



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

July 14, 2005

CONTROL NUMBER
ED-OIG/A19F0008

Marina Tse
Primary Associate Assistant Deputy Secretary
Office of English Language Acquisition
U.S. Department of Education
Potomac Center Plaza, Room 10089
400 Maryland, SW
Washington, DC 20202-6510

Dear Ms. Tse:

This **Final Audit Report** (Control Number ED-OIG/A19F0008) presents the results of our audit of *Controls Over Purchase Card Use in the Office of English Language Acquisition, Language Enhancement, and Academic Achievement for Limited English Proficient Students*. 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 English Language Acquisition, Language Enhancement, and Academic Achievement for Limited English Proficient Students (OELA).

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. OELA'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 May 23, 2000, the Office of Inspector General (OIG) issued a report entitled, “Results of the OIG Review of OBEMLA’s¹ Internal Controls Over the Procurement of Goods and Services,” (Control Number A&I 2000-003). OIG reported a number of deficiencies in OBEMLA’s internal control over the purchase card program including lack of familiarity with Department policies and procedures, training and/or refresher training not completed by staff involved in the program, lack of adequate supporting documentation for purchases, lack of written internal purchase card procedures, and noncompliance with procurement regulations for a purchase over \$2,500.

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 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 OELA. 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 OELA needs to further improve internal control over purchase card use. We found OELA did not always obtain and maintain adequate documentation to support purchases. OELA inappropriately split purchase card transactions to avoid exceeding the \$2,500 micropurchase limit. We also found OELA had not implemented internal written purchase card procedures until after the time period we reviewed, and had not established a central filing location for purchase card documentation. These issues occurred because OELA staff were not familiar with Department requirements and because the AO did not ensure the cardholder submitted complete supporting documentation prior to approving statements for payment. OELA staff stated the split purchases were made at the direction of the former Executive Officer. Without adequate supporting documentation, OELA does not have assurance that purchases were appropriate and were made in accordance with Federal regulations and Department policy and procedures. 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. Splitting purchases to stay within the micropurchase limit decreases competition and hampers government initiatives to set aside purchases for small businesses.

In monthly reports distributed within the Department, OCFO reported OELA 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 and procedures, lack of adequate supporting documentation, lack of written internal purchase card procedures, and lack

¹ OELA was known as the Office of Bilingual Education and Minority Language Affairs (OBEMLA) at the time of the prior OIG review.

of compliance with procurement regulations were also reported in the prior OIG review of OELA purchase card activity.

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

Finding 1 OELA Needs To Further Improve Internal Control Over Purchase Card Use

OELA needs to further improve internal control over purchase card use. We reviewed four randomly selected purchases made by one cardholder totaling \$4,743, and found the cardholder did not obtain or maintain adequate documentation to support any of the purchases as required by Department policy. Specifically we found:²

- All four purchases were not supported by a written request for purchase,
- Three purchases were not supported by a record of receipt for the good/service, and
- One purchase was not supported by an invoice or other record of purchase.

We also reviewed nine potential split purchases, (e.g., purchases to the same vendor on the same day or within a few days), and noted four of the purchases represented two separate instances where the cardholder inappropriately split the transactions to avoid exceeding the \$2,500 micropurchase limit. While one of these instances was initially charged to the purchase card in error by the vendor and later reversed, this instance still represents a split purchase since two separate purchase orders were subsequently issued to keep the purchase under \$2,500.

We also noted OELA did not implement written internal purchase card procedures until after the time period we reviewed, and had not established a central filing location for purchase card statements and supporting documentation.

Departmental Directive (Directive) OCFO: 3-104, "Government-wide Commercial Purchase Card Program," Section VI, defines cardholder, AO, and Executive Officer 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

² Some purchases include issues in more than one category.

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. . .

J. The EXO [Executive Officer] is responsible for performing the following . . .6. Establishing internal procedures for Cardholders on the safeguarding and authorized use of the purchase card and providing a copy to the Purchase Card Coordinator for review and concurrence.

Section VII.A.7 of the Directive further 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.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.”

The Federal Acquisition Regulation (FAR) prohibits splitting a transaction into more than one segment to avoid the requirement to obtain competitive bids for purchases over the \$2,500 micropurchase threshold, or to avoid other established limits. Specifically, FAR 13.003(c)(2) states,

Do not break down requirements aggregating more than the simplified acquisition threshold (or for commercial items, the threshold in Subpart 13.5) or the micro-purchase threshold into several purchases that are less than the applicable threshold merely to- (i) Permit use of simplified acquisition procedures; or (ii) Avoid any requirement that applies to purchases exceeding the micro-purchase threshold.

Section VII.A.3 of the Directive also refers to this section of the FAR, stating, “Purchases are not to be split to stay within the single purchase limit or to avoid following procedures for Simplified Acquisitions, in accordance with FAR 13.003(c).”

We found controls over purchase card use were not always effective because OELA’s cardholder and AO were not familiar with policies and procedures established by the Department. The AO did not ensure that the cardholder submitted complete supporting documentation prior to approving the statements for payment. With respect to the split purchases, OELA’s current Executive Officer stated these purchases were made at the direction of the former Executive Officer.

Lack of adequate supporting documentation reduces assurance that purchases were appropriate and were made in accordance with Federal regulations and Department policy and procedures. 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. Splitting purchases to stay within the

micropurchase limit decreases competition and hampers government initiatives to set aside purchases for small businesses. Decentralized filing of purchase card documentation may result in loss of required information and does not ensure the records are easily accessible.

During our review, OELA staff began to take corrective action to address issues noted. The Executive Officer stated he planned to revise and update OELA's internal purchase card procedures and develop a checklist to ensure all requirements are being met.

Recommendations:

We recommend the Primary Associate Assistant Deputy Secretary for OELA 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 OELA cardholders and AOs are familiar with Department policies and procedures, and applicable procurement regulations for the purchase card program.
- 1.2 Ensure cardholders obtain and maintain appropriate supporting documentation for purchases as required by Department policy and procedures.
- 1.3 Ensure cardholders do not split purchases and comply with requirements for purchases over \$2,500.
- 1.4 Require the AO to thoroughly review reconciliation packages provided by cardholders to ensure adequate supporting documentation is maintained.
- 1.5 Ensure purchase card documentation is centrally filed.

OELA Response:

In its response to the draft audit report, OELA concurred with the findings and recommendations and provided corrective actions to address each of the recommendations included in our report. OELA stated it instructed cardholders on requirements for purchase card training, and revised and updated its guidelines for purchase card use. OELA established a checklist to ensure that proper documentation is maintained in accordance with Department procedures and to assist in AO/AAO validation and approval of purchases. OELA stated it has centrally located its purchase card documentation in accordance with Department policy.

OTHER MATTER

OCFO reported in "Fast Facts," a monthly internal Department publication of business indicators, that OELA did not timely reconcile and approve purchase card transactions. During the six-month period ending October 2004, a monthly average of 18 purchase card transactions

totaling \$7,630 had not been reconciled/approved timely by OELA staff. 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 15 OELA transactions, 11 of which were credits totaling \$2,415, and 4 of which were debits totaling \$3,016.

OELA stated some of the unreconciled transactions had been corrected numerous times, but were still outstanding, while other transactions were due to obligations on the prior financial management system that have not been cleared. 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 OELA. We suggest OELA 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 OELA. To accomplish our objectives, we performed a review of internal control applicable to OELA's administration and management of its purchase cards. We evaluated the prior OIG review of the purchase card program in OELA to determine issues previously reported. We reviewed requirements related to the purchase card program in the Treasury Financial Manual, FAR, Office of Management and Budget memoranda, and the Bank of America contract and task order. We also reviewed Departmental Directives and OCFO procedures and guidance applicable to the purchase card program.

We conducted interviews with staff in OCFO and OELA 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 OELA 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 OELA, the random sample included four purchases. High-risk purchases for OELA included nine potential split purchases. One transaction was included in both the random sample and split purchases. No purchases over \$2,500 or purchases to blocked merchant category codes were identified for OELA. Overall, our review included 12 purchases, totaling \$16,480, made by one cardholder.

In total, OELA Headquarters cardholders made 58 purchases totaling \$33,693 during the scope period. The purchases we reviewed represented 20.7 percent of the total number of transactions, and 49.2 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 OELA 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 OELA 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. 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 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 February 23, 2005, through March 3, 2005. We held an exit conference with OELA staff on April 12, 2005. Our audit was performed in accordance with 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

Attachment 1
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OFFICE OF ENGLISH LANGUAGE ACQUISITION, LANGUAGE ENHANCEMENT,
AND ACADEMIC ACHIEVEMENT FOR LIMITED ENGLISH PROFICIENT STUDENTS

July 8, 2005

CONTROL NUMBER
ED-ORG/A19F0008

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:

I have reviewed the Draft Audit Report (Control Number ED-OIG/A19F0008) as requested and concur with your audit results and recommendations. Below you will find the actions that are being taking to improve the purchase card operations in OELA.

- 1.1 To ensure that OELA cardholders, AO and AAO are familiar with Department policies and procedures, each one has been instructed to either complete or retake any current or future purchasing card training courses that are required including "Green Purchasing". In addition, each one is required to keep their purchasing training current to ensure that qualifications adhere to Departmental policies and procedures.
- 1.2 Internal OELA Purchase Card Procedures have been revised, updated and re-issued to purchase cardholders, AO and AAO. A new purchasing check-off sheet (both attached) has been developed to ensure that proper documentation is maintained for purchases in accordance with Departmental procedures. Additionally, the AO and AAO have both been instructed that they are not to certify any purchases for payment if all appropriate and adequate supporting documentation for purchases as required by Department policy and procedures are not present.
- 1.3 All cardholders have been advised that under no circumstance are they allowed to split purchases to stay within the single purchase limit or avoid following procedures for Simplified Acquisitions, in accordance with FAR 13.003(c); and, any two purchases made from the same vendor within a short period of time will be considered a split purchase and is not authorized.
- 1.4 The check-off sheet (attached) has also been established to assist the AO and AAO with the review, validation and approval of cardholder purchases, including reconciling cardholders' activity logs and statement transaction reports. Additionally, it helps to ensure that cardholders will have all appropriate and adequate supporting documentation available for their purchase card reconciliation process.

1.5 All of the purchase card information is now centrally located in a locked file drawer in the Executive Officer's room.

We intend to make progress towards total compliance and improvements on internal purchase card operations in OELA, correct any past deficiencies and prevent any others from this point forward.

If you need further information or have comments with regards to our internal Purchase Card procedures, please call Ethan Allen at (202) 245-7141.

Sincerely,

Marina Tse,
Primary Associate Assistant Deputy Secretary
Office of English Language Acquisition

Attachments