



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

September 14, 2005

CONTROL NUMBER
ED-OIG/A19F0013

Mr. Jack Martin
Chief Financial Officer
Office of the Chief Financial Officer
U.S. Department of Education
400 Maryland Avenue, SW
Washington, DC 20202

Dear Mr. Martin:

This **Final Audit Report** (Control Number ED-OIG/A19F0013) presents the results of our audit of *Controls Over Purchase Card Use in the Office of the Chief Financial Officer*. 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 the Chief Financial Officer (OCFO).

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. OCFO's Executive Officer is responsible for administering the purchase card program in that office. The Executive Officer is also the only Approving Official (AO) within OCFO, and as such, is the primary official responsible for authorizing cardholder purchases and ensuring timely reconciliation of cardholder statements.

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On July 26, 2000, the Office of Inspector General (OIG) issued a report entitled, "Results of OIG Review of OCFO and OCIO Internal Controls Over the Procurement of Goods and Services," (Control Number A&I 2000-006). OIG reported a number of deficiencies in OCFO'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, and lack of adequate supporting documentation for purchases.

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 OCFO. A summary report will be provided 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 OCFO needs to further improve internal control over purchase card use. We found OCFO did not always obtain and maintain adequate documentation to support purchases, and did not always obtain advance approval for purchases of furniture and software as required. These issues occurred because some transactions were completed on-line or telephonically and appropriate documentation was not generated. With respect to records of receipt, OCFO staff stated they did not follow up to determine if Department employees attended and completed training. OCFO also stated it was general practice to purchase special accommodation furniture without seeking approval from OM, and that OCIO approval was not obtained for the software purchase due to an oversight. Finally, we found the AO did not always ensure the cardholders submitted complete supporting documentation prior to approving statements for payment.

Without adequate supporting documentation, OCFO does not have assurance that purchases were appropriate and were made in accordance with Federal regulations and Department policy and procedures. Failure to document receipt of goods and services could result in payment for items that were ultimately not provided to the Department. Failure to seek required approvals for purchases of furniture and software could result in the expenditure of funds for items that are not compatible with existing items, are already available for use within the Department, or are available at a lower cost through existing Department contracts and sources. Approving purchases without adequate supporting documentation increases the Department's vulnerability to potential misuse or waste of government resources.

Issues noted above regarding lack of adequate documentation to support purchases were also reported in the prior OIG review of OCFO purchase card activity.

In its response to the draft audit report, OCFO concurred with the finding and recommendations included in our report. The complete text of OCFO's response is included as Attachment 1 to this report.

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

While improvements were noted from the prior OIG review, OCFO needs to further improve internal control over purchase card use. We reviewed 41 purchases made by 3 cardholders totaling \$35,709, and found the cardholders did not always obtain or maintain adequate documentation to support purchases as required by Department policy and OCFO guidelines. Overall, we noted that 25 of the 41 purchases (61 percent) did not include one or more required elements. Specifically we found:¹

- One purchase was not supported by a written purchase request.
- One purchase was not supported by an invoice or other record of purchase.
- 23 purchases were not supported by a record of receipt for the good/service.
- Two purchases – one for furniture and one for software – did not include documentation showing approval from the Office of Management (OM) or Office of the Chief Information Officer (OCIO), respectively, as required.

We also noted that complete supporting documentation required by Department policy and/or OCFO guidelines was not originally provided in the purchase card files for three additional purchases. OCFO provided additional documentation that supported these purchases, and these purchases are not included in the exceptions above.

Departmental Directive OCFO: 3-104, "Government-wide Commercial Purchase Card Program," dated January 23, 2002, 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

¹ Some purchases include issues in more than one category.

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.”

OCFO Procedure CO-097, “Procedure for Buying, Using a Government Commercial Purchase Card,” revised March 2003, Section 10.d, states the following regarding documentation,

Retain data supporting the purchases (including records of oral quotations). Keep your files neat, up-to-date, and easily retrievable. Documentation will be retained in a central filing location established by your Principal Office. The record should be kept for 3 years after final payment. The records must be kept secure and be easily retrievable upon request. Documentation includes:

- Request for purchase (a written request from the requisitioner).
- Record of purchase (i.e. written notes, printout of CPSS Quick Purchase screen, invoice, internet printout, etc.).
- Record of receipt and acceptance (i.e. packing slip, training certificate). Note – Forward to the Cardholder for retention if you are the recipient of the purchase.

Departmental Directive OM 4-103, “Space Management,” revised July 30, 2002, outlines procedures regarding the purchase of furniture. Section VI, Part C.4, of the Directive states,

The Principal Officers are responsible for . . . 4. Assuring that all furniture procurement is through, coordinated and approved by [Office of Management, Facilities Services] OM/FS in order to insure these products meet the minimum standards and are interchangeable (i.e. connectivity, parts, style, color, etc) with our existing inventory, and comply with departmental contracting policy and procedures

Handbook OCIO-08, “Handbook for Software Management and Acquisition Policy,” dated August 25, 2003, outlines procedures regarding the purchase and management of software. Section VI, Part A.1, of the Handbook states,

Requisitions for software and upgrades will be submitted to OCIO by the Contracts and Purchasing Support System (CPSS) for approval, and upon award, delivery and receipt by the Contracting Officer (CO), registered in the Software Library.

Section VI, Part B, of the Handbook states,

If an application is needed for a specific office, the Principal Office(s) may present a business justification and requirements document to OCIO for review/approval. OCIO will obtain on behalf of the Principal Office(s) software license(s) that meet the guidelines set forth in Executive Order 13103 [guidance on computer piracy].

OCFO officials generally believed their practices effectively met requirements for purchase card use. OCFO stated a written purchase request was not prepared for the transaction noted in our review because the purchase required both the cardholder and end-user to be present to complete an on-line transaction. OCFO staff stated the transaction without a record of purchase was completed by telephone and no written record of the transaction existed other than the entry in the training database. In these two instances, written notes by the end user and the cardholder, respectively, would be allowable documentation as noted in Procedure CO-097 cited above.

With respect to records of receipt, OCFO staff stated they did not follow up to determine if Department employees attended and completed training. In several instances, OCFO indicated that receipt of training was not possible at the time of payment because the training occurred after the date the purchase was invoiced. OCFO further stated it was a general practice for OCFO and other offices to purchase special accommodation furniture without seeking approval from OM. However, OCFO did not provide any documentation from OM allowing an exemption from its policy requirements. OCFO staff also stated OCIO approval was not obtained for the software purchase due to an oversight. We also found that the AO did not always ensure that the cardholder submitted complete supporting documentation prior to approving the statements for payment.

Lack of adequate supporting documentation reduces assurance that purchases were appropriate and were made in accordance with Federal regulations and Department policy and procedures. Failure to document receipt of goods and services could result in payment for items that were ultimately not provided to the Department. Failure to seek required approvals for purchases of furniture and software could result in the expenditure of funds for items that are not compatible with existing items, are already available for use within the Department, or are available at a lower cost through existing Department contracts and sources. Approving purchases without adequate supporting documentation increases the Department's vulnerability to potential misuse or waste of government resources.

During our review, OCFO staff began to take corrective action to address issues noted. The Executive Officer stated that following our meeting to discuss the issues noted, he established a process to follow up with employees to document completion of training. The Executive Officer stated that he is clarifying with OM its requirement to approve furniture that is purchased occasionally as a reasonable accommodation or in response to a doctor's prescription provided by an employee. The Executive Officer also stated that all software purchases would be sent through OCIO for approval.

Recommendations:

We recommend the Chief Financial Officer 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 that cardholders and the AO are familiar with the Department's policies and requirements for: (a) obtaining and maintaining supporting documentation, and (b) goods and services 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 OCFO guidelines.
- 1.3 Require the AO to thoroughly review reconciliation packages provided by cardholders to ensure that adequate supporting documentation is maintained.

OCFO Response:

In its response to the draft audit report, OCFO concurred with the finding and recommendations included in our report. OCFO also asked OIG to continue to work with its Executive Officer to implement corrective actions.

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

We conducted interviews with OCFO officials 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 OCFO 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 OCFO, the sample included 41 purchases, 38 of which were part of the random sample and 3 of which were made against blocked merchant category codes. No purchases over \$2,500 or potential split purchases were identified for OCFO. Overall, 41 purchases totaling \$35,709 made by 3 cardholders were included in our review.

In total, OCFO Headquarters cardholders made 568 purchases totaling \$285,333 during the scope period. The purchases we reviewed represented 7 percent of the total number and 13 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 OCFO 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 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 May 5, 2005, through July 13, 2005. We held an exit conference with OCFO staff on August 5, 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 THE CHIEF FINANCIAL OFFICER

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Ms. Michele Weaver-Dugan, Director
Operations Internal Audit Team
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Office of Inspector General
400 Maryland Ave SW
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Dear Ms. Weaver-Dugan:

Thank you for providing your Draft Audit Report entitled *Controls Over Purchase Card Use in the Office of the Chief Financial Officer (ED-OIG/A19-F0013)*, dated August 12, 2005. We have reviewed the draft and concur with your findings and recommendations.

Please continue to work with OCFO's Executive Officer, Michael Holloway, to implement the corrective actions.

Sincerely,

Jack Martin