



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

October 25, 2005

CONTROL NUMBER
ED-OIG/A19F0014

Michell Clark
Acting Assistant Secretary for Management
Office of Management
U. S. Department of Education
400 Maryland Avenue, SW
Washington, DC 20202

Dear Mr. Clark:

This **Final Audit Report** (Control Number ED-OIG/A19F0014) presents the results of our audit of *Controls Over Purchase Card Use in the Office of Management*. 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 Management (OM).

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

On June 26, 2000, the Office of Inspector General (OIG) issued a report entitled, "Results of the OIG Review of OM's Internal Controls Over the Procurement of Goods and Services," (Control

Number A&I 2000-004). OIG reported a number of deficiencies in OM's internal control over the purchase card program including lack of familiarity with Department policy and procedures, training and/or refresher training not completed by staff involved in the program, lack of appropriate warrants for cardholders, lack of adequate supporting documentation for purchases, lack of approval of purchase card statements, 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 OM. 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, OM needs to further improve internal control over purchase card use. We found that OM cardholders did not always obtain or maintain adequate documentation to support purchases as required by Department policy and OM guidelines. We also noted that one OM cardholder had not completed purchase card refresher training when required, and that OM did not centrally file purchase card statements and supporting documentation. We also noted that arrangements for two purchases were made by a person other than the cardholder for services that were subsequently paid with the purchase card.

These issues occurred because OM cardholders and the AO were not always familiar with the policies and procedures established by the Department, and the AO did not ensure that the cardholders submitted complete supporting documentation prior to approving the statements for payment. OM no longer requires its cardholders to maintain an order log as this feature is now available in the Contracts and Purchasing Support System (CPSS), but OM's guidelines had not been updated to reflect this change in practice. The AO stated he was not aware that a cardholder had not taken refresher training on time. OM staff stated they do not have a central filing location that could be locked securely within their office space. Finally, with respect to the purchase of services made by an individual other than the cardholder, OM stated that the practice had been that an individual in the program area would make arrangements for those purchases.

Without adequate supporting documentation, OM does not have assurance that purchases were appropriate and were made in accordance with Federal regulations, Department policy and procedures, and OM 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.

Outdated OM guidelines regarding requirements for an order log that do not reflect current practice could lead to confusion about the applicability of other areas of the guidelines.

Cardholders that do not complete purchase card training may not be aware of current policies and procedures concerning appropriate use of the purchase card. Decentralized filing of purchase card documentation does not ensure that records are being appropriately maintained and may result in loss of information required to support Department purchases. The practice of allowing purchases to be arranged by staff other than the cardholder results in purchases made by an individual without appropriate procurement training and authority to obligate funds on behalf of the Department.

Issues noted above regarding lack of adequate documentation, lack of familiarity with Department policies, and lack of refresher training were previously reported in the prior OIG review of OM purchase card activity.

OM responded to our draft report and agreed with our finding and five of the six recommendations made. OM did not agree with the recommendation to centrally file purchase card files as required by Department policy. OM outlined corrective actions to address the other recommendations contained in the audit report. The full text of OM's response is included as Attachment 1 to this report.

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

While improvements were noted from the prior OIG review, OM needs to further improve internal control over purchase card use. We reviewed 32 purchases totaling \$22,683 made by 5 OM Headquarters cardholders. We found that OM cardholders did not always obtain or maintain adequate documentation to support purchases as required by Department policy and OM guidelines. Overall, we found that 22 of the 32 purchases reviewed (69 percent) did not include one or more elements required. Specifically, we found:¹

- Four purchases did not include complete documentation to support the record of purchase.
- 22 purchases did not include complete documentation to support that the goods or services were received. Of these, nine purchases were for training services.

We also found that 25 of the 32 transactions were not recorded on an order log and/or the AO did not initial the order log as required by OM's purchase card guidelines.

We reviewed training records for OM cardholders and approving official and noted that one cardholder had not completed purchase card refresher training during calendar years 2003 through 2004, but did complete the refresher training on March 28, 2005. OM did not centrally

¹ Some purchases included issues in more than one category.

file purchase card statements and supporting documentation as required. Instead, cardholders maintained this data for the current and prior fiscal years.

We also reviewed 19 potential split purchases (purchases to the same vendor on the same day or within a few days). We did not identify any split purchases, but we did find that two of the transactions represented arrangements made by a person other than the cardholder for services that were subsequently paid with the purchase card. This represents an inappropriate practice because, although the person who made the arrangements did check funding availability, he did not have procurement authority.

Departmental Directive (Directive) OCFO: 3-104, "Government-wide Commercial Purchase Card Program," Section VI, dated January 23, 2002, defines cardholder, AO, and Executive Officer (EXO) 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

J. The EXO is . . . 11. Responsible for establishing the location of Cardholder records, as these are the official records. The records must be kept secure and be easily retrievable upon request.

Directive Section VII.B.4.e, includes additional AO requirements that state:

Upon approval of the bank statement, forward documentation to a central filing location for retention.

Directive Section VII.C.6, states:

It is required that all employees involved in the Purchase Card Program attend mandatory training prior to receiving a card and/or actively participating in the Program. Refresher training for AOs, [Alternate Approving Officials] AAOs, Cardholders, Principal Officers, EXOs, and Program Managers is required every 2 years.

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)

OM established additional guidelines for purchase card use within its office. These procedures state,

Cardholder Responsibilities . . . 6. At the time of the order, an entry is made in the Order Log. Each [cardholder] CH will maintain an order log and will keep it up to date.

Approving Official Responsibilities . . . 4. The AO will ensure all expenditures are valid, have full documentation, and have the appropriate signatures for reconciling the bill. Although electronic signatures will soon replace hard copy signatures in the system, we will continue OM's internal procedure of requiring hard copy signatures for now. 5. Once the review is completed, the AO will sign the CH statement and initial order log pages.

We found that cardholders and the AO were not always familiar with the policies and procedures established by the Department, and the AO did not ensure that the cardholders submitted complete supporting documentation prior to approving the statements for payment. The AO stated that in some cases, invoices were requested from vendors but never received. The AO stated that cardholders did not pursue obtaining records of receipts for training services since he believed the training vendors and/or managers would provide notice if staff did not attend planned training. For records of receipt of other items, the AO stated that cardholders may have verbally confirmed receipt, but not documented it.

With respect to the order log, OM no longer requires its cardholders to maintain an order log, as this feature is now available in CPSS. OM's guidelines had not been updated to reflect this change in practice. The AO stated OM was not aware that a cardholder had not taken refresher training on time.

OM staff stated they do not have a central filing location that can be locked securely within their office space. The Executive Officer stated that he has keys to the cardholders' desks so that the data stored with the cardholders is readily accessible. We discussed this issue with CAM staff,

who stated that having the cardholders maintain the documentation after the statements are approved is not acceptable. OM published the room number locations for the purchase card documentation in its guidelines. The Executive Officer stated that CAM was provided a copy of these guidelines and he was not informed by CAM that the filing locations were not appropriate. OM's guidelines do not, however, indicate that the cardholders are maintaining the documentation, just the room numbers where the documents are located.

With respect to the purchase of services made by an individual other than the cardholder, OM stated that the practice had been that the individual in the program area would make arrangements for the purchase.

Lack of adequate supporting documentation reduces assurance that purchases were appropriate and were made in accordance with Federal regulations, Department policy and procedures, and OM guidelines. 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.

Outdated OM guidelines regarding requirements for an order log that do not reflect current practice could lead to confusion about the applicability of other areas of the OM guidelines. Cardholders that do not complete purchase card training may not be aware of current policies and procedures concerning appropriate use of the purchase card. Decentralized filing of purchase card documentation does not ensure that records are being appropriately maintained and may result in loss of information required to support Department purchases.

The practice of allowing purchases to be arranged by staff other than the cardholder results in purchases made by an individual without appropriate procurement training and authority to obligate funds on behalf of the Department.

During our review the Executive Officer updated the OM guidelines to eliminate the requirement for an order log. OM further stated that the practice of having program staff make arrangements for the purchases of services has been corrected and the vendors were notified not to proceed with work until verification is received from the cardholder.

Recommendations:

We recommend that the Acting Assistant Secretary for Management hold the Executive Officer/AO and cardholders accountable for their responsibilities in the purchase card program by establishing a process to:

- 1.1 Ensure OM cardholders and the AO are familiar with the Department's policies and requirements for obtaining and maintaining supporting documentation, and that the cardholders should make purchase arrangements, not staff in other areas.

- 1.2 Ensure cardholders consistently obtain and maintain records of purchase, records of receipt, and other appropriate supporting documentation for purchases as required by Department policy and procedures and OM guidelines.
- 1.3 Require the AO to thoroughly review reconciliation packages provided by the cardholders to ensure adequate supporting documentation is maintained.
- 1.4 Ensure that OM staff participating in the program complete refresher training every two years as required by Department policy and procedures.
- 1.5 Establish a central filing location for purchase card documentation once statements are approved as required by the Department Directive.
- 1.6 Revise and implement internal purchase card guidelines and procedures to correct the requirement for an order log, and to ensure that purchase card statements and supporting documentation are maintained in a central file consistent with Department policy.

OM Response:

OM agreed with our finding and five of the six recommendations made. OM provided corrective actions to address each recommendation with which it agreed. OM outlined a new process to ensure that cardholders, not other OM staff, make final purchase arrangements. OM stated that a certification will be required from staff upon completion of training, and that the AO will continue to scrutinize reconciliation packages to ensure all required documentation is obtained. OM stated that the AO and cardholder supervisors reminded cardholders of the requirements for refresher training, and when due, will obtain proof that the training was completed. OM reported that it had already made changes to its internal policy.

OM did not agree with Recommendation 1.5 to centrally file purchase card documentation, as required by Department policy. OM stated that its central files were not secure and stated its belief that locating the documentation with the cardholders is more secure. We have not changed this recommendation, as Department policy requires central filing of purchase card information. OM should work with CAM to develop an appropriate corrective action for this recommendation that will satisfy OM's concerns and comply with the Department's requirements.

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

purchase card program in OM 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, OM and OCFO procedures and guidance applicable to the purchase card program.

We conducted interviews with OCFO and OM 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 OM 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 OM, the random sample included 29 purchases. High-risk purchases for OM included 19 potential split purchases and 3 blocked merchant category code purchases. No purchases over \$2,500 were identified for OM. Overall, 48 purchases totaling \$31,622 made by 5 cardholders were included in our review.

In total, OM headquarters cardholders made 621 purchases totaling \$277,581 during the scope period. The purchases we reviewed represented 8 percent of the total number and 11 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 OM 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 OM and OCFO staff through CPSS. 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 May 6, 2005, through July 13, 2005. We held an exit conference with OM staff on August 30, 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 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 the 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: Keith Berger, OM Executive Officer
Nina Aten, OM Audit Liaison Officer



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF MANAGEMENT

October 12, 2005

TO: Helen Lew
Assistant Inspector General for Audit
Office of Inspector General

FROM: Michell C. Clark /s/
Acting Assistant Secretary for Management and Chief Information Officer

SUBJECT: DRAFT AUDIT REPORT: *Controls Over Purchase Card Use in the Office of Management*, Control Number ED-OIG/A19F0014

Thank you for your draft audit report, *Controls Over Purchase Card Use in the Office of Management*, Control Number ED-OIG/A19F0014 dated September 16, 2005. The Office of Management (OM) concurs with the majority of your recommendations for your single finding. Our response and related corrective action plan follows.

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

Recommendation 1.1: Ensure OM cardholders and the AO are familiar with the Department's policies and requirements for obtaining and maintaining supporting documentation, and that the cardholders should make purchase arrangements, not staff in other area.

Proposed Corrective Action: The Section 504 Coordinator will continue to make the tentative arrangements for CART services upon request and submit a requisition to the cardholder in the Executive Office for approval. The vendor will not proceed with the work until the cardholder in the Executive Office contacts them. The Section 504 Coordinator already contacted the vendors to advise them of these procedural changes. The reference in your report on page 4, first paragraph, that the "cardholder was not aware of the purchase until invoices were received several weeks later" is not correct. The cardholder was informed that the services were being arranged for in advance of the services by her receipt of the requisition with Section 504 approvals, backup documentation, dates, etc. It had been the arrangement with the Section 504 coordinator to make preparatory arrangements with vendors because of the complexity and timing of the arrangements, as well as their frequency of occurrence. The cardholder was aware of the estimated costs for these services but would not act on the obligation until actuals costs were reported. Of course, this would normally occur after the services were incurred. The August 15, 2005 email exchange between the cardholder and her supervisor, which outlines these new procedures, will be placed in the audit notebook. The 504 Coordinator's concurrence with these procedures is documented in the email exchange.

This email exchange includes the cardholder's supervisor's approval of these procedures. This email exchange, included in Attachment A, is the documentation supporting the completion of this corrective action.

Completed: August 15, 2005

Recommendation 1.2: Ensure cardholders consistently obtain and maintain records of purchase, records of receipt, and other appropriate supporting documentation for purchases as required by Department policy and procedures and OM guidelines.

Proposed Corrective Action: The missing documentation discussed in this recommendation concerned documents relating to training requests/actions. The Approving Official (AO) consistently reviews reconciliations packages, reconciles in the CPPS system, and will continue to scrutinize the packages upon receipt. To correct the deficiency regarding training requests/actions, the Executive Office procurement staff will send a copy of the purchase order for training with instructions on registering for courses, how to cancel a course when necessary, and a completion certification sheet. The employee and his/her supervisor must sign the certification upon completion of the training. A copy of the certification form sent to the employee will be kept by the Executive Office in a tickler file and filed by the date the training is to be completed. The employee will have 5 days after course completion to submit the signed form to the Executive Office. If the Executive Office does not receive the form within the 5 days, the employee will be sent a reminder. After the completed form is received, it will be filed with the purchase order and used as proof of services rendered. The certification form, along with instructions for the new procedure, will be distributed in an email from the Executive Officer to all OM and Office of the Chief Information Officer staff. A copy of the email and the certification form will be placed in the audit notebook as documentation supporting the completion of this corrective action.

Proposed Completion Date: October 30, 2005.

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

Proposed Corrective Action: See the response to recommendation 1.2 above.

Proposed Completion Date: October 30, 2005

Recommendation 1.4: Ensure that OM staff participating in the program complete refresher training every two years as required by Department policy and procedures.

Proposed Corrective Action: The Executive Officer/AO and the supervisor of the cardholders again reminded all cardholders that they must take the refresher courses and when a notice is issued by OCFO regarding the training the AO and the employee's supervisor will remind them until they show proof that they took the training on time. Also, the single individual that did not take the refresher course on time was counseled at their final performance rating discussion. To assist AO's, it would be helpful if OCFO/CAM provided follow-up status reports to offices on cardholder training fulfillment like what is done for other Department-wide training activities (IT security training, ethics training, etc.). A copy of the training completion certificate for the single individual that did not take the refresher course on time, dated March 28, 2005, will be placed in the audit notebook as documentation supporting the completion of this corrective action. This documentation is included in Attachment B.

Completed: March 28, 2005

Recommendation 1.5: Establish a central filing location for purchase card documentation once statements are approved as required by the Department Directive.

Response: OM does not concur with this recommendation. Purchase card documentation is centrally located in the Executive Office within the respective filing locations for the cardholders. The central files in the Executive Office surround files are not secure. They are in the open, are of poor quality and in many instances can be forced open. The files located at each cardholder's work area are much more secure. The AO has keys to those individual files for accessibility. If the files are centrally located, there is access by all cardholders and the possibility for misfiling or leaving a file cabinet unlocked is more apt to happen than if only the cardholder retains them at their individual work area. The directive states under Section V.J.11. that the "Executive Officer is responsible for establishing the location of cardholder records, as these are the official records. The records must be kept secure and be easily retrievable upon request". Then under Section VII.B.e., the directive states that "Upon approval of the bank statement, forward documentation to a central filing location for retention....." The OCFO argument that "decentralized filing or purchase card documentation does not ensure that records are being appropriately maintained and may result in loss of information required to support Department purchases" and that it is "not acceptable" in our view cannot be defended with the assertion that a centralized filing location is any more safe or secure or would result in any less loss of information. Just as it is the cardholder's obligation and responsibility to safeguard their card, why wouldn't this fall under that same responsibility?

Recommendation 1.6: Revise and implement internal purchase card guidelines and procedures to correct the requirement for an order log, and to ensure that the purchase card statements and supporting documentation are maintained in a central file consistent with the Department policy.

Proposed Corrective Action: The Executive Officer/AO made the necessary internal policy changes in August 2005, with the exception of the placement of records in a central file location on which we non-concur. A copy of the *Office of Management Policy and Guidelines for Purchase Card Use*, dated June 9, 2005, will be placed in the audit notebook as documentation supporting the completion of this corrective action. This documentation is included in Attachment C.

Completed: June 9, 2005