



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

October 20, 2005

CONTROL NUMBER
ED-OIG/A19F0016

Theresa S. Shaw
Chief Operating Officer
Federal Student Aid
U. S. Department of Education
Union Center Plaza Rm 112G1
830 First Street, NE
Washington, DC 20202

Dear Ms.Shaw:

This **Final Audit Report** (Control Number ED-OIG/A19F0016) presents the results of our audit of *Controls Over Purchase Card Use in Federal Student Aid*. 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 Federal Student Aid (FSA).

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. FSA's Executive Officer is responsible for administering the purchase card program in that office. Approving officials (AOs) and alternate approving officials (AAOs) are appointed by the Executive Officer and are the primary officials responsible for authorizing cardholder purchases and ensuring timely reconciliation of cardholder statements. On October 5, 2000, the Office of Inspector General (OIG) issued a report entitled, "Results of

the OIG Review of SFA's¹ Internal Controls Over the Procurement of Goods and Services Using Third Party Drafts and Purchase Cards," (Control Number A&I 2000-014). OIG reported a number of deficiencies in FSA's internal control over the purchase card program including improper assignment of authority, need for training or refresher training for staff involved in the purchase card program, lack of written internal purchase card procedures, unfamiliarity with Department policy and procedures, inadequate supporting documentation, and noncompliance with procurement regulations for a purchase over \$2,500.

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 FSA. 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 FSA needs to further improve internal control over purchase card use. We found that FSA did not always obtain and maintain adequate documentation and approvals to support purchases in accordance with Department policies and FSA's internal policy. We also noted that one cardholder was charged sales tax for a purchase card transaction, and a cardholder did not obtain an estimate for a purchase and subsequently split the payment to avoid exceeding the \$2,500 micropurchase limit. These issues occurred because FSA staff were not always familiar with, or inconsistently applied, Department policy and FSA guidelines regarding documentation, approvals, and clearance for specific items. We also found that AOs did not ensure that cardholders submitted complete supporting documentation prior to approving the statements for payment.

Without adequate supporting documentation, FSA does not have assurance that purchases were appropriate and were made in accordance with Federal regulations and Department policy and procedures. Failure to document receipt of goods and services could result in of payment for items that were ultimately not provided to the Department. Approving purchases without adequate supporting documentation could result in payment for goods and services that were not received and 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 expenditure of funds for items that are not compatible with current configurations, or that are already available for use within the Department.

¹ SFA (Student Financial Assistance) became FSA (Federal Student Aid) on March 6, 2002.

Issues noted above regarding inadequate supporting documentation, unfamiliarity with Department policy and procedures, and noncompliance with procurement regulations for a purchase over \$2,500, were also reported in the prior OIG review of FSA's purchase card activity.

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

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

While improvements were noted from the prior OIG review, FSA needs to further improve internal control over purchase card use. We reviewed 73 purchases totaling \$59,319 made by 20 FSA headquarters cardholders. We found that FSA cardholders did not always obtain or maintain adequate documentation to support purchases as required by Department policy and FSA guidelines.

We found that 54 of the 73 purchases (74 percent) did not include one or more elements required by Department policy. Specifically we determined:²

- Three purchases did not include written purchase requests.
- Three purchases did not contain a record of purchase.
- 53 purchases did not include complete documentation to support that the goods or services were received. 29 of these were purchases of training services.
- One cardholder was charged sales tax for a purchase card transaction.

In addition, we found that 22 of the 73 purchases (30 percent) did not include one or more elements required by FSA guidelines. Specifically we determined:²

- 16 purchases did not include documentation of pre-approval.
- Eight purchases did not include the "FSA Purchase Card Request Form."
- Five purchases did not have Bank of America Statements or Statement of Transaction Reports signed by the cardholders.

We also noted that complete supporting documentation required by Department policy and/or FSA guidelines was not originally provided in the purchase card files for 20 additional purchases. FSA provided additional documentation that supported these purchases, and these purchases are not included in the exceptions noted above.

² Some purchases included issues in more than one category.

We reviewed a total of 107 potential split purchases (purchases from the same vendor on the same day or within a few days). We found that two purchases represented one instance where the cardholder did not obtain an estimate of total charges for the purchase before it was made, and inappropriately split the payment to avoid exceeding the \$2,500 micropurchase limit. The two payments totaled \$3,441.

In our review of potential split purchases, we also noted that eight purchases of software did not include documentation of approval by the Office of the Chief Information Officer (OCIO) as required.

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 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).

The Federal Acquisition Regulation (FAR) 29.302, “Application of State and local taxes to the Government,” states,

(a) Generally, purchases and leases made by the Federal Government are immune from State and local taxation. Whether any specific purchase or lease is immune, however, is a legal question requiring advice and assistance of the agency-designated counsel. (b) When it is economically feasible to do so, executive agencies shall take maximum advantage of all exemptions from State and local taxation that may be available.

Section VII.A.5 of the purchase card Directive (OCFO 3-104), states,

At the time of purchase, the Cardholder should tell the merchant that he or she is paying with a Government Purchase Card. He or she must also confirm that the merchant understands the purchase is not subject to sales tax.

FSA established additional guidelines for purchase card use within its office. “FSA Administration Supplemental FSA Purchase Card Policy for Pcardholders and Approving Officials,” (Supplemental Policy), dated July 7, 2003, and updated January 23, 2004, . Section 7, states:

Effective April 1, 2002, all FSA employees who wish to have goods and services procured for them through the Government purchase card (Pcard) will be required to use the FSA Pcard Purchase Request Form . . . The main purpose for this change is to satisfy pre-purchase approval documentation requirements. One of the most important internal control activities needed in the Pcard program is the review and approval of requested items for all card purchases by FSA Supervisors/Program Managers prior to making the actual orders and it is good business practice to review all proposed purchases prior to initiating actual procurement actions

Section 9 of the Supplemental Policy states:

Upon receipt of the electronic statement, Pcardholders should perform the following activities: 1. Create and Print the Statement of Transaction Report . . . 5. Create Activity Log Report, 6. Print reports out, sign, and submit them along with their statement and other backup documentation to the FSA approving official.

The FAR prohibits splitting a transaction into more than one segment to avoid the requirement to obtain competitive bids for purchases over the \$2,500 micro-purchase threshold, or to avoid other established limits. Specifically, FAR 13.003(c)(2) states,

Do not break down requirements aggregating more than the simplified acquisition threshold (or for commercial items, the threshold in Subpart 13.5) or the micro-purchase threshold into several purchases that are less than the applicable threshold merely to- (i) Permit use of simplified acquisition procedures; or

(ii) Avoid any requirement that applies to purchases exceeding the micro-purchase threshold.

Section VII.A.3 of the Directive also refers to this section of the FAR, stating, “Purchases are not to be split to stay within the single purchase limit or to avoid following procedures for Simplified Acquisitions, in accordance with FAR 13.003(c).”

OCIO Handbook OCIO-08, “Handbook for Software Management and Acquisition Policy,” dated August 25, 2003, outlines procedures regarding the purchase and management of software. Section VI.A.1 states,

Requisitions for software and upgrades will be submitted to OCIO by the Contracts and Purchasing Support System (CPSS) for approval, and upon award, delivery and receipt by the [Contracting Officer] CO, registered in the Software Library.

We found that cardholders and AOs were not always familiar with, or inconsistently applied, Department and/or FSA requirements. We also found that AOs did not ensure that the cardholder submitted complete supporting documentation prior to approving the statements for payment. For example,

- Some cardholders maintained additional files and did not include all documentation in the purchase card files and reconciliation packages provided to the AOs.
- Cardholders thought that software included on the Department’s Product Support Plan did not require OCIO approval prior to purchase.
- With respect to the sales tax charge, the cardholder was not aware that sales tax was included in the total amount. As a result of our audit, FSA contacted the vendor and obtained a credit for the sales tax charged.
- FSA’s purchase pre-approval policy was not consistently applied. In some cases the approval documentation was dated after the transaction date, or was not signed or dated. As such, the documents did not provide evidence of pre-approval as intended by FSA’s guidelines.
- FSA policy on the use of the purchase request form was not consistently followed. FSA officials indicated they did not expect the form to be used for training purchases. However, FSA’s Supplemental Policy did not make this exception. We noted that this form was used for training purchases by some cardholders, but not by others. We also noted that some non-training purchases did not include the form.

- For the split purchase, the cardholder stated she was not aware that the amount of purchase would exceed \$2,500. Documentation in the purchase card file did not include any information on a quote received for the purchase. When the invoice was received the total amount exceeded \$2,500 and two payments were made.

With respect to the software license purchases, FSA indicated at our exit conference that pre-approval was not specifically required because these purchases were for additional software licenses for products already in use within FSA. FSA stated OCIO procedures did not specifically require license purchases to follow the same process as software purchases. They added that the purchased licenses were provided to OCIO to allow for installation and inventory. FSA indicated in some instances staff contacted OCIO verbally to determine if licenses were available prior to making purchases. However, FSA provided no written documentation to support that OCIO stated pre-approval was not required for purchases of licenses.

We met with OCIO to obtain clarification on its policy for the purchase of software and licenses. OCIO stated that pre-approval is required for both software and license purchases. OCIO stated that adherence to this process: allows OCIO to stay current on what software is being used throughout the Department; assists in the maintenance of a database of all available software and licenses; allows OCIO to determine if copies are available for use within the Department before a PO spends additional funds; and helps ensure that the product is genuine, virus-free, and from a legitimate source. OCIO also stated that pre-approval is also required for purchases of products identified on the Department's Product Support Plan List.

Lack of adequate supporting documentation reduces FSA's assurance that purchases were appropriate and were made in accordance with Federal regulations, Department policies and procedures, and FSA 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. Payment of sales tax increases the cost of goods or services purchased, and reduces the amount of funds available for other uses.

Failure to seek required approvals for software purchases could result in the expenditure of funds for items that are not compatible with current configurations, or that are already available for use within the Department. In addition, independent purchase of these items could result in higher costs to FSA if established contracts or Department sources are not used.

Failure to follow internal policies with respect to pre-approval of purchases and documentation required renders the controls FSA established ineffective and reduces FSA's assurance that purchases made are appropriate. Inconsistent application of some aspects of internal policy could lead to confusion as to the applicability of other areas of the policy.

Failing to obtain an estimate for purchases could result in sufficient funds not being available for payment, or in the case of purchases over \$2,500, in circumventing competition requirements by only soliciting bids from one vendor. With the request for the purchase, FSA was provided the

names of two vendors, but documentation in the purchase card file indicated only one vendor was contacted. As such, FSA has no assurance that it received the best price for the services. Splitting payments for purchases permits a cardholder who is restricted from obligating more than \$2,500 for a single purchase to make payments in excess of that amount without the proper authority and training.

Recommendations:

We recommend that the Chief Operating Officer for FSA hold the Executive Officer, Approving Officials, and cardholders accountable for their responsibilities in the purchase card program by establishing a process to:

- 1.1 Ensure FSA cardholders and AOs are familiar with Department policies and procedures regarding: (a) obtaining and maintaining appropriate documentation to support purchases, (b) coordinating software purchases with OCIO, (c) ensuring sales tax is not charged, (d) obtaining quotes or estimates before purchase, (e) prohibitions against splitting payments.
- 1.2 Ensure FSA cardholders and AOs are familiar with additional FSA guidelines for the purchase card program, including requirements for preapproval and forms to be used.
- 1.3 Ensure cardholders consistently obtain and maintain written purchase requests, records of purchase, records of receipt, approvals for purchases requiring special clearances, and other supporting documentation required by Department policy and procedures and FSA guidelines. Ensure that this documentation is filed in the official purchase card files to support the purchases.
- 1.4 Require AOs to thoroughly review reconciliation packages provided by cardholders to ensure adequate supporting documentation is provided and maintained, appropriate approvals and clearances are obtained, and to ensure that purchases or payments are not split.
- 1.5 Ensure FSA guidelines are revised and clarified as needed with respect to the use of the FSA Purchase Card Request Form for purchase of training services, and other areas as appropriate.

FSA Response:

In response to our Draft Audit Report, FSA provided corrective actions to address each recommendation. FSA reported the Acting Director, FSA Administration, sent a reminder e-mail to all purchase cardholders, alternates, Approving Officials, and the Executive Management Team stressing the need to fully comply with Departmental and FSA policies. FSA also reported it will conduct training sessions with all purchase cardholders, AOs, and alternates. The training session will address all OIG findings and recommendations, and FSA's updated Supplemental Policy. FSA also stated it will perform annual compliance reviews on each cardholder and AO.

Finally, FSA stated it will review and update its Supplemental Policy and clarify issues including use of approval and training forms. An updated policy will be posted on the FSA website and distributed to all purchase cardholders, alternates, and AOs.

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

We conducted interviews with OCFO and FSA 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 FSA 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 FSA, the random sample included 70 purchases. FSA high-risk purchases included four purchases made against blocked merchant category codes (MCCs) and 107 potential split purchases. No purchases over \$2,500 were identified for FSA. One transaction was included in both the random sample and the blocked MCCs, and five transactions were included in both the random sample and the potential split purchases. Overall, we reviewed 175 purchases totaling \$179,369.

In total, FSA Headquarters cardholders made 1,661 purchases totaling \$814,542 during the scope period. The purchases we reviewed represented 11 percent of the total number and 22 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 FSA 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 FSA 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 May 18, 2005, through August 4, 2005. We held an exit conference with FSA staff on August 17, 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 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: Mary Nelson, Acting Director, FSA Administration
Marge White, FSA Audit Liaison Officer
Mark Love, FSA Audit Liaison



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CHIEF OPERATING OFFICER

OCT - 3 2005

TO: Michele Weaver-Dugan, Director
Operations Internal Audit Team

FROM: Theresa S. Shaw
Chief Operating Officer

SUBJECT: Draft Audit Report
Controls Over Purchase Card Use in Federal Student Aid
ED-OIG/A19F0016

This is in response to your September 1, 2005, Draft Audit Report. It is very important that FSA's purchase card program strictly comply with all federal regulations, departmental policies and procedures, and FSA's supplemental policies and guidelines. Thank you for noting in your report that FSA has improved purchase card controls since the last review. The following responses address the referenced finding and recommendations in the draft report:

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

Recommendation 1.1: Ensure FSA cardholders and Approving Officials (AOs) are familiar with Department policies and procedures regarding: (a) obtaining and maintaining appropriate documentation to support purchases, (b) coordinating software purchases with OCIO, (c) ensuring sales tax is not charged, (d) obtaining quotes or estimates before purchase, (e) prohibitions against splitting payments.

FSA Response: The Acting Director, FSA Administration sent an email dated September 14, 2005, to all FSA purchase cardholders, AOs and their alternates, and the Executive Management Team stressing the need to fully comply with all Departmental and FSA policies. The Departmental Directive and FSA Supplemental Policy were attached to the email. FSA will reduce the number of purchase cardholders by December 31, 2005. FSA Administration will conduct training sessions with all purchase cardholders and AOs and their alternates prior to January 31, 2006. The training sessions will cover all OIG audit findings and recommendations. Finally, FSA Administration will perform a compliance review of each cardholder and AO on an annual basis. These internal reviews will ensure compliance with all Departmental and FSA policies and will be completed by September 30, 2006.

Recommendation 1.2: Ensure FSA cardholders and AOs are familiar with additional FSA guidelines for the purchase card program, including requirements for pre-approval and forms to be used.

FSA Response: The training sessions described in response to recommendation 1.1 will cover additional FSA guidelines, including proper use of the pre-approval forms and training forms. This training will be completed by January 31, 2006. The annual FSA Administration compliance reviews will focus on adherence to additional FSA guidelines. Each purchase cardholder and AO will be reviewed by September 30, 2006.

Recommendation 1.3: Ensure Purchase Cardholders (PCHs) consistently obtain and maintain written purchase requests, records of purchase, records of receipt, approvals for purchases requiring special clearances, and other supporting documentation required by Department policy and procedures and FSA guidelines. Ensure that this documentation is filed in the official purchase card files to support the purchases.

FSA Response: The training sessions described in response to recommendation 1.1 will cover the official purchase card file documentation requirements. This training will be completed by January 31, 2006. The annual FSA Administration compliance reviews will include required documentation to be maintained in the official purchase card file. Each purchase cardholder and AO will be reviewed by September 30, 2006.

Recommendation 1.4: Require the AOs to thoroughly review reconciliation packages provided by cardholders to ensure adequate supporting documentation is provided and maintained, appropriate approvals and clearances are obtained, and to ensure that purchases or payments are not split.

FSA Response: The training sessions described in response to recommendation 1.1 will cover AOs' review of reconciliation packages and required documentation. This training will be completed by January 31, 2006. The annual FSA Administration compliance reviews will include required documentation of the AO's purchase card reconciliation package. Each purchase cardholder and AO will be reviewed by September 30, 2006.

Recommendation 1.5: Ensure FSA guidelines are revised and clarified as needed with respect to the use of the FSA Purchase Card Request Form for purchase of training services, and other areas as appropriate.

FSA Response: FSA Administration will review and update the Supplemental Policies for FSA. This update will clarify issues identified in the OIG audit including the use of approval forms and training form SF-182 and will be completed by November 30, 2005. The updated copy of the Supplemental Policies for FSA will be posted on the FSAnet

website and distributed to all purchase cardholders and AOs and their alternative by December 31, 2005. The training sessions described in response to recommendation 1.1 will include the updated Supplemental Policies for FSA and will be completed by January 31, 2006.

If you have any questions concerning this matter, please contact Mary Nelson, Acting Director, FSA Administration at 202-377-3463.

cc: Pat Howard