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FROM THE AMERICAN PEOPLE

OFFICE OF INSPECTOR GENERAL
for the Millennium Challenge Corporation

**AUDIT OF THE MILLENNIUM
CHALLENGE CORPORATION'S
USE OF PURCHASE CARDS**

AUDIT REPORT NO. M-000-08-003-P
March 27, 2008

WASHINGTON, DC



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*Office of Inspector General
for the
Millennium Challenge Corporation*

March 27, 2008

The Honorable John J. Danilovich
Chief Executive Officer
Millennium Challenge Corporation
875 Fifteenth Street, N.W.
Washington, DC 20005

Dear Mr. Ambassador:

This letter transmits the Office of the Inspector General's final report on the Audit of the Millennium Challenge Corporation's Use of Purchase Cards. In finalizing the report, we considered your written comments on our draft report and included them in their entirety in Appendix II of this report.

The report contains one audit recommendation for corrective action. Based on your response to our draft report, we will close the recommendation upon issuance of this report.

I appreciate the cooperation and courtesy extended to my staff during this audit.

Sincerely,

John M. Phee /s/
Assistant Inspector General
Millennium Challenge Corporation

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SUMMARY OF RESULTS

The Millennium Challenge Corporation (MCC) uses purchase cards to reduce the bureaucracy and paperwork long associated with making small purchases and to quickly acquire certain small items and services in response to MCC's rapid growth over the last 3 years. The purchase card program includes purchases and payments for goods and services both at the micro-purchase level (\$3000 limit, according to MCC's Purchase Card Program Handbook, which incorporates FAR's definition of 'micro-purchase threshold' found at Subpart 2.1) and up to the simplified acquisition threshold of \$100,000 (as defined in Subpart 2.1 of the FAR and in MCC's Purchase Card Program Handbook. (See page 2.)

The objective of this audit was to determine whether MCC had established controls and properly managed its purchase card program. To answer the objective, the audit team reviewed MCC's purchase card policies and procedures, as well as monthly purchase card statements for 10 out of 26 cardholders. The audit found that, although overall MCC had established controls, some areas in the purchase card program did not have adequate internal controls, which could lead to fraud and misuse. Further, MCC lacked management oversight on some policy requirements in the purchase card program; and some MCC cardholders paid state and local sales tax when buying items with the purchase card, which the Purchase Card Handbook prohibited. (See pages 3, 4, 6, 7, and 10.)

MCC addressed some of our audit findings before the audit team completed the audit. However, MCC did not address one of our finding areas and accordingly, we are making one recommendation to the vice president of MCC's Administration and Finance Department to strengthen internal controls on the implementation of policies and procedures on record management of items bought with the purchase card in the MCC mission offices. (See page 5.)

Management comments are included in their entirety in Appendix II.

BACKGROUND

Congress has enacted legislation designed to simplify and streamline the acquisition of goods and services by Federal agencies. The Governmentwide Commercial Purchase Card (purchase card) was established as a purchase and payment tool to enable Federal agencies to implement simplified procedures and streamline the acquisition process by quickly ordering and paying for procurements. The purchase card program includes purchases and payments for goods and services both at the micro-purchase level (\$3000 limit, according to MCC's Purchase Card Program Handbook, which incorporates FAR's definition of 'micropurchase threshold' found at Subpart 2.1) and up to the simplified acquisition threshold of \$100,000 (as defined in Subpart 2.1 of the FAR and in MCC's Purchase Card Program Handbook).

Like other Federal Government agencies, the Millennium Challenge Corporation (MCC) uses purchase cards to eliminate the bureaucracy and paperwork long associated with making small purchases and in response to MCC's rapid growth over the last 3 years. The benefits of using purchase cards are lower administrative costs and less paperwork for both the Government and vendors. However, given the nature, scale, and increasing use of purchase cards, it is important for agencies to have adequate internal controls in place to help ensure proper use of purchase cards and thus to protect the Government from waste, fraud, and abuse.

MCC's purchase card program is administered by the Procurement Division and has more than 20 purchase cardholders, as well as 12 approving officials who, among other things, review the monthly credit card statements to ensure accuracy and forward the statements and its supporting documents to the Procurement Division. MCC revised its Purchase Card Program Handbook in April 2007 as a result of an internal review of its purchase card policies and procedures. The Handbook describes MCC's purchase card policies and procedures, and includes instructions for the completion of the cardholder's purchase card log. The purchase card log is used to record the date and description of each purchase made during the billing cycle. According to the Handbook, each cardholder is required to review a monthly Statement of Account for accuracy. Additionally, prior to submitting the statement to the approving official, the cardholder is required to enter in a purchase log each item that was purchased, ensuring that the proper budget and department code is provided for each transaction; provide a copy of each sales receipt; and sign the statement. The approving official is required to review each cardholder's purchases and determine whether these items were for official use and whether their purchase was allowed in accordance with MCC regulations. The Procurement Division then submits the reconciled statements to the National Business Center, which makes the monthly payments to the bank.

Further, as a result of the revision to MCC's Handbook, departments had the option of being assigned a single card that would be used only by trained staff, or having cards issued in the names of specific staff members. MCC also revised some cardholders' spending limits according to their past spending record. Departments, such as Compact Implementation, received a spending limit of \$2,500 per month, while other departments, such as Congressional and Public Affairs, received an increase of \$10,000 or more per month. MCC's overall procurement program accounted for 603 transactions and an outlay of \$58.8 million, whereas, through its purchase card provider Bank of America,

MCC made a total of 908 micropurchase transactions (142 for international transactions), valued at \$610,434,¹ from October 1, 2006, through September 30, 2007.

AUDIT OBJECTIVE

This audit was conducted as part of the Office of Inspector General's audit plan for fiscal year 2008 to answer the following question:

1. Did the Millennium Challenge Corporation establish controls and properly manage the use of its purchase cards?

Appendix I contains a discussion of the audit's scope and methodology.

¹ Unaudited data from MCC.

AUDIT FINDINGS

Overall, MCC established controls and, for the most part, properly managed the use of its purchase cards by revising the Purchase Card Program Handbook, conducting annual reviews of the purchase card program, assigning duties in the Handbook for the approving officials and cardholders, requiring all cardholders to record all purchases on a purchase card log, requiring all cardholders and approving officials to complete an online purchase card training course, and requiring cardholders to reconcile their monthly statements and penalizing them when they do not. However, the audit team identified certain areas where MCC could improve some of its purchase card controls and management oversight of the program. These areas are discussed below.

Internal Control of the Overseas Purchase Card Activities Needs Improvement

Summary: MCC's Policies and Procedures on Property, Plant, and Equipment, dated May 31, 2007, section 7.3.1 – Asset Accountability, specifies that its overseas offices must account for assets valued of at least \$150 that were purchased locally with the MCC purchase card. One of the 10 cardholders' monthly statements reviewed identified several overseas purchases, which were more than \$150 that were not included on an MCC inventory report. This occurred because internal controls were lacking for the asset management of overseas purchase card transactions. Lacking a detailed asset management system could lead to fraudulent, improper, and abusive use of the purchase cards.

MCC's Policies and Procedures (Serial Number 350) on Property, Plant, and Equipment, dated May 31, 2007, section 7.3.1 – Asset Accountability, describes MCC's asset management process overseas. The policy states that MCC requests from in-country General Service Officers at post a report from the local Non-expendable Asset management System (NEPA) listing country-specific MCC assets. In addition, MCC requests asset data on the following items, which may not be in the NEPA report:

- Vehicles purchased in-country
- Information technology assets sent or brought over from MCC headquarters
- Miscellaneous administrative assets brought over from MCC headquarters (e.g., cameras, file storage)
- Assets purchased locally using MCC purchase cards with a value of at least \$150.00

Although MCC adhered to most of the requirements in its Handbook and other Federal regulations, some areas in the purchase card process continue to be susceptible to fraud and card misuse. Specifically, in fiscal year (FY) 2007, even though cardholders recorded items purchased at the headquarters in MCC's asset management database, none of the overseas purchases over \$150 were tracked and recorded. The records management database at the headquarters office listed only items over \$150 that

cardholders bought with the purchase card for the headquarters office. Items such as office and home furniture that overseas MCC mission offices usually bought were not listed in the database.²

For example, one of the ten cardholders' monthly statements that the audit team reviewed disclosed that during February, March, April, and June, one deputy resident country director had purchased several pieces of furniture ranging from \$750 to \$2,351 in value. An MCC staff member responsible for tracking MCC assets provided a September 2007 report, which he said listed all the items bought with the purchase card that were over \$100.00.³ The report, covering FY 2007, did not include any overseas purchases made during May and September 2007. Further, the staff member told the audit team that, from the report, he reconciled the items with his recording system.

Internal controls of MCC's asset management for overseas purchase card transactions were lacking, and MCC also admitted that it has not fully implemented an asset management system of items purchased overseas that are over \$150. The Agency Program Coordinator stated that MCC senior personnel are meeting with overseas staff to put an asset management system in place. Another MCC official stated that there was some confusion overseas regarding which items to record because some items are purchased via the State Department, while others are bought with the purchase card. Nevertheless, the overseas staff is required to record items they buy with the purchase card.

MCC stated, during our audit fieldwork, that it was preparing new procedures to record items over \$150 by the end of February 2008. However, until the Office of the Inspector General has the opportunity to review the new procedures, the audit team is making the following recommendation to strengthen overseas asset management controls. MCC agreed with the recommendation and stated that items purchased overseas will be tracked in its records management system by the end of February 2008.

Recommendation No 1: We recommend that the Vice President of Administration and Finance implement policies and procedures on asset management of items bought with the purchase cards in the MCC mission offices.

² As a result of the audit, MCC is preparing procedures that overseas offices should follow in order to track items over \$100 that they purchase. During our audit fieldwork, MCC stated that it expected to resolve this issue by the end of February 2008.

³ Although MCC's procedure states that items over \$150 should be recorded, MCC's records manager lists items of \$100 or more for audit purposes.

MCC Lacks Management Oversight on Some Purchase Card Processes

Summary: MCC's Purchase Card Handbook states that MCC staff must complete training prior to being appointed as cardholders or approving officials, and all approving officials should receive an appointment letter. However, during FY 2007, MCC did not provide formal appointment letters to the approving officials, and some approving officials could not document whether they had successfully completed their purchase card training as required. This occurred because of insufficient management oversight, which enabled some internal controls of the program to be overlooked. Without sufficient management oversight, purchase card misuse and fraudulent activities may occur.

According to MCC's Purchase Card Program Handbook, MCC staff must complete training prior to being appointed as cardholders or approving officials. After they have met the training requirements, approving officials will be appointed via a written memorandum indicating those cardholders for which they are responsible.

However, none of the 12 approving officials received a letter stating their responsibilities or a list of the purchase cardholders assigned to them. MCC did not provide formal appointment letters to the approving officials even though it was a recommendation in MCC's Purchase Card Review, which also found that approving officials did not receive appointment letters. Although approving officials received the appointment letters issued to cardholders assigned to them, this did not qualify as a formal appointment letter. Formal appointment letters list the cardholders assigned to approving officials, each cardholder's spending limit, and their responsibilities as approving officials.

In addition, two approving officials, who had approved transactions between October 1, 2006, and September 30, 2007, could not document whether they had successfully completed their purchase card training as required. One official did not take the required training until October 2007; the other stated that although she took the online course in FY 2007 (between October 1, 2006 and September 30, 2007), she submitted her certificate in October 2007 as proof of her training. Staff are required to submit their certificate before taking on the responsibilities as approving officials.

The lack of sufficient management oversight, such as ensuring that all purchase cardholders have received training, permitted some approving officials to perform their duties even though they were not trained or had not received their appointment letters. Moreover, without sufficient management oversight, purchase card misuse and fraudulent activities may occur. For example, approving officials, without the required training, may not be sufficiently knowledgeable of their duties, which may result in their overlooking split transactions⁴ or improper purchases. In addition, as some departments do not use the purchase cards on a regular basis, the approving officials may not be aware of who are the purchase cardholders, resulting in unauthorized individuals using

⁴A transaction that a cardholder will break down into separate purchases in order to avoid exceeding the required spending limit. According to the Purchase Card Handbook and Federal regulations, this is not allowed.

the card; the spending limits of their cardholders, resulting in some cardholders exceeding their spending limit; and the type of items that are purchased, resulting in some cardholders purchasing unauthorized items.

As a result of this audit, MCC has taken action on these issues. MCC provided each approving official with an appointment letter before the audit ended, and during the audit, the two approving officials completed the purchase card training course and provided their certificates as proof. Therefore, the audit team is not making a recommendation on this finding.

MCC Should Request Exemption of State and Local Sales Tax on All Purchases

Summary: MCC's Purchase Card Handbook states that purchases made with the purchase card are exempt from state and local sales tax; however, cardholders paid sales tax on some items. For example, one cardholder paid a total of \$321.48 in taxes to a parking company. The program coordinator for the purchase card program stated that MCC did not have a tax-exempt letter that it could provide to vendors who refused to waive the sales tax, which made it difficult to convince vendors that the purchases should be tax exempt. If the cardholders continue to pay sales taxes, there could be significant loss to MCC.

According to MCC's Purchase Card Program Handbook, "embossed on the face of the card, is the statement 'U.S. GOVT. TAX EXEMPT.' At the time of the purchase, cardholders will need to advise the merchant that the purchase is for official U.S. Government purposes and therefore is not subject to state or local tax."

A judgmental sample of card statements for FY 2007 disclosed that MCC had spent more than \$800 for sales tax.⁵ For example, one cardholder paid sales taxes for several services rendered, including information technology (IT) services, grocery, and parking for the staff, which totaled \$241. A second statement had a similar charge of \$160.74 for staff parking, and a third statement showed \$321.48 in taxes paid to the same parking company. Table 1 lists some of the items purchased for which some cardholders paid sales tax.

⁵ The tested sample included more than \$800 in sales tax payment. The audit team did not review each cardholder's 12-month statements.

Table 1. Sales Tax Payments from Three Cardholders' Monthly Purchase Card Statements

Cardholder	Month	Source	Sales Tax Amount
A	December 2006	Grocery ⁶	\$ 3.51
		Grocery	41.65
		Parking	160.74
	January 2007	Parking	160.74
	February 2007	Parking	321.48
	August 2007	IT	8.57
		IT	8.57
		Department Store	6.26
B	July 2007	Grocery	.34
		Restaurant	102.91
C	January 2007	IT	4.54
		IT	56.35
		Shipping	3.45
		Office Supplies	1.21
		Books	6.03
TOTAL			\$886.35

The Agency Program Coordinator explained that although cardholders are required to seek exemption from paying taxes, MCC did not have tax-exempt letters, issued by the District of Columbia and state agencies, that it could provide to vendors who refused to waive the sales tax. Furthermore, it is sometimes difficult to dispute a sales tax on purchase card transactions for a small amount. If cardholders continue to pay sales taxes, there could be significant loss to MCC.

Since this audit, MCC has obtained sales tax-exempt letters for the District of Columbia, Maryland, and Virginia. It has provided each cardholder with those three sales tax exemption letters and included the letters in the Purchase Card Handbook. No recommendation is being made in this area because MCC has taken action to resolve the issue.

⁶ Some MCC cardholders use the purchase card to purchase food for events, as well as publications for their departments.

EVALUATION OF MANAGEMENT COMMENTS

The Millennium Challenge Corporation provided written comments to our draft report that are included in their entirety in Appendix II. In its response, MCC agreed with the recommendation.

In response to Recommendation No .1, MCC agreed with the recommendation that it needs procedures to track overseas purchases that are made by MCC mission offices. MCC updated its Credit Card Management Plan in February 2008 to include procedures that employees should follow when making purchases of \$150 or more with MCC credit cards. In addition, MCC has sent the updated plan to its overseas mission offices, alerting them of the change.

Furthermore, MCC feels that is has complied with the OIG's recommendation by updating the Credit Card Management Plan with these new procedures and communicating these updates to overseas staff.

SCOPE AND METHODOLOGY

Scope

This audit was made in accordance with generally accepted Government auditing standards. The Office of the Inspector General (IG) reviewed the Millennium Challenge Corporation's (MCC) purchase card policies and procedures to ensure that they complied with Governmentwide standards. We reviewed a judgmental sample of statements from 10 out of 26 cardholders in MCC's departments that used the purchase card during fiscal year 2007 (October 1, 2006 through September 30, 2007) to assess whether cardholders provided the three required documents—monthly statement, purchase card log, and receipts—and tested these documents for accuracy. We also tested the purchase card program's internal controls.

Furthermore, we reviewed MCC's record keeping of the purchase cards, convenience check, required training, and other documents that MCC maintained.

No previous Government Accountability Office or IG reports have been issued on MCC's purchase card program; however, we did follow up on MCC's annual review of its purchase card program conducted in February 2007. No other issues came to our attention that were deemed significant enough to warrant expanding the scope of this audit.

Methodology

To answer whether MCC established controls and properly managed the use of its purchase cards, we did the following:

- Reviewed MCC's Purchase Card Program Handbook.
- Reviewed related U.S. Government regulations as defined in the Federal Acquisition Regulation (Part 13), the Treasury Financial Manual (TFM, Vol. 1, Part 4, Chapter 4500), and OMB Circular A-123, revised Appendix B.
- Interviewed cardholders, approving officials, and the purchase card Agency Program Coordinator.
- Randomly selected and reviewed monthly statements from 10 out of 26 cardholders.
- Reviewed the use of convenience checks to make transactions when a vendor does not accept credit cards.
- Reviewed the process that check writers followed, and compared the transactions as stated in the monthly purchase card statements because MCC authorized some cardholders to purchase items with checks when vendors did not accept credit cards.
- Assessed the physical security of the purchase cards and convenience checks maintained by cardholders.

MANAGEMENT COMMENTS



Date: March 18, 2008

To: John Phee, Assistant Inspector General, Millennium Challenge Corporation

From: Michael Casella /s/
Deputy Vice President, Millennium Challenge Corporate

Regarding: Response to the Draft Report on the Audit of the Millennium Challenge Corporation's Use of Purchase Cards

This memo serves as MCC's management response to the *Draft Report on the Audit of the Millennium Challenge Corporation's Use of Purchase Cards*. We also consider this response to be the management decision and notice of final action for the recommendation in the draft audit.

Recommendation #1: We recommend that the Vice President of Administration and Finance implement policies and procedures on asset management of items bought and with purchase cards in the MCC mission offices.

MCC concurs with the recommendation that procedures are needed to better track overseas purchases made by MCC mission offices. To address this issue, MCC updated its Credit Card Management Plan in February 2008 to include procedures outlining what employees must do when assets of \$150 or greater are purchased with MCC credit cards. The updated version of the plan was sent to the overseas mission offices alerting them to the inclusion of these new procedures (which can be found in Section V part E of the management plan). I have attached a copy of the plan to this letter. I have also listed the new procedures below for your review.

We feel that by updating the credit card management plan with these new procedures and communicating these updates to overseas staff we have satisfied the requirements in recommendation of the OIG and consider it closed.

Thank you

New Procedures

1. Cardholders are required to ensure property tags are affixed to non-expendable goods valued at \$150 or greater;
2. Cardholders must record all purchases in the credit card log;
3. The approving official and Contracts division will verify that property tags have been affixed to non-expendable goods valued at \$150 and greater by reviewing cardholders' monthly statements and credit card logs to identify these purchases;
4. The Contracts Division will record these items in the asset management database for property accountability.

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