



MEMORANDUM FOR SYLVIA

A handwritten signature in black ink, appearing to read "E. C. Hugler".

FROM: EDWARD C. HUGLER
Deputy Assistant Secretary
For Administration and Management

SUBJECT: Response to Evaluation of DOL 's Purchase Card Program Review
Draft Report No. 2E-09-00 1-0002 Purchase Card

This memorandum responds to the draft findings and recommendations of the Office of Inspector General's (OIG) evaluation of DOL's Purchase Card Program, dated September 13, 2002. We appreciate the balance included in the draft report which notes, "the Procurement Executive has recently taken several positive steps to improve the program". Overall the draft report offers useful suggestions for improving management of the DOL Purchase Card Program.

Finding A: Management Oversight and Control of the Purchase Card Program is Inadequate

Recommendation 1: Require Agency /Organization Purchase Card Coordinators (A/OPCs) to provide updated program participants' information on a regular basis (i.e. monthly, quarterly, semi-annual).

Response: The Procurement Executive will issue a memorandum to DOL agencies requiring an initial update of information and will require future updates on a quarterly basis. This initial information will be captured through a centralized database that will be maintained by OASAM, beginning November 2002. Agencies will also be requested to review the need of their cardholders to maintain purchasing authority above the micro-purchase threshold and the number of cardholders based on their agencies' programmatic need. Agencies will also be requested to provide a list of those cardholders that require cards above the micro-purchase limit and justification for the number of cardholders that exceed the recommended ratio (less than 1 :10). OASAM will conduct periodic reviews of the database to ensure information is updated regularly. This requirement will also be included in a revised purchase card handbook.

Recommendation 2: Examine and modify both the single purchase limits and monthly limits for consistency and more realistic ceilings.

Response: As a policy, we have limited single purchase authority to \$2,500, unless the purchase cardholder is a warranted contracting officer or an individual with unique requirements who has completed appropriate training. In the Procurement Executive's memorandum to DOL agencies (noted in Response #1 above) we will include information on the current purchase authority of each participant. For those accounts with single purchase card authority over \$2,500, we will

require that A/OPCs confirm in writing that the appropriate limit is reflected. To ensure realistic monthly ceilings are consistently established, we will require that A/OPCs evaluate prior monthly total expenditures on a quarterly basis to determine whether monthly ceiling amounts require adjustments. In instances where an exception is warranted, A/OPCs will be required to provide justification to the approving official and maintain records of those approvals.

It should be noted that certain cardholders, such as warehouse personnel and organizations with a higher volume of monthly purchases, might have a legitimate need for higher monthly limits. Currently, the Departmental default limit is set at \$10,000 per month. While there are no statutory or regulatory guidelines establishing a monthly threshold, we will require that A/OPCs maintain justification for cardholders exceeding the \$10,000 monthly limit and closely monitor accounts that exceed that threshold.

Recommendation 3: Require agencies to review and update Merchant Category Classification (MCC) controls to eliminate prohibited purchases.

Response: The General Services Administration (GSA) credit card contract includes various groupings of pre-established MCC codes. After consultation with A/OPCs, we will develop a DOL template of proposed appropriate MCC codes to be shared with the Agencies. After notifying cardholders, approving officials, and administrative officers of this change and its potential impact on future purchases, we will instruct Citibank to convert the current MCC controls to the new DOL default template and apply it department-wide. Specific requests for exceptions to the default template will be reviewed by DOL's Purchase Card Coordinator and will require the written approval of the Director, Division of Acquisition Management Services (DAMS). I

Recommendation 4: Reexamine GSA 's recommendations for: establishment of formal criteria for the selection of cardholders and approving official accounts, single and monthly purchase limits, MCCs blocks for usage, and deactivation or cancellation of purchase cards; and AO to cardholder common ratios of 1 :4 and 1: 10.

Response: We will examine the GSA recommendations to ensure that our written policies and procedures are consistent with the recommended criteria. We will establish a policy for a ratio of approving officials to cardholders within the GSA recommended ratios. The three offices that currently exceed this ratio will be requested to adjust their operating ratios accordingly, or provide written justification to DAMS, outlining why that ratio should be exceeded.

Finding B: Current Policy and Procedural Guidelines Do Not Adequately Address Key Aspects of the Pro2ram

Recommendation S: Update current policy and procedures, and publish appropriate changes, including the development of supplemental guidance and/or desk references that direct program participants on key aspects of the program.

Response: To address this recommendation:

- In August 2002, *DOL Spotlight Number 764* was issued,' outlining conduct and responsibility for safeguarding and using the Department's purchase card. It specifically highlighted responsibility to: (1) safeguard the storage and availability of purchase cards, (2) ensure that only authorized official purchases are made, (3) training cardholders, and (4) the non-transferability of purchase cards to other individuals.
- The Division of Acquisition Management Services will develop a standardized checklist for A/OPCs to use when reviewing purchase card accounts and a desk reference for cardholders. This checklist will allow A/OPCs to periodically review their Agency purchase card programs for compliance with established departmental thresholds, limitations and training requirements. We anticipate issuing this guidance by the end of the first quarter of FY 2003.
- The DOL Purchase Card Handbook will be updated to reflect policy changes, including restricted or prohibited purchases, ethics and record retention requirement, reconciliation of statements, and purchase card logs. In addition, we will include criteria that will be used to determine if, when, and how credit card accounts are to be suspended or terminated indefinitely (e.g., abuse or transfer of the cardholder). The revised Handbook will be issued by the end of the 2nd quarter in FY 2003.

Recommendation 6: Require agencies to review their need for contracting authority for cardholders with purchasing authority above the micro-purchase threshold and the number of cardholders based on the agencies' need.

Response: See Response # 2.

Recommendation 7: Advise agencies to issue purchase cards to appropriately qualified individuals who are actually making the purchases and make accessible the complete *Small Purchase Handbook* to all program participants.

Response: As noted in Response #5, we have already issued DOL Spotlight No.754, which reiterates the prohibition of the use of the card by individuals other than the cardholder designated on the card. OASAM will work with DOL Agency financial management servicing offices, to implement a training program for all current and new cardholders, approving officials, and A/OPCs. We will set target dates for any individuals who are found to have not completed required training, and will monitor compliance with those dates. This will become a part of our quarterly report and update systems with A/OPCs.

The General Services Administration (GSA) currently offers free web-based purchase card training for cardholders and approving officials. These courses will be primary tools to conduct the training, and will be supplemented by other sources as the need arises. OASAM will continue to explore alternative sources of desktop purchase card training that will facilitate extending this training to the field.

In addition, we have begun planning for our first Purchase Card Conference, which will be held in the first quarter of FY 2003. The focus of the conference for A/OPCs, approving officials and others from the procurement community is to set a more uniform approach to managing the purchase card program. The conference will be used to promote increased oversight and control of the purchase card program and ensure the appropriate use of the card. As part of the conference, we will include training on verification/reconciliation of cardholder purchases, required documentation and information on purchasing limits. In addition, Citibank will conduct training on how to query special and ad-hoc reports.

Recommendation 8: Incorporate purchase card responsibilities in the performance standards for OASAM program participants and encourage other program agencies to implement similar changes.

Response: Included in the Procurement Executive's memorandum to DOL Agencies will be a recommendation that managers and supervisors include performance elements in the performance standards of cardholders, approving officials, and A/OPCs. Sample elements will be provided that may be adapted to reflect the specific responsibilities of their purchase card officials.

Recommendation 9: Review and address factors under GAO's "risk assessment" component for internal controls.

Response: GAG defines "risk assessment" as an assessment of the risks the agency faces from both external and internal sources. As noted in the draft report, DOL has a low percentage of employees with purchase cards compared to other agencies and a low single purchase threshold that will mitigate the harm in the case of abuse.

OASAM has also reduced the risks associated with the Purchase Card Program by monitoring, requiring documentation, and purchase card activity review and approval. Since January 2001, OASAM has conducted purchase card reviews of the Bureau of Labor Statistics, ETA's Office of Job Corps, and the Mine Safety Health Administration. These reviews include a sampling of purchase card transactions in order to determine vulnerabilities. We have specifically focused on questionable purchases, and missing documentation. Although our reviews have revealed some inappropriate practices, to date we have not uncovered specific examples of waste, fraud, or abuse. Additional procurement reviews are scheduled for FY 2003. OASAM also plans to institute an Agency Purchase Card Self Certification Program. Implementation will include the submission of data on the agencies' credit card activity, problem areas, how problems are being addressed, and certification of the submission by the Agency Head. This annual review will

supplement the targeted procurement management reviews being conducted by OASAM and assist in identifying trends or problem areas that require increased technical assistance.

Finding C: Improved Communication and Training Will Enhance the Effectiveness of the Program

Recommendation 10: Provide more information about the purchase card program through improved materials and training. I

Response: To address this recommendation:

- OASAM will post on the Labornet all purchase card policy guidelines, source documentation and hyperlinks to federal policies (such as the GSA Blueprint for Success). As bulletins, guidelines, and policies are promulgated, the executed documents will also be posted in the 1st quarter of FY 2003.
- In preparation for the Purchase Card Conference, we will compile recent guidance on purchase card operations to share with participants, and stakeholders. The Conference will include presentations by the Office of Inspector General, Office of Management and Budget and the General Services Administration. We have asked Citibank to conduct hands-on computer based sessions, as part of the Conference, on purchase card account management, including how to generate "ad hoc" reports to identify fragmented acquisitions, decline authorizations, inactive accounts, questionable purchases above the micro-purchase threshold, delinquent reconciliation of accounts, and suspicious purchases as identified by merchant category codes.

Recommendation 11: Establish formal requirements for training cardholders prior to the issuance of purchase cards.

Response: A Training program as identified in Response #7 and #10 will be implemented by the end of the first quarter of FY 2003.

Recommendation 12: Survey and evaluate current A/OPCs to determine what training would be necessary to fully utilize CitiDirect.

Response: As part of the Purchase Card Conference agenda, we will assess future training needs of the A/OPCs, including what is needed to launch CitiDirect.

I believe that we have addressed the issues raised in the draft report. If you need additional information, please have a member of your staff contact Jeffrey Saylor at (202) 693-7282.

cc: Patrick Pizzella