



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

June 28, 2005

CONTROL NUMBER
ED-OIG/A19F0005

John Hager
Assistant Secretary
Office of Special Education and Rehabilitative Services
U.S. Department of Education
Federal Building No. 6
400 Maryland Ave, SW
Washington, DC 20202

Dear Mr. Hager:

This **Final Audit Report** (Control Number ED-OIG/A19F0005) presents the results of our audit of *Controls Over Purchase Card Use in the Office of Special Education and Rehabilitative Services*. The objectives of our audit were to assess the current effectiveness of internal control over the purchase card program and the appropriateness of current purchase card use in the Office of Special Education and Rehabilitative Services (OSERS).

BACKGROUND

The Government purchase card is a less costly and more efficient way for offices and organizations to purchase needed goods and services directly from vendors. The purchase card eliminates the need to process purchase requests through procurement offices and avoids the administrative and documentation requirements of traditional contracting processes. The Department of Education (Department) selected Bank of America to provide purchase card support and services.

The Office of the Chief Financial Officer (OCFO), Contracts and Acquisitions Management (CAM), coordinates the purchase card program within the Department and acts as the liaison with Bank of America. OSERS' Executive Officer is responsible for implementing the purchase card program in that office. Approving officials (AOs) and alternate approving officials (AAOs) are appointed by the Executive Officer and are the primary officials responsible for authorizing cardholder purchases and ensuring timely reconciliation of cardholder statements.

On July 19, 2000, the Office of Inspector General (OIG) issued a report entitled, "Review of OSERS' Internal Controls Over the Procurement of Goods and Services," (Control Number ED-OIG/A&I2000-005). OIG reported deficiencies in OSERS' internal control over the purchase card program including lack of training or refresher training, lack of written OSERS policies and procedures, lack of familiarity with Department policies, lack of adequate supporting documentation for purchases, lack of documentation to support solicitation of bids or sole source justification, sharing of purchase cards among employees, and untimely reconciliation.

This audit is part of a review of the purchase card program being performed Departmentwide. A random sample of transactions across the Department, as well as all transactions over \$2,500, charges to blocked merchant category codes, and potential split purchases are being reviewed. This report represents the results of the portion of the random sample and other transaction categories reviewed in OSERS. A summary report will be provided to the Department's Chief Financial Officer upon completion of the audits in individual offices.

AUDIT RESULTS

While improvements were noted from the prior OIG review of purchase card activity, we found that OSERS needs to further improve internal control over purchase card use. We found that OSERS did not always obtain and maintain adequate documentation to support purchases. OSERS inappropriately purchased accountable property with the purchase card, and purchased advertisements without appropriate clearance. We also found OSERS staff did not initiate the process to resolve disputed transactions in a timely manner. These issues occurred because OSERS did not consistently follow the requirements established by Department policy. In some cases, OSERS staff were not familiar with Department requirements. Without adequate supporting documentation, OSERS does not have assurance that purchases were appropriate and were made in accordance with Federal regulations, Department policy and procedures, and OSERS guidelines. Approving purchases without adequate supporting documentation could result in payment for goods and services that were not received and increases the Department's vulnerability to potential misuse or waste of government resources.

In monthly reports distributed within the Department, OCFO reported OSERS did not timely reconcile and approve purchase card transactions. The OTHER MATTER section of this report contains additional information on this issue.

Issues noted above regarding lack of familiarity with Department policy, lack of adequate supporting documentation, and untimely reconciliations were also reported in the prior OIG review of OSERS purchase card activity.

In its response to the draft audit report, OSERS agreed with the findings and recommendations made. OSERS stated that the Executive Officer has established monthly training sessions with all OSERS cardholders and approving officials to address the issues noted in our report. OSERS also stated that the Executive Officer would meet monthly with cardholders to ensure

reconciliation packages include appropriate supporting documentation and disputes are initiated and resolved timely. The complete text of OSERS' response is included as Attachment 1 to this report.

Finding 1 OSERS Needs to Further Improve Internal Control Over Purchase Card Use

OSERS needs to further improve internal control over purchase card use. We reviewed 62 purchases made by 8 cardholders totaling \$31,517, and found:¹

- Eight cardholders did not obtain or maintain adequate documentation to support 40 purchases totaling \$15,825. Specifically:
 - 39 purchases were not supported by a written request,
 - 1 purchase was not supported by an invoice or other record of the purchase, and
 - 3 purchases were not supported by a record of receipt for the goods or services.
- One cardholder made a purchase of Information Technology (IT) accountable property totaling \$1,914.
- Two cardholders made two purchases for advertisements totaling \$1,216 that did not have prior review or clearance.
- Two cardholders did not initiate 2 disputes totaling \$204 within 60 days as required.

We also noted that documentation supporting an additional five purchases (record of purchase, and/or record of receipt) was not originally in the file. Since OSERS staff was able to locate documentation for these purchases from other sources, these transactions were not included in the exceptions noted above. Additionally, one monthly statement and associated supporting documentation could not be located. This statement represented \$3,264 in purchases.

Departmental Directive (Directive) OCFO: 3-104, "Government-wide Commercial Purchase Card Program," Section VI, defines cardholder and AO responsibilities. The Directive states,

H. The Cardholder is responsible for. . .2. Purchasing goods or services in accordance with established Department policy, procurement regulations, and individual internal office procedures. . .4. Resolving disputed items directly with the merchant. Noting any items in dispute and submitting a dispute form to the Purchase Card Contractor with a copy to the [Designated Billing Office] DBO. . . 6. Providing documentation to support purchases for AO approval and official record keeping. This documentation includes receipts, invoices, logs, etc.

F. An Approving Official (AO) is responsible for. . .6. Reviewing, validating, and approving for payment the Cardholder's reconciled bank statement each

¹ Some purchases included issues in more than one category.

billing cycle. . .7. Assisting the Cardholder in informing the Purchase Card Contractor of disputed charges, and following up with the Cardholder on any disputed items. . .14. Reviewing all management reports of Cardholder activity under his or her authority. . .15. Reviewing appropriateness of purchases. This includes determining individual purchases are appropriate, that the goods or services were properly received and accepted, and that the payment was proper.

Section VII.A.7 of the Directive states, “The Cardholder should secure a written request (email or requisition) from the appropriate Department employee requesting the Cardholder to procure goods or services.”

Section VII.A.8.j of the Directive prohibits the use of the purchase card to acquire IT accountable property. The Department’s Office of Management (OM) Handbook OM-5, Property Management Manual, Procedure 2, Section 3.0, states,

All requests for capital and accountable assets must be ordered through Contracting and Purchasing Operations (CPO).² Individual [Principal Contracting Officers] PCO’s with purchasing authority cannot procure capital or accountable assets and these assets will not be purchased using an authorized Government credit card.

Section VII.A.9.b of the Directive provides examples of categories requiring special review or clearance including, “Paid advertisements - authority to publish advertisements in newspapers and periodicals require clearance by the Director, CPO. . .”

The Department’s “Purchase Card Program Home Page” also provides guidelines for purchase card use. Under “Cardholder Reminders,” the website states, “. . .Bank of America’s policy is that all disputes must be initiated within 60 days of the statement date on which the transaction posted.”

In a memorandum dated October 18, 2002, OSERS established additional guidelines for purchase card use within its office. Section B of OSERS’ guidelines states, “In addition to the duties listed, AOs (and, in their absence, AAOs) are responsible for authorizing Cardholder purchases before the purchases.” Section E.2 of OSERS’ guidelines states the Executive Officer will review statements and supporting documentation to ensure the appropriateness of purchases prior to the AO reconciliation of transactions. OSERS updated this policy as of October 15, 2004, to require cardholders to maintain documentation of prepurchase approvals, and to require AOs to ensure adequate documentation was present before approving purchases.

Cardholders and AOs did not consistently follow the requirements established by the Department and OSERS internal guidelines. AOs also did not ensure cardholders submitted complete supporting documentation prior to approving the statements for payment. OSERS staff were not aware that IT assets could not be acquired using the purchase card, and were not familiar with

² Contracting and Purchasing Operations (CPO) is now known as Contracts and Acquisition Management (CAM).

the Department policy regarding items such as advertisements that required special review or clearance prior to purchase.

With respect to disputes, AOs did not always follow up to ensure disputed purchases had been resolved, and as a result, did not ensure that disputes were initiated timely. The dispute form for one purchase was not filed timely because it had been sent to OSERS budget staff, but was never sent to Bank of America. This transaction was dated October 18, 2003. During our review over one year later, OSERS determined that the purchase was valid and stated that it would reconcile and approve the purchase for payment. In the other instance, the cardholder disputed a charge for sales tax inappropriately charged by the vendor, but the dispute form was not submitted to Bank of America until six months after the charge was posted to the account.

OSERS staff stated that the monthly statement and supporting documents that could not be located were misplaced during the relocation of its office. During the exit conference, OSERS stated that it had initiated actions to reconstruct the file and obtain support for the purchases on this statement.

Lack of adequate supporting documentation reduces assurance that purchases were appropriate and were made in accordance with Federal regulations, Department policies and procedures, and OSERS guidelines. Approving purchases without adequate supporting documentation could result in payment for goods and services that were not received and increases the Department's vulnerability to potential misuse or waste of government resources. Acquiring accountable assets with the purchase card could result in assets that are not appropriately identified and included in the Department's inventory system. As such, these items are more vulnerable to loss. Untimely initiation and resolution of disputes increases the difficulty in resolving the issues and the possibility that a credit will not be received, increasing overall Department costs.

During our review, OSERS' Executive Officer held a mandatory training session with cardholders and AOs to discuss the weaknesses we identified. The Executive Officer also drafted revisions to OSERS internal guidelines to strengthen internal control over purchase card use.

Recommendations:

We recommend that the Assistant Secretary for OSERS hold the Executive Officer, Approving Officials, and cardholders accountable for their responsibilities in the purchase card program by establishing a process to:

- 1.1 Ensure that cardholders and AOs are familiar with the Department's policies and requirements for obtaining and maintaining supporting documentation, initiating and resolving disputes, and goods and services that cannot be acquired with the purchase card or that require special approval or clearance.
- 1.2 Ensure cardholders consistently obtain and maintain written purchase requests and approvals, records of purchase, records of receipt, and other appropriate supporting

documentation for purchases as required by Department policy and procedures and OSERS guidelines.

- 1.3 Require AOs to thoroughly review reconciliation packages provided by cardholders to ensure that adequate supporting documentation is maintained.
- 1.4 Require AOs to monitor disputes to ensure timely initiation and resolution.

OSERS Response:

In its response to the draft audit report, OSERS agreed with the findings and recommendations made. OSERS stated that the Executive Officer has established monthly training sessions with all OSERS cardholders and approving officials to address the issues noted in our report. OSERS also stated that the Executive Officer would meet monthly with cardholders to ensure reconciliation packages include appropriate supporting documentation and disputes are initiated and resolved timely.

OTHER MATTER

OCFO reported in "Fast Facts," a monthly internal Department publication of business indicators, that OSERS did not timely reconcile and approve purchase card transactions for payment. During the six-month period ending October 2004, a monthly average of 114 purchase card transactions totaling \$30,133 had not been reconciled/approved timely by OSERS staff. On February 23, 2005, OCFO sent to all cardholders and approving officials a detailed list of all unreconciled transactions for the period July 2001 through January 2005. This list included 94 OSERS transactions, 39 of which were charges totaling \$10,018, and 55 of which were credits totaling \$5,565.

OSERS stated that it had attempted to resolve unreconciled transactions and had also requested assistance from OCFO. OSERS stated that it had reported some transactions as invalid to OCFO, but the transactions remained unreconciled. Unreconciled charges represent payments that have not been made and could result in interest payments to the purchase card contractor. Unreconciled credits reduce the amount of funds available for other uses within OSERS. We suggest that OSERS staff continue to work with OCFO staff to resolve unreconciled transactions.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to assess the current effectiveness of internal control over the purchase card program and the appropriateness of current purchase card use in OSERS. To accomplish our objectives, we performed a review of internal control applicable to OSERS' administration and management of its purchase cards. We evaluated the prior OIG review of the purchase card program in OSERS to determine issues previously reported. We reviewed requirements related to the purchase card program in the Treasury Financial Manual, Federal

Acquisition Regulation, Office of Management and Budget memoranda, and Bank of America's contract and task order. We also reviewed Departmental Directives, OSERS and OCFO procedures and guidance applicable to the purchase card program.

We conducted interviews with staff in OCFO and OSERS to obtain information and an understanding of the purchase card program. We also reviewed training records for staff participating in the program. To test controls and evaluate the appropriateness of purchase card use, we reviewed supporting documentation provided by OSERS staff for purchases made during the scope period noted below.

The scope of our review included purchases made by OSERS Washington, DC, (Headquarters) cardholders during the period July 1, 2003, through June 30, 2004. We used sampling and data mining to select purchases for review. From the universe of purchases made by Department Headquarters cardholders, we randomly selected purchases of \$50 or more for review. The random sample was chosen to provide a representative review of purchases across the Department. We also identified high-risk categories of potentially inappropriate purchases and reviewed all transactions in those categories – purchases over \$2,500, charges to blocked merchant category codes, potential split purchases, and purchases with transaction dates that occurred on weekends.

In OSERS, the random sample included 19 purchases. High-risk purchases for OSERS included two purchases over \$2,500 and 41 transactions with dates that occurred on weekends. No purchases to blocked merchant codes or potential split purchases were identified for OSERS. Overall, 62 purchases totaling \$31,517 made by 8 cardholders were included in our review.

In total, OSERS Headquarters cardholders made 631 purchases totaling \$137,950 during the scope period. The purchases we reviewed represented 9.8 percent of the total number of purchases, and 22.8 percent of the total amount of purchases made during the period. Since the random sample was selected based on the universe of all purchases of \$50 or more made by Headquarters cardholders in the Department, the results of this review cannot be projected to the universe of OSERS purchases.

We relied on computer-processed data initially obtained from Bank of America's Electronic Account Government Ledger System to select cardholder purchases made during the scope period. This data was also recorded in the Department's Contracts and Purchasing Support System and reconciled by OSERS and OCFO staff through Education's Central Automated Processing System. We verified the completeness and accuracy of the data by reviewing cardholder statements, invoices, receipts, and other supporting documentation to validate purchase amounts recorded in these systems. We noted that the transactions with dates that occurred on weekends were primarily due to timing differences between when the purchase was made with a vendor and when it was posted on the Bank of America system. Based on our testing, we concluded that the computer-processed data were sufficiently reliable for the purpose of our audit.

We also reviewed reports prepared by OCFO staff that reported purchase card transactions that were overdue for reconciliation. These reports were part of the "Fast Facts" reports distributed

monthly to all Department staff through the Department's Intranet. We did not validate the accuracy of these reports, as we used them for informational purposes only, as an indicator of reconciliation timeliness.

We conducted fieldwork at Department offices in Washington, DC, during the period October 21, 2004, through March 16, 2005. We held an exit conference with OSERS staff on March 28, 2005. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

ADMINISTRATIVE MATTERS

Corrective actions proposed (resolution phase) and implemented (closure phase) by your office will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System. Department policy requires that you develop a final corrective action plan (CAP) for our review in the automated system within 30 days of the issuance of this report. The CAP should set forth the specific action items, and targeted completion dates, necessary to implement final corrective actions on the finding and recommendation contained in this final audit report.

In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General is required to report to Congress twice a year on the audits that remain unresolved after six months from the date of issuance.

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report represent the opinions of the Office of the Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

In accordance with the Freedom of Information Act (5 U.S.C. § 522), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

We appreciate the cooperation provided to us during this review. Should you have any questions concerning this report, please call Michele Weaver-Dugan at (202) 245-6941. Please refer to the control number in all correspondence related to the report.

Sincerely,

Helen Lew /s/
Assistant Inspector General for Audit Services



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES

THE ASSISTANT SECRETARY

JUN 6 2005

Michele Weaver-Dugan
Director, Operations Internal Audit Team
U.S. Department of Education
Office of Inspector General
400 Maryland Avenue, S.W.
Washington, D.C. 20202-1510

Dear Ms. Weaver-Dugan:

This letter responds to your letter of May 12, 2005, regarding the Draft Audit Report (Control Number ED-OIG/A19F0005) presenting the results of the IG's audits of controls over purchase card use in the Office of Special Education and Rehabilitative Services (OSERS). We appreciate the opportunity to respond to your findings and recommendations.

First, I want to emphasize that we take very seriously our responsibilities under the regulations governing the use of government purchase cards. We welcome any audit such as the one conducted by your office because it gives us the opportunity to correct the administrative errors such as the ones your staff identified in the audit.

Second, with regard to corrective actions for recommendations 1.1, 1.2, the Executive Officer, Dr. Paul O'Connell, has established monthly training sessions with all OSERS cardholders and Approving Officials. In fact, the first such training session was held on June 3, 2005 and Dr. O'Connell discussed the results of the IG audit, corrective actions and other matters of importance. The agenda for future meetings will include, among other topics, the Department's and OSERS policies for:

- **Obtaining and maintaining supporting documentation, written purchase requests and approvals, records of purchases, records of receipt and other appropriate supporting documentation,**
- **Initiating and resolving disputes, and**
- **Identifying goods and services that cannot be acquired with the purchase card or that require special approval or clearance**

With regard to recommendations 1.3 and 1.4, the Executive Officer will meet with cardholders monthly during the period to reconcile monthly statements to ensure that:

- **Reconciliation packages provided by the cardholders include the appropriate supporting documentation and**
- **Timely initiation and resolution of disputed purchases.**

Again, we are appreciative of the professionalism your staff displayed during the audit and intend to aggressively eliminate these and other deficiencies in the future.

Sincerely,

John H. Hager

cc: Paul O'Connell