



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

September 14, 2005

CONTROL NUMBER
ED-OIG/A19F0017

Ms. Sally L. Stroup
Assistant Secretary
U.S. Department of Education
Office of Postsecondary Education
400 Maryland Avenue, SW
Washington, DC 20202-6510

Dear Ms. Stroup:

This **Final Audit Report** (Control Number ED-OIG/A19F0017) presents the results of our audit of *Controls Over Purchase Card Use in the Office of Postsecondary Education*. 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 Postsecondary Education (OPE).

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

400 MARYLAND AVE., S.W. WASHINGTON, D.C. 20202-1510

Our mission is to ensure equal access to education and to promote educational excellence throughout the nation.

On September 7, 2000, the Office of Inspector General (OIG) issued a report entitled, "Results of the OIG Review of OPE's Internal Controls Over the Procurement of Goods and Services," (Control Number A&I 2000-013). OIG reported a number of deficiencies in OPE'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, and lack of written internal purchase card 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 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 OPE. 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 OPE needs to further improve internal control over purchase card use. We found OPE did not always obtain and maintain adequate documentation to support purchases and OPE requirements regarding prior approval of purchases. These issues occurred because OPE staff initiated some purchases based on verbal requests and/or approvals, and one OPE cardholder was also approving his/her own purchases. OPE staff did not always follow-up to document whether items ordered were received, and did not always follow required processes for certain types of purchases. We also noted the AO did not always ensure the cardholder submitted complete supporting documentation prior to approving statements for payment.

Without adequate supporting documentation, OPE 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. 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 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.

Issues noted above regarding lack of adequate documentation to support purchases represent repeat conditions from the prior OIG review of OPE purchase card activity.

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

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

OPE needs to further improve internal control over purchase card use. We reviewed 24 purchases made by 5 cardholders totaling \$30,313, and found the cardholders did not obtain or maintain adequate documentation to support a number of the purchases as required by Department policy and OPE guidelines. Overall, we noted that 14 of the 24 purchases reviewed (58 percent) did not include one or more required elements. Specifically we found:¹

- Five purchases were not supported by a written request for purchase.
- 10 purchases were not supported by a record of receipt for the good/service.
- One purchase of furniture did not include documentation showing coordination with and approval from the Office of Management/Facilities Services (OM/FS) as required.
- Eight purchases did not include documentation to support that supervisory approval was obtained as required by OPE guidelines.

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

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.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.”

¹ Some purchases include issues in more than one category.

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)

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

The Principal Officers are responsible for . . . 4. Assuring that all furniture procurement is through, coordinated and approved by 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.

OPE's internal guidelines, "Purchase Card Procedures," effective June 2002, require supervisory approval prior to purchase. The guidelines also state with regard to purchasing documentation,

- You should maintain documentation of supervisory approval for the purchases that you make with your card. This can be done using an internal requisition form (sample attached) or through email. The card is never to be used for personal purchases.
- You need to keep receipts and packing slips associated with your purchases in a safe place. You will need to attach these to your monthly statement and send them to the Executive Officer by the first of month following the receipt of your statement.

OPE officials generally believed their practices effectively met requirements for purchase card use. However, OPE's practices did not always provide the documentation required to support purchases. For example, OPE stated some cardholders initiated purchases based on verbal requests and/or approvals from the Executive Officer, but did not document the requests and approvals as required. In addition, one OPE cardholder was also approving his/her own purchases. OPE's policy did not include the Department requirement for a written request, which may have contributed to confusion on this requirement. In addition, OPE cardholders did not always follow up to document whether items ordered were received and whether employees attended training purchased, and the AO did not ensure that the cardholder submitted complete supporting documentation prior to approving the statements for payment.

With respect to the purchase of furniture, OPE staff stated OM/FS informed them that they could deal directly with the vendor for individual purchases if necessary. However, OPE had no documentation of these contacts with OM/FS. OPE staff also stated that in the past OM/FS had not been able to provide furniture when OPE made this contact.

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. 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 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.

Recommendations:

We recommend that the Assistant Secretary for OPE hold the Executive Officer/AO 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 OPE guidelines.
- 1.3 Require the AO to thoroughly review reconciliation packages provided by cardholders to ensure that adequate supporting documentation is maintained and appropriate approvals for purchases are documented.

OPE Response:

In its response to the draft audit report, OPE concurred with the recommendations and provided corrective actions to address each of the three recommendations included in our report. OPE stated that all cardholders and AOs will be required to take purchase card refresher training online that specifically addresses the importance of (a) obtaining and maintaining written support documentation, and (b) obtaining prior approval for the purchase of goods and services that require special approval or clearance. OPE stated it has already updated its purchase card procedures to include the Department's requirement for a written request for goods and/or

services prior to purchase, and its guidelines now specifically refer to the importance of maintaining written supporting documentation. OPE also stated it will require cardholders and AOs to sign a certification that they have read the revised procedures. Finally, OPE stated that it will assign responsibility for approving purchases and the monthly purchase card statement to a supervisor in the cardholder's immediate office in order to strengthen controls.

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

We conducted interviews with OCFO and OPE 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 OPE 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 OPE, we reviewed 20 randomly selected purchases, 3 purchases over \$2,500, 1 purchase made against a blocked merchant category code, and 19 potential split purchases. Overall, 43 purchases totaling \$46,282 made by 6 cardholders were included in our review.

In total, OPE Headquarters cardholders made 438 purchases totaling \$197,634 during the scope period. The purchases we reviewed represented 10 percent of the total number and 23 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 OPE 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 OPE 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 June 1, 2005, through July 13, 2005. We held an exit conference with OPE staff on July 27, 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 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 recommendations 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 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. §552), 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 POSTSECONDARY EDUCATION

THE ASSISTANT SECRETARY

MEMORANDUM

DATE: SEP -6 2005

TO: Michelle 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

FROM: Sally L. Stroup
Assistant Secretary

SUBJECT: Draft Audit Report
Controls Over Purchase Card Use in the Office of Postsecondary
Education
Control Number ED-OIG/A19F0017

Thank you for the opportunity to comment on the Office of Inspector General's (OIG) Draft Audit Report, *Controls Over Purchase Card Use in the Office of Postsecondary Education*, Control Number ED-OIG/A19F0017, dated August 12, 2005. 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 the Office of Postsecondary Education (OPE).

FINDING NUMBER 1: OPE Needs to Further Improve Internal Control Over Purchase Card Use.

The OIG cited the following issues:

- Five purchases were not supported by a written request for purchase.
- Ten purchases were not supported by a record of receipt.
- One purchase of furniture did not include documentation showing coordination with, and approval from, the Office of Management/Facilities Services (OM/FS), as required by Department policy and procedures.
- Eight purchases did not include documentation to support that supervisory approval was obtained, as required by OPE guidelines.

RECOMMENDATION 1.1: Ensure that cardholders and the Approving Official (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.

We concur with the OIG's recommendation. OPE purchase cardholders and AOs will be required to take purchase card refresher training. The training will be offered on-line, and cardholders and AOs will print out a certificate of completion. Training will specifically address the importance of: (a) obtaining and maintaining written support documentation, and (b) obtaining prior written approval for the purchase of goods and services that require special approval or clearance.

RECOMMENDATION 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 OPE guidelines.

We concur with the OIG's recommendation. OPE has revised its internal guidelines to include the Department's requirement for a written request for goods and/or services prior to purchases. The internal guidelines specifically refer to the importance of maintaining written supporting documentation in accordance with Department policy and procedures. OPE will require cardholders and AOs to sign a certification that they have read the revised procedures.

RECOMMENDATION 1.3: Require the AO to thoroughly review reconciliation packages provided by cardholders to ensure that adequate supporting documentation is maintained and appropriate approvals for purchases are documented.

We concur with the OIG's recommendation. To strengthen internal controls, OPE will assign responsibility for approving purchases and the approval of the monthly purchase card statement to a supervisor in the cardholder's immediate office. OPE's Executive Officer will notify supervisors of their new responsibilities by email.

We anticipate that the above actions will be completed by December 1, 2005.

Thank you for reviewing purchase card use in OPE and for making recommendations to improve our internal controls. If you have any questions regarding this response, please contact Humphrey Barnes at 202-502-7550.