



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

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ED-OIG/A19F0020

Christina Culver
Director, Regional Services
Office of Communications and Outreach
U.S. Department of Education
Federal Building No. 6, Room 5E311
400 Maryland Avenue, SW
Washington, DC 20202

Dear Ms. Culver:

This **Final Audit Report** (Control Number ED-OIG/A19F0020) presents the results of our audit of *Controls Over Purchase Card Use in the Office of Intergovernmental and Interagency Affairs*. 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 Intergovernmental and Interagency Affairs (OIIA).

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

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Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.

On August 18, 2000, the Office of Inspector General (OIG) issued a report entitled “Results of the OIG Review of OIIA’s Internal Controls Over the Procurement of Goods and Services,” (Control Number A&I 2000-008). OIG reported a number of deficiencies in OIIA’s internal controls over the purchase card program including lack of familiarity with Department policies and procedures, lack of appropriate warrants for some cardholders, lack of training or refresher training, lack of written OIIA policies and procedures, lack of signatures on cardholder statements, and inadequate and/or missing documentation to support purchase card transactions.

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 OIIA. A summary report will be provided to the Department’s Chief Financial Officer upon completion of the audits in individual offices.

Subsequent to our audit work, OIIA staff became part of a new organization, the Office of Communications and Outreach (OCO). The former Acting Assistant Secretary for OIIA, to whom the draft report was directed, is now the Director of Regional Services for OCO. The final report is directed to the former Acting Assistant Secretary for OIIA, but reflects her new title and position in OCO.

AUDIT RESULTS

While improvements were noted from the prior OIG review of purchase card activity, we found that OIIA needs to further improve internal control over purchase card use. We found that OIIA cardholders did not always obtain or maintain adequate documentation to support purchases, and cardholders were charged sales tax for some purchase card transactions. These issues occurred because cardholders did not consistently apply Department requirements and the AO did not always ensure that cardholders submitted complete supporting documentation prior to approving statements for payment.

Without adequate supporting documentation, OIIA 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 payment for items that were ultimately not provided to the Department. Payment of sales tax increases the cost of goods and services purchased, and reduces funds available for other uses. Approving purchases without reviewing adequate supporting documentation increases the Department’s vulnerability to potential misuse or waste of government resources.

The issues noted above regarding lack of supporting documentation for purchases, and lack of familiarity with Department policies and procedures, were also reported in the prior OIG review of OIIA’s purchase card activity.

In its response to the draft audit report, OIIA concurred with the finding and recommendations included in our report. The complete text of OIIA's response is included as Attachment 1 to this report.

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

While improvements were noted from the prior OIG review, OIIA needs to further improve internal control over purchase card use. We reviewed 23 purchases totaling \$18,906 made by 4 OIIA Headquarters cardholders. We found that OIIA cardholders did not always obtain or maintain adequate documentation to support purchases as required by Department policy and procedures. Overall, we found that 17 of the 23 purchases reviewed (74 percent) did not include one or more required elements. Specifically we found:¹

- Records of purchase for two transactions showed a lower amount than actually charged. Documentation to support the higher amount was not included in the purchase card files or provided by OIIA.
- Records of receipt were not documented for 17 purchases.
- The amount charged for two purchases included sales tax.

We also noted complete supporting documentation required by Department policy and procedures was not originally provided in the purchase card files for one additional transaction. OIIA provided additional documentation that supported this purchase, and this purchase is not included in the exceptions noted above.

Departmental Directive OCFO: 3-104, "Government-wide Commercial Purchase Card Program," Section VI, dated January 23, 2002, 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

¹ Some purchases included exceptions in more than one category.

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

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 Directive also addresses the Department's exemption from paying sales tax as follows:

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.

We found cardholders and the AO did not consistently apply policies and procedures established by the Department, and the AO did not ensure that the cardholder submitted complete supporting documentation prior to approving the statements for payment. The Executive Officer stated that other possible causes for inadequate or missing documentation could be due to lack of follow through by the cardholder, misplaced documentation, the cardholder working on another assignment, or either the receipt for the purchase, or the person that initially made the request for the purchase, was not readily available.

With respect to the transactions involving sales tax, the Executive Officer stated that the cardholders are instructed to resolve these by contacting Bank of America and the merchant and to document their attempts in the purchase card files. However, for the two cases noted, OIIA's purchase card files did not include such documentation.

Lack of adequate supporting documentation reduces assurance that purchases and amounts charged 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 payment for items that were ultimately not provided to the Department. Payment of sales tax increases the cost of goods and services purchased, and reduces funds available for other uses. Approving purchases without reviewing adequate supporting documentation increases the Department's vulnerability to potential misuse or waste of government resources.

Recommendations:

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

- 1.1 Ensure OIIA cardholders and the AO consistently apply the Department's policies and requirements for: (a) obtaining and maintaining supporting documentation, and (b) ensuring sales tax is not charged.
- 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.
- 1.3 Require the AO to thoroughly review reconciliation packages provided by cardholders to ensure that adequate supporting documentation is maintained.

OIIA Response:

In its response to the draft audit report, OIIA concurred with the finding and recommendations included in our report. OIIA stated that it would work toward implementing the recommendations in the new Office of Communications and Outreach.

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

previously reported. We reviewed requirements related to the purchase card program in the Treasury Financial Manual, Federal Acquisition Regulation, Office of Management and Budget memoranda, and Bank of America's contract and task order. We also reviewed Departmental Directives, OIIA and OCFO procedures and guidance applicable to the purchase card program.

We conducted interviews with OCFO and OIIA 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 OIIA 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 OIIA, the random sample included 20 purchases. High-risk purchases for OIIA included three blocked merchant category code purchases. No purchases over \$2,500 or potential split purchases were identified for OIIA. Overall, 23 purchases totaling \$18,906 made by 4 cardholders were included in our review.

In total, OIIA Headquarters cardholders made 290 purchases totaling \$148,008 during the scope period. The purchases we reviewed represented 8 percent of the total number and 13 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 OIIA 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 OIIA and OCFO staff through Education's Central Automated Processing System. We verified the completeness and accuracy of the data by reviewing cardholder statements, invoices, receipts, and other supporting documentation to validate purchase amounts recorded in these systems. Based on our testing, we concluded that the computer-processed data were sufficiently reliable for the purpose of our audit.

We also reviewed reports prepared by OCFO staff that reported purchase card transactions that were overdue for reconciliation. These reports were part of the "Fast Facts" reports distributed monthly to all Department staff through the Department's

Intranet. We did not validate the accuracy of these reports, as we used them for informational purposes only, as an indicator of reconciliation timeliness.

We conducted fieldwork at Department offices in Washington, DC, during the period June 8, 2005 through August 17, 2005. We held an exit conference with OIIA 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: Norman Hall, Former OIIA Executive Officer/Audit Liaison Officer



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE COMMUNICATIONS AND OUTREACH

October 3, 2005

Ms. Michele Weaver-Dugan, Director
Operations Internal Audit Team
U.S. Department of Education
Office of Inspector General
400 Maryland Avenue, SW
Washington, DC 20202-1510

Dear Ms. Weaver-Dugan:

Thank you for providing your Draft Audit Report on Controls over Purchase Card Use in OIIA. The draft has been reviewed and we concur with your findings and recommendations.

We will work toward implementing the recommendations in the new Office of Communications and Outreach.

Sincerely,

Christina Culver /s/
Director, Regional Services