

U.S. DEPARTMENT OF COMMERCE
Office of Inspector General



**PUBLIC
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PATENT AND TRADEMARK OFFICE

*Minor Internal Control Deficiencies
Found in Bankcard Program*

Audit Report No. BTD-10901-9-0001 / March 1999

Office of Audits, Business and Trade Audits Division





UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

March 26, 1999

MEMORANDUM FOR: Stephen C. Browning
Acting Associate Commissioner
and Chief Financial Officer
Patent and Trademark Office

FROM: Johnnie E. Frazier
Acting Inspector General

SUBJECT: *Minor Internal Control Deficiencies
Found in Bankcard Program*
Final Audit Report No. BTD-10901-9-0001

The Office of Inspector General has completed an audit of bankcard use by the Patent and Trademark Office. During our review, we found minor internal control deficiencies that can be prevented by improved oversight from cognizant agency officials. The minor deficiencies identified were that:

- individual cardholders do not always maintain statement records as required,
- not all cardholders are storing their credit cards in a secure location, and
- not all cardholders are maintaining training documentation on site.

We also found that PTO properly followed other requirements, such as conducting an annual review of bankcard use and engaging in competitive bidding when required. We also found few indications of split purchases to avoid cardholder limits. We are recommending that PTO take steps to eliminate the deficiencies identified during our audit. Our complete recommendations are listed on page 6.

In response to the draft report, PTO agreed with the findings and recommendations, while suggesting minor changes to our findings on maintaining purchase records and recording personal and accountable property. We have made those changes, modified one recommendation accordingly, and reiterated the other recommendations without change. The PTO response to the draft report is attached as an appendix.

Please provide your audit action plan addressing the recommendations within 60 calendar days, in accordance with Department Administrative Order 213-5. The plan should be in the format specified in Exhibit 7 of the DAO. Should you have any questions regarding the preparation of audit action plans, please contact Andrew R. Cochran, Director, Business and Trade Audits Division, at (202) 482-4415. We appreciate the cooperation extended to us by PTO staff during the review.

INTRODUCTION

In 1986, several agencies, including the Department of Commerce, conducted a pilot project to evaluate the use of credit cards for small purchases (“bankcard”). In 1989, the bankcard was made available governmentwide through a contract administered by the General Services Administration. The objectives of the bankcard program are to (1) reduce procurement administrative costs and improve cash management by expediting and simplifying small purchases and (2) improve internal controls to eliminate the fraud and abuse present in other small purchase methods. Bankcard use was facilitated by the Federal Acquisition Streamlining Act of 1994 and Executive Order 12931, which eliminated some requirements for purchases of \$2,500 or less, known as “micro-purchases,” and encouraged agencies to move the authority to make simple purchases from procurement offices to program offices.

PTO officials are responsible for ensuring that bankcard usage complies with the *Federal Acquisition Regulation* (FAR); the *Commerce Acquisition Manual*; the *Commerce Acquisition Circular* 96-01, dated July 1, 1996; and PTO’s *Customer Guide to Procurement*. The Department’s Office of Acquisition Management, which is responsible for overseeing the management of the program within Commerce, in turn has delegated that authority to the Heads of Contracting Offices (HCOs). The PTO HCO further delegated purchasing authority to local approving officials and individual cardholders. HCOs, approving officials, and cardholders are responsible for ensuring that the program is properly administered.

PURPOSE AND SCOPE OF AUDIT

In conjunction with our plan to periodically review Commerce agencies’ use of the bankcards, we conducted an audit to determine whether PTO was utilizing its bankcards in accordance with FAR, Part 13, “Simplified Acquisition Procedures”; the *Commerce Acquisition Manual*, Part 13, “Commerce Purchase Card Procedures”; the *Commerce Acquisition Circular* 96-01, dated July 1, 1996; and the PTO *Customer Guide to Procurement*, as revised.

Our audit covered all of FY 1997, during which PTO conducted 4,671 discrete transactions, including credits and charge-backs. The net dollar total of the purchases made using the bankcard for the period was \$3,885,824, and the average transaction amount was \$832. We selected a random sample of 212 transactions, 4.5 percent of the total population of transactions reported in the system, to test for errors among cardholder records. This represented a sample size sufficient to find 95 percent of errors that will occur in at least 15 percent of all transactions. The 15-percent error rate was assumed based on findings during audits of PTO’s financial statements for

FY 1996 and 1997.¹ The sample was not stratified, as we were specifically measuring attributes of the PTO cardholder transactions.

We reviewed applicable regulations, policies, and procedures; examined documentation, management reports, and records; and interviewed officials as deemed necessary. We also reviewed management reports on bankcard usage prepared by the Commerce Bankcard Center. We conducted our fieldwork from May through September 1998 at PTO headquarters in Crystal City, Virginia.

We analyzed the administrative and accounting internal controls relating to PTO's use of the bankcard, including controls over the physical security and authorized use of the bankcards, and the approval, order, and receipt of purchased items.

In conducting our review, we relied on computer-processed data. We tested the accuracy of the data by tracing it to original source documents and by comparing it to the same data in other documents. Based on our tests, we concluded that the data was sufficiently reliable for use in meeting our objectives.

We conducted the audit in accordance with generally accepted government auditing standards and under authority of the Inspector General Act of 1978, as amended, and Department Organization Order 10-13, dated May 22, 1980, as amended.

CARDHOLDER RECORDS SHOULD BE PROPERLY MAINTAINED

Not all cardholders maintained monthly statements and other documentation, as required by Part 13, Chapter 1, Item 19, of the *Commerce Acquisition Manual*. The manual states, "Purchase card records must be retained for 24 months after the end of the fiscal year in which the transaction occurred." From our sample of 212 transactions, we could not locate cardholder statements for 37 (17 percent of the sample). For an additional 12 transactions (6 percent), we could find no documentation supporting the cardholder statements. Finally, no invoice documentation was discovered for 10 of the transactions (5 percent). Senior PTO officials informed us that, to supplement the cardholder's recordkeeping, the Office of Finance retains copies of all needed documentation in a single location for the required period.

CARDHOLDERS SHOULD STORE CARDS IN SECURE LOCATION

Of 12 PTO cardholders we interviewed in one office, 5 had their bankcards in a wallet or purse, and 7 kept the card in an unlocked file cabinet or desk. According to the *Commerce Acquisition Manual*, Part 13, Chapter 1, Item 8. c. (10), cardholders must, "Keep the purchase card in a

¹ *Report on the Audit of the Patent and Trademark Office's Financial Statements as of September 30, 1997 and 1996*, FSD-9755-8-0001, March 20, 1998, p. 7.

secure place.” If the bankcard is left in an unlocked desk drawer, a cabinet, or a wallet or purse, there is a risk that the card could be stolen.

CARDHOLDERS SHOULD MAINTAIN TRAINING DOCUMENTATION

In Part 13, Chapter 1, Item 7 b.(4) of the manual states, “HCOs shall ensure cardholders and cardholder approving officials review these procedures and view the training video once every two years.” The 12 PTO cardholders told us that they had all received the required training and had viewed the 1-hour training video. One did not receive all of the initial three credit hours of class time training, but all others had met their required procurement training. This training, required by the manual, is essential to educate cardholders as to the proper use of the bankcard. However, 5 of the 12 did not have any written documentation available to demonstrate that they had met training requirements. Several said they had their certificates at home. While not critical, some documentation should be kept on site at PTO to document that such training has been received.

PROPERTY TRANSACTION FORMS SHOULD BE COMPLETED

The PTO procurement office does not utilize the Form CD-509, “Property Transaction Request,” for reporting “Accountable Property” and inputting the fixed asset information into the Commerce Procurement Data System (CPDS), as required by the *Commerce Acquisition Manual*. Part 13, Chapter 1, Item 16, of the manual states, “When purchasing any personal property at \$2,500 or more...the cardholder must forward a Form CD-509, ‘Property Transaction Request,’ or the property receipt to their servicing property office.” PTO officials explained that because so little personal property has been entered into CPDS, the system is of little value to PTO. They told us that controlling a handful of fixed assets outside of PTO’s financial accounting system provides little, if any, additional practical internal control. Instead, PTO uses a proprietary Services, Technician, and Asset Tracking System (STATS) to control personal property and provide the Department sufficient data to exercise oversight. Under STATS, cardholders are supposed to file a manual change record with the property office when purchasing accountable property. To meet the intent of the recording requirement in the *Commerce Acquisition Manual* and minimize the risk of loss of accountable property, PTO should ensure consistent use of the manual change records by all cardholders.

NO CHANGES NEEDED IN OTHER BANKCARD PRACTICES

PTO Performed Required Annual Review of Bankcard Activity

The *Commerce Acquisition Manual* Part 13, Chapter 1, charges the PTO’s HCO with the responsibility for “...reviewing the Purchase Card Program at least once a year to ensure that cardholders and cardholder approving officials use internal controls and follow proper procedures.” In response to this requirement, the HCO performed a management control review

of bankcard use during the months of August 1996 through July 1997. We found that the review was thorough, documented, and included all issues for which the office is responsible.

Of a sample of 36 cardholder statements analyzed during PTO's review, 6 of the cardholder statements analyzed (about 16 percent) included purchases that appeared to be structured to avoid some procurement regulations. PTO's review found that these cardholders engaged in split-purchasing, avoiding a required competitive process, or eliminating the necessity of sole-source documentation. However, PTO indicated that the number of transactions reviewed was too small to reach a statistically valid conclusion about the universe of transactions during FY 1997.

Few Indications of Split Purchases

The *Commerce Acquisition Manual* and the *PTO Customer Guide to Procurement* mandates levels of single and monthly purchase limits for all cardholders. Split-purchasing occurs when a cardholder purposely constructs a procurement transaction in order to avoid single purchase limits. An example might be a cardholder buying individual components of a computer, instead of the complete computer configuration. This approach permits each transaction to remain below the single purchase threshold.

To reach a valid conclusion with respect to all transactions, we selected sets of purchases made at the same establishment on the same day, that, when totaled, exceeded the predetermined single purchase transaction limit. From the group of all transactions during FY 1997, we found 10 sets of purchases that met this criterion, and we reviewed the documentation to determine whether a split purchase was likely. We found two purchases that appeared likely to be split transactions. We found three transactions that may have been split purchases, but the documentation was missing. We do not consider this small number of likely split purchases to be material.

PTO needs to update the *Customer Guide to Procurement* to reflect recent increases in the purchase limits (now either \$5,000 per transaction/\$30,000 for the month or \$25,000 per transaction/\$75,000 for the month).

Cardholders Engaged in Competitive Bidding When Required

The *Commerce Acquisition Manual* and the *PTO Customer Guide to Procurement* require competition for actions greater than \$2,500 in value. For the four transactions with amounts exceeding \$2,500 that we identified, all had sought at least three bids for the proposed purchase. We found one for exactly \$2,500 and for which the cardholder had not sought three bids. Although three bids were not required, this transaction was for travel software, and the cardholder could have compared prices to search for the best package.

Single Purchase Properly Capitalized

According to PTO's director of financial accounting, PTO's capitalization policy requires that all purchases of \$25,000 or more be capitalized and recorded as a fixed asset on its balance sheet, and not recorded as a period expense. Our sample did not include any transactions above \$25,000. We therefore searched the entire population of transactions and found only one purchase exceeding \$25,000. We reviewed the procurement, which exceeded \$27,000, for the appropriate approvals and compliance with PTO regulations and to test PTO's capitalization policy and procedures. We found that PTO properly capitalized the purchase on its financial statements.

RECOMMENDATIONS

We recommend that the Acting Associate Commissioner and Chief Financial Officer ensure that:

1. PTO cardholders maintain statements and invoice documentation as required.
2. Bankcards are physically secure at all times.
3. PTO cardholders keep documentation of their training on site.
4. Upon purchasing personal and accountable property, cardholders promptly and properly forward the necessary data to the PTO property office.
5. Update the *Customer Guide to Procurement* to reflect increases in cardholder purchase limits.



**UNITED STATES DEPARTMENT OF COMMERCE
Patent and Trademark Office**

ASSISTANT SECRETARY AND COMMISSIONER
OF PATENTS AND TRADEMARKS
Washington, D.C. 20231

MAR 16 1999

MEMORANDUM FOR George E. Ross
Assistant Inspector General for Auditing

FROM: Acting Associate Commissioner and
Chief Financial Officer

SUBJECT: Minor Internal Control Deficiencies Found in Bankcard Program
Draft Audit Report No. BTD-10901-9-XXXX

Thank you for your memorandum inviting me to comment on the draft report. In general, the report presents a fair and accurate picture of the Patent and Trademark Office's bankcard program.

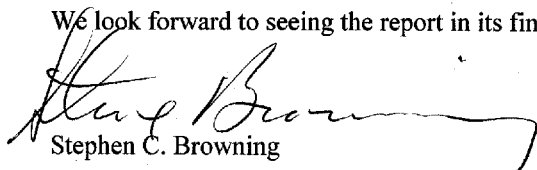
With respect to the finding "Cardholder Records Should Be Properly Maintained," the manner in which the deficiencies are noted imply that the various statements, invoices, and other documentation could not be found at all. In fact, these deficiencies existed at the cardholder's location; all documentation was available in the Office of Finance. Perhaps the last sentence of the finding be amended to read "Senior PTO officials informed us that, to supplement the cardholder's recordkeeping, the Office of Finance retains duplicate copies of all needed documentation for the required period."

With respect to the finding "Property Transaction Forms Should Be Completed," the PTO agrees that cardholders who purchase personal property at \$2,500 or more or any sensitive property should promptly notify the property office with a manual change record. However, it should be noted that the PTO uses the Services, Technician, and Asset Tracking System (STATS) to control its personal property; STATS provides the data Commerce needs to exercise oversight of personal property management.

Perhaps this recommendation could be simplified to: "Consistent with Department of Commerce guidance on accountable property, the PTO should ensure that cardholders purchasing personal or accountable property are promptly and properly notifying the PTO property office by forwarding the necessary data on personal and accountable property to the PTO property office. See the Commerce Acquisition Manual, Part 13, Chapter 1, Item 16."

As an aside, whether the property is recorded in STATS (or CPDS) does not effect the PTO's financial statement reporting. The PTO uses the Fixed Asset Subsidiary System (FAS) of the Federal Financial System to record capitalizable property valued at \$25,000 or more. The PTO captures capitalizable property by reconciling FAS to STATS; by ensuring all purchases uses the correct object class classification; and by reviewing individually all payments, including credit card payments, of \$25,000 or more.

We look forward to seeing the report in its final version.


Stephen C. Browning