay® – Re-emphasizing Record Keeping Requirements (Issued pursuant to Government Accountability Office (GAO) Audit Report # GAO-17-276)*, Smart Bulletin No. 028 (Mar. 29, 2017).

Scope and Methodology

We conducted our audit work from January 2017 through August 2017. This audit work was performed at OPPM in Washington, D.C. in order to gain an understanding of USDA's government purchase card use. We also performed audit work at procurement offices for the Forest Service (FS) in Albuquerque, New Mexico; the Agricultural Research Service (ARS) in Beltsville, Maryland; and the Animal and Plant Health Inspection Service (APHIS) in Riverdale, Maryland in order to review a sample of purchase card transactions and these agencies' policies, procedures, and controls over their purchase card use.⁴⁰

We audited transactions for the first half of FY 2017 (October 1, 2016 to March 31, 2017). In the first half of FY 2017, USDA cardholders made over 420,000 purchase card transactions totaling more than \$145 million. Our Office of Data Sciences (ODS)⁴¹ data-mined the transactions selecting 80,529 at risk purchase card transactions totaling more than \$24 million. From these transactions, ODS defined the top 25 percent as "high-risk," which resulted in 20,133 transactions totaling more than \$8 million. We statistically sampled 100 high-risk transactions totaling more than \$44,725 to determine if any were illegal, improper, or erroneous.

We relied on specialists from our ODS, the U.S. Postal Service OIG, and the Department of Education OIG⁴² to develop a defined set of weighted algorithms in order to group purchase card transactions by an assigned risk factor (that is, high, medium, and low). The algorithms used for selecting the sample of high-risk purchase card transactions were prohibited and questionable merchant category codes; exceeded the single purchase limit; split transactions; paid sales tax; weekend and holiday purchases; used third-party vendors; or had transactions after the account was closed.

To determine the universe of USDA's purchase card transactions, ODS joined purchase card transactions with the purchase card account holder information contained in U.S. Bank's AXOL system.⁴³ After the dataset was completed, ODS ran the weighted algorithms using analytic software (ACLTM Analytics) against the dataset, resulting in a sample of purchase card payments. Using the ACLTM software, ODS then populated an analytical spreadsheet tool to create a universe of high-risk transaction data so that the data could be used to select a sample of high-

⁴⁰ These three agencies were selected because combined they had 85 of the 100 (85 percent) purchase card transactions in our sample. FS had 60 transactions, ARS had 18 transactions, and APHIS had 7 transactions. The other agencies with transactions in our sample had 4 or less transactions each.

⁴¹ ODS applies data analytics to support OIG audits, investigations, and other activities. ODS conducts predictive data analytics, statistical sampling, modeling, computer matching, data mining, and data warehousing of USDA programs and operations. Using data analytics, ODS discovers potential fraud patterns and identifies anomalies in programs for further review.

⁴² The U.S. Postal Service OIG and Department of Education OIG were used as specialists during this audit because of their long history and years of experience in working with the purchase card program and because these OIGs already had a system in place for developing algorithms.

⁴³ U.S. Bank provides AXOL, which is an online system for maintaining the purchase card data and provides immediate access for stakeholders to manage and monitor card transactions. AXOL allows stakeholders to create, monitor, and review cardholder accounts; dispute transactions; and create reports necessary for program integrity and results.

risk purchase card transactions for testing. ODS was responsible for reviewing the transaction data to ensure that all required fields were acquired to populate the analytical tool.

To accomplish our objectives, ODS selected a statistical sample of 100 high-risk purchase card transactions (defined as the top 25 percent of the flagged transactions in a population of 20,133 flagged transactions) from October 1, 2016 to March 31, 2017. The sample included two strata, with the first stratum including 10,053 transactions from October 1, 2016, through December 31, 2016, (that is, Quarter 1) and the second stratum including 10,080 transactions from January 1, 2017, through March 31, 2017 (that is, Quarter 2). From this statistical selection, we identified and selected the top three USDA agencies (APHIS, ARS, and FS) with the most high-risk transactions to test internal controls and review corresponding supporting documentation.⁴⁴

To accomplish our audit, we:

- Reviewed applicable laws, regulations, policies, procedures, directives, notices, handbooks, and other guidance for the Department’s purchase card program, including Federal Acquisition Regulation Part 13; GSA Blueprint for Success: A Guide for Purchase Card Oversight; Department Regulation 5013-6, Use of the Purchase Card and Related Alternative Payment Methods; Office of Management and Budget Circular A-123, Appendix B; Government Charge Card Abuse Prevention Act of 2012 (Public Law 112-194); USDA Purchase Card Program Guide; and USDA Charge Card Service Center Purchase Card Management Plan.
- Reviewed previous GAO audit reports of government-wide purchase card programs and previous USDA OIG audit reports of USDA’s purchase card program.
- Interviewed APHIS, ARS, FS, and OPPM officials to determine the internal controls over USDA’s and agencies’ purchase card use in order to prevent illegal, improper, or erroneous purchase card transactions.
- Reviewed invoices, receipts, requisitions, receiving, and approval documentation supporting the purchase card transactions in our sample to determine if cardholders:
 - purchased items or services from prohibited or questionable merchant code vendors;
 - spent above their authorized single purchase limit;
 - split two or more transactions that would have normally been a single purchase transaction to circumvent the micro-purchase threshold;
 - attempted to recover sales tax if any purchases had sales tax charged;
 - made purchases over the weekend or holidays, and if so, whether they were authorized and valid;

⁴⁴ Other USDA agencies included in our sample of 100 high-risk purchase card transactions, which had 4 transactions or less, included Departmental Management, Farm Service Agency, Food Safety and Inspection Service, Foreign Agricultural Service, National Agricultural Statistics Service, Natural Resources Conservation Service, OPPM, and Rural Development.

- made purchases from non-mandatory sources (for example, third-party vendors); and
 - made purchases after their account was closed.⁴⁵
- Searched USDA Advantage! ® for those transactions where a cardholder made purchases from a third-party vendor rather than a mandatory source in order to determine whether the items were available, and if so, cheaper than the third-party vendor price.⁴⁶
 - Reviewed cardholder account information and the data in AXOL for the purchase card transactions in our sample to determine whether the information matched the documentation the cardholder provided to their agency.
 - Reviewed the monthly Questionable Transactions Report OPPM provides to agencies which identifies transactions requiring additional review for fraud and appropriateness of purchase card transactions.
 - Followed up with OPPM and agency officials on issues identified to obtain their positions and responses.

USDA uses U.S. Bank’s AXOL to manage, operate, and monitor purchase card transactions, which we found reliable for the objectives of this report with the exception of sales tax data. ODS used the data from AXOL to obtain the universe of purchase card transactions and select the sample we tested. ODS tested the data from AXOL in order to help reduce the audit risk. ODS tests included using ACL™ software to test data integrity, including record count and control totals. We tested the reliability of data specific to our scope by comparing physical documentation to the electronic information contained within AXOL. During our testing, we found the sales tax transaction data in AXOL to be inconsistent with the supporting documentation we reviewed and unreliable in determining whether sales tax was actually paid. We were therefore unable to rely upon the data for the findings or conclusions in this report. Instead, we based our estimates and conclusions on the documents we reviewed and the results of our audit testing.

We relied on the work of specialists to develop weighted algorithms, create the universe of purchase card transactions, develop the sampling methodology, select a statistical sample of high-risk purchase card transactions, provide the analytical spreadsheet tool and statistical sample spreadsheet, and analyze the results to make projections of the error rates.⁴⁷ We obtained documentation to satisfy the requirement that these specialists were qualified professionally, competent in the work we relied upon, used appropriate quality controls, and met independence standards. We performed these steps in accordance with auditing standards.

⁴⁵ Our sample had no transactions involving cardholders spending above their single purchase limit or making purchases after their account was closed.

⁴⁶ USDA Advantage! ® is a website USDA established in partnership with GSA to leverage its buying power to negotiate better pricing, ordering methods, and delivery terms for commonly acquired items and services.

⁴⁷ Issues found in the sample of 100 tested purchase card transactions were projected to the universe of untested transactions.

We conducted this 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

Abbreviations

APC.....	Agency Program Coordinator
APHIS.....	Animal and Plant Health Inspection Service
ARS.....	Agricultural Research Service
AXOL.....	U.S. Bank Access® On-Line
CIGIE.....	Council of the Inspectors General on Integrity and Efficiency
CFR.....	Code of Federal Regulations
FAR.....	Federal Acquisition Regulation
FY.....	fiscal year
FS.....	Forest Service
GAO.....	Government Accountability Office
GSA.....	General Services Administration
LAPC.....	Local Agency Program Coordinator
ODS.....	Office of Data Sciences
OIG.....	Office of Inspector General
OMB.....	Office of Management and Budget
OPPM.....	Office of Procurement and Property Management
USDA.....	Department of Agriculture

Exhibit A: Sampling Methodology and Projections

Exhibit A was provided by the OIG Office of Data Sciences to detail the statisticians' description of the audit sampling methodology and results.

Objective

OIG Office of Data Sciences statisticians developed this sampling work to support the CIGIE Purchase Card Initiative—USDA Controls over Purchase Card Use—50024-0001-22. The sample results are used to calculate estimated error rates to help quantify the extent of issues in the audit population. The audit objective is stated as follows: “Our objective was to determine whether USDA made purchase card transactions that were potentially illegal, improper, or erroneous. Additionally, we evaluated the Department’s and applicable agencies’ key internal controls to prevent such transactions from occurring.”

Sampling Methodology

Audit Population

The primary unit of sampling was a *purchase card transaction*. ODS specialists created a universe of purchase cards transaction data, based on various weighing algorithms. The population of transactions we sampled from consisted of what we defined as *high-risk transactions* - the top 25 percent of the flagged transactions. The sorting was done based on risk weight (high to low) first, and on transaction value next. ODS was responsible for reviewing the transaction data to ensure that all required fields were acquired to populate the analytical tool. The high risk groups as defined above included 20,133 purchase cards transactions. This represents the population we sampled from. All estimation presented in this report related only to this group of transactions.

Sample Design

ODS developed a stratified sample for review - the first stratum included all transactions from October 1, 2016 through December 31, 2016 (that is, Quarter 1) and the second stratum included all transactions from January 1, 2017 through March 31, 2017 (that is, Quarter 2). The stratification was done to accommodate a more efficient review of the selected transactions. Two simple random samples of 50 transactions (without replacement) were selected from each quarter for a total sample size of 100. ODS based the sample size on the following criteria:

- Population size of 20,133 high-risk transactions
- 95 percent Confidence Level for reporting estimates
- Assuming a very low error rate in each stratum - below 10 percent
- Acceptable upper error rate limit of 20 percent in the two strata combined

Results and Estimates

Table 1. Estimates and associated statistics for high risk USDA purchase cards transactions.

Criteria Tested	Estimate	Standard Error	95% Confidence Interval		Coefficient of Variation	Actuals Found	Precision
			Lower	Upper			
Not Using Required Sources	6,846	960.186	4,940	8,751	0.140	34	9%
	34%	0.0477	25%	43%			
Missing Requisition Document	3,221	743.728	1,745	4,697	0.231	16	7%
	16%	0.0369	9%	23%			
Missing Receiving Document	3,422	761.723	1,911	4,934	0.223	17	8%
	17%	0.0378	9%	25%			
Paid Sales Tax	1,410	517.307	383	2,436	0.367	7	5%
	7%	0.0257	2%	12%			
Split Transaction	806	395.721	21	1,591	0.491	4	4%
	4%	0.0197	0%	8%			
One or more of the above	11,677	1001.275	9,690	13,664	0.086	58	10%
	58%	0.0497	48%	68%			

Interpretation

Based on our sample, we estimate that:

- 6,846 transactions (34 percent) in our population are not using required sources. We are 95 percent confident that the true value of this estimate is between 4,940 (25 percent) and 8,751 transactions (43 percent).
- 3,221 transactions (16 percent) in our population are missing requisition documentation. We are 95 percent confident that the true value of this estimate is between 1,745 (9 percent) and 4,697 transactions (23 percent).
- 3,422 transactions (17 percent) in our population are missing receiving documentation. We are 95 percent confident that the true value of this estimate is between 1,911 (9 percent) and 4,934 transactions (25 percent).
- Based on our sample, we estimate that 1,410 transactions (7 percent) in our population paid sales taxes. We are 95 percent confident that the true value of this estimate is between 383 (2 percent) and 2,436 transactions (12 percent).
- Based on our sample we are 95 percent confident that less than 1,591 transactions (8 percent) in the high-risk population could be associated with at least one additional transaction to indicate a transaction split.

- 11,677 transactions (58 percent) in our population have at least one of these issues. We are 95 percent confident that the true value of this estimate is between 9,690 (48 percent) and 13,664 transactions (68 percent).

**USDA'S
OFFICE OF PROCUREMENT AND
PROPERTY MANAGEMENT
RESPONSE TO AUDIT REPORT**



United States
Department of
Agriculture

February 5, 2018

Office of the
Assistant Secretary
for Administration

TO: Gil H. Garden
Assistant Inspector General for Audit
Office of Inspector General

Office of
Procurement
and Property
Management

FROM: George M. Cabaniss, Jr. /s/
Director
Office of Procurement and Property Management

1400 Independence
Avenue Southwest
Mailstop 9308
Room 335-W
Whitten Building

SUBJECT: Council of the Inspectors General on Integrity and Efficiency
Purchase Card Initiative – U.S. Department of Agriculture Controls
over Purchase Card Use (Audit Number 50024-0001-22)

Washington, DC
20250-9308

Office of Procurement and Property Management (OPPM) appreciates the opportunity to respond to the U. S. Department of Agriculture Office of Inspector General’s (OIG) official draft report, “CIGIE Purchase Card Initiative – U.S. Department of Agriculture (USDA) Controls over Purchase Card Use (Audit Number 50024-0001-22),” dated December 22, 2017. OPPM is in general agreement with the OIG findings in the official draft report and from the discussions from the meeting held on December 19, 2017 between the officials of the Office of Inspector General and OPPM. We would like to provide comments in regards to specific findings:

Finding 1: OPPM Lacks a Unified, Agency-wide Method for Documenting Purchases from Non-required Sources

Recommendation 1: Establish requirements for documenting the use of non-required sources for approval by approving officials.

- Agency Action: OPPM will update the USDA Purchase Card Program Guide to add a form that cardholders must complete for purchases that are made when using a non-required source.
- Target Completion Date: March 31, 2018

Finding 2: OPPM Needs to Issue Additional Guidance to Avoid Split Purchases

Recommendation 2: OPPM should issue guidance for the USDA purchase card program to identify what constitutes a split purchase. Specifically, this guidance should address situations where one cardholder is making purchases for multiple offices or purchases charged to multiple accounting codes.

- Agency Action: OPPM will update the USDA Purchase Card Program Guide to include examples of split transactions to clarify what constitutes a split transaction. There will be added guidance for cardholders making purchases for multiple offices or purchases charged to difference accounting codes.
- Target Completion Date: March 31, 2018

Recommendation 3: OPPM should require the agencies to review and either ratify the four split transactions OIG identified or seek reimbursement for the purchases from the approving official if the transactions cannot be ratified.

- Agency Action: OPPM will engage the Office of General Council to identify if these split purchases qualify to be ratified.
- Target Completion Date: March 31, 2018

Finding 3: Cardholders Paid Sales Tax Improperly

Recommendation 4: Establish a requirement to document sales taxes paid including attempts to recover any State and local sales taxes paid, and explain when recovery was attempted but not achieved.

- Agency Action: OPPM will update the USDA Purchase Card Program Guide to require cardholders to notate the receipt or invoice that the sales tax paid was unavoidable or unrecoverable.
- Target Completion Date: March 31, 2018

Finding 4: Controls over Maintaining Documentation Need Strengthening

There is no recommendation at this time for Finding 4.

- Agency Action: OPPM will continue to emphasize the importance of proper documentation for purchase card transactions through communication with the Agency Program Coordinators (APC's).
- Target Completion Date: Ongoing

If you have any questions, please contact Christopher A. Corder, Program Manager (Acting), Charge Card Service Center (CCSC) at christopher.corder@dm.usda.gov, (202) 720-3671.

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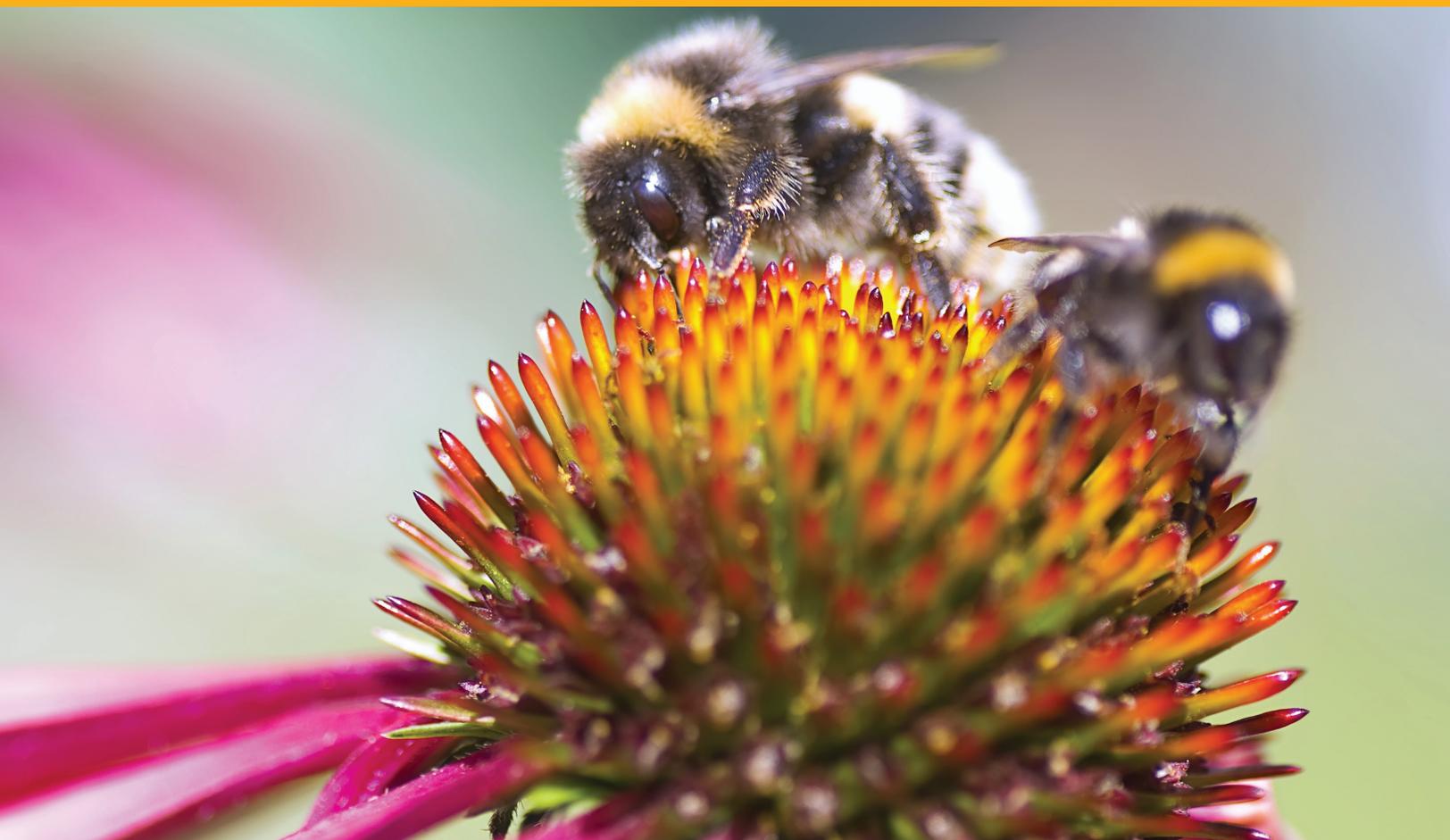
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