



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

July 1, 2005

CONTROL NUMBER
ED-OIG/A19F0006

Susan Sclafani
Assistant Secretary
U.S. Department of Education
Office of Vocational and Adult Education
400 Maryland Avenue, SW
Washington, DC 20202-7100

Dear Ms. Sclafani:

This **Final Audit Report** (Control Number ED-OIG/A19F0006) presents the results of our audit of *Controls Over Purchase Card Use in the Office of Vocational and Adult Education (OVAE)*. 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 OVAE.

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. OVAE's Executive Officer is responsible for administering 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 April 18, 2000, the Office of Inspector General (OIG) issued a report entitled, "Results of OIG Review of OVAE's Internal Controls Over the Procurement of Goods and Services," (Control Number ED-OIG/A&I 2000-OVAE). OIG reported deficiencies in OVAE's internal control over the purchase card program, including approval of purchase card statements, warrants for cardholders, training, segregation of duties, lack of familiarity with Department policies, and lack of written OVAE policies and procedures.

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 OVAE. 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 OVAE needs to further improve internal control over purchase card use. We found that OVAE did not always obtain and maintain adequate documentation to support purchases and did not centrally file purchase card statements and supporting documentation consistent with Department policy. We also found that OVAE did not reconcile credit transactions timely, and procurement staff did not complete purchase card refresher training. These issues occurred because OVAE staff were not always familiar with Department policy, and did not consistently follow OVAE's requirements for preapproval of purchases. AOs did not ensure that cardholders submitted complete supporting documentation prior to approving the statements for payment. OVAE's policy on filing purchase card documentation was not consistent with Department requirements. Unreconciled transactions had not been addressed because OVAE was waiting for a former cardholder to provide details needed to reconcile these transactions, and because OVAE did not closely monitor this area by reviewing reports of unreconciled transactions. OVAE had not established a process to ensure all staff completed refresher training as required.

Without adequate supporting documentation, OVAE does not have assurance that purchases were appropriate and were made in accordance with Federal regulations, Department policy and procedures, and OVAE 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. Decentralized filing of purchase card documentation may result in loss of required information and does not ensure the records are easily accessible. Untimely reconciliation of credit transactions decreases the amount of funds available for other uses. Cardholders that do not complete purchase card training may not be aware of current policy and procedures concerning appropriate use of the purchase card.

Issues noted above regarding lack of familiarity with Department policy and training were also reported in the prior OIG review of OVAE's purchase card activity.

In its response to the draft audit report, OVAE concurred with the findings and provided corrective actions to address each of the recommendations included in our report. The complete text of OVAE's response is included as Attachment 1 to this report.

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

OVAE needs to further improve internal control over purchase card use. We reviewed nine purchases made by two cardholders totaling \$11,199 and found:

- One cardholder made one purchase totaling \$525 that did not include documentation to support that the services were received.
- The same purchase above was not preapproved by OVAE's Executive Officer.
- Another purchase totaling \$1,082 included annotations of "Received" by OVAE staff, but not the date received for some of the items.

We also noted that the record of purchase and record of receipt for one additional purchase, and solicitation of bids from small businesses for another purchase over \$2,500, were not originally included in the file. Since OVAE staff were subsequently able to locate supporting documentation for these two purchases from other sources, these transactions were not included in the exceptions above.

We also noted improvements were needed regarding filing of purchase card documentation, timeliness of reconciliations, and training, as follows:

- OVAE did not centrally file purchase card statements and supporting documentation consistent with Department policy. This documentation was maintained by the cardholders during the year and then provided to the Executive Officer for filing at the end of the fiscal year.
- Transactions were not always reconciled timely. On February 23, 2005, OCFO sent to all cardholders and approving officials a detailed list of all unreconciled transactions from July 2001 through January 2005. This list included five OVAE credit transactions totaling \$233 for a cardholder whose account had been closed in September 2004.
- One cardholder and an AAO had not completed Governmentwide refresher training since calendar year 2001. The cardholder transferred to another PO in September 2004, but should have completed the refresher training during calendar year 2003.

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 . . .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 billing cycle . . .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.B.4.e of the Directive includes additional AO requirements that state, “Upon approval of the bank statement, forward documentation to a central filing location for retention.”

With respect to requirements for timely reconciliation and approval of purchase card statements, Section VII.B of the Directive states,

2. The Cardholder must perform the following duties within 5 working days of receipt of his/her monthly statement: a. Reconcile the Cardholder's bank statement with his or her own records and with obligations recorded in the Department's financial system. Confirm receipt of items.
4. The AO is required to perform the following duties within 5 working days after receipt of the reconciled bank statement from the Cardholder, (but no later than 15 calendar days from the bank statement date): a. Ensure each purchase was made for official use and in accordance with established internal procedures.

In addition to the general timeliness requirements above, OCFO establishes specific deadlines to complete these tasks when it transmits monthly electronic statements to cardholders and AOs for reconciliation and approval.

Section VII.C.6 of the Directive states,

It is required that all employees involved in the Purchase Card Program attend mandatory training prior to receiving the card and/or actively participating in the Program. Refresher training for AOs, AAOs, Cardholders, Principal Officers, [Executive Officers] EXOs, and Program Managers is required every 2 years.

OVAE also established guidelines for purchase card use, including preapproval of purchases, specific requirements for documenting receipt, and filing of purchase card documentation. OVAE's guidelines state,

If funds are available and the dollar amount is within the cardholder's limit, the request is forwarded to the Executive Officer to sign off or approve for processing.

Upon receipt and acceptance of the goods or services, the cardholder shall notate on the documentation the date of receipt . . .

After the Approving Official reconciles and approves the monthly transactions for payment, the cardholder's statement and support documentation are filed by the cardholder in a secured or locked location at or near their workstation. After the

close of each fiscal year, all of OVAE's cardholder files are stored together in a file drawer in the Executive Office, across from room 11-129 PCP.

Cardholders were not familiar with Department requirements to document receipt and acceptance of goods or services. In some cases, OVAE staff were not aware records of receipt must be obtained and retained with purchase card documentation. OVAE staff stated records of receipt were provided to staff that requested the goods. Cardholders did not consistently follow OVAE internal guidelines regarding preapproval of purchases. In the case noted, the purchase was preapproved by the AAO, but not by the Executive Officer as required by OVAE's guidelines. In addition, AOs did not ensure cardholders submitted complete supporting documentation in accordance with Department policy and OVAE guidelines prior to approving the statements for payment.

OVAE's guidelines requiring purchase card documentation to be filed with the cardholder until after the end of the fiscal year conflicts with Department policy requiring documentation to be centrally filed upon approval of the statement each month. OVAE procurement staff were not familiar with the Department policy in this area. With regard to reconciliation, the Executive Officer stated that the outstanding transactions had not been reconciled because OVAE was waiting for the former cardholder to provide details needed to reconcile these transactions. OVAE staff also did not review management reports of outstanding transactions, and as such, did not closely monitor this area. OVAE stated that the AAO was not aware that he was due for refresher training. In addition, OVAE did not have a system to ensure all staff participating in the purchase card program took refresher training when required.

Without adequate supporting documentation, OVAE does not have assurance that purchases were appropriate and were made in accordance with Federal regulations, Department policy and procedures, and OVAE 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. Decentralized filing of purchase card documentation may result in loss of required information and does not ensure the records are easily accessible. Untimely reconciliation of credit transactions decreases the amount of funds available for other uses within the PO. Cardholders that do not complete purchase card training may not be aware of current policies and procedures concerning appropriate use of the purchase card.

Subsequent to our review, OVAE stated that it had implemented corrective actions to address the weaknesses we identified. OVAE also stated that it had reconciled the outstanding credits on the former cardholder's account, and had revised its internal guidelines to eliminate the conflict with Department policy and to strengthen internal control over the purchase card program.

Recommendations:

We recommend that the Assistant Secretary for OVAE 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 staff participating in the purchase card program are familiar with Department policy and procedures and OVAE guidelines for the program.
- 1.2 Ensure cardholders consistently obtain and maintain appropriate supporting documentation for purchases as required by Department policy and OVAE guidelines, and that this documentation is filed with the purchase card statements.
- 1.3 Require the AO to thoroughly review reconciliation packages provided by cardholders to ensure adequate supporting documentation is maintained.
- 1.4 Revise and implement internal purchase card guidelines to ensure that purchase card statements and supporting documentation are maintained in a central file consistent with Department policy.
- 1.5 Require AOs to review reports of unreconciled transactions and ensure purchases are timely reconciled and approved for payment. Ensure AOs and cardholders work with OCFO staff, as necessary, to resolve unreconciled transactions.
- 1.6 Ensure that staff involved in the purchase card program complete refresher training every two years as required by Department policy.

OVAE Response:

In its response to the draft audit report, OVAE concurred with the findings and provided corrective actions to address each of the recommendations included in our report. OVAE plans to conduct annual training sessions, develop a checklist to ensure appropriate supporting documentation is maintained in the file, conduct monthly reviews of reports of unreconciled transactions, and document when staff complete required training. OVAE also reported that it had already revised its internal guidelines to ensure that purchase card documentation is maintained in a central file consistent with Department policy.

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 OVAE. To accomplish our objectives, we performed a review of internal control applicable to OVAE's administration and management of its purchase cards. We evaluated the prior OIG review of the

purchase card program in OVAE 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, OVAE and OCFO procedures and guidance applicable to the purchase card program.

We conducted interviews with staff in OCFO and OVAE 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 OVAE staff for purchases made during the scope period noted below.

The scope of our review included purchases made by 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, and potential split purchases. In OVAE, the random sample included seven purchases. High-risk purchases for OVAE included two purchases over \$2,500. No purchases to blocked merchant codes, or potential split purchases were identified for OVAE. Overall, nine purchases totaling \$11,199 made by two cardholders were included in our review.

In total, OVAE Headquarters cardholders made 180 purchases totaling \$65,762 during the scope period. The purchases we reviewed represented 5 percent of the total number of transactions, and 17 percent of the total amount of purchases made by OVAE 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 OVAE 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 OVAE 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 supporting documentation to validate purchase amounts recorded in these systems. 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 January 12, 2005, through March 14, 2005. We held an exit conference with OVAE management and staff on March 29, 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 VOCATIONAL AND ADULT EDUCATION

Attachment 1

JUN 23 2005

CONTROL NUMBER
ED-OIG/A19F0006

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

Dear Ms. Weaver-Dugan:

This memorandum is in response to the **Draft Audit Report** (Control Number ED-OIG/A19F0006), dated May 26, 2005, that presents the results of the Office of Inspector General (OIG) audit of *Controls Over Purchase Card Use in the Office of Vocational and Adult Education (OVAE)*. The objectives of the audit were to assess the current effectiveness of internal controls over the purchase card program and the appropriateness of current purchase card use in OVAE.

Thank you for the information on the results of the audit. I am committed to the Secretary's goal to strive for zero tolerance in all management and administrative areas. It is very important to me that OVAE's purchase card program complies with all federal regulations, departmental policies and procedures, and OVAE's guidelines. I have informed the OVAE Deputy Assistant Secretary for Programs and Management and the OVAE Executive Officer, who is also OVAE's Approving Official for authorizing cardholder purchases, that I expect OVAE's purchase card program to be exemplary and serve as a model to be emulated by the department. Thank you for noting in your report that OVAE has improved since the OIG review of purchase card activity conducted in April 2000. More importantly, I appreciate that your report identifies additional opportunities by which OVAE can improve. I take the findings and recommendations seriously, and I have directed my staff to begin corrective actions immediately.

OVAE concurs with the report findings. The report identified a need to further improve our internal controls over purchase card use. Specifically, the report states that OVAE did not:

- always obtain and maintain adequate documentation to support purchases;
- centrally file purchase card statements and supporting documentation consistent with departmental policy;
- reconcile credit transactions totaling \$233 timely; and
- complete purchase card refresher training for procurement staff.

The report recommended that the Assistant Secretary hold the Executive Officer, Approving Officials (AOs), and cardholders accountable for their responsibilities in the purchase card program by establishing a process to:

- 1.1 Ensure that staff participating in the purchase card program is familiar with the department policy and procedures and OVAE guidelines for the program.
- 1.2 Ensure cardholders consistently obtain and maintain appropriate supporting documentation for purchases, as required by department policy and OVAE guidelines, and that this documentation is filed with purchase card statements.
- 1.3 Require the Approving Official (AO) to thoroughly review reconciliation packages provided by cardholders to ensure adequate supporting documentation is maintained.
- 1.4 Revise and implement internal purchase card guidelines to ensure that purchase card statements and supporting documentation are maintained in a central file consistent with department policy.
- 1.5 Require AOs to review reports of unreconciled transactions and ensure purchases are timely reconciled and approved for payment. Ensure AOs and cardholders work with OCFO staff, as necessary, to resolve unreconciled transactions.
- 1.6 Ensure that staff involved in the purchase card program completes refresher training every two years as required by department policy.

In accordance with the requirements of the One-ED initiative, the following corrective actions are proposed to address each of the report's recommendations:

- 1.1 To ensure that OVAE staff participating in the purchase card program are familiar with the department policy and procedures and OVAE guidelines for the program, the OVAE Executive Officer (who is also OVAE's AO) will conduct an annual training session with the Office of the Chief Financial Officer (OCFO) and the OVAE Alternate Approving Official (AAO) and cardholders to review and discuss all relevant policies, procedures, and guidelines.
- 1.2 To ensure that OVAE cardholders consistently obtain and maintain appropriate supporting documentation for purchases, as required by department policy and OVAE guidelines, and that this documentation is filed with purchase card statements, the Executive Officer/AO will conduct an annual training session with OCFO and the OVAE AAO and cardholders to review and discuss all relevant policies, procedures, and guidelines. In addition, a checklist to identify supporting documents used in the completion of each transaction will be developed and maintained in the file.

- 1.3 To ensure that the AO thoroughly reviews reconciliation packages provided by cardholders to ensure adequate supporting documentation is maintained, the Executive Officer/AO or the AAO will initial off on all items on the checklist and sign and date the checklist.
- 1.4 We have already acted on the recommendation to revise and implement internal purchase card guidelines to ensure that purchase card statements and supporting documentation are maintained in a central file consistent with department policy. OVAE's internal purchase card guidelines were revised in April 2005 to require that statements and supporting documents be maintained in a central file. The Executive Officer/AO will spot check the location of files and use a department financial report to randomly spot check individual files to verify that purchase documents are properly filed. The Executive Officer/AO will post the OVAE internal purchase card guidelines on our Web site.
- 1.5 To ensure that AOs review reports of unreconciled transactions, that purchases are timely reconciled and approved for payment, and that AOs and cardholders work with OCFO staff, as necessary, to resolve unreconciled transactions, the Executive Officer/AO will review the monthly OCFO reports on unreconciled transactions, document all transactions over 60 days old, and hold OVAE cardholders responsible for resolving all transactions within 90 days. The Executive Officer/AO will work with OCFO to resolve complex transactions.
- 1.6 To ensure that staff involved in the purchase card program completes refresher training every two years, as required by department policy, the Executive Officer/AO will identify OVAE's cardholders and AAO; formally inform them (and their supervisors) of refresher training available at OCFO's Web site of Government-Wide Commercial Purchase Card Training at <http://tln/cbt1/purchase%20card/attendancereview.cfm>; and document when these staff complete the required training.

I have attached a proposed corrective action plan to this memorandum that addresses each of the report's recommendations. I will see to it that the OVAE Executive Officer sends you a quarterly update. Again, I want to thank you for your assistance in ensuring that OVAE's purchase card program is a leader in the department. Please contact me or Nicholas Dorka, the OVAE Executive Officer, if you have any questions concerning this response.

Sincerely,

Susan Sclafani
Assistant Secretary for
Vocational and Adult Education