



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

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CONTROL NUMBER  
ED-OIG/A19F0010

Deborah Price  
Assistant Deputy Secretary  
Office of Safe and Drug-Free Schools  
U.S. Department of Education  
Federal Building 6, Room 1E110A  
400 Maryland, SW  
Washington, DC 20202

Dear Ms. Price:

This **Final Audit Report** (Control Number ED-OIG/A19F0010) presents the results of our audit of *Controls Over Purchase Card Use in the Office of Safe and Drug-Free Schools*. 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 Safe and Drug-Free Schools (OSDFS).

## 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. OSDFS' 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.

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 OSDFS. A summary report will be provided to the Department's Chief Financial Officer upon completion of the audits in individual offices.

## **AUDIT RESULTS**

Overall, we found that OSDFS needs to improve internal control over purchase card use. We found OSDFS did not always obtain and maintain adequate documentation to support purchases, and inappropriately purchased accountable property with the purchase card. OSDFS also split purchase card transactions to avoid exceeding the \$2,500 micropurchase limit. These issues occurred because OSDFS 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. Without adequate supporting documentation, OSDFS does not have assurance that purchases were appropriate and were made in accordance with Federal regulations, Department policy and procedures, and OSDFS 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. Purchases of accountable assets with the purchase card could result in assets that are not appropriately identified and included in the Department's inventory system. Splitting purchases to stay within the micropurchase limit decreases competition and hampers government initiatives to set aside purchases for small businesses.

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

### **Finding 1 OSDFS Needs To Improve Internal Control Over Purchase Card Use**

OSDFS did not effectively implement internal control over purchase card use. We reviewed three randomly selected purchases made by one cardholder totaling \$4,815, and found the cardholder did not obtain or maintain adequate documentation to support any of the purchases as required by Department policy and OSDFS guidelines. Specifically we found:

- Two purchases were not supported by a written request for purchase,
- All three purchases were not supported by a record of receipt for the good/service,
- All three purchases did not include evidence of prior approval as required by OSDFS guidelines, and

- The reconciliation package for one purchase did not include the original Bank of America statement signed by the cardholder as required by OSDFS guidelines.

An invoice or other record of purchase to support one additional transaction was not originally in the file. Since OSDFS staff were subsequently able to obtain an invoice for this purchase from the vendor, this transaction was not included in the exceptions noted above.

We also noted that one purchase included information technology (IT) accountable property totaling \$2,124.

We reviewed eight potential split purchases (e.g. purchases to the same vendor on the same day or within a few days), and noted these purchases represented four separate instances where the cardholder inappropriately split the transactions to avoid exceeding the \$2,500 micropurchase limit. None of the purchases included written requests for purchase as required by the Department policy, or preapproval by the AO as required by OSDFS guidelines. In addition, the purchase card files did not include any evidence that bids were obtained or documentation of justification for sole source purchase.

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 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.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.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).<sup>1</sup> 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.

In September 2003, OSDFS established additional guidelines for purchase card use within its office. These procedures state,

3. A purchase card approval form (Request to Use the Government Purchase Card) is filled out to authorize the purchase and/or supply list is signed or initialed and dated by the Approving Official.

8. Upon completion of the reconciliation process . . . The purchase cardholder then submits to the Approving Official the original signed bank statement/purchase card approval form and all invoices for the supplies/equipment/training that has been processed.

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 that implementation of controls over purchase card use was not always effective because the OSDFS cardholder and AO were not familiar with policies and procedures established by the Department, and the AO did not ensure that the cardholder submitted complete supporting documentation prior to approving the statements for payment. OSDFS' current Executive Officer stated emails were sometimes used as a form of pre-approval, rather than the form specified by OSDFS' policy. However, OSDFS' purchase card files did not include copies of such emails and OSDFS staff were not able to locate any emails to support the pre-approval required by OSDFS' guidelines.

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<sup>1</sup> Contracting and Purchasing Operations (CPO) is now known as Contracts and Acquisition Management (CAM).

With respect to the split purchases, the Executive Officer initially stated that she did not believe the purchases noted were intentionally split. However, after reviewing the documentation, which included some sequential invoice numbers, or faxed confirmations documenting both invoices were processed together by the vendor, she agreed that was the case. She stated that in one case, the cardholder had obtained bids, but no documentation of these bids was provided. Had OSDFS complied with Department policy on obtaining written requests for purchases, and OSDFS' guidelines for preapproval of purchases, the intent to split these purchases may have been noted and simplified acquisition processes followed as required.

Lack of adequate supporting documentation reduces assurance that purchases were appropriate and were made in accordance with Federal regulations, Department policy and procedures, and OSDFS guidelines. Approving purchases without reviewing 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. Purchase of accountable assets with the purchase card results in assets that are not appropriately identified with a Department bar code, and are not appropriately included in the Department's inventory system. As such, these items are more vulnerable to loss. Splitting purchases to stay within the micropurchase limit decreases competition and hampers government initiatives to set aside purchases for small businesses.

During our review, OSDFS staff began to take corrective action to address the issues noted. OSDFS obtained a bar code for the accountable property item, and registered the equipment in the Department's Asset Management Database. The Executive Officer stated that as a result of our review, she plans to revise and update OSDFS' internal purchase card procedures to address the issues noted.

### **Recommendations:**

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

- 1.1 Ensure OSDFS' cardholders and AO are familiar with the Department's policies and requirements for: (a) obtaining and maintaining supporting documentation, (b) goods and services that cannot be acquired with the purchase card, and (c) prohibitions against splitting purchases.
- 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 OSDFS guidelines.
- 1.3 Require the AO to thoroughly review reconciliation packages provided by cardholders to ensure that adequate supporting documentation is maintained.

**OSDFS Response:**

In its response to the draft audit report, OSDFS concurred with the findings and provided corrective actions to address each of the recommendations included in our report. OSDFS stated that it updated its purchase card procedures, is now requiring annual refresher training for its cardholders, and reported its cardholders and the AO will have completed refresher training as of August 5, 2005. OSDFS also stated that no purchases would be made without written approval from the Executive Officer or Budget Officer, and that internal spot audits will be conducted to ensure consistency in following Department policy and procedures and OSDFS guidelines.

**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 OSDFS. To accomplish our objectives, we performed a review of internal control applicable to OSDFS' administration and management of its purchase cards. 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, OSDFS and OCFO procedures and guidance applicable to the purchase card program.

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

The scope of our review included purchases made by OSDFS 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 OSDFS, the random sample included three purchases. High-risk purchases for OSDFS included eight potential split purchases. One purchase was included in both the random sample and potential split purchases identified. No purchases over \$2,500 or purchases to blocked merchant category codes were identified for OSDFS. Overall, 10 purchases totaling \$13,085 made by 1 cardholder were included in our review.

In total, OSDFS Headquarters cardholders made 64 purchases totaling \$37,202 during the scope period. The purchases we reviewed represented 16 percent of the total number and 35 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 OSDFS 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 OSDFS 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 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 April 1, 2005, through April 21, 2005. We held an exit conference with OSDFS staff on June 15, 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 SAFE AND DRUG-FREE SCHOOLS

August 4, 2005

**Memorandum**

TO: Michele Weaver-Dugan, Director  
Operations Internal Audit Team  
Office of Inspector General

FROM: Deborah A. Price  
Assistant Deputy Secretary  
Office of Safe and Drug-Free Schools

SUBJECT: Comments on Controls Over Purchase Card Use in the Office of Safe  
and Drug-Free Schools Draft Audit Report  
Audit Control Number: ED-OIG/A19F0010

We appreciate the opportunity to comment on the above referenced draft audit report over purchase card use in the Office of Safe and Drug-Free Schools (OSDFS). We concur with the auditors' findings and in response to the auditors' recommendation, our office has taken several steps to make improvements in the OSDFS purchase card program. In addition to updating the OSDFS purchase card procedures, the following corrective actions have been taken:

**Audit Recommendation 1.1:** Ensure OSDFS' cardholders and AO are familiar with Department's policies and requirements for obtaining and maintaining supporting documentation, goods and services that cannot be acquired with a purchase card and prohibitions against splitting purchases.

**Corrective Action:** Refresher training for all purchase cardholders in OSDFS is now mandatory on an annual basis. Purchase cardholders completed training on 07/20 and 07/27-28/05. The AO will attend training will attend 08/05.

**Audit Recommendation 1.2:** Ensure cardholders consistently obtain and maintain written purchase requests and approvals, records of purchase, records of receipts, and other appropriate supporting documentation for purchases as required by Department policy and procedures and OSDFS guidelines.

**Corrective Action:** As of 12/01/04, no purchases are made with the OSDFS purchase card unless the purchase cardholder receives a written approval from either the Executive Officer or the Budget Officer. In addition, annual staff training and internal spot audits of reconciliation packages will ensure consistency in maintaining Departmental policy and procedures and OSDFS guidelines for all purchases.

**Audit Recommendation 1.3:** Require the AO to thoroughly review reconciliation packages provided by cardholders to ensure that adequate supporting documentation is maintained.

**Corrective Action:** A spot audit of randomly selected reconciliation packages completed between 02/07/05 through 07/15/05 was performed by the Executive Officer to ensure that purchase cardholders and the approving official adhered to ED and OSDFS purchase card policies and procedures. Spot audits of reconciliation packages will continue to be performed by the Executive Officer on a quarterly basis to ensure that purchase cardholders and the approving official adhere to ED and OSDFS purchase card policies and procedures.

We look forward to the issuance of the final audit report. If you have any questions, please feel free to contact either Tina Hunter at (202) 260-2526 or Michelle Padilla Georgia, at (202) 260-2648.

Attachment

cc: Tina M. Hunter  
Executive Officer, OSDFS

Michelle Padilla Georgia  
Audit Liaison, OSDFS