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**United States Department of State and the
Broadcasting Board of Governors
Office of Inspector General**

Office of Audits

**Office of Multi-Media Services Compliance
With Government Purchase Card Internal Controls**

AUD/PP-06-14, March 2006

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Summary

While implementing new accounting and management controls during September 2004, the Department of State's (Department) Bureau of Administration, Office of Records and Publishing Services, Office of Multi-Media Services (A/RPS/MMS) management questioned a large dollar expenditure for CDs relative to the volume of its CD production business. A/RPS/MMS reported its findings to A/RPS, which in turn contacted Office of Inspector General (OIG) in November 2004 to request further review of this matter.

The OIG agreed to review the purchase card ordering and supply process for possible waste and mismanagement of federal funds. Specifically, OIG (1) analyzed and identified discrepancies in the purchases of CDs through the use of the government purchase card, and (2) evaluated the implementation of new internal controls designed to strengthen A/RPS/MMS ordering and supply management processes, including compliance with existing Department purchase card requirements.

Between late November 2004 and January 2005, OIG's Office of Audits evaluated A/RPS/MMS practices in using the government purchase card and reviewed specific CD billings for FYs 2003-04 and other related records. OIG's review of purchase card records for FYs 2003-04 confirmed MMS's internal review that poor recordkeeping and inadequate management supervision led to possible waste and abuse of government property resulting in about 130,400 unaccounted for CDs valued at approximately \$117,400. The unaccounted for CDs was about 54 percent out of a total estimated purchase of 240,960, valued at \$289,152.

In July 2005, A/RPS/MMS asked the Office of Audits to validate the updated purchase card procedures, including additional internal controls designed to strengthen ordering and supply management. OIG reviewed the effectiveness of a management committee that reviews all purchase card procurement actions weekly. OIG's work covered existing Department and proposed A/RPS/MMS control procedures from May 2005 to July 2005.

OIG found that A/RPS/MMS management had taken significant steps to improve its purchase card procedures and management oversight, but had not fully implemented all ordering, purchasing, and management control procedures as proposed. As a result, two purchase cardholders did not consistently follow required procedures for the proper use of the government purchase card. For example, the cardholders split purchases to stay under the single-purchase limit of \$2,500 and did not reconcile the monthly bank statements within five days, but averaged 24 days. In addition, the annual purchase card review for FY 2003 remained outstanding, and the 2004 review, submitted on September 14, 2005, was about nine months late. A/RPS/MMS also had not yet implemented a proposed automated supply inventory system that would allow monthly inventory reconciliation. OIG concluded that if A/RPS/MMS followed its updated procedures, it would adequately strengthen the ordering and inventorying of supplies.

OIG recommended that A/RPS/MMS ensure that its purchase card operations conform to the requirements of the Department's Worldwide Purchase Card Program and ensure implementation of its new purchase ordering and supply management control procedures. On November 8, 2005, OIG held an exit conference with the A/RPS Deputy Assistant Secretary and

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senior officials on the results of the review. The officials agreed with the findings and recommendations and updated OIG on the actions they have taken to strengthen overall internal controls in ordering and supply management.

Background

A/RPS/MMS provides cost-reimbursable services to the Department, domestically and overseas, through the Working Capital Fund. Domestically, A/RPS/MMS provides a full range of media services, print products, and digital products.

While implementing new accounting and management controls during September 2004, A/RPS/MMS management questioned the large dollar expenditure for CDs relative to the volume of its CD production business. In addition, available accounting records did not reconcile to CD purchases. After completing an internal review, A/RPS/MMS found it could not account for about 130,400 CDs, which for FYs 2003-04 was the difference between the number purchased and the number used. A/RPS/MMS estimated the cost of the discrepancy at approximately \$117,400. Overall, A/RPS/MMS concluded that unauthorized purchase card charges were made but were not identified in the periodic purchase card review process. A/RPS/MMS reported its findings to A/RPS, which in turn contacted OIG in November 2004 to request further review of this matter.

Department Purchase Card Requirements

The Department's *Worldwide Purchase Card Program Manual* outlines the steps for cardholders to follow in processing purchase card transactions. Initially, a cardholder should ensure that the requirements for supplies or services are clearly defined on the procurement request and are authorized purchases. The procurement request should document that funding is available to cover the purchase and include information on shipping and receiving.

After evaluating the sources of supply, a cardholder makes the purchase by various methods: over the counter, telephone or fax, mail or catalog, or e-mail or Internet. Afterward, a cardholder should record the purchase in the monthly buying log: a mandatory and essential internal control tool.

The last step in the process calls for a cardholder to reconcile the monthly bank statement of account to ensure that the bank charges agree with the cardholder's log and supporting documentation. After completing the reconciliation, a cardholder forwards the reconciliation package to the approving official for review and approval. Following this approval, a cardholder's statement of account is forwarded to the designated billing office, which domestically is RM's Office of Fiscal Operations. A cardholder is required to retain a copy of the reconciled statement of account and supporting documentation for three years.

A/RPS/MMS is a participating office in the Department's Worldwide Purchase Card Program. (See textbox.) The Department program, established in 1998, comes under the umbrella of the government-wide SmartPay purchase card program administered by the General Services Administration. The program is designed to streamline the procurement process to save time and administrative costs. It empowers nonprocurement employees with the authority to make official purchases within specific delegated limits.

The Federal Acquisition Regulation (FAR) states that use of the government purchase card is encouraged to purchase and pay for micro-purchases, which are limited to

\$2,000 for construction and \$2,500 for other types of supplies and services.¹ Within the Department, a team representing A's Office of the Procurement Executive (A/OPE) and Office of Logistics Management and the Bureau of Resource Management (RM) carries out oversight

¹ FAR 13.301(b).

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of the Worldwide Purchase Card Program. The Department's policies and procedures are included in the *Worldwide Purchase Card Program Manual* (rev. Nov. 2005).

A/RPS/MMS purchase card use is subject to oversight by A's Office of Executive Director (A/EX). At the bureaus and posts, designated program coordinators manage the purchase card activities within their organization. This includes, among other things, delegating purchasing authority to cardholders, appointing cardholder approving officials, handling and resolving cardholder disputes, and providing for annual reviews of the bureau's or post's purchase card program.

In October 2003, the A/EX program coordinator, with the approval of Department purchase card managers, delegated responsibility for the annual purchase card reviews to each of the bureau office directors. Under the revised process, each office director must certify that the annual internal purchase card reviews were completed on behalf of the bureau program coordinator. The program coordinator must monitor the completed reviews and certify the findings of bureau offices.

Purpose, Scope, and Methodology

The purpose of OIG's review was to evaluate A/RPS/MMS's use and control of government purchase cards in response to a November 18, 2004, referral to OIG from A/RPS concerning weaknesses in the use of the government purchase card for A/RPS/MMS procurements. Specifically, the review: (1) analyzed and identified discrepancies in the purchases of CDs through the use of the government purchase card, and (2) evaluated the implementation of new internal controls designed to strengthen A/RPS/MMS ordering and supply management processes, including compliance with existing Department purchase card requirements.

Initially, OIG reviewed the findings of the A/RPS/MMS September 2004 internal inquiry involving the questionable purchases of CDs through the use of the government purchase card. In part, OIG obtained and analyzed the findings of the internal A/RPS/MMS inquiry and the supporting documents covering FYs 2003-04, including A/RPS/MMS purchase card information, vendor invoice data, and A/RPS/MMS Job Tracking Sheets. OIG reviewed vendor invoices for possible overcharges on CD purchases.

Although the purchase card documentation was incomplete overall, OIG was able to trace purchase request records to property receipts and final production of CDs. In addition, for background on Department and government purchase card programs, OIG referred to prior OIG audit reports² and to reports of the Government Accountability Office. After reviewing the available information, OIG's Office of Audits turned over the documentation and analysis to OIG's Office of Investigations for further inquiry.

In July 2005, OIG reviewed the new controls designed by A/RPS/MMS to strengthen its internal ordering and supply management procedures. OIG reviewed the new procedures for purchase card use, met with A/RPS/MMS management and cardholders, and conducted reviews

² *Review of the Department of State's Overseas Purchase Card Program* (AUD/PPA-05-01, Dec. 2004) and *Survey of the Worldwide Purchase Card Program – Domestic Operations* (01-FMA-M-081, Sept. 2001).

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of monthly purchase card bank statements for three cardholders, covering the period May-July 2005, and supporting documents using the Department's annual purchase card review checklist. OIG also discussed A/RPS/MMS purchase card procedures with A/EX officials, who have overall responsibility for this A/RPS/MMS program. In addition, OIG toured A/RPS/MMS's receiving, storage, and production areas to gain a better understanding of overall operations and to observe newly established requirements for the use and storage of CDs.

OIG performed its work in Washington, DC, interviewing management and staff of the offices involved, including A/EX, A/RPS, and A/RPS/MMS. In conjunction with these interviews, OIG collected and reviewed pertinent documents related to A/RPS/MMS policies and procedures governing ordering and supply management and its roles and responsibilities under the Department's Worldwide Purchase Card Program. The Foreign Affairs Handbook, 14 FAH 1, Department-wide Personal Property Management, covers property management issues.

OIG's Office of Audits, Property and Procurement Division conducted its work between November 2004-January 2005 and July-September 2005. On November 8, 2005, OIG held an exit conference with the A/RPS Deputy Assistant Secretary and senior officials on the results of the review. The A/RPS/MMS officials agreed with the findings and recommendations and updated OIG on actions taken to strengthen overall internal controls in ordering and supply management.

Results

A/RPS/MMS management has taken significant steps to improve its purchase card procedures and management oversight. However, additional actions are needed to strengthen the process and bring it more in line with the Department's Worldwide Purchase Card Program. A/RPS/MMS has established a new position, a central approving official for card purchases, and this person should take the lead in strengthening existing purchase card procedures. In addition, a new ordering and supply management control process, established in October 2004, should improve A/RPS/MMS's controls over the purchasing and use of supplies. Nevertheless, A/RPS/MMS has not fully implemented the system, including conducting periodic inventories.

A/RPS/MMS Purchase Card Procedures

Although the changes in the A/RPS/MMS purchase card process should provide a greater measure of control over the card's use, OIG found that A/RPS/MMS cardholders did not comply with control requirements found in the Department's Worldwide Purchase Card Program Manual. For example, the September 2004 internal inquiry into the unaccounted for CDs highlighted problems with A/RPS/MMS's use of the government purchase card. A/RPS/MMS undertook interim steps, such as having a weekly management review committee review all purchase card procurement actions. According to an A/RPS/MMS official, A officials recognized that the breakdown in meeting the terms of established Department purchase card controls warranted an immediate strategy that included new accounting and management control procedures.

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OIG's review of purchase card records for FYs 2003-04 confirmed MMS's internal review that poor recordkeeping and inadequate management supervision led to possible waste and abuse of government property resulting in about 130,400 unaccounted for CDs valued at approximately \$117,400. In November 2004, A/RPS reviewed purchase card records for FYs 2003-04 and reported a number of problems that hindered the process of accounting for CD purchases. Specifically, the A/RPS director cited:

- a level of purchase card activity that was unknown to and disputed by the cardholder;
- multiple purchase card billings with no supporting documentation;
- purchase card billings that when challenged were immediately reversed by the vendor; and
- purchase card billings charged against the card of a former employee for three months following the person's retirement.

The inquiry further noted that for the CD billings in question, A/RPS/MMS did not have the receiving slips or detailed invoices to support definitively how many CDs or other items were included in the total purchase card billings. In addition, information from the A/RPS/MMS files documented the CD vendor's poor recordkeeping. In October 2004, the vendor reported that it did not send invoices to A/RPS/MMS when the merchandise was shipped, and sometimes it did not bill until the vendor's CD supplier provided an invoice. Also, in October 2004, the vendor notified A/RPS/MMS that it would issue a credit for all charges from August 27 through September 30, 2004, because it charged the A/RPS/MMS purchase card instead of another government agency.

When A/RPS/MMS identified the problem with the purchase card usage, it proposed and implemented a number of changes to correct the immediate problems and to strengthen the overall purchase card process for the future. Initially, A/RPS/MMS revoked the purchase card of the A/RPS/MMS employee who was involved in most of the questionable CD billings. Additionally, work began on establishing a new procurement unit for all A/RPS/MMS production supplies with appropriate management oversight.

In July 2005, an A/RPS/MMS management official told OIG that it had canceled all prior employee purchase cards and appointed two new cardholders for the office. Also, A/RPS/MMS reassigned an employee to a new position to be responsible for approving all A/RPS/MMS purchase card transactions. The official added that A/RPS/MMS had set up a new electronic database to facilitate the recording, tracking, and reconciling of cardholder purchases. To strengthen purchase card oversight further, A/RPS/MMS established a system of weekly purchase card reviews by senior A/RPS/MMS management.

OIG's review of purchase card transactions covering May and June 2005 found the system to be much improved, and the A/RPS/MMS cardholders were maintaining supporting documentation for their purchase card billings. Nevertheless, in some cases, the actions of the cardholders were not in compliance with requirements of the Department's *Worldwide Purchase Card Program Manual*. For example, OIG's review of the A/RPS/MMS cardholders included document reviews of two new cardholders' May and June 2005 monthly bank billing statements

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and the June 2005 statement for one cardholder (whose card was pending cancellation). The OIG review found a number of problems, including the following.

- New cardholders were splitting purchase card orders to stay under their single-purchase transaction limit of \$2,500. A/RPS/MMS information indicates that this was also a problem with former cardholders.
- Monthly bank statements of account did not include detailed procurement requests. Cardholders made most purchases by e-mail request.
- A/RPS/MMS was filing receiving reports for purchases separately and was not including them in the monthly bank statement packages.
- Cardholders were not reconciling their monthly statement of account within the required five days. OIG's review noted an average of 24 days.

During July 2005, OIG discussed with an A/RPS/MMS management official the continuing problem of split purchase card orders, which is prohibited by internal A/RPS/MMS procedures and the Department's *Worldwide Purchase Card Program Manual*, and the failure to complete annual purchase card reviews. According to this official, split purchase card orders were occurring because the single transaction limit of the cardholders was too low and needed to be increased. OIG explained that before this could occur, A/RPS/MMS would need to submit a formal request to the Department's purchase card program manager, documenting that the cardholders have the required training and providing summary findings of its most recent annual purchase card review. According to A/EX, the FY 2003 annual review was returned to A/RPS/MMS for additional work; the FY 2004 review was submitted on September 14, 2005.

Recommendation 1: OIG recommends that the Office of Multi-Media Services in the Bureau of Administration, Office of Records and Publishing Services ensure that its purchase card operations conform to the requirements of the Department's Worldwide Purchase Card Program, particularly the prohibition on split purchase orders, the requirement to fully document purchase requests and receipt of goods and services in the cardholder's monthly bank statement, and the timely reconciliation of the cardholder's monthly statements.

MMS management has implemented purchase card improvements that conform to the requirements of the Department's Worldwide Purchase Card Program and enhance internal controls that require full documentation for purchase requests and receipt of goods and services in the cardholder's monthly bank statement and timely reconciliation of the cardholder's monthly statements. As a result of this action, OIG considers this recommendation closed upon issuance of the final report.

A/RPS/MMS Inventory Requirements

OIG found that A/RPS/MMS had not fully implemented its October 2004 inventory and supply management procedures. In reviewing the problem with the purchase of CDs, the A/RPS/MMS September 2004 internal inquiry also highlighted a problem with the receipt and handling of supplies. To rectify the problem of the unaccounted for CDs, A/RPS/MMS took

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immediate steps in October 2004 to change its storage of the CDs. Also, A/RPS/MMS proposed strengthened controls over CDs and other supplies by requiring regular inventories.

When its inquiry identified the CD problem, A/RPS/MMS was storing the CDs in the CD production unit, which had controlled access. However, A/RPS/MMS found that employees who needed CDs for work other than production were obtaining them from the production unit, and the unit was not accounting for them. To overcome this problem, A/RPS/MMS moved all the CDs to its main storage supply area and placed them in locked cabinets. Employees now must complete formal supply procedures before they may obtain CDs.

Subsequently, A/RPS/MMS took more permanent steps to improve controls over CDs and other supplies by establishing written purchasing and supply management procedures in late October 2004.³ Generally, the new procedures call for a centralized purchasing unit within A/RPS/MMS controlled by a dedicated staff of purchasing specialists. They are to initiate orders via an online request database. In addition, to maintain a separation of responsibility, a supervisory employee not associated with the purchasing function is to control the receiving function. Furthermore, the new procedures call for regular inventories of supplies.

OIG's review of CD inventories conducted since issuance of the October 2004 property control procedures found that inventories have not been conducted, as required in 14 FAH-1, particularly the requirements for supply inventories. The procedures call for a supply room employee to conduct and report each month on the status of the physical inventory of each critical supply item. According to an official, A/RPS/MMS was phasing in the updated supply procedures.

OIG found that A/RPS/MMS supply personnel conducted the first inventory in March 2005, but it did not include CDs. A/RPS/MMS decided that supply personnel should conduct spot checks of specific items each month rather than inventorying all supplies. Concerning CD inventories, an official said that A/RPS/MMS was monitoring CD usage and recording it daily, but that it would inventory CDs when it conducted its September 2005 inventory. A/RPS/MMS expected to have its automated inventory system in place as planned.

Recommendation 2: OIG recommends that the Office of Multi-Media Services in the Bureau of Administration, Office of Records and Publishing Services ensure implementation of the purchase ordering and supply management control procedures established in October 2004 to improve oversight of the ordering, purchasing, receiving, and inventorying of office supplies and services.

A/RPS/MMS management has implemented controls and oversight for ordering, purchasing, receiving, and inventorying of office supplies and services. As a result of this action, OIG considers this recommendation closed upon issuance of the final report.

³ Office of Multi-Media Services, Purchase Ordering and Supply Management Control Procedures (Oct. 22, 2004).