



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

September 27, 2005

CONTROL NUMBER
ED-OIG/A19F0022

Kent Talbert, Acting General Counsel
Office of General Counsel
U.S. Department of Education
Federal Building No. 6, Room 6E341
400 Maryland Avenue, SW
Washington, DC 20202

Dear Mr. Talbert:

This **Final Audit Report** (Control Number ED-OIG/A19F0022) presents the results of our audit of *Controls Over Purchase Card Use in the Office of General Counsel*. 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 General Counsel (OGC).

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

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On September 18, 2000, the Office of Inspector General issued a report entitled “Results of the OIG Review of OGC’s Internal Controls Over the Procurement of Goods and Services,” (A&I 2000-012). OIG reported a number of deficiencies in OGC’s internal controls over the purchase card program including lack of familiarity with Department policies and procedures, lack of EDCAPS training, inadequate segregation of duties, split procurements, statements not signed by cardholders, and lack of written internal purchase card procedures.

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 OGC. 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 OGC needs to further improve internal control over purchase card use. We found that OGC cardholders did not always obtain or maintain adequate documentation to support purchases. These issues occurred because cardholders did not consistently apply Department requirements. OGC officials stated that records of receipt were not always maintained for training, and that obtaining and maintaining complete records of receipt for purchases made through the General Service Administration was difficult because one order may be received in multiple shipments. We also found the AO did not always ensure that cardholders submitted complete supporting documentation prior to approving statements for payment.

Without adequate supporting documentation, OGC does not have assurance that purchases were appropriate and were made in accordance with Federal regulations, Department policy and procedures. Approving purchases without reviewing adequate supporting documentation could increase 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.

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

Finding 1 OGC Needs to Further Improve Internal Control Over Purchase Card Use

While improvements were noted from the prior OIG review, OGC needs to further improve internal control over purchase card use. We reviewed six randomly selected purchases, totaling \$7,430, made by two OGC Headquarters cardholders. We found that OGC cardholders did not always obtain or maintain adequate documentation to support purchases as required by Department policy. Overall, we noted five of the six purchases reviewed (83 percent) did not include one or more required elements. Specifically we found:¹

- One purchase did not include a record of purchase.
- Five purchases were not supported by a record of receipt for the goods or services.

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 individual purchases are appropriate, that the goods or services were properly received and accepted, and that the payment was proper.

OCFO Procedure C0-097, “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).

¹ One purchase was missing both a record of purchase and a record of receipt.

- 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)

We found that cardholders did not consistently apply Department requirements. For example, OGC officials stated that records of receipt were not always maintained for training, and that obtaining and maintaining complete records of receipt for purchases made through the General Service Administration was difficult because one order may be received in multiple shipments. In addition, we found the AO did not always ensure that cardholders submitted complete supporting documentation prior to approving statements for payment.

Lack of adequate supporting documentation reduces assurance that purchases were appropriate and were made in accordance with Federal regulations, Department policy and procedures. Approving purchases without reviewing adequate supporting documentation could increase 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.

Recommendations:

We recommend that the Acting General Counsel 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 and consistently apply the Department's policies and requirements for obtaining and maintaining supporting documentation.
- 1.2 Ensure cardholders obtain and maintain records of purchase and receipt as required by Department policy and procedures.
- 1.3 Require the AO to thoroughly review reconciliation packages provided by cardholders to ensure that adequate supporting documentation is maintained prior to approving the statement for payment.

OGC Response:

In its response to the draft audit report, OGC concurred with the finding and recommendations and provided corrective actions to address each of the recommendations included in our report. OGC reported that cardholders and AOs will provide written certification to the Acting General Counsel that they have read the draft audit report and reviewed the Department policy and procedures for the purchase card

program. OGC stated cardholders would review the requirements for purchase card documentation and attach this documentation to the monthly statements submitted to the AO as part of the monthly reconciliation process. The AO will ensure each purchase includes proper documentation for purchase and receipt, and that the documentation is maintained in accordance with OCFO requirements. Finally, the Acting General Counsel stated that he would conduct random inspections of monthly reconciliation statements to ensure Department policies and procedures have been complied with regarding appropriate documentation of purchases.

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

We conducted interviews with OCFO and OGC 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 OGC 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 OGC, the random sample included six purchases totaling \$7,430 made by two cardholders. We also reviewed two potential split purchase transactions totaling \$2,869 made by one cardholder. No purchases over \$2,500 or charges to blocked merchant category codes were identified for OGC. One of the potential split purchases was also included in the random sample. Overall, we reviewed seven different transactions totaling \$8,687 made by two cardholders.

In total, OGC Headquarters cardholders made 103 purchases totaling \$58,758 during the scope period. The purchases we reviewed represented 7 percent of the total number and

15 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 OGC 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 OGC 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 22, 2005, through August 4, 2005. We held an exit conference with OGC staff on August 12, 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: Carolyn Adams, Executive Officer/Audit Liaison Officer



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE GENERAL COUNSEL

September 14, 2005

Ms. Michele Weaver-Dugan, Director
Operations Internal Audit Team
U.S. Department of Education
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400 Maryland Avenue, S.W.
Washington, D.C. 20202-1510

Dear Ms. Weaver-Dugan:

I am responding to the Draft Audit Report (Control Number ED-OIG/A19F0022) regarding your audit of controls over purchase card use in the Office of the General Counsel (OGC).

I agree with the finding and recommendations, which will further improve internal controls regarding purchase card documentation and approval of statements for payment.

To implement the three recommendations, OGC plans the following corrective action steps:

1.1 Ensure that cardholders and the AO [Approving Official] are familiar with and consistently apply the Department's policies and requirements for obtaining and maintaining supporting documentation.

- The AO and the cardholders will provide to me written certification that they have completed the following:
 - Read the Office of Inspector General (OIG) Draft Audit Report.
 - Reviewed the following:
 - ACS Directive on Government-wide Commercial Purchase Card Program.
 - Purchase card procedures as outlined on the Office of the Chief Financial Officer's (OCFO) website, the Department's Purchase Card Program Home Page (<http://connected1.ed.gov/po/ocfo/cpo/credit>).
 - Procedures for Using the OCFO Purchase Card) (Supplemental Procedures (AD-16) (http://connected3.ed/proceduresthatwork/popups/popup_preview_procedures.cfm?proc_id=30&criteria=purchase%20card))

- In addition, the AO will ensure that each purchase includes the proper documentation for purchase and receipt, and that the documentation is maintained in accordance with OCFO requirements.

1.2 Ensure cardholders obtain and maintain records of purchase and receipt as required by Department policy and procedures.

- Each OGC cardholder will review OCFO requirements for purchase card documentation, and the cardholders will attach this documentation to the monthly credit card statement submitted to the AO as part of the monthly reconciliation process.

1.3 Require the AO to thoroughly review reconciliation packages provided by cardholders to ensure that adequate supporting documentation is maintained prior to approving the statement for payment.

- The AO will ensure that each purchase includes the proper documentation for purchase and receipt, and that the documentation is maintained in accordance with OCFO requirements.
- Finally, I will conduct random inspections of the monthly reconciliation statements to ensure that Department policies and procedures have been complied with regarding appropriate documentation for purchases.

Thank you for the opportunity to comment on the Draft Audit Report and submit a proposed Corrective Action Plan. I would be pleased to discuss the Draft Audit Report and the proposed Corrective Action Plan further with you.

Sincerely,

Kent D. Talbert