

MEMORANDUM

TO : G. Mario Moreno
Assistant Secretary
Office of Intergovernmental and Interagency Affairs

FROM : John P. Higgins, Jr.
Acting Assistant Inspector General
Analysis and Inspection Services

SUBJECT : Results of the OIG Review of OIIA's Internal Controls Over the
Procurement of Goods and Services (A&I 2000-008)

INTRODUCTION

This memorandum transmits the results of our review of OIIA's internal controls over the procurement of goods and services. This review is part of OIG's Department-wide review of this area. The Department's management is responsible for establishing and maintaining internal controls. We will transmit the Department-wide results to the Deputy Secretary with copies to the Assistant Secretaries and other senior staff when we complete our review. On August 10, 2000, OIG staff met with you, your Chief of Staff, Connie Jameson, and your Executive Officer, Norman Hall, to discuss the results of this review.

RESULTS

During our review in OIIA, we identified instances of possible noncompliance with the Federal Acquisition Regulation (FAR) and current Department policies and procedures:

- The FAR requires the solicitation of quotes or offers from a reasonable number of sources or sole-source justifications for any purchase of more than \$2,500. In our sample of TPDS checks there were fourteen transactions that were over \$2,500. Six of the transactions had no documentation to verify that these purchases were made with the solicitation of at least three bids or to justify a sole-source purchase.
- We also identified eleven invoices that appear to not have been paid timely as required by the Prompt Payment Act.

We identified certain deficiencies, in addition to the instances of possible non-compliance identified above, that prevent OIIA from satisfying GAO's *Standards for Internal Control in the Federal Government*. For your information and corrective action, those deficiencies are listed in the attached chart (Attachment A). In the future, we anticipate conducting a follow-up review to assess the actions you have taken to satisfy GAO's *Standards for Internal Control in the Federal Government*.

In addition, we want to advise you and OIIA managers of inherent vulnerabilities we identified in two Department procurement systems.

- ✓ Purchase Cards – For efficiency reasons, the Department designed a purchase card system where cardholders can order, receive and approve payments for goods and services. Consequently, as a control, the Department established approving officials to review the use of purchase cards. Therefore, it is important that approving officials properly review all cardholder statements, including invoices, before forwarding them to OCFO for payment.
- ✓ Third Party Draft System (TPDS) – An individual with signature authority can issue TPDS checks without the involvement of anyone else. Therefore, it is important that, at a minimum, the supervisor of the individual with signature authority conduct periodic reviews of TPDS disbursements.

During our review, we noted that two OIIA employees assigned purchase cards are below the minimum grade level (GS-9) required to receive annual ethics training. Because of their procurement responsibilities, we believe that ethics training would be beneficial to these employees. Management should require them to attend annual ethics training.

OTHER MATTERS

OIIA has Contribution Accounts containing donations in support of activities such as the Presidential Scholars program and satellite town meetings. According to OIIA staff, the Office of the General Counsel (OGC) is aware of the Contribution Accounts; however, these accounts should be audited on a regular basis.

OBJECTIVE

Our review objective was to assess the internal controls over compliance with laws and regulations for the procurement of goods and services other than studies or evaluations.

SCOPE

We limited our work to procurements in Washington, D.C. (Headquarters). Although we interviewed staff regarding contracts for the purchase of goods and services, we did not review contract files. We limited testing of accounting records to procurements using

the Third Party Draft System (TPDS) and purchase cards. We did not conduct testing on OIIA's use of "Corporate" Government Travel Accounts.

METHODOLOGY

To achieve our objective, we conducted interviews with OIIA staff who were involved with the procurement process and we reviewed relevant documents. As part of our work, we reviewed samples of TPDS checks and purchase card transactions. For the TPDS, we selected a random sample of 50 TPDS checks issued between October 1998 through September 1999 (FY 1999) and October 1999 through February 2000 (FY 2000). There are seven cardholders in Headquarters. We judgmentally selected a sample of transactions from purchase card statements dated between January 1999 through May 2000. Then we selected 71 transactions to review. We also reviewed OIIA monthly purchase card statements that were in the Financial Management Policy and Administration Group files for the months of September 1999 and March 2000.

We based our conclusions about OIIA's internal controls on the information gathered during our interviews and transaction testing. We conducted our interviews and transaction testing between May 23, 2000 and July 18, 2000. We assessed OIIA's internal controls based on GAO's *Standards for Internal Control in the Federal Government*, issued in November 1999. Attachment B to this memorandum contains a summary of the GAO Standards. We conducted our work in accordance with the President's Council on Integrity and Efficiency (PCIE) *Quality Standards for Inspection* dated March 1993.

We appreciate the cooperation shown by your staff during our review. If you have any questions regarding the results of this review, please call me at 205-5439.

Attachments

cc: Deputy Secretary

GAO's Standards for Internal Control in the Federal Government
Components of Internal Control

- **Control Environment** – Management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal controls and conscientious management.

Factors:

- ✓ Management and staff maintain and demonstrate integrity and ethical values.
 - ✓ Management maintains an active commitment to competence.
 - ✓ Management's philosophy and operating style exerts a positive influence on the organization (especially toward information systems, accounting, personnel functions, monitoring and audits).
 - ✓ Organizational structure is appropriately centralized or decentralized, and facilitates the flow of information across all activities.
 - ✓ Agency delegates authority and responsibility and establishes related policies throughout the organization in a manner that provides for accountability and control.
 - ✓ Agency establishes human resource policies and practices that enable it to recruit and retain competent people to achieve its goals.
- **Risk Assessment** – Internal controls should provide for an assessment of the risks the agency faces from both external and internal sources.

Precondition: establishment of clear and consistent agency objectives.

Risk assessment: the comprehensive identification and analysis of relevant risks associated with achieving agency objectives, like those defined in strategic and GPRA annual performance plans, and forming a basis for determining how the agency should manage risks.

Risk identification: methods may include qualitative and quantitative ranking activities, management conferences, forecasting and strategic planning, and consideration of findings from audits and other assessments.

Risk analysis: generally includes estimating the risk's significance, assessing the likelihood of its occurrence, and deciding how the agency should manage its risk.

- **Control Activities** – Internal control activities help ensure that employees carry out management directives. The control activities should effectively and efficiently accomplish agency control objectives.
 - ✓ The control activities are the policies, procedures, techniques, and mechanisms that enforce management’s directives. They help ensure that employees take actions to address risks.
 - ✓ Control activities occur at all levels and functions of the entity, and include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and creation and maintenance of related records that document the execution of these activities.
- **Information and Communications** – Employees should record and communicate information to management and others within the entity who need it in a form and within a time frame that enables them to carry out their internal control (and other) responsibilities effectively and efficiently.
 - ✓ An organization must have relevant, reliable, and timely communications relating to internal as well as external events. Information is needed throughout the agency to achieve all its operational and financial objectives.
 - ✓ Effective communications should occur in a broad sense with information flowing down, across, and up the organization.
 - ✓ Management should ensure there are adequate means of communicating with, and obtaining information from, external stakeholders that may have a significant impact on the agency achieving its goals.
- **Monitoring** – Internal control monitoring should assess the quality of performance over time and ensure that audit and other review findings are promptly resolved.
 - ✓ Includes regular management and supervisory activities, comparisons, reconciliations, and other actions employees take in performing their duties.
 - ✓ Should include policies and procedures for ensuring that audit and other review findings are promptly resolved.

Internal Control Evaluation Form for the Office of Intergovernmental and Interagency Affairs

Control Component	Deficiencies
Control Environment	<ul style="list-style-type: none"> • Assignment of Authority – According to OCFO records, three cardholders with spending limits in excess of \$2,500 do not have warrants nor have they taken the small purchase training required to obtain a warrant. • Training – One cardholder has not taken purchase card training; however, the cardholder has taken small purchase training. All procurement staff could benefit from refresher training. • Human Resources – One cardholder was not allowed to include purchase card responsibilities as a GPAS rating element because management had characterized the responsibility as “just ordering supplies.”
Risk Assessment	<ul style="list-style-type: none"> • Identification of Risks – The Executive Officer and other procurement staff should have a more significant role in OIIA’s Federal Managers’ Financial Integrity Act (FMFIA) reporting process.
Control Activities	<ul style="list-style-type: none"> • Policies and Procedures – Although required by the Department’s Directive on <i>Commercial Credit Card Service</i> (C:FIM:6-102) dated March 12, 1990, OIIA has no written policies and procedures on the purchase card process. • Policies and Procedures – OIIA appears to make several sole-source procurements. For instance, we noticed that all but one of the TPDS purchases that we reviewed that were over \$2,500 and had supporting documentation were sole-source. • Policies and Procedures – According to the Department’s simplified acquisition procedures, micro-purchases (under \$2,500) are to be distributed “equitably among qualified suppliers.” As a result of reviewing the card statements for Headquarters for the period of January 1999 to May 2000, we noticed that OIIA used the GSA Supply Service Center 7 times and used Office Depot 127 times. • Policies and Procedures – Cardholders should be recording purchases into EDCAPS at the time an order is placed; instead, the two approving officials have been recording purchases into EDCAPS during their review of the card statements.

- Purchase Cards – We reviewed the September 1999 and the March 2000 statements from OCFO files. Our purpose was to verify that OIIA had submitted all of its monthly card statements with activity to OCFO and that the approving official had signed the card statements. We also reviewed 71 judgmentally selected purchase card transactions.
 - ◆ Approval of monthly purchase card statements – The Executive Officer, one of two approving officials, informed us that he does not sign the statements because there is only one line for a signature on the statements. He assumed that the line was for the cardholder.
 - For September 1999, 14 cards had balances. One statement was missing from OCFO files. None of the statements were signed by an approving official.
 - For March 2000, 16 cards had balances. All the statements were in OCFO files. None of the statements were signed by an approving official. In addition, seven were not signed by the cardholder.
 - ◆ Approval – We were told that the Director/Team Leader, Executive Officer and Assistant Secretary/Chief of Staff approved purchases. This OIIA pre-approval policy was not consistently followed based on the results of our review.
 - Director/Team Leader approved 55 out of 71 samples reviewed.
 - Executive Officer approved 69 out of 71 samples reviewed.
 - Assistant Secretary/Chief of Staff approved 42 out of 71 samples reviewed.
 - ◆ Documentation – Supporting documents such as invoices and receipts were missing for 20 transactions, one of which was also missing the office request form.
- TPDS Checks – We reviewed 50 randomly selected TPDS checks.
 - ◆ Documentation – The file for one of the TPDS checks was not available for review. Principal Office copies of checks were missing for six TPDS checks, which were employee reimbursements.
 - ◆ Compliance/Bids – As mentioned in the cover memorandum, we identified 14 transactions that were over \$2,500. There was no documentation to verify that six of these purchases were made with the solicitation of at least three oral bids or to justify a sole-source purchase.
 - ◆ Approval – Eight purchases had no documentation of preapproval by the Executive Officer.
 - ◆ Date Stamping – 37 invoices were not date stamped on receipt.
 - ◆ Compliance/Prompt Payment – As mentioned in the cover memorandum, we identified 11 invoices that appear to not have been paid timely.

	<ul style="list-style-type: none"> ◆ Compliance/Reimbursable Costs – Commuting costs were not deducted from two employee reimbursements for local travel nor was there an explanation of why such costs were not deducted. ● Safeguarding of Assets – While OIIA maintains a log for metro cards supplied to staff members, the cards are not numbered and the dollar balances are not recorded when cards are issued.
Information & Communications	<ul style="list-style-type: none"> ● Communication of Key Information – The Executive Officer stated that he was familiar with the Department’s Directive on <i>Commercial Credit Card Service</i> (C:FIM:6-102) dated March 12, 1990; however, the rest of the procurement staff that we interviewed were not familiar with the Directive.
Monitoring	<ul style="list-style-type: none"> ● On-going Monitoring – The supervisor of the individual with signature authority for TPDS checks does not perform periodic reviews of the EDCAPS reports on the checks issued by OIIA.