



## UNITED STATES DEPARTMENT OF EDUCATION

### OFFICE OF INSPECTOR GENERAL

September 27, 2005

CONTROL NUMBER  
ED-OIG/A19F0018

Henry L. Johnson  
Assistant Secretary  
Office of Elementary and Secondary Education  
U. S. Department of Education  
400 Maryland Avenue, SW  
Washington, DC 20202

Dear Mr. Johnson:

This **Final Audit Report** (Control Number ED-OIG/A19F0018) presents the results of our audit of *Controls Over Purchase Card Use in the Office of Elementary and Secondary 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 Elementary and Secondary Education (OESE).

### **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. The Executive Officer is responsible for administering the purchase card program in OESE. The Executive Officer is the only approving official (AO) in OESE and therefore the primary official responsible for authorizing cardholder purchases and ensuring timely reconciliation of cardholder statements.

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On May 22, 2000, the Office of Inspector General (OIG) issued a report entitled, “Results of the OIG Review of OESE’s Internal Controls Over the Procurement of Goods and Services,” (Control Number A&I 2000-002). OIG reported a number of deficiencies in OESE’s internal control over the purchase card program, including lack of familiarity with Department policy and procedures, inadequate documentation to support purchases, sharing of purchase cards among employees, lack of adequate purchase card approval, and untimely review and approval of statements by the AO.

This audit is part of a review of the purchase card program being performed Department-wide. 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 OESE. 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 OESE needs to further improve internal control over purchase card use. We found that OESE did not always obtain and maintain adequate documentation and approvals to support purchases in accordance with Department policies and OESE’s internal policy. These issues occurred because OESE staff were not always familiar with Department policy and procedures regarding documentation and clearance for specific items. We also found that the AO did not ensure cardholders submitted complete supporting documentation prior to approving the statements for payment. In addition, OESE guidelines need to be clarified to avoid inconsistent application of requirements.

Without adequate supporting documentation, OESE does not have assurance that purchases were appropriate and were made in accordance with Federal regulations, Department policy and procedures, and OESE guidelines. Failure to document receipt of goods and services could result in payment for items that were ultimately not provided to the Department. Approving purchases without adequate supporting documentation increases the Department’s vulnerability to potential misuse or waste of government resources. Failure to seek required approvals for certain purchases could result in the improper use of Government funds. Failure to follow internal policies with respect to pre-approval of purchases reduces the effectiveness of the control established and reduces OESE’s assurance that purchases made were appropriate. Inconsistent application of some aspects of internal policy could lead to confusion as to the applicability of other areas of the policy.

Issues noted above regarding lack of familiarity with Department policy and procedures and lack of adequate documentation to support purchases were also reported in the prior OIG review of OESE’s purchase card activity.

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

## **Finding 1 OESE Needs to Further Improve Internal Control Over Purchase Card Use**

While improvements were noted from the prior OIG review, OESE needs to further improve internal control over purchase card use. We reviewed 12 purchases totaling \$28,977 made by 2 OESE headquarters cardholders. We found that OESE cardholders did not always obtain and maintain adequate documentation and approvals to support purchases as required by Department policy and OESE guidelines. Overall, we found that 8 of the 12 purchases (67 percent) did not include one or more elements required by Department policy. Specifically, we determined:<sup>1</sup>

- Eight purchases did not include complete documentation to support that the goods or services were received.
- One purchase, a paid advertisement, did not include documentation to support clearance by CAM for the purchase.

In addition, we found that preapproval of six purchases was not documented by signatures and/or dates of OESE officials as required by OESE guidelines. Specifically, three purchases did not include the signature of the program director and/or executive officer on the specified form, and three purchases included required signatures, but the signatures were not dated to support that approval was obtained prior to the purchase.

Department Directive (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 individual

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<sup>1</sup> Some purchases included issues in more than one category.

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,

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).

Section VII.A.9.b of the Directive states, “Examples of categories requiring special reviews or clearances . . . b. Paid advertisements - authority to publish advertisements in newspapers and periodicals require clearance by the Director, [Contracts and Purchasing Operations] CPO . . . .”<sup>2</sup>

OESE’s “Internal Procedures for Purchase Cardholders on the Safeguarding and Authorized Use of the Purchase Card,” (OESE guidelines), dated June 30, 2003, states in the “Internal Controls” section,

. . . Requests for purchases using the government purchase card must be approved in advance, through the use of a purchase request form, signed and dated by the program director and the Executive Officer . . . .

We found that OESE cardholders and other officials involved in the purchase card program were not always familiar with Department policy and procedures. In addition, the AO did not ensure that adequate supporting documentation was obtained before approving statements for payment. OESE staff also stated their belief that additional approvals were not required for the advertisement due to the small dollar value of the purchase.

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<sup>2</sup> Contracting and Purchasing Operations (CPO) is now known as Contracts and Acquisition Management (CAM).

We also found that OESE's guidelines needed clarification with respect to requirements for approval, signatures, and documentation. Program director signatures were not provided on the form required by OESE guidelines for two of the transactions. For one of these transactions, the Executive Officer also did not sign the required form. In one other case the Program Director signed the required form but the Executive Officer did not. OESE stated that the signatures provided on other forms or by other officials were considered acceptable, but this does not conform to OESE's guidelines as written. In three other cases, the Executive Officer signed the form, but did not date her signature, so approval in advance of the purchase was not documented.

Lack of adequate supporting documentation reduces assurance that purchases were appropriate and were made in accordance with Federal regulations, Department policy and procedures, and OESE guidelines. Failure to document receipt of goods and services could result in payment for items that were ultimately not provided to the Department. Failure to obtain proper approval for advertisements could result in improper use of Government funds. Approving purchases without reviewing adequate supporting documentation increases the Department's vulnerability to potential misuse or waste of government resources.

Failure to follow internal policies with respect to pre-approval of purchases reduces the effectiveness of the control established and reduces OESE's assurance that purchases made were appropriate. Inconsistent application of some aspects of internal policy could lead to confusion as to the applicability of other areas of the policy.

As a result of our audit, OESE reported it has established a process by which cardholders open shipments of goods and obtain a copy of any packing slips and other documentation to support receipt prior to delivering the goods to the requesting staff member. In addition, OESE stated it plans to clarify its internal guidelines to address the issues noted.

### **Recommendations:**

We recommend that the Assistant Secretary for OESE 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 OESE 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 for purchase.
- 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 OESE guidelines.

- 1.3 Require the AO to thoroughly review reconciliation packages provided by cardholders to ensure that adequate supporting documentation is maintained.
- 1.4 Update OESE's Purchase Card Guidelines to accurately reflect intended controls and business practices.

### OESE Response:

In its response to the draft audit report, OESE concurred with the recommendations and provided corrective actions to address each of the recommendations included in our report. OESE reported that the Executive Officer/AO met with cardholders on August 5, 2005, to review the findings in the audit and the requirements of the Department Directive. OESE also reported the AO had reviewed the most recent reconciliation package, was assured that each purchase had supporting documentation, and the AO will continue this process for all future monthly reconciliations and payments. Finally, OESE reported that it had revised its internal guidelines to more clearly reflect intended 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 OESE. To accomplish our objectives, we performed a review of internal control applicable to OESE's administration and management of its purchase cards. We evaluated the prior OIG review of the purchase card program in OESE to determine the 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, OESE and OCFO procedures and guidance applicable to the purchase card program.

We conducted interviews with OCFO and OESE 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 OESE 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 OESE the random sample included eight purchases. High-risk purchases for OESE included two potential split purchases and four purchases over \$2,500. No purchases made against blocked merchant category codes (MCCs) were identified for OESE. Overall, we reviewed 14 OESE purchases totaling \$33,028 made by 2 cardholders.

In total, OESE Headquarters cardholders made 149 purchases totaling \$85,990 during the scope period. The purchases we reviewed represented 9 percent of the total number and 38 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 OESE 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 OESE 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 8, 2005, through July 12, 2005. We held an exit conference with OESE 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 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

cc: Ruth Hall, OESE Executive Officer  
Dolores Warner, OESE Audit Liaison Officer





UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF ELEMENTARY AND SECONDARY EDUCATION

THE ASSISTANT SECRETARY

CONTROL NUMBER

ED-OIG/A19F0018

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Operations Internal Audit Team  
U.S. Department of Education  
Office of Inspector General  
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Washington, DC 20202-1510

SEP 22 2005

Dear Ms. Weaver-Dugan:

This letter is in response to your August 29, 2005 letter presenting the Draft Audit Report of controls over purchase card use in the Office of Elementary and Secondary Education (OESE). The objective of your audit was to assess the current effectiveness of internal controls over the purchase card program and the appropriateness of current purchase card use in OESE. As a result of your audit, you made several recommendations for improvement, with which we concur.

OESE considers this audit as a critical and serious matter and have made or plan to make the following corrective actions to your recommendations:

**Recommendation:**

- 1.1 Ensure OESE 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 for purchase.

**Corrective Action:**

- 1.1 The Executive Officer (who is the AO in OESE) met with OESE purchase card holders on August 5, 2005 to discuss the findings in the OIG audit and the Department Policy Directive ACS OCFO: 3-104, titled "Government-wide Commercial Purchase Card Program". These discussions were intended to refresh the cardholder's and AO's knowledge of the policies and procedures for use of the government purchase card.

**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 OESE guidelines.

Corrective Action:

- 1.2 In the August 5, 2005 meeting with OESE cardholders, the Executive Officer/AO reiterated to the cardholders that it is imperative that they review each written request for purchases to ensure that the requests meet Department policy and OESE internal guidance/standards prior to submission to the AO for approval.

Recommendation:

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

Corrective Action:

- 1.3 The OESE Executive Officer/AO has reviewed the most recent reconciliation package for August purchases and payment and was assured that each purchase had supporting documentation. The AO will continue this process for all future monthly reconciliations and payments.

Recommendation:

- 1.4 Update OESE's Purchase Card Guidelines to accurately reflect intended controls and business practices.

Corrective Action:

- 1.4 The Executive Officer/AO has revised OESE's Purchase Card Guidelines (Revised 8/31/2005) to more clearly reflect the intended controls. See enclosure.

We are pleased to note that you found improvements in OESE's internal controls from the prior OIG review, and assure you that subsequent audits will continue to show marked improvement.

Thank you for the opportunity to respond to your concerns regarding the OESE purchase card internal control procedures. We appreciate the cooperation of your staff during the audit process, and are confident that your recommendations will be helpful in reaffirming controls over future purchase card use in OESE.

Sincerely,

Henry L. Johnson

cc: Ruth E. Hall

Enclosure