



# Peace Corps Office of Inspector General

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## **Final Audit Report: Peace Corps' Purchase Card Program March 2009**



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Peace Corps' Purchase Card Program  
IG-09-08-A**

A handwritten signature in blue ink, reading "Gerald P. Montoya". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

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Gerald P. Montoya  
Assistant Inspector General for Audits

March 2009

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## EXECUTIVE SUMMARY

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The Peace Corps did not manage its government purchase card program effectively and in accordance with the Office of Management and Budget Circular A-123 Appendix B. This occurred because Peace Corps did not ensure adequate internal controls over its Government Purchase Card Program. Specifically, Peace Corps:

- Did not implement policies and procedures for the use of convenience checks, purchase of “Do Not Buy” items, and reoccurring training requirements.
- Lacked controls over the account setup, maintenance, and closure processes necessary to ensure proper authorization, timely processing, and segregation of duties.
- Did not conduct adequate monitoring of cardholder accounts and transactions and sufficient risk assessments.

As a result, Peace Corps employees purchased \$3,033 of unnecessary items, did not always use the most efficient means of payment, and did not fully comply with federal purchase card and contracting regulations.

Peace Corps made significant improvements during FY 2008 and corrected deficiencies identified during the audit. However, the Office of Acquisitions and Contract Management could further strengthen controls over its Government Purchase Card Program by:

- Updating Peace Corps Manual section 731, “Purchase Card Program” to include convenience check guidance and a continual training process.
- Developing a policy that defines the process a cardholder must use and the approvals necessary to purchase an item on the “Do Not Buy” list, including the purchase of refreshments and furniture for personal use.
- Developing a process to verify the direct hire status of all new cardholders before issuing a purchase card.
- Issuing a policy memorandum reminding cardholders and approving officials to notify the agency program coordinator immediately when transferring offices or leaving the Peace Corps.
- Aligning the risk assessments with internal control standards to include all elements required by the Office of Management and Budget.

Our report contains nine recommendations, which, if implemented, should strengthen internal controls and correct the deficiencies in the Peace Corps Government Purchase Card Program. Of the nine recommendations made in our report, management fully concurred with two recommendations, partially concurred with two recommendations, nonconcurred with three recommendations and nonconcurred with parts of two recommendations. We closed recommendation B.1 based on management’s comments.

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## INTRODUCTION

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### **GENERAL**

The Office of Inspector General conducted an audit of the Peace Corps' Purchase Card Program November 1, 2007 - December 31, 2008. We reviewed all available card statements within the Citibank Card Management System for 148 active and 27 closed government purchase card accounts. We performed this audit in accordance with Generally Accepted Government Auditing Standards.

### **BACKGROUND**

The government-wide purchase card program was established in 1989 to streamline federal agency acquisition processes by providing an efficient method for obtaining goods and services directly from vendors.

The Office of Acquisitions and Contract Management (OACM) manages the Peace Corps Purchase Card Program. The OACM agency program coordinator (APC) and three contract specialists<sup>1</sup> develop purchase card policies, provide training, oversee purchase card use, and report program information to management. The Office of Global Accounts Payable is the designated billing office, responsible for payment of the purchase card invoices. At the end of fiscal year (FY) 2007, Peace Corps was responsible for 148 active purchase card accounts both domestically and overseas. The aggregate monthly credit authorized for all Peace Corps purchase card accounts was approximately \$6.4 million.

### **CRITERIA**

The Office of Management and Budget (OMB) Circular A-123, Appendix B, "Improving the Management of Government Charge Card Programs," April 2006, requires agencies to maintain internal controls over government purchase card programs to reduce the risk of fraud, waste, and errors.

The Government Accountability Office (GAO), "Standards for Internal Controls in the Federal Government," November 1999, states that internal controls provide reasonable assurance of effective and efficient operations, reliability of financial reporting, and compliance with applicable laws and

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<sup>1</sup> References to the APC include the APC and the three contract specialists that assist in the purchase card management.

regulations. GAO defined the five standards of internal control as control environment, control activities, monitoring, risk assessment, and information and communications.

**OBJECTIVES**

The overall objective of this audit was to determine if the purchase card program is being managed effectively, and consistent with regulations. Appendix A provides a description of the audit objectives, scope, and methodology.

## FINDING A

### INCOMPLETE POLICIES AND PROCEDURES

*The Peace Corps control environment did not ensure that employees were fully aware of the purchase card process and adequately trained on their responsibilities.*

The GAO, “Standards for Internal Controls in the Federal Government,” states:

Management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management. A control environment provides relevant guidance, adequate training, and a logical organizational structure.

In April 26, 2007, OACM issued Peace Corps Manual (PCM) section 731, “Peace Corps Purchase Card Program.” By issuing PCM section 731, OACM will help ensure that the Peace Corps complies with federal regulations. However, PCM section 731 did not include procedures for convenience checks and requirements for periodic training. In addition, Peace Corps did not have a policy for cardholders to follow when purchasing items generally considered unallowable.

#### UNNECESSARY USE OF CONVENIENCE CHECKS

Authorized employees use convenience checks when a vendor is not capable of accepting credit card payments. Use is discouraged because:

- Checks bypass some administrative controls because cardholders may combine the transactions with purchase card payments to exceed authorized spending limits.
- Checks do not include the merchant category code used to identify and prevent purchases from unauthorized types of vendors.
- Checks require additional time and costs to process.

To reduce the costs and risks, Peace Corps restricts the number of accounts authorized to use convenience checks to two offices in headquarters and the recruitment offices. As of September 30, 2007, there were 11 employees authorized to use convenience checks.

Employees issuing convenience checks did not always follow the proper procedure for writing checks, because there is no

formal guidance for convenience checks. As a result, employees wrote checks to vendors that accepted credit cards and incurred almost \$50 of unnecessary service charges. For example:

- Two employees wrote checks totaling \$3,252 to a vendor for advertising in October 2007, even though the vendor began accepting purchase card payments in September 2007.
- Another employee wrote two checks for \$76 to a different vendor for balloon helium in June and July 2007. Three months earlier the employee used his purchase card to pay the same vendor.

OACM sent cardholders the procedure for requesting a convenience check from OACM; the procedure applied to cardholders who did have the authorization to issue convenience checks. The procedure states, “the cardholder should contact the vendor . . . to ensure that the vendor accepts the purchase card as a form of payment.” This procedure helps prevent unnecessary service charges and saves time in processing payments. However, PCM section 731 did not describe the convenience checks process for either authorized convenience check users or cardholders that request checks from OACM. Therefore, OACM could not ensure cardholders were fully aware of their responsibilities.

**INSUFFICIENT  
TRAINING**

PCM section 731 requires all new cardholders to complete online training and send their test results to the APC before receiving a purchase card. In September 2007, OACM implemented an online training module for new cardholders. The training module is helpful to track new cardholder knowledge and certification; however, OACM failed to implement a process for subsequent training. OMB Circular A-123, Appendix B, requires all program participants to take refresher training at least every three years.

Although PCM section 731 states that approving officials and cardholders must take periodic refresher training, it does not specify how often nor require submitting documentation of the training to the APC. During our review, OACM could not provide evidence that program participants obtained periodic training, and informed us that OACM only requires initial training. As a result, the APC did not have assurance that cardholders and approving officials were informed of the most current requirements and did not ensure the purchase card program complied with OMB Circular A-123, Appendix B.



**IMPROPER PURCHASE  
OF REFRESHMENTS**

Cardholders purchased goods and services on the “Do Not Buy” lists contained in PCM section 731 without proper approval or justification. The “Do Not Buy” lists provide examples of prohibited items that cardholders should not purchase unless they receive consent from an approving official or APC before proceeding. The list includes refreshments, equipment for personal use, office furnishings for personal convenience, and travel expenses.

The Government Accountability Office, “Principles of Federal Appropriations Law,” states that appropriated funds are not available to pay for food, including snacks and refreshments, for government employees at their official duty stations. Purchase of these items may violate Title 31, U.S. Code, section 1301(a), which states that agencies may only use public funds for the purpose or purposes for which they were appropriated. In addition to providing personal items, furnishing food at no cost to employees could violate Title 5, U.S. Code, section 5536, which prohibits an employee from receiving compensation in addition to the pay and allowances fixed by law.

In FY 2007 and FY 2008, cardholders spent approximately \$1,138 in appropriated funds to pay for the following four unauthorized expenses related to food.

1. In June 2007, a cardholder purchased \$575 in cakes for an Overseas Staff Training graduation ceremony. The cardholder believed that the cakes were permitted as part of a graduation ceremony.
2. In January and October 2007, a cardholder purchased \$267 of bottled water for a medical officer conference in Washington, D.C. The cardholder documented that the Federal Travel Regulation, January 2004, allows light refreshments to employees attending an official conference.

Although the employees were in travel status, we question whether the expense was necessary because the employees received per diem to pay for meals and incidentals and could easily purchase the water.

3. In October and November 2007, a cardholder charged \$75.20 for a cake, coffee, and snacks for a medical officer graduation ceremony. Over 100 staff attended, including numerous employees not in travel

status. As a result, the cardholder could not ensure that only individuals in travel status ate the food.

4. In November 2007, an OACM cardholder used a convenience check to purchase \$221.25 in refreshments for 25 contract specialists and project managers. The employee stated that using appropriated funds was acceptable because it was an off-site training and the refreshments allowed employees to work during breaks. However, the training was in Washington, D.C., which is within normal commute time for many of the attendees.

Public Law 87-293 (Peace Corps Act)<sup>2</sup> authorizes Peace Corps to spend up to \$5,000 on entertainment expenses. The Office of the Chief Financial Officer tracks all entertainment expenses using budgetary accounts to ensure purchases qualify as legitimate expenses and do not exceed statutory limits. However, the cardholders did not receive proper approval to purchase the four entertainment related purchases and did not charge the entertainment budget account.

In addition, GAO allows exceptions for refreshments including necessary expenses for authorized training and necessary expense for the honorary recognition of the employee or employees receiving the awards. Deciding whether refreshments are acceptable requires a thorough knowledge of appropriation law. Therefore, cardholders should have obtained a legal decision from the Office of General Counsel before purchasing the refreshments to ensure expenses were appropriate and did not violate 31 U.S. Code 1301(a).

**UNAUTHORIZED  
PURCHASE OF  
FURNITURE**

Although furniture is acceptable when necessary for an office to perform its mission, cardholders purchased furniture intended for personal use without adequately justifying the expense. OACM issued PCM section 731 attachments F “Do Not Buy List Domestic” and attachments G “Do Not Buy List Overseas” describing unacceptable purchases. The list restricts the purchase of equipment and office furnishings except when such items are consistent with work-related objectives and are not “personal convenience” items. Contrary to the “Do Not Buy List,” PCM section 731 permits cardholders to purchase furniture without any stipulation.

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<sup>2</sup> Public Law 109-102 and Public Law 110-161 further limited the amount to \$4,000 for entertainment expenses in FY 2007 and FY 2008.

The Government Accountability Office, “Federal Appropriation Law,” states that personal items and furnishings may not be purchased with appropriated funds without specific statutory authority. However, in decision B-302993, GAO authorized an agency to purchase appliances because the purchase benefited the agency by increasing efficient operations and better managing building safety. In its decision, GAO recommended developing “an agency policy to ensure uniformity in the use of appropriation to acquire this equipment and determine the usefulness of such appliances for the agency. . .”

Peace Corps did not have a process or policy to ensure that cardholders properly justified the purchase of items typically considered unallowable. As a result, two regional recruitment offices purchased equipment for personal use without properly justifying the expense. In June 2007, a recruitment office purchased a refrigerator and a microwave from Best Buy for \$1,625. In February 2007, another recruiting office purchased a microwave, blender, and toaster at Bed, Bath, and Beyond and Best Buy; the purchases totaled \$270. The purchase of appliances for personal use was unauthorized because the regional recruitment offices could not provide documentation showing that the purchase of appliances was a necessary expense beneficial to the agency.

## RECOMMENDATION A

## UPDATE GUIDANCE

### WE RECOMMEND:

1. ***That the chief acquisition officer, in coordination with the agency program coordinator, update the Peace Corps Manual section 731 to include formal guidance on the use of convenience checks and specific requirements on refresher training for cardholders. Specifically, Peace Corps Manual section 731 must:***
  - a. ***Define acceptable justifications for using convenience checks, required supporting documentation, and the process for requesting and issuing convenience checks.***
  - b. ***Require refresher training for cardholders at least every three years and establish a process for the agency program coordinator to receive and maintain training certificates.***

**Management Comment.** The chief acquisition officer concurred with recommendations A.1.a and A.1.b. He stated, “Guidance and procedures for using convenience checks were issued to Cardholders and Approving Officials on November 6, 2008 via email (see Attachment 1). However, we agree that the Peace Corps Manual Section 731 needs to be updated and will target to publish an update by June 30, 2009.”

The chief acquisition officer further stated, “In the short term, OACM will issue an Acquisition Bulletin to Cardholders and Approving Officials to inform them of this requirement by April 30, 2009. A list of Cardholders and Approving Officials that meet the requirement for refresher training will also be identified and informed. OACM will also establish a tracking system of Cardholders and Approving Officials that require refresher training and will send out monthly notices. Finally, Peace Corps Manual Section 731 will be also updated to require refresher training every three years in accordance with A-123 by June 30, 2009.”

**OIG Response.** The chief acquisition officer’s comments were responsive. However, the recommendation will remain open pending update of PCM section 731 and OACM issuance of the Acquisition Bulletin.

**WE RECOMMEND:**

2. *That the chief acquisition officer, in conjunction with the agency program coordinator, issue a memorandum to cardholders emphasizing the need for proper conduct in areas identified as reoccurring problems to include the improper purchase of refreshments and personal items.*

**Management Comment.** The chief acquisition officer concurred with recommendation A.2 and stated, “Currently, OACM does perform transactional reviews and random documentation reviews. Feedback is provided to individual Cardholders and Approving Officials but OACM has not implemented quarterly reports as originally planned to Cardholders and Approving Officials of systemic issues and problems that are found during monthly reviews. By June 30, 2009, the chief acquisition officer will institute quarterly

reviews of the Purchase Card Program to review and discuss findings resulting from the transactional and documentation reviews. Findings that are found to be systemic will be published in a quarterly report and distributed to Cardholders and Approving Officials.”

**OIG Response.** The chief acquisition officer’s comments were responsive. However, the recommendation remains open pending verification of the quarterly report distributed to cardholders and approving officials.

**WE RECOMMEND:**

3. *That the chief acquisition officer, in coordination with the Office of General Counsel, develop a policy that defines the process a cardholder must use and the approvals necessary to purchase an item on the “Do Not Buy” list, including the purchase of refreshments and furniture for personal use.*

**Management Comment.** The chief acquisition officer nonconcurred with recommendation A.3, stating, “OACM does not believe that additional processes are necessary in this area and the current processes in place and those that are planned (and mentioned herein) are sufficient to prevent an unacceptable level of unauthorized purchases. We believe the additional cost to establish a more stringent process does not support the benefits.”

The chief acquisition officer stated, “Of the seven questionable transactions revealed by the audit totaling \$3,083 only one transaction of \$50 could be validated as a clear cut case of an inappropriate purchase and none were fraudulent or egregious in nature. Two transactions totaling \$1,895 were valid and had prior approval by OACM. The remaining four transactions totaling \$1,138 are at best questionable and GAO has ruled that purchases of this type (refreshments for ceremonies and training) are valid purchases when certain criteria are met.

When the total number of FY07 purchase card transactions (13,315) totaling \$6.3M are considered, we believe the de minimis number of questionable transactions and the associated cost (.00048%) of total spend) is testament to the strength of the Peace Corps Purchase Card Program and its internal controls.”

**OIG Response.** The chief acquisition officer’s comments were not responsive. Due to the complexity in interpreting exceptions for purchasing items on the “Do Not Buy List,” we believe that the General Counsel must be involved to ensure that purchases based upon an exception(s) meets the applicable legal principles. Additionally, the cardholder should maintain documentation supporting the decision(s) to purchase items on the “Do Not Buy List” showing that the transaction(s) met legal requirements. At a minimum, OACM should develop clearly written policies procedures for purchasing items on the “Do Not Buy List” to ensure current and future Peace Corps staff follow the necessary steps needed to obtain approval of potentially questionable items.

To close this recommendation we request that OACM develop written policy or procedures for purchasing items on the “Do Not Buy List” and provide them to us for review and concurrence. OACM written policy and procedures must include requirements for General Counsel review and approval for any items to be purchased for items on the “Do Not Buy List” to ensure that the purchase meets legal principles.

## **FINDING B**

### **INADEQUATE CONTROL ACTIVITIES**

*OACM did not implement adequate control activities over the purchase card processes.*

The GAO, “Standards for Internal Controls in the Federal Government,” states:

Control activities are the policies, procedures, techniques, and mechanisms that enforce management’s directives and help achieve effective results. Control activities include authorizations, segregation of duties, access restrictions to resources, and timely recording of events.

OACM had not established controls to ensure that new purchase card accounts were properly established, spending limits were appropriate, and accounts were closed timely.

**ISSUING PURCHASE CARDS**

To establish a new purchase card account, the cardholder submits the appropriate purchase card setup form and the acknowledgement form to the APC. The APC validates the cardholder information, verifies credit limits are appropriate, and obtains a copy of the training certificate before issuing a purchase card. However, the APC did not always confirm that the cardholder was an individual employed as a government direct hire, with a properly assigned approving official.

*Did Not Verify Employment Status*

OACM did not verify the employment status of purchase cardholders to ensure that only direct hire employees received cards. When processing overseas purchase card applications, the APC relies on post management to confirm that potential cardholders are direct hires. PCM section 731 states that any Peace Corps direct hire employee (U.S. citizen or foreign service national) may be a cardholder, while overseas contractors and domestic non-personal service contractors are not eligible to be cardholders. We confirmed that all of the cardholders as of FY 2007 were direct hires. However, the APC does not have assurance that cardholders are direct hire employees without a process in place to verify cardholder employment status during account set-up.

*Improperly Assigning Cards to an Office*

The APC did not ensure that cards were issued to individuals. OACM issued four purchase cards to an office, "Admin Services," for vehicle maintenance costs at headquarters.

PCM section 731 states that the cardholder is the only individual authorized to use the assigned purchase card and has sole responsibility for expenditures charged against the card.

Assigning a purchase card to a group eliminates personal accountability and increases the likelihood of misuse. OACM closed these accounts during the audit and assigned a new account to an individual.

*Did not Establish Approving Official*

OACM did not properly assign an approving official to each cardholder and require the approving official to certify credit card statements before payment. Approving officials are a necessary control to ensure that purchases are appropriate and identify issues early in the process. According to PCM section 731.5.4, the approving official:

- Ensures that purchases made by the cardholder are for official government use and adequate funding has been obtained prior to purchase.
- Reviews, approves, and signs cardholder monthly statement of account to include all supporting documentation.
- Notifies the APC when a cardholder is leaving the agency or changing duties.
- Ensures the APC is informed of any lost or stolen card.
- Reports all purchase card misuse and abuse to the APC.

OACM appointed two cardholders as their own approving officials and failed to appoint an approving official for 15 cardholders. This allowed cardholders to bypass controls and purchase goods and services without proper authorization. In addition, one OACM employee was a cardholder and had APC capabilities to approve statements, setup accounts, adjust spending limits, and close accounts.

The Government Accountability Office, “Standards for Internal Control in the Federal Government,” November 1999, states that segregation of duties is a control activity used to reduce the risk of error or fraud. Segregation of duties ensures no one individual controls all key aspects of a transaction or event. Without an approving official, OACM does not ensure proper segregation of duties and therefore increases the likelihood that improper use of purchase cards would not be detected.

*Overuse of Auto-Closed Card Statements*

The Peace Corps purchase card process allowed cardholders to continue without an approving official, because credit card statements were auto-closed<sup>3</sup> and invoiced if not approved. At the end of each monthly billing cycle, the cardholder and approving official have 8 to 10 days to review and approve transactions posted during that statement period before Citibank auto-closes the statement. There is no formal policy or process to review and approve purchases once a statement has closed. Therefore, the auto-closed statements bypass key internal controls because no one reviews and approve the purchases.

<sup>3</sup> Auto-closed means that the Citibank card management system accepts the charges on the credit card statement without an approving official’s signature and bills the Peace Corps.



*Unnecessary Reliance  
on OACM to Close  
Purchase Card  
Statements*

Between October 1, 2006 and February 28, 2008, 71 of the 125 active cardholders had credit card statements that were not approved and auto-closed. One cardholder had statements automatically close 12 times within that 16-month period. Some auto-closed statements resulted in errors when the accounting system attempted to match the paid invoice with the correct line of accounting. Peace Corps could prevent some of the data fallout by ensuring approving officials reviewed every credit card statement before processing instead of using auto-close.

On other occasions, the APC approved credit card statements for cardholders. The APC explained that this was because the approving official was absent from a post, had departed Peace Corps, or was unable to access the Citibank Card Management System. The APC also approved statements for cardholders that had an approving official. The approving official sometimes reviewed the charges and sent the APC a written confirmation. However, the APC signed the approval in the Citibank Card Management System without reviewing all of the supporting documentation or verifying the accuracy of the transactions for the statements.

During FY 2006 and FY 2007, OACM approved credit card statements for 10 cardholders, including 15 statements for a single individual. Peace Corps increased the likelihood that managers would not identify improper payments by allowing OACM to approve credit card statements and using auto-close.

During the audit, OACM began monitoring cardholders statements that auto-closed. OACM issues a notification to the cardholder on the first use of auto-close and notifies the respective supervisor and regional office on subsequent occurrences in the same calendar year. In addition, OACM designated the regional chief administrative officers as the alternate approving official for overseas accounts. This will help reduce the number of auto-closed credit card statements and help ensure that OACM does not need to approve credit card statements when an approving official is away from post.

**SPENDING LIMIT  
INCREASES**

OACM did not ensure cardholders' spending limits matched authorizations. Spending limits prevent cardholders from purchasing more than authorized on a single transaction and during a given month. This serves as a control to prevent

overspending, but also ensure compliance with the Federal Acquisition Regulation established spending thresholds.

The Federal Acquisition Regulation states, “The Government-wide commercial purchase card shall be the preferred method to pay for micro-purchases” and defines micro-purchases as “An acquisition of supplies or services using simplified acquisition procedures, not to exceed the micro-purchase threshold.”

The Federal Acquisition Regulation establishes the threshold at \$3,000. Each purchase above that amount must comply with additional requirements concerning competition and contract clauses.

The APC may adjust spending limits as necessary, but should never exceed the amount authorized in an individual cardholder’s delegation of authority. An individual must have a written delegation of authority to purchase goods and services for the Peace Corps. The Peace Corps Director delegates purchase authority to the chief acquisition officer, country directors, and other management staff. These officials may re-delegate the authority in part or in whole. OACM should consider this delegation of authority when approving spending limits on the purchase card.

For overseas purchase card accounts, the country director provides the delegation of authority in a memorandum. OACM then establishes the spending limit noting that the authorized amounts exceeding the micro-purchase level are based on the delegation of authority from the country director. For purchase card accounts in the United States, OACM delegates the purchase authority in a memorandum establishing the spending limit.

Cardholder spending limits did not always match a delegation of authority, because OACM increased spending limits for one time use and failed to decrease the amount after use. As a result, four cardholders had single purchase limits greater than the delegation of authority. One cardholder had a spending limit of \$25,000 more than his delegation of authority. These cardholders exceeded authorized spending levels and could be personally liable for any unauthorized expense. In addition, OACM could not provide a delegation of authority from the country director for six overseas cardholders authorized amounts exceeding the micro-purchase threshold.

**CLOSING ACCOUNTS  
TIMELY**

In November 2008, the Citibank Card Management System implemented an expiration date field that returns temporary spending limits to the original setting upon expiration. Using the expiration field will help ensure that the cardholder spending limits match their delegation of the authority after a making a purchase requiring a temporary increase.

Cardholders and approving officials did not notify the APC timely when employees transferred offices or left the agency to ensure prompt closure of purchase card accounts. Closing accounts timely is important to mitigate the risk of misuse and fraud.

OMB Circular A-123, Appendix B, suggests that the APC establishes controls to ensure card cancellation when a cardholder leaves the agency.

OACM included a requirement in PCM section 731 for cardholders and approving officials to notify the APC immediately when departing from Peace Corps and strongly recommended that the cardholder discontinue use of the purchase card 30 days prior to departing the agency.

However, of the 50 purchase card accounts closed during a 14-month period (February 2007 - March 2008), OACM did not close approximately 28% (14) within one week of a cardholder departure or transfer. Charges continued on 11 accounts for as many as 98 days after the employee left. One account remained open nearly a month after the cardholder was fired because no one informed the APC. In some instances, the approving official requested the account remain open while convenience checks or other charges posted to the account.

When possible an office should begin transitioning the purchase card responsibilities before the cardholder leaves to ensure all credit card charges clear before departure.

**RECOMMENDATION B**

**STRENGTHEN CONTROL ACTIVITIES**

**WE RECOMMEND:**

- 1. That the chief acquisition officer develop a process to verify the direct hire status for all new cardholders before issuing a purchase card.*

**Management Comment.** The chief acquisition officer partially concurred with recommendation B.1 and stated, “During training (Purchase Card CBT and OST), it is made clear to Cardholders and Approving Officials that only US direct hires and Foreign Service Nationals are allowed to be Cardholders. We believe this training is effective in that the OIG audit did not reveal a single instance where a purchase card had been issued to a contractor. We also do not believe a new process is necessary to verify the direct hire status. However, we can reinforce this requirement by modifying the acknowledge and approval forms for new Cardholders to require the Approving Official certify that the Cardholder is not a contractor (PSC or otherwise) and that they are a US direct hire or Foreign Service National. Approving Officials will be required to self certify on the acknowledgement and approval forms of their US direct hire or Foreign Service National status.”

**OIG Response.** The chief acquisition officer’s comments were responsive. We accept the chief acquisition officer’s partial concurrence because requiring self-certification of employment status addresses our recommendation to verify the direct hire of new cardholders before issuing a purchase card and provides greater assurance of cardholders’ qualification.

**WE RECOMMEND:**

2. *That the chief acquisition officer, in coordination with the agency program coordinator, issue a policy memorandum reminding cardholders and approving officials to notify the agency program coordinator immediately when transferring offices or leaving the Peace Corps.*

**Management Comment.** The chief acquisition officer partially concurred with recommendation B.2 and stated, “The requirement to notify the Agency Program Coordinator when a Cardholder and Approving Official depart the agency is addressed in the Purchase Card training and MS 731. We do recognize that there might be a need for reminders but believe that a one time memo reminding Cardholders and Approving Officials of this requirement is probably insufficient. As part of the quarterly report we plan to institute to communicate our monthly review findings, we

will periodically remind Cardholders and Approving Officials of the requirement to notify the Agency Program Coordinator immediately if they depart the agency or leave their current position.”

**OIG Response.** The chief acquisition officer’s comments were responsive. We accept the chief acquisition officer’s partial concurrence because a reminder in the quarterly report to notify the agency program coordinator of any departures and transfers will satisfy the intent of the recommendation. However, we note that the notification(s) must be made before the individuals departs the agency or leaves the current position. The recommendation remains open pending receipt of the June 2009 quarterly report.

**WE RECOMMEND:**

3. *That the agency program coordinator ensure cardholder spending limits are appropriate and supported by proper authorization. Specifically,*
  - a. *Maintain documentation supporting the delegated procurement authority for all cardholder accounts including any permanent increases or decreases in the single purchase authority and monthly cycle limits.*

**Management Comment.** The chief acquisition officer concurred with recommendation B.3.a. He stated, “OACM does require supporting documentation and copies of the Cardholder’s delegated procurement authority to raise the single purchase limit. A request to increase the monthly cycle must also be documented and supported. These strict controls were not consistently being followed prior to mid FY07 and we recognize that there might be a few Cardholder files without adequate documentation to support their spending limit. OACM will review all Cardholder files to ensure they are up to date and include proper documentation by April 30, 2009.”

**OIG Response.** The chief acquisition officer’s comments were responsive. No further action is necessary.

- b. *Update overseas cardholder files to ensure that each file contains a copy of the most current re-delegated*

*procurement authority and that the amount delegated to each cardholder is equal or more than the amount established in the Citibank card management system.*

**Management Comment.** The chief acquisition officer concurred with recommendation B.3.b and stated, “OACM does require supporting documentation and copies of the Cardholder’s delegated procurement authority to raise the single purchase limit. A request to increase the monthly cycle must also be documented and supported. These strict controls were not consistently being followed prior to mid FY07 and we recognize that there might be a few Cardholder files without adequate documentation to support their spending limit. OACM will review all Cardholder files to ensure they are up to date and include proper documentation by April 30, 2009.”

**OIG Response.** The chief acquisition officer’s comments were responsive. No further action is necessary.

*c. Establish a written policy and procedure to reset the temporarily increased spending limits using the Citibank card management system expiration date field.*

**Management Comment.** The chief acquisition officer nonconcurred with recommendation B.3.c and stated, “The new Citibank card system permits an expiration date to be established when temporary spending limits are set. Based on the expiration date established, the system automatically resets to the permanent spending limit after that date. Therefore, it is not necessary to establish a written policy and procedure.”

**OIG Response.** The chief acquisition officer’s comments were not responsive. Although the new Citibank card system permits an expiration date for temporary spending limits, it is not a required field. To strengthen internal controls, the chief acquisition officer must require that staff use the expiration date field for temporary spending limits to ensure this control is effective. Requiring use of the expiration date field in written standard operating procedures or other policy guidance will ensure that current and future purchase card managers use the spending limit expiration date as a control

to reduce the risk of unauthorized purchases.

To close the recommendation, we request that the chief acquisition officer develop a standard operating procedure or other guidance to include instructions on increasing spending limits and using the expiration date field.

## **FINDING C**

### **INSUFFICIENT MONITORING AND RISK ASSESSMENT**

*OACM did not conduct sufficient monitoring of the cardholder accounts and excluded important information from the annual risk assessments and reports to OMB.*

The GAO, “Standards for Internal Control in the Federal Government,” states:

Monitoring should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved.

#### **MONITORING**

Monitoring is performed continually within the agency operations and includes regular supervisory activities, comparisons, and reconciliations. Monitoring also provides an assurance that the agency established controls to mitigate risks identified during the risk assessment. This information should be recorded and communicated timely to management and others who need it.

#### **OACM REVIEWS**

PCM section 731 describes the two review processes conducted by the APC to monitor and detect inappropriate purchases and other purchase card activities. The guidance states that the APC will conduct monthly transaction reviews, and randomly selected document reviews. Until January 2008, the review process was limited to transaction reviews.

During the transaction reviews, the APC reviews a monthly report from the Citibank card management system and searches for anomalies such as purchases from prohibited vendors, purchases above spending limits, and potential split purchases. However, the reports did not include useful information such as cardholder notes describing a transaction, accounting information, purchase order number,

*Identifying the Most Efficient Purchase Method*

and whether the credit card statement was approved. OACM employees failed to use the credit card statement information or accounting system information to assist in their review process.<sup>4</sup> Further, the APC usually only requested an explanation from the cardholder for each anomaly. During FY 2007, cardholders purchased questionable items such as the refreshments and furniture previously discussed in the “Training” paragraph. OACM employees stated that they identified some of the questionable purchases during their transaction reviews, but the cardholder explanations were routinely accepted. One OACM employee described the conversations with cardholders as more of a training discussion.

OACM did not always use the most efficient method of payment because cardholders used the government purchase card to purchase goods and services from vendors when a blanket purchase agreement would have saved time and money. A blanket purchase agreement eliminates some contracting and open market costs; provides discounts; satisfies recurring requirements; reduces administrative efforts by eliminating repetitive, individual orders and payments; and streamlines ordering procedures.

We identified 13 vendors that cardholders paid routinely where Peace Corps may benefit from issuing a blanket purchase agreement or contract. For example, the regional recruitment offices paid at least \$90,000 in FY 2007 to a vendor for advertising expenses using the purchase card, convenience checks, and PayPal. One cardholder made 13 charges totaling \$10,246 in December 2007 and 14 charges for \$9,586 in November 2007. In addition, six purchase card transactions to the vendor exceeded the micro-purchase threshold of \$3,000.

The Office of Volunteer Recruitment and Selection (VRS) should have identified the advertising needs during acquisition planning and determined that the costs required a contract mechanism such as a contract or blanket purchase agreement. The VRS chief administrative officer said that she knew the advertisement costs should have been procured by contract, but she allowed cardholders to continue charging the advertising expenses because the service was specialized and the advertisement was successful.

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<sup>4</sup> The accounting system contains purchase order number and requesting information that indicates whether a purchase was approved and funds were verified before the purchase.



In March 2008, OACM began developing a blanket purchase agreement to provide for advertising expenses and issued the agreement on January 7, 2009. This will provide recruiters with a more efficient method of selecting and purchasing advertising services. The Peace Corps might also benefit from a blanket purchase agreement for other services such as dental and medical supplies.

*Document Review  
Process*

During the audit, OACM implemented a document review process to identify issues concerning supporting documentation and potential misuse of purchase cards. After the first review, OACM identified common problems, such as cardholders did not maintain similar documents to support obligations. Based on their results, OACM prepared guidelines for cardholders on the specific documentation necessary to support transactions. In addition, OACM plans to implement the Citibank Program Audit Tool, which will automatically identify questionable purchases and streamline the monitoring process.

We encourage the OACM to continue improving the review process through additional document reviews and the Citibank Program Audit Tool and develop guidelines for the cardholders as needed.

**RISK ASSESSMENT  
AND COMMUNICATION**

OACM did not provide all of the pertinent information in their risk assessments and reports to OMB. OMB Circular A-123 Appendix B states that agencies must implement risk management controls, policies, and practices in implementing charge card management programs. It also requires agencies to submit an annual report on the purchase card data and performance metrics. Although OACM conducted risk assessments and annual reports in FY 2007 and FY 2008, it did not include the results of recent Inspector General reports and OACM reviews.

The annual risk assessment is a continual process of determining risks that could impede the efficient and effective achievement of the program objectives, identifying the controls in place to mitigate those risks, and assessing whether the controls are operating effectively. To conduct risk assessments, OACM used a simple questionnaire containing eight questions, five for inherent risk and three for control environment. Although the questionnaire addressed one of the GAO internal control standards, it did not include sections discussing control activities, monitoring, and information communications.

- OACM did not include required controls such as reviewing cardholder statements, ensuring separation of duties, maintaining a master file of cardholder accounts and training records, and analyzing data to detect delinquency, fraud, and misuse.
- OACM did not include additional controls the Peace Corps had implemented to ensure compliance with legal requirements and PCM section 731. Specifically, OACM did not discuss the use of formal appointment letters defining spending limits, Merchant Category Code that prevent unauthorized purchases, and purchase logs used to maintain a record all cardholder transactions.
- The FY 2007 Risk Assessment stated that the OACM initiated transactional reviews in early FY 07 and the FY 2008 Risk Assessment stated that OACM initiated documentation reviews in December 2007. However, the risk assessment did not discuss the results. OACM should discuss the results and determine if controls are operating effectively.
- In FY 2007, the Peace Corps Office of Inspector General identified purchase card issues and weak controls in six of nine post audit reports issued that year. OACM did not mention any of these reports in their risk assessment. The post audits found that five of the posts made purchases without pre-approval from the approving official, one post also did not maintain a purchase card log, and one post did not use its purchase card.

**INSUFFICIENT  
INFORMATION IN THE  
OMB ANNUAL  
REPORT**

OMB also requires agencies to report purchase card statistics, processes, controls, and reviews in an annual report. In FYs 2007 and 2008, Peace Corps provided the necessary statistics to OMB, but did not include many of the purchase card controls and recent reviews. By providing all pertinent information in the risk assessments and annual reports, management will have more assurance that the Peace Corps purchase card program includes controls that effectively mitigate the risk of fraud, waste, and abuse. OACM should improve the risk assessments by discussing the GAO internal control standards and including all elements discussed in OMB Circular A-123 Appendix B. OACM should then use the information gathered during risk assessment to report the purchase card processes and controls to OMB.

## RECOMMENDATION C

## INCREASE FREQUENCY AND LEVEL OF REVIEWS

### WE RECOMMEND:

1. *That the Office of Acquisitions and Contract Management strengthen the transactional review process, by:*
  - a. *Developing standard operating procedures for the agency program coordinator and staff to use when conducting transaction and document reviews.*

**Management Comment.** The chief acquisition officer nonconcurred with recommendation C.1.a. He stated, “In January 28, 2008, OACM developed and currently uses a checklist to ensure a consistent and thorough review (see Attachment 2). We believe the checklist along with training of the individuals assigned to manage the Program is sufficient for reviews of this nature. We will continue to evolve the checklist to make it more effective as new issues surface and will take advantage of the new Citibank data mining tools when they become available.”

**OIG Response.** The chief acquisition officer’s comments were responsive. We acknowledge the chief acquisitions officer’s timely corrective actions. The documentation review checklist developed during the audit on January 28, 2008 addresses our recommendation and will help OACM conduct documentary reviews.

- b. *Reviewing purchases to identify goods and services that may benefit from a blanket purchasing agreement or contract.*

**Management Comment.** The chief acquisition officer nonconcurred with recommendation C.1.b. He stated, “One of OACM’s strategic goals is to pursue opportunities to streamline the acquisition process and save cost. A key strategy in accomplishing this goal is strategic sourcing. In 2006, OACM conducted an agency level spend analysis using PRISM data and Citibank purchase card data to identify recurring requirements and to facilitate strategic sourcing opportunities. Since then, OACM has established approximately 30 blanket purchase agreements or IDIQ contracts. The blanket purchase agreement that was

established for advertising services (cited in the audit) resulted from a need identified in 2007. It's important to note that many of these initiatives require the support of the using or requiring office and must compete with other priorities.

The chief acquisition officer further stated, "OACM has and will continue to use blanket purchase agreements and other procurement strategies to support its strategic goals and objectives."

**OIG Response.** The chief acquisition officer's comments were not responsive. The chief acquisition officer stated that a review was conducted in 2006 to identify goods and services that could benefit from blanket purchase agreements. However, our audit identified goods and services repeatedly purchased in 2007 and 2008 that may benefit from blanket purchase agreements or other cost saving contract mechanisms. In order to maintain effective stewardship of the Purchase Card Program, the chief acquisition officer should perform due diligence by reviewing of the most economic and efficient contracting mechanism(s) with the goal toward achieving the best value for the Peace Corps and the taxpayer. Proactive monitoring to identify multiple purchases from the same vendor may indicate opportunities for additional cost savings and, thus, should be conducted regularly.

We request that the chief acquisition officer take a proactive approach and review purchases of goods and services that would benefit from blanket purchasing agreements. To close the recommendation, the chief acquisition officer needs to establish written procedures to perform spending analyses and identify potential blanket purchase agreements, in a standard operating procedure or other guidance.

*c. Implementing the Citibank Data Mining software to identify transactions with potential problems.*

**Management Comment.** The chief acquisition officer partially concurred with recommendation C.1.c and stated, "The new Citibank Data Mining software is not yet functional. However when it does become available, OACM will take advantage of this new capability."

**OIG Response.** The chief acquisition officer's comments were responsive. We understand that the date for implementing the Citibank Data Mining software is unknown and beyond the chief acquisition officer's control. Therefore, we will close the recommendation when the chief acquisition officer fully implements the data mining software when it becomes available.

**WE RECOMMEND:**

2. *That the Office of Acquisitions and Contract Management develop a formal policy and process for reviewing the purchases of auto-closed statements as a priority before approving the purchase card invoice to detect potential misuse of purchase cards.*

**Management Comment.** The chief acquisition officer nonconcurred with recommendation C.2. He stated, "A formal policy already exists to address auto-closed statements (MS 731 paragraph 7-6). OACM sends an email to the Approving Official and Cardholder immediately after the cycle closes to remind program participants to review the monthly statement for accuracy and approve the statement so that it will not auto-close. If a statement auto-closes, OACM sends the Approving Official an email to confirm that all of the transactions are appropriate and approved. This auto-close process verifies that the Approving Official is validating all transactions as being correct and proper for payment from funds designated prior to purchase. It is unrelated to the approval of the purchase card invoice for payment. One of the driving factors of the Purchase Card program allows for Citibank (the purchase card vendor) to be paid as soon as possible so that the Peace Corps can accumulate rebates and therefore savings to the agency. If there are potential misuses or errors found by either the Cardholder or Approving Official on the purchase card statement, a dispute can be handled after the fact within a specific timeframe. If the Peace Corps wins the dispute, the Cardholder's statement is credited the appropriate amount. If the Peace Corps loses the dispute, then no action is required as the statement has already been paid."

The chief acquisition officer further stated, "As part of the chief acquisition officer Program Reviews, auto close trends will be reviewed and tracked to ensure compliance with the existing policy."

**OIG Response.** The chief acquisition officer's comments were not responsive. Although PCM section 731.7.6 discusses the disciplinary actions for auto-close statements, it does not discuss the process that OACM should use to ensure the transactions are adequately reviewed for auto-closed statements. As a result, OACM needs to implement a process to confirm transactions are appropriate when credit card statements are auto-closed in standard operating procedures or other written guidance. Written procedures are a critical internal control to strengthen the agency's Purchase Card Program by providing important guidance to coordinators and staff to ensure that purchases are not paid without the proper approval.

Therefore, the chief acquisition officer must develop standard operating procedures for OACM to include the process used for approving auto-closed statements. These procedures need to include examples of the emails notifications to cardholders that allow auto-closed statement already incorporated in OACM process.

**WE RECOMMEND:**

3. *That the Office of Acquisitions and Contract Management, in coordination with the chief financial officer, improve the purchase card annual risk assessment to include a discussion of each internal control standards and all elements required by Office of Management and Budget Circular A-123, Appendix B. The Office of Acquisitions and Contract Management must use the information gathered during risk assessment to report the purchase card processes and controls to Peace Corps management and the Office of Management and Budget.*

**Management Comment.** The chief acquisition officer nonconcurred with recommendation C.3. He stated, "OACM recognizes that previous reports to OMB may not have addressed all of the internal control elements as outlined in A-123. However, the Office of the Chief Financial Office (OCFO) is the agency lead for this program and OACM provides information as requested by OCFO which is incorporated into the report and submitted on behalf of the agency. We recognize OACM's supporting role but since OCFO is the agency lead, we do not believe responsibility for this finding is properly assigned."

**OIG Response.** The chief acquisition officer’s comments were not responsive. The chief acquisition officer is responsible for OACM’s internal control program. PCM section 784.5.3 states, “Peace Corps office heads are responsible for internal control within their offices. . . Office heads shall:

- (a) Continuously monitor and improve the effectiveness of internal control associated with their programs. This continuous monitoring, and other periodic assessments, will provide the basis for the Director’s annual assessment of, and report on, internal control.
- (b) Promptly implement approved improvements identified by their own assessments, the Office of Inspector General reports, and recommendations of the independent auditors or the SAT [Senior Assessment Team].”

Therefore, the chief acquisition officer’s must develop a robust internal control process to identify risks, implement controls to mitigate those risks, and monitor the effectiveness of the controls. OMB Circular A-123, Appendix B clearly defines many risks and mitigating controls associated with government purchase card programs. To close the recommendation we request documentation describing how the OACM risk assessment will address key internal controls addressed in OMB Circular A-123, Appendix B.

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## AGENCY INITIATIVES

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In fiscal years 2007 and 2008, OACM took steps to improve the Peace Corps Government Purchase Card Program.

- On April 26, 2007, OACM issued formal policies and procedures in PCM section 731, Peace Corps Purchase Card Program and developed an online training course that new cardholders must pass before card issuance.
- OACM also strengthened control activities by implementing merchant category codes that prevent charges to unauthorized vendors.
- To enhance monitoring, the APC and staff conducted reviews of supporting documentation. The staff selects purchase card transactions and requests the support from the cardholders to validate the purpose is legitimate and the amount is appropriate.
- The APC also streamlined Peace Corps purchasing for common goods and services by developing new blanket purchase orders.

These initiatives combined with corrective actions taken in response to this report will help promote efficiency and ensure compliance with federal regulations.



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## LIST OF RECOMMENDATIONS

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**WE RECOMMEND:**

- A.1. That the chief acquisition officer, in coordination with the agency program coordinator, update the Peace Corps Manual section 731 to include formal guidance on the use of convenience checks and specific requirements on refresher training for cardholders. Specifically, Peace Corps Manual section 731 must:
  - a. Define acceptable justifications for using convenience checks, required supporting documentation, and the process for requesting and issuing convenience checks.
  - b. Require refresher training for cardholders at least every three years and establish a process for the agency program coordinator to receive and maintain training certificates.
  
- A.2. That the chief acquisition officer, in coordination with the agency program coordinator, issue a memorandum to cardholders emphasizing the need for proper conduct in areas identified as reoccurring problems to include the improper purchase of refreshments and personal items.
  
- A.3. That the chief acquisition officer, in coordination with the Office of General Counsel, develop a policy that defines the process a cardholder must use and the approvals necessary to purchase an item on the “Do Not Buy” list, including the purchase of refreshments and furniture for personal use.
  
- B.1. That the chief acquisition officer develop a process to verify the direct hire status for all new cardholders before issuing a purchase card.
  
- B.2. That the chief acquisition officer, in coordination with the agency program coordinator, issue a policy memorandum reminding cardholders and approving officials to notify the agency program coordinator immediately when transferring offices or leaving the Peace Corps.
  
- B.3. The agency program coordinator ensure cardholder spending limits are appropriate and supported by proper authorization. Specifically,
  - a. Maintain documentation supporting the delegated procurement authority for all cardholder accounts including any permanent increases or decreases in the single purchase authority and monthly cycle limits.
  - b. Update overseas cardholder files to ensure that each file contains a copy of the most current re-delegated procurement authority and that the amount delegated to each cardholder is equal or more than the amount established in the Citibank card management system.

- c. Establish a written policy and procedure to reset the temporarily increased spending limits using the Citibank card management system expiration date field.
- C.1. The Office of Acquisitions and Contract Management strengthen the transactional review process, by:
- a. Developing standard operating procedures for the agency program coordinator and staff to use when conducting transaction and document reviews.
  - b. Reviewing purchases to identify goods and services that may benefit from a blanket purchasing agreement or contract.
  - c. Implementing the Citibank Data Mining software to identify transactions with potential problems.
- C.2. The Office of Acquisitions and Contract Management develop a formal policy and process for reviewing the purchases of auto-closed statements as a priority before approving the purchase card invoice to detect potential misuse of purchase cards.
- C.3. The Office of Acquisitions and Contract Management, in coordination with the chief financial officer, improve the purchase card annual risk assessment to include a discussion of each internal control standards and all elements required by Office of Management and Budget Circular A-123, Appendix B. The Office of Acquisitions and Contract Management must use the information gathered during risk assessment to report the purchase card processes and controls to Peace Corps management and the Office of Management and Budget.

## QUESTIONED COSTS

We identified certain questioned costs during the course of the audit. We list the costs below with a description and the title of the section in the report where we discuss the amounts.

Report Section	Description	Amount*
Finding A. Convenience Checks	Service charges for unnecessary use of convenience checks instead of the purchase card.	\$50
Finding A. Training. Improper Purchase of Refreshments	Purchase of cakes for a graduation ceremony.	\$575
Finding A. Training. Improper Purchase of Refreshments	Purchase of water for training attendees.	\$267
Finding A. Training. Improper Purchase of Refreshments	Purchase of a cake, coffee, and snacks for an Overseas Staff Training graduation ceremony.	\$75
Finding A. Training. Improper Purchase of Refreshments	Purchase of refreshments for an off-site office meeting.	\$221
Finding A. Training. Improper Purchase of Furniture	Purchase of a refrigerator and a microwave for an office kitchen.	\$1,625
Finding A. Training. Improper Purchase of Furniture	Purchase of a microwave, blender, and toaster for an office kitchen.	\$270
<b>TOTAL</b>		<b>\$3,083</b>

\*Amounts are rounded to the closest dollar.

## APPENDIX A

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### OBJECTIVES, SCOPE, AND METHODOLOGY

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Mr. Bradley Grubb performed the audit and Mr. Gerry Montoya supervised. The objectives of this audit were:

- To determine if the purchase card program is being managed effectively.
- To determine if agency personnel authorized to use the card are following the Federal Acquisition Regulation, Peace Corps' policies and procedures, and other applicable guidance.
- To evaluate the effectiveness of the agency's internal controls associated with the purchase card program.
- To identify and assess areas with potential risks to the purchase card program.

We based our audit conclusions on information from the following three primary sources: document and data analysis, interviews, and direct observations. We reviewed all available credit card statements for approximately 148 active and 27 closed government purchase card accounts and related activities managed by OACM as of September 30, 2007. We used the Citibank Card Management System to search for transactions that were anomalies and potential issues. We obtained and reviewed supporting documentation for 97 judgmentally selected transactions that had potential issues.

This audit was conducted in accordance with Generally Accepted Government Auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that evidence obtained provided a reasonable basis for our findings and conclusions based on our audit objectives.

We relied on computer-processed data from Peace Corps' personnel tracking system and the Citibank Card Management System. While we did not test the system controls, we compared supporting documentation with the records contained in the systems to determine that the information generated by the system was sufficiently reliable for the audit objectives.

## APPENDIX B

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# ACRONYMS AND GLOSSARY

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### ACRONYMS

APC	Agency Program Coordinator
FY	Fiscal Year
GAO	Government Accountability Office
OACM	Office of Acquisitions and Contract Management
OMB	Office of Management and Budget
PCM	Peace Corps Manual

### GLOSSARY

**Blanket Purchase Agreement.** A simplified acquisition method that government agencies use to fill anticipated repetitive needs for supplies or services.

**Convenience Check.** A check charged as a cash advance to the credit card account. Peace Corps authorizes a limited number of individuals to use convenience checks and only when the vendor does not accept credit cards.

**Delegation of Authority.** A written authorization assigning the administration and operation authority defined in the Peace Corps Act from the Director of the Peace Corps to an individual or subsequent redelegation to another Peace Corps employee to exercise all or part of his or her delegated authority.

**Direct Hire.** Individuals hired as either U.S. citizens in the civil service or Foreign Service appointed under statutory authorities or non-U.S. citizen, foreign service nationals, appointed under the authority of the Foreign Affairs Act of 1961, as amended.

**Internal Control.** An integral component of an organization's management that provides reasonable assurance as to the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

**Spending Limits.** The maximum dollar amount a cardholder can charge using their purchase card account in one transaction (transaction limit) and in a month (cycle limit). The Citibank Card Management System includes a control to enforce the spending limit based on the amounts specified during initial cardholder setup.

## APPENDIX C

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# MANAGEMENT'S RESPONSE TO THE PRELIMINARY REPORT

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TO: Kathy A. Buller

FROM: Carey Fountain, Chief Acquisition Officer

DATE: March 24, 2009

SUBJECT: OACM Response to the Preliminary Report on the Purchase Card Program

Despite the many improvements OACM has made to the Peace Corps Purchase Card Program over the past few years, we acknowledge that there are still areas that need improvement. We appreciate OIG's efforts and believe the Peace Corps Purchase Card Program will emerge even stronger as a result of the audit.

We do however take exception to OIG's overall assessment of the program ("not being managed effectively"). We do not believe this conclusion is supported by the facts or findings.

The audit revealed 7 questionable transactions of 13,315 total transactions totaling \$3,083. This represents 0.00048% of Peace Corps total purchase card expenditures of \$6.3M for FY07. Of the seven transactions questioned, it was subsequently found by OACM that only one of these transactions in the amount of \$50 (convenient check fees) was subsequently determined to be inappropriate.

We believe that these results are one of the best indicators of program effectiveness. It is our hope that the overall conclusion reached by OIG will be reassessed based on our responses.

OACM concurs or partially concurs with 8 of the 14 recommendations. Attached is our response to each recommendation with a description of the back-up documentation if applicable.

Please contact Alicia Steele for questions or clarifications.

cc: Kathy Rulon, Acting Chief of Staff  
Thomas Bellamy, Acting Chief Financial Officer

# LIST OF RECOMMENDATIONS

## WE RECOMMEND:

**A.1. That the chief acquisition officer, in coordination with the agency program coordinator, update the Peace Corps Manual section 731 to include formal guidance on the use of convenience checks and specific requirements on refresher training for cardholders. Specifically, Peace Corps Manual section 731 must:**

**a. Define acceptable justifications for using convenience checks, required supporting documentation, and the process for requesting and issuing convenience checks.**

**CONCUR:** Guidance and procedures for using convenience checks were issued to Cardholders and Approving Officials on November 6, 2008 via email (see Attachment 1). However, we agree that the Peace Corps Manual Section 731 needs to be updated and will target to publish an update by June 30, 2009.

**b. Require refresher training for cardholders at least every three years and establish a process for the agency program coordinator to receive and maintain training certificates.**

**CONCUR:** In the short term, OACM will issue an Acquisition Bulletin to Cardholders and Approving Officials to inform them of this requirement by April 30, 2009. A list of Cardholders and Approving Officials that meet the requirement for refresher training will also be identified and informed. OACM will also establish a tracking system of Cardholders and Approving Officials that require refresher training and will send out monthly notices. Finally, Peace Corps Manual Section 731 will be also updated to require refresher training every three years in accordance with A-123 by June 30, 2009.

**A.2. That the chief acquisition officer, in coordination with the agency program coordinator, issue a memorandum to cardholders emphasizing the need for proper conduct in areas identified as reoccurring problems to include the improper purchase of refreshments and personal items.**

**CONCUR:** Currently, OACM does perform transactional reviews and random documentation reviews. Feedback is provided to individual Cardholders and Approving Officials but OACM has not implemented quarterly reports as originally planned to Cardholders and Approving Officials of systemic issues and problems that are found during monthly reviews. By June 30, 2009, the Chief Acquisition Officer will institute quarterly reviews of the Purchase Card Program to review and discuss findings resulting from the transactional and documentation reviews. Findings that



are found to be systemic will be published in a quarterly report and distributed to Cardholders and Approving Officials.

**A.3. That the chief acquisition officer, in coordination with the Office of General Counsel, develop a policy that defines the process a cardholder must use and the approvals necessary to purchase an item on the “Do Not Buy” list, including the purchase of refreshments and furniture for personal use.**

**NON CONCUR:** OACM does not believe that additional processes are necessary in this area and the current processes in place and those that are planned (and mentioned herein) are sufficient to prevent an unacceptable level of unauthorized purchases. We believe the additional cost to establish a more stringent process does not support the benefits.

Of the seven questionable transactions revealed by the audit totaling \$3,083 only one transaction of \$50 could be validated as a clear cut case of an inappropriate purchase and none were fraudulent or egregious in nature. Two transactions totaling \$1,895 were valid and had prior approval by OACM. The remaining four transactions totaling \$1,138 are at best questionable and GAO has ruled that purchases of this type (refreshments for ceremonies and training) are valid purchases when certain criteria are met.

When the total number of FY07 purchase card transactions (13,315) totaling \$6.3M are considered, we believe the de minimis number of questionable transactions and the associated cost (.00048%) of total spend) is testament to the strength of the Peace Corps Purchase Card Program and its internal controls.

**B.1. That the chief acquisition officer develop a process to verify the direct hire status for all new cardholders before issuing a purchase card.**

**PARTIALLY CONCUR:** During training (Purchase Card CBT and OST), it is made clear to Cardholders and Approving Officials that only US direct hires and Foreign Service Nationals are allowed to be Cardholders. We believe this training is effective in that the OIG audit did not reveal a single instance where a purchase card had been issued to a contractor. We also do not believe a new process is necessary to verify the direct hire status. However, we can reinforce this requirement by modifying the acknowledge and approval forms for new Cardholders to require the Approving Official certify that the Cardholder is not a contractor (PSC or otherwise) and that they are a US direct hire or Foreign Service National. Approving Officials will be required to self certify on the acknowledgement and approval forms of their US direct hire or Foreign Service National status.

**B.2. That the chief acquisition officer, in coordination with the agency program coordinator, issue a policy memorandum reminding cardholders and approving officials to notify the agency program coordinator immediately when transferring offices or leaving the Peace Corps.**

**PARTIALLY CONCUR:** The requirement to notify the Agency Program Coordinator when a Cardholder and Approving Official depart the agency is addressed in the Purchase Card training and MS 731. We do recognize that there might be a need for reminders but believe that a one time memo reminding Cardholders and Approving Officials of this requirement is probably insufficient. As part of the quarterly report we plan to institute to communicate our monthly review findings, we will periodically remind Cardholders and Approving Officials of the requirement to notify the Agency Program Coordinator immediately if they depart the agency or leave their current position.

**B.3. The agency program coordinator ensure cardholder spending limits are appropriate and supported by proper authorization. Specifically,**

**a. Maintain documentation supporting the delegated procurement authority for all cardholder accounts including any permanent increases or decreases in the single purchase authority and monthly cycle limits.**

**CONCUR:** OACM does require supporting documentation and copies of the Cardholder's delegated procurement authority to raise the single purchase limit. A request to increase the monthly cycle must also be documented and supported. These strict controls were not consistently being followed prior to mid FY07 and we recognize that there might be a few Cardholder files without adequate documentation to support their spending limit. OACM will review all Cardholder files to ensure they are up to date and include proper documentation by April 30, 2009.

**b. Update overseas cardholder files to ensure that each file contains a copy of the most current re-delegated procurement authority and that the amount delegated to each cardholder is equal or more than the amount established in the Citibank card management system.**

**CONCUR:** OACM does require supporting documentation and copies of the Cardholder's delegated procurement authority to raise the single purchase limit. A request to increase the monthly cycle must also be documented and supported. These strict controls were not consistently being followed prior to mid FY07 and we recognize that there might be a few Cardholder files without adequate documentation to support their spending limit. OACM will review all Cardholder files to ensure they are up to date and include proper documentation by April 30, 2009.

**c. Establish a written policy and procedure to reset the temporarily increased spending limits using the Citibank card management system expiration date field.**

**NON CONCUR:** The new Citibank card system permits an expiration date to be established when temporary spending limits are set. Based on the expiration date established, the system automatically resets to the permanent spending limit after that date. Therefore, it is not necessary to establish a written policy and procedure.

**C.1. The Office of Acquisitions and Contract Management strengthen the transactional review process, by:**

**a. Developing standard operating procedures for the agency program coordinator and staff to use when conducting transaction and document reviews.**

**NON CONCUR:** In January 28, 2008, OACM developed and currently uses a checklist to ensure a consistent and thorough review (see Attachment 2). We believe the checklist along with training of the individuals assigned to manage the Program is sufficient for reviews of this nature. We will continue to evolve the checklist to make it more effective as new issues surface and will take advantage of the new Citibank data mining tools when they become available.

**b. Reviewing purchases to identify goods and services that may benefit from a blanket purchasing agreement or contract.**

**NON CONCUR:** One of OACM's strategic goals is to pursue opportunities to streamline the acquisition process and save cost. A key strategy in accomplishing this goal is strategic sourcing. In 2006, OACM conducted an agency level spend analysis using PRISM data and Citibank purchase card data to identify recurring requirements and to facilitate strategic sourcing opportunities. Since then, OACM has established approximately 30 blanket purchase agreements or IDIQ contracts. The blanket purchase agreement that was established for advertising services (cited in the audit) resulted from a need identified in 2007. It's important to note that many of these initiatives require the support of the using or requiring office and must compete with other priorities.

OACM has and will continue to use blanket purchase agreements and other procurement strategies to support its strategic goals and objectives.

**c. Implementing the Citibank Data Mining software to identify transactions with potential problems.**

**PARTIALLY CONCUR:** The new Citibank Data Mining software is not yet functional. However when it does become available, OACM will take advantage of this new capability.

**C.2. The Office of Acquisitions and Contract Management develop a formal policy and process for reviewing the purchases of auto-closed statements as a priority before approving the purchase card invoice to detect potential misuse of purchase cards.**

**NON CONCUR:** A formal policy already exists to address auto-closed statements (MS 731 paragraph 7-6). OACM sends an email to the Approving Official and Cardholder immediately after the cycle closes to remind program participants to review the monthly statement for accuracy and approve the statement so that it will not auto-close. If a statement auto-closes, OACM sends the Approving Official an email to confirm that all of the transactions are appropriate and approved. This auto-close process verifies that the Approving Official is validating all transactions as being correct and proper for payment from funds designated prior to purchase. It is unrelated to the approval of the purchase card invoice for payment. One of the driving factors of the Purchase Card program allows for Citibank (the purchase card vendor) to be paid as soon as possible so that the Peace Corps can accumulate rebates and therefore savings to the agency. If there are potential misuses or errors found by either the Cardholder or Approving Official on the purchase card statement, a dispute can be handled after the fact within a specific timeframe. If the Peace Corps wins the dispute, the Cardholder's statement is credited the appropriate amount. If the Peace Corps loses the dispute, then no action is required as the statement has already been paid.

As part of the Chief Acquisition Officer Program Reviews, auto close trends will be reviewed and tracked to ensure compliance with the existing policy.

**C.3. The Office of Acquisitions and Contract Management, in coordination with the chief financial officer, improve the purchase card annual risk assessment to include a discussion of each internal control standards and all elements required by Office of Management and Budget Circular A-123, Appendix B. The Office of Acquisitions and Contract Management must use the information gathered during risk assessment to report the purchase card processes and controls to Peace Corps management and the Office of Management and Budget.**

**NON CONCUR:** OACM recognizes that previous reports to OMB may not have addressed all of the internal control elements as outlined in A-123. However, the Office of the Chief Financial Office (OCFO) is the agency lead for this program and OACM provides information as requested by OCFO which is incorporated into the report and submitted on behalf of the agency. We recognize OACM's supporting role but since OCFO is the agency lead, we do not believe responsibility for this finding is properly assigned.

## APPENDIX D

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### OIG COMMENTS

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Of the nine recommendations made in our report, management fully concurred with two recommendations, partially concurred with two recommendations, nonconcurred with three recommendations and nonconcurred with parts of two recommendations.

We closed recommendation B.1. Recommendations A.1, A.2, A.3, B.2, B.3, C.1, C.2 and C.3 remain open pending confirmation from the chief compliance officer that the following has been received:

- For recommendation A.1: a copy of the Acquisition Bulletin requiring refresher training and the revised PCM section 731 discussing convenience checks and the three year requirement for refresher training.
- For recommendation A.2: a copy of the quarterly report issued to cardholders and approving officials discussing reoccurring problems.
- For recommendation A.3: a copy of a written policy or procedures for purchasing items on the “Do Not Buy List.” OACM written policy and procedures must include requirements for General Counsel review and approval for any items to be purchased for items on the “Do Not Buy List” to ensure that the purchase meets legal principles.
- For recommendation B.2: a copy of the June 2009 quarterly report which must include a reminder to cardholders and approving officials to inform the APC before leaving the agency or transferring offices.
- For recommendation B.3: a copy of an OACM standard operating procedure or other guidance to include instructions on increasing spending limits and using the expiration date field.

The explanations provided for parts a and b of recommendation B.3 were sufficient to close these parts of the recommendation.

- For recommendation C.1: a copy of a standard operating procedure or other guidance describing the process OACM will use to perform spending analyses and identify potential blanket purchase agreements. Documentation of implementation of the Citibank Data Mining software when available.

The explanation and documentation provided for part a of recommendation C.1 was sufficient to close this part of the recommendation.

- For recommendation C.2: copy of a standard operating procedure or other guidance describing the process OACM will use for approving auto-closed

## APPENDIX D

statements. These procedures need to include examples of the emails notifications to cardholders that allow auto-closed statement already incorporated in OACM process.

- For recommendation C.3: a copy of documentation describing how the OACM risk assessment will address key internal controls addressed in OMB Circular A-123, Appendix B.

In their response, management describes actions they are taking or intend to take to address the issues that prompted each of our recommendations. We wish to note that in closing recommendations, we are not certifying that they have taken these actions nor that we have reviewed their effect. Certifying compliance and verifying effectiveness are management's responsibilities. However, when we feel it is warranted, we may conduct a follow-up review to confirm that action has been taken and to evaluate the impact.

## APPENDIX E

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### AUDIT COMPLETION AND OIG CONTACT

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#### AUDIT COMPLETION

Mr. Bradley Grubb performed the audit and Mr. Gerry Montoya supervised.

#### OIG CONTACT

If you wish to comment on the quality or usefulness of this report to help us strengthen our product, please e-mail Gerald P. Montoya, Assistant Inspector General for Audit, at [gmontoya@peacecorps.gov](mailto:gmontoya@peacecorps.gov), or call him at (202) 692-2907.

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