

**OFFICE OF INSPECTOR GENERAL**

**AUDIT OF THE  
U.S. INTERNATIONAL TRADE COMMISSION'S  
PURCHASE CARD PROGRAM**

**Audit Report  
OIG-AR-01-03**



January 28, 2003



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UNITED STATES INTERNATIONAL TRADE COMMISSION

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WASHINGTON, D.C. 20436

IG-AA-002

January 28, 2003

MEMORANDUM

TO: THE COMMISSION

We hereby submit Audit Report No. OIG-AR-01-03, *Audit of the U.S. International Trade Commission's Purchase Card Program*. We performed this audit at the Chairman's request to determine if internal controls were sufficient to monitor and adequately control purchase card expenditures.

We found no instances of fraud, and the Program generally operated as the Commission prescribed. Purchase Card Holders (cardholders) received training on the use of the card, each cardholder and supervisor approved the monthly statement for payment, and a card was cancelled when the cardholder separated from the Commission.

Action should be taken, however, to strengthen the Purchase Card Program. We made two recommendations to (1) improve controls over split purchases and (2) clarify the beginning and ending dates of the 30-day purchase limit cycle. The Commission concurred with our findings, and the planned actions met the intent of the recommendations.

We appreciate the courtesies and cooperation provided to our auditors during this audit.

A handwritten signature in black ink, appearing to read "Kenneth F. Clarke".

Kenneth F. Clarke  
Inspector General

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## I. SUMMARY OF RESULTS

At the Chairman's request, we audited the U. S. International Trade Commission's (Commission/ITC) Purchase Card Program to determine if internal controls were sufficient to monitor and adequately control purchase card expenditures. We found no instances of fraud, and the Program generally operated as the Commission prescribed. Purchase Card Holders (cardholders) received training on the use of the card, each cardholder and supervisor approved the monthly statement for payment, and a card was cancelled when the cardholder separated from the Commission.

The Commission should further strengthen the Purchase Card Program by implementing our recommendations to (1) improve controls over split purchases and (2) clarify the beginning and ending dates of the 30-day purchase limit cycle. The Commission agreed with the recommendations, and management's complete response is presented as Appendix A of this report.

## II. BACKGROUND

The National Performance Review encouraged federal agencies to streamline or make more efficient purchase methods. Use of a government-sponsored purchase card achieves these goals by reducing the use of Purchase Orders and Blanket Purchase Agreements and eliminating Imprest Funds.

From February 2001 through February 2002, the Commission had approximately 1,441 purchase card transactions totaling \$1.9 million. The Commission issued 18 purchase cards and assigned each cardholder with the following single purchase limit: 2 at \$100,000; 1 at \$50,000; and the remaining 15 at \$2,500. Additionally, each cardholder was assigned a 30-day limit. The 30-day limit can vary depending on the written terms as stated on each individual's "Certificate of Appointment." For example, a cardholder could have a single purchase limit of \$2,500 and a 30-day limit of \$25,000. Cardholders with a single purchase limit greater than \$2,500 were restricted to Contracting Officers, who were required to have more intense and frequent training.

Guidelines on the use and administration of the Purchase Card Program were contained in the *ITC Purchase Card Holder's Handbook*, dated January 7, 2000, and issued by the Office of Administration. The *Handbook* assigned the following responsibilities to each Purchase Card Program participant:

- ▶ Purchase Card Holder (cardholder) – An officially designated government agent; therefore the cardholder must comply with applicable responsibilities prescribed in the *Federal Acquisition Regulations (FAR)*, particularly the responsibility for obtaining competition and approved funding certification prior to making a purchase. Each cardholder is provided a card bearing the cardholder's name, and use of the card is restricted to the individual named. The cardholder's

responsibilities also include maintaining official records and reconciling to the monthly statement of account, which lists the individual's credit card activity.

- ▶ Contracting Officer (CO) – An officially designated government agent, the CO is provided a card bearing the CO's name, and the same responsibilities apply as the above discussed cardholder. However, the CO's single purchase limit is greater than the \$2,500 granted to a cardholder. Therefore, the CO can make purchases on the cardholder's behalf if the single purchase exceeds \$2,500, or if the purchase would cause the cardholder to exceed the assigned 30-day limit.
- ▶ Cost Center Manager – Reviews requests and certifies the availability of funds.
- ▶ Approving Official – Reviews and certifies the cardholder's monthly statement of account reflects only purchases that were authorized and made in accordance with the FAR and internal policies and procedures.
- ▶ Office of Finance – Makes payments to the purchase card provider based on authorized purchases certified on the Approving Officials' statements.
- ▶ Office of Facilities Management – Receives all incoming goods valued in excess of \$2,500 and services, unless direct receipt was delegated (e.g., Library for books). The cardholder is informed upon receipt and forwarded all applicable materials and documents.
- ▶ Purchase Card Program Official – Serves as the Contracting Officer's Technical Representative for the Purchase Card Program, is the focal point for coordination of the applications, issuance, and destruction of cards, and recommends single and 30-day purchase limits.
- ▶ Purchase Card Oversight Officer – Reviews 50 percent of cardholders' official records every 6 months for adherence to procurement policies and procedures.

### III. OBJECTIVE

The specific objectives of our audit were to determine whether the Commission:

- ▶ Established and communicated purchase card requirements and procedures to all cardholders, including approving officials; and
- ▶ Implemented sufficient internal controls to monitor and adequately control purchase card expenditures.

#### IV. METHODOLOGY AND SCOPE

We engaged Bert Smith & Co. (Independent Public Accountants) to assist in conducting this audit. Fieldwork took place between May 2002 and August 2002. The audit scope covered purchase card purchases from February 2001 through February 2002.

We reviewed applicable policies and procedures and interviewed cardholders, supervisors and administrative personnel to identify and evaluate the Commission's implementation of the Purchase Card Program. We also determined whether the card was promptly cancelled when a cardholder separated from the Commission. Specifically, we evaluated:

- ▶ Internal control policies and procedures, which included examining 40<sup>1</sup> purchases made with purchases cards. We tested for:
  - Proper approval;
  - Purchase was allowable;
  - Support for the merchandise/service;
  - Receipt of the merchandise, if applicable; and
  - Prompt payment.
  
- ▶ All credit card activity reported on the monthly statements. Based on inquiry, observations and review of the activity, we examined supporting documentation as well as physically inspected 121 purchases that appeared questionable, such as purchases:
  - That appeared to be duplicate;
  - Dated Sunday or Saturday;
  - Greater than \$6,000 in value;
  - That appeared to be split into more than one transaction; and
  - Repetitively placed with the same vendor.

The audit was conducted in accordance with *Government Auditing Standards*, 1994 Revision, as amended, promulgated by the Comptroller General of the United States.

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<sup>1</sup> The sample of 40 was randomly selected from the monthly statements by use of Excel random generation, and was based on a 90 percent confidence level and a 10 percent error rate. The population included 1,441 purchase card transactions from the monthly statements of all credit card activity for the period under examination.

## V. DETAILS OF RESULTS

### A. Official Policies And Procedures Were Generally Effective

Overall, Purchase Card Program participants followed established policies and procedures. Prior to receiving a government-issued purchase credit card, the employee obtained training on the proper use of the purchase card. Additionally, the Commission provided guidance, through the *ITC Purchase Card Holder's Handbook*, as to the responsibilities of each Program participant, procedures to be followed by type and dollar amount of purchase, and a list of items prohibited from being procured. The *Handbook* also stressed that each cardholder was to follow the FAR, and use of the card was restricted to the designated cardholder.

The Purchase Card Program participants effectively implemented the *Handbook* internal controls. Each cardholder and supervisor approved the individual monthly statement to authorize payment, and the card was cancelled when a cardholder separated from the Commission. Also, twice yearly the Purchase Card Oversight Officer<sup>2</sup> performed quality reviews of half the 15 cardholders having a \$2,500 limit. The last three reviews were performed May 2001, November 2001, and May 2002. The Oversight Officer advised that after working with the cardholder under review, the reviewer had identified nothing significant.

Proper approval was obtained; purchases were allowable; support for the merchandise/service was maintained; and payment was timely paid to the credit card company. For transactions reported on the monthly bank statements as occurring on a Saturday or a Sunday, we determined that the orders were actually placed on a weekday. Furthermore, our physical verification of procured equipment revealed no evidence that items were obtained for other than official government use.

While the Commission's efforts are commendable, further actions are needed to strengthen the Purchase Card Program. We found instances where cardholders split orders with an aggregate value of more than their designated single purchase limit. Also, the 30-day limit was not consistently applied because the time frame was not defined as to whether it was based on the monthly bank statement's cycle or the calendar. Further details on these two issues are provided in sections B and C, respectively.

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<sup>2</sup> The Oversight Officer did not review the official records of self-initiated purchase card transactions or those of the other COs. Instead, the Director of the Office of Facilities Management reviewed the Oversight Officer's and COs' purchase card records.

**B. Oversight Of The Purchase Card Program Should Be Strengthened**

Four cardholders, each with a single purchase limit of \$2,500, split purchases into more than one transaction. Our review of activity from February 2001 to February 2002 identified 17 purchases placed with 6 vendors by the 4 cardholders which, based on the relatively close purchase date and dollar amount of each transaction, appeared to be broken into multiple transactions. When viewing each transaction individually, the designated single purchase dollar limit was not exceeded; but, when viewing similar transactions as an aggregate, the designated single purchase dollar limit was exceeded. We interviewed the four cardholders and found that two individuals deliberately split the transactions; the remaining two were unaware of the limit.

FAR Subpart 13.003 prohibits breaking down requirements aggregating more than the designated threshold into several purchases that are less than the applicable threshold merely to –

- (1) Permit use of simplified acquisition procedures; or
- (2) Avoid any requirement that applies to purchases exceeding the threshold.

Details of the 17 purchases are presented below in Table 1.

<b>PURCHASE CARD HOLDER</b>	<b>DATE</b>	<b>AMOUNT</b>	<b>VENDOR</b>
A	08-Feb-02	\$ 2,098.20	1
	12-Feb-02	<u>2,098.20</u>	
		<b>4,196.40</b>	
B	15-Mar-01	1,755.00	2
	15-Mar-01	1,755.00	
	20-Mar-01	<u>2,295.00</u>	
		<b>5,805.00</b>	
B	30-Mar-01	2,299.95	3
	02-Apr-01	<u>2,382.60</u>	
		<b>4,682.55</b>	
C	14-Sept-01	1,380.02	4
	14-Sept-01	1,199.00	
	14-Sept-01	<u>1,495.00</u>	
		<b>4,074.02</b>	



Table (continued)

PURCHASE CARD HOLDER	DATE	AMOUNT	VENDOR
D	27-Sept-01	52.03	5
	27-Sept-01	833.09	
	27-Sept-01	1,394.17	
	27-Sept-01	1,480.38	
	28Sept-01	<u>1,273.11</u>	
		<b>5,032.78</b>	
D	31-Jan-01	1,500.00	6
	31-Jan-01	<u>1,500.00</u>	
		<b>3,000.00</b>	

Table 1

Quality reviews were not structured to identify possible split purchases. In performing the review, the reviewer scanned purchases entered into the automated procurement support system to verify that no one purchase exceeded \$2,500. The reviewer then selected a sample of transactions and obtained the supporting documentation. The quality reviews did not include noting the dates of the purchases and the applicable vendors. A review of this nature could uncover purchases that appear to be split and a determination could be made as to the appropriate course of action.

One course of action is to remind the cardholder of the requirement to forward the procurement request to a CO with a higher single purchase limit. The Commission could also consider increasing a cardholder's single purchase limit based on the Office's needs or assigning a CO to submit orders to certain vendors. A prime example for reconsideration is in the Commission's Library. The Library is responsible for purchasing books, publications and subscriptions for the entire agency. Individuals requiring a specific item to be purchased send their request to the Library, and the request is processed as soon as possible. Of the transactions listed in Table 1, three cardholders were assigned to the Library.

Competition was not an issue even though a split purchase could be viewed as a means to avoid the requirement of competition in the case of the above-discussed transactions with the six vendors. Five of the vendors were sole providers of the goods purchased; therefore, the purchases did not require competition. For the purchases placed with the remaining vendor, the cardholder researched the cost of the product from a number of vendors prior to placing the orders.

**Recommendation 1:**

The Office of Administration Director should: (a) expand internal quality review procedures to include a determination on whether purchases were split and take action when a violation is identified, and (b) remind cardholders and approving officials that splitting orders when the aggregate cost will exceed the cardholder's designated dollar limit is prohibited.

**Management Response:**

The Office of Administration agrees with the intent of this recommendation. The Director of the Office of Facilities Management has instructed the reviewing officials to expand their internal quality review procedures to include a determination on whether purchases were split and to take the appropriate action when a possible violation is identified. Also, the Office of Facilities Management reviewing official will provide each cardholder with documentation prohibiting the splitting of orders and will have each cardholder sign for receipt of the document. In addition, the Director of Administration will ensure that the "ITC Purchase Card Holder's Handbook" (Appendix 3) is updated to address the prohibition against splitting purchase orders in order to avoid spending limits.

These actions will be completed by March 1, 2003.

**OIG Comment:**

When accomplished, the above actions will meet the intent of Recommendation 1.

**C. Time Period Of The 30-Day Limit Needs To Be Defined**

The Commission assigned to each cardholder a 30-day purchase limit but did not define the time period the 30 days covers. We found that cardholders used their own judgment in deciding when the 30-day limit ran (i.e., calendar date or statement date). If defined as calendar date, 3 of the 18 cardholders exceeded their limit. However, if the period is based on the credit card statement cycle (ending the 22<sup>nd</sup> of each month), only one of the three exceeded the limit. According to these three employees, two interpreted the time period as based on the statement cycle, and one did not focus on the 30-day limit at all. To reduce the risk of credit card abuse, the Commission needs to clearly convey the purchase card requirements for its cardholders.

The difference between the two interpretations of the 30-day period is presented below in Table 2.

PURCHASE CARD HOLDER	30-DAY LIMIT	CALENDAR CYCLE	LIMIT EXCEEDED	STATEMENT CYCLE	LIMIT EXCEEDED
1	\$2,500	Sept-01	226.13	22-Sept-01	226.13
		Oct-01	1,975.06	22-Oct-01	1,975.06
2	\$5,000	Sept-01	523.29	22-Sept-01	0
3	\$8,000	Mar-01	2793.93	22-Mar-01	0

Table 2

**Recommendation 2:**

The Office of Administration Director should: (a) define the time period the 30-day purchase limit covers and communicate the definition to each cardholder in writing, and (b) expand the internal quality review procedures to include a determination on whether the assigned 30-day purchase limit was exceeded and take action when a violation is identified.

**Management Response:**

The Commission agreed with this recommendation. The Director of Finance has confirmed that the 30-day purchase card cycle begins on the 23<sup>rd</sup> day of each month and will provide a written reminder to all cardholders and approving officials that purchase limits should not be exceeded during this period. In addition, reviewing officials in the Office of Facilities Management will be instructed to determine during quality control reviews whether the purchase limit was exceeded during the billing cycle, determine the cause for an exceeded limit, if found, and to follow-up with appropriate action, if necessary.

These actions will be completed by March 1, 2003.

**OIG Comment:**

When accomplished, the above actions will meet the intent of Recommendation 2.



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UNITED STATES INTERNATIONAL TRADE COMMISSION

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WASHINGTON, DC 20436

January 22, 2003

AD-AA-09

MEMORANDUM

TO: Inspector General

FROM: Stephen A. McLaughlin, Director  
Office of Administration

A handwritten signature in black ink, appearing to read "Stephen A. McLaughlin", written over the printed name of the Director.

SUBJECT: Response to Draft Report: U.S. International Trade  
Commission's Purchase Card Program Audit

This memorandum is the Office of Administration's response to the draft report: U.S. International Trade Commission's Purchase Card Program Audit, and includes the action plan for implementing recommendations 1 and 2.

**Recommendations**

1. The Office of Administration Director should: (a) expand internal quality review procedures to include a determination on whether purchases were split and take action when a violation is identified, and (b) remind cardholders and approving officials that splitting orders when the aggregate cost will exceed the cardholder's designated dollar limit is prohibited.

Response: Agree

The Office of Administration agrees with the intent of this recommendation. The Director of the Office of Facilities Management has instructed the reviewing officials to expand their internal quality review procedures to include a determination on whether purchases were split and to take the appropriate action when a possible violation is identified. Also, the Office of Facilities Management reviewing official will provide each card holder with documentation prohibiting the splitting of orders and will have each card holder sign for receipt of the document. In addition, the Director of Administration will

ensure that the "ITC Purchase Card Holder's Handbook" (Appendix 3) is updated to address the prohibition against splitting purchase orders in order to avoid spending limits.

These actions will be completed by March 1, 2003.

2. The Office of Administration Director should: (a) define the time period the 30-day purchase limit covers and communicate the definition to each cardholder in writing, and (b) expand the internal quality review procedures to include a determination on whether the assigned 30-day purchase limit was exceeded and take action when a violation is identified.

Response: Agree

The Director of Finance has confirmed that the 30-day purchase card cycle begins on the 23<sup>rd</sup> day of each month and will provide a written reminder to all cardholders and approving officials that purchase limits should not be exceeded during this period. In addition, reviewing officials in the Office of Facilities Management will be instructed to determine during quality control reviews whether the purchase limit was exceeded during the billing cycle, determine the cause for an exceeded limit, if found, and to followup with appropriate action, if necessary.

These actions will be completed by March 1, 2003.

Approve: 

Disapprove: \_\_\_\_\_

  
Chairman, Deanna Tanner Okun

1/22/03  
Date

cc: Office of Finance  
Office of Facilities Management