



U.S. Department of Agriculture
Office of Inspector General
Financial and IT Operations
Audit Report

SOME CHANGES WOULD FURTHER ENHANCE
PURCHASE CARD MANAGEMENT SYSTEM
INTERNAL CONTROLS



Report No.
50099-26-FM
August 2001



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL



Washington D.C. 20250

DATE: August 16, 2001

REPLY TO
ATTN OF: 50099-26-FM

SUBJECT: Some Changes Would Further Enhance Purchase Card Management
System Internal Controls

TO: Lou Gallegos
Assistant Secretary
for Administration

Patricia E. Healy
Acting Chief Financial Officer
Office of the Chief Financial Officer

This report presents the results of our audit of the U.S. Department of Agriculture's Purchase Card Management System. The Assistant Secretary for Administration and the Acting Chief Financial Officer responded to our draft report on July 27, 2001. In their response, they provided corrective actions that should correct the problems noted. Based upon the response, we agreed to management decision on Recommendations Nos. 1-4, 8-12, 14, and 18-22. We cannot agree to management decision on Recommendations Nos. 5-7, 13, and 15-17. For these recommendations we need additional information and/or time phased corrective action plans.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned, including the timeframes, on our recommendations where we have not reached management decision. Follow your agency's internal guidance to achieve final action. Please note that the regulation requires a management decision be reached on all findings and recommendations within 6 months from report issuance.

We appreciate the courtesies and cooperation extended to us during the audit.

/s/

RICHARD D. LONG
Assistant Inspector General
for Audit

EXECUTIVE SUMMARY

SOME CHANGES WOULD FURTHER ENHANCE PURCHASE CARD MANAGEMENT SYSTEM INTERNAL CONTROLS AUDIT REPORT NO. 50099-26-FM

RESULTS IN BRIEF

The audit was performed to ascertain whether the Department established and implemented effective controls over credit card and convenience check usage, and whether selected transactions were properly authorized and completed according to program policies and procedures.

Our review of a statistical sample of credit card and convenience check transactions disclosed no material problems with the transactions tested. Generally, the transactions were appropriately authorized for proper purposes, supported by required documentation, and accurately entered and reported in the Purchase Card Management System (PCMS). Although Departmental Administration had established sufficient internal controls for Purchase Card Program transactions, we found implementation of these controls by the agencies needed strengthening. Of particular concern, was the lack of implementation of the alert¹ and statistical sampling management oversight tools of PCMS by the agencies. In addition, we confirmed 5 of 10 judgmentally selected instances where Government employees exceeded their procurement authority by splitting purchase transaction's made to the same vendor into multiple transactions.

We found that two agencies had used the Purchase Card Program to improperly fund and establish imprest funds without the Department's approval. Although Departmental policy and regulations allow the use of purchase card and convenience checks for disaster, indemnity and other program payments under certain conditions, including obtaining prior written approval, we believe this practice exposed the Department to inherent internal control and financial risk. We further found that a large number of employee spot awards and emergency salary advances paid with convenience checks through the card program were not properly accounted for through the Department's personnel/payroll system.

¹ The alert system monitors the database for pre-established conditions, which may indicate potential abuse and notifies program coordinators by sending them electronic messages.

Agency managers and supervisors are not required to periodically review employee purchase card transactions. The Department and agency managers also have not effectively enforced cardholders to timely reconcile their transactions. Nearly 25 percent of fiscal year 2000 transactions were not timely reconciled. The Department has not effectively implemented the alert and statistical sampling PCMS subsystem oversight tools or implemented any other compensating controls over the Purchase Card Program. In addition, we found that cardholder accountability, internal controls over convenience check inventory and issuance operations need to be strengthened.

KEY RECOMMENDATIONS

We recommended that (1) the Chief Financial Officer assure no other agencies have improperly established or are maintaining imprest funds; and (2) require agencies found to have such funds to closeout these funds. We recommended that the Department discontinue allowing U.S. Department of Agriculture agencies to use the Purchase Card Program to disburse program benefits to participants without a comprehensive risk assessment being performed.

We also recommended that the Assistant Secretary for Administration establish controls to assure agency and local coordinators timely, and completely review designated system alerts, and all statistically selected transactions. We further recommended that immediate supervisors be required to periodically review purchases and reconciliations made by their cardholders until existing PCMS oversight tools are functioning effectively.

AGENCY RESPONSE

The Assistant Secretary for Administration (ASA) and Acting Chief Financial Officer (CFO) responded to the draft report on July 27, 2001. These officials generally concurred with the recommendations and provided corrective action plans to implement the recommendations. These officials did not agree with deactivating cardholders who do not timely reconcile their accounts or adding the performance standards of personnel relating performance elements to personnel responsibility for PCMS operations.

OIG POSITION

The actions taken by the ASA and acting CFO should further strengthen this program's operations. We continue to believe some actions are necessary to assure personnel fulfill their PCMS responsibilities.

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INTRODUCTION

BACKGROUND

The Purchase Card Management System (PCMS) was implemented beginning in fiscal year (FY) 1997 within the U.S. Department of Agriculture (USDA) to automate and manage purchase card and convenience check transactions. The PCMS also includes management oversight tools for use by USDA personnel and authorized non-government employees to manage government purchase card transactions. These include:

- Transactions/Accounting Screens – PCMS transaction accounting screens allow cardholders to review their transactions online, approve or dispute them, and assign accounting codes and other pertinent information.
- Cardholder Reports – Standard Reports are available to cardholders within PCMS for the management of their accounts (e.g., a list of all their transactions within a period).
- Alert System – Monitors the database for pre-established conditions, which may indicate potential abuse and notifies program coordinators by sending them electronic messages.
- Statistical Sampling System – PCMS includes a statistical sampling system that randomly selects transactions for review by Local Agency Program Coordinators (LAPC) to assure compliance with policies and procedures.

PCMS is an online relational database management system and resides at the Office of Chief Financial Officer/National Finance Center (OCFO)/(NFC) in New Orleans, Louisiana. For FY 2000, PCMS processed about \$500 million in purchase card transactions for approximately 22,000 cardholder accounts.

The contractor bank downloads purchase transaction data and purchase card master data to OCFO/NFC on a daily basis. OCFO/NFC is to make payments to the contractor bank for purchases billed according to the daily billing cycle. In 1998, USDA contracted with a different bank to provide financial services for the Purchase Card Program. Initially, this contractor bank's financial systems were not compatible with the OCFO/NFC financial and accounting payment systems causing a major

impediment to the overall implementation of PCMS and making timely payments to the contractor bank. For example, OCFO/NFC systems were not designed to make partial payments on invoices submitted by the contractor bank, and programming problems within OCFO/NFC caused further troubles. However, most of the problems have now been resolved.

Most cardholders are considered “micro purchasers” with a single purchase limit of \$2,500 or less. To have limits over this threshold, a cardholder must be a warranted procurement official². Cardholders are also given a monthly and single purchase limit to control purchases. Purchases can be made by either credit card or convenience check. The credit card is generally to be used for all purchases where the vendors will accept it. Convenience checks are, generally, to be used when the vendor will not or cannot (such as employee reimbursement for local travel) accept the credit card.

The Department Program Coordinator (DPC) is responsible for managing the USDA Purchase Card Program and establishing Agency Program Coordinators (APC). The APC’s are responsible for managing the program within each agency and establishing agency-unique purchase card policies and procedures, and conducting agency-wide oversight of the program. The LAPC is responsible for the day-to-day operations of the program at each site.

OBJECTIVES

Our audit objectives were to determine whether the Department designed and implemented effective controls over credit card and convenience check usage activities, and whether selected purchase transactions were properly authorized, completed, and recorded according to program policies and procedures.

SCOPE

This audit was conducted in accordance with Government auditing standards. We performed this audit at the OCFO, departmental administrative agencies, and at five selected agencies: Animal and Plant Health Inspection Service (APHIS), Agricultural Research Services (ARS), Foreign Agricultural Service (FAS), Forest Service (FS) and Natural Resources Conservation Service (NRCS) based primarily on their purchase activities. We evaluated controls over purchase card activities and reviewed selected transactions for propriety.

² A warranted procurement official is a USDA employee to whom contracting authority has been delegated by a duly authorized appointing official in accordance with Federal and USDA regulations. The warrant states contracting authority is delegated to an individual, including any limitations on that authority. Above the Micro-Purchase threshold, only warranted individuals can bind USDA contractually.

Our analysis of the PCMS database included purchase card transactions between October 1, 1998, and September 30, 2000. Specifically, we assessed the effectiveness of the PCMS alert and statistical sampling systems, accountability for convenience checks, reconciliations, and cardholder compliance with procurement regulations to determine whether appropriate internal controls were in place and functioning as prescribed.

We initially selected a random sample of 100 spot award transactions identified as not having a corresponding spot award record in the personnel/payroll system to determine why they were not shown in the system. The universe for our selection consisted of 7,523 transactions totaling about \$1.8 million made by Department agencies between October 1, 1998, and February 29, 2000. In addition, we selected a random sample of 50 spot award transactions paid with convenience checks in order to statistically project the review results to the universe of spot award transactions. The universe consisted of 23,505 spot award transactions totaling about \$5.6 million made by Department agencies for the period. (See Exhibit A.)

We selected a random sample of 400-purchase card transactions from four agencies, APHIS, ARS, FS, and NRCS. The universe consisted of 1,372,389 purchase card transactions with a value of \$533.3 million (absolute transaction amount) made between October 1, 1998, and February 29, 2000, and accepted into the PCMS, as of March 10, 2000. (See Exhibit C.) These four agencies represented about 92 percent of the total Purchase Card Program volume of \$577.7 million (absolute transaction amount) and 1,494,948 transactions for the period of our review. We tested these 400 transactions for compliance with Purchase Card Program requirements and whether these transaction records were recorded accurately in PCMS.

METHODOLOGY

To accomplish our audit objectives, we performed the following:

- Interviewed the members of the Procurement Modernization Team, APHIS, ARS, FS, and NRCS; APC's and LAPC's in Washington, DC to identify the applicable laws, regulations, program policies and procedures for administering the Purchase Card Program
- Interviewed responsible OCFO/NFC personnel in New Orleans, Louisiana to ascertain the operational policies and procedures governing the use of PCMS, what internal controls and system edits had been implemented within PCMS, and system edits had

been implemented within PCMS, and ascertain whether prior data compatibility problems with the contractor bank had been satisfactorily resolved.

- Interviewed responsible officials at the contractor bank in Norfolk, Virginia regarding their efforts in processing purchase card transactions.
- Conducted various computer analyses of purchase card transaction activities within the PCMS database using Discoverer query software and assessed the system's internal controls; identified transactions for detailed testing; and identified potentially high-risk transactions.
- Ascertained whether personnel/payroll system records agreed with spot cash awards and emergency salary advances paid to USDA employees by convenience checks through the Purchase Card Program.
- Obtained supporting documentation for the 400 statistically selected transactions, and evaluated the information provided for compliance with Purchase Card Program requirements.

FINDINGS AND RECOMMENDATIONS

CHAPTER 1	AGENCIES IMPROPERLY ESTABLISHED IMPREST FUNDS AND ARE PAYING PROGRAM BENEFITS USING CONVENIENCE CHECKS
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USDA agencies have used the Purchase Card Program to improperly establish imprest funds by negotiating convenience checks through domestic and foreign financial institutions for cash, and have used these convenience checks to make Federal benefit program payments, instead of using existing departmental and U.S. Treasury disbursing operations. As a result, established departmental and U.S. Treasury internal controls have been circumvented and USDA agencies have exposed themselves to additional financial risk.

FINDING NO. 1

FAS and APHIS DISREGARDED PURCHASE CARD PROGRAM TREASURY DEPARTMENT POLICIES

Our review of Purchase Card Program convenience check transactions disclosed that two agencies had used the purchase card program to improperly fund and establish imprest funds “off the books”³ by negotiating convenience checks through domestic and foreign financial institutions for cash. Departmental directives concerning

administration and elimination of imprest funds were not adhered to by agency officials involved. As a result, established departmental internal controls over imprest funds were circumvented and these agencies have unnecessarily exposed themselves to financial risk, and are operating in conflict with departmental policies on the use of convenience checks and imprest funds.

Departmental Regulations (DR) state that the Purchase Card Program is not to be used for cash advances⁴. In addition, DR 2250-1 requires agency heads to ensure that agency imprest funds are operated within the requirements of this regulation, the Treasury Manual of Procedures and Instructions for Cashiers, and NFC’s external Procedures Manual. The

³ Imprest funds are not accounted for through the U.S. Department of Agriculture’s National Finance Center or the Department of the Treasury.

⁴ DR 5013-4, Section 7b(1), dated July 23, 1996.

Department of Treasury has issued a policy directive⁵, which requires that all Federal agencies eliminate agency use of imprest funds by October 1, 2001, except where waived in limited circumstances. The Department is currently formulating its policies regarding its efforts to have USDA agencies eliminate their use of imprest funds.

- Foreign Agricultural Service (FAS). We found that the FAS established imprest funds in its offices located in embassies, consulates, and other locations in foreign countries to “reduce” transaction fees assessed by the Department of State in providing financial and accounting services to FAS foreign operations. The Department of State is responsible for providing certain financial services to FAS offices, including establishing and funding imprest funds and providing reimbursements for cash transactions by FAS employees. FAS officials advised us that they believe the transaction fees assessed by the Department of State are excessive.

Our analysis of convenience check transactions recorded in the PCMS database disclosed that for the period January 1, 1999, through August 3, 2000, FAS cardholders had negotiated at financial institutions nearly 300 convenience checks for “cash” totaling about \$150,000. FAS used the checks to establish/replenish imprest funds, or to obtain U.S. dollars or foreign currency to pay vendors that would not accept the credit card or convenience check.

We determined that FAS officials had submitted a request to the OCFO through the Director, Financial Management Division, and Farm Service Agency (FSA) to establish imprest funds in its foreign operations. In a letter, dated May 14, 1999, to FAS, from the Director, Financial Management Division, FSA, the request was denied on the basis that the Department’s position was clear on its intent to eliminate imprest funds and DR’s prohibited the use of credit cards and convenience checks for cash and/or travel advances.

We interviewed responsible FAS officials who acknowledged that they ignored the FSA disapproval and did not obtain OCFO approval to establish imprest funds. FAS established imprest funds, using convenience checks, in 51 foreign locations. FAS officials advised that cash on hand in the funds was to be limited to approximately \$500. In addition, FAS officials asserted that they

⁵ Imprest Fund Policy Statement dated November 9, 1999.

had instituted adequate internal controls over imprest operations such as: recording transactions, monthly reconciliations, monthly reporting, and periodic spot verifications by the FAS compliance review staff.

Our tests, however, found that some prescribed procedures by Treasury and the Department for operating imprest funds were not included in FAS' procedures. These included verifying cash payments, establishing controls to identify excessive fund balances, and performing quarterly cash verifications. FAS imprest fund procedures also did not address OCFO requirements directing the agency head to provide an annual imprest fund certification and supporting reports to the OCFO.

- Animal and Plant Health Inspection Service (APHIS). We also found that APHIS had begun to use the Purchase Card Program to improperly establish imprest funds "off the books," by writing convenience checks to agency employees and having them negotiate these checks through financial institutions for cash. In instructions to its field locations, APHIS staff were encouraged to obtain purchase cards and related convenience checks and take required steps to close out existing imprest funds with the OCFO/NFC.

The instructions provided that two individuals were to be accountable for the cash. Standard Form SF-1164, Claim for Reimbursement, was used to support the establishment and replenishment to the funds. The instructions further provided that the "change-making funds" were to be counted periodically, or at least annually. However, the instructions stated that no other forms or reports were necessary in maintaining these funds and internal controls and accountability were to be maintained at the local offices.

Our analysis of this guidance disclosed that many of the prescribed controls required by the Treasury and the Department for operating imprest funds were not included. The following control procedures were omitted: verifying cash payments, establishing controls to identify excessive fund balances, performing quarterly cash verifications, and annual audits. APHIS procedures also did not address the OCFO requirement directing the agency head to provide to the Chief Financial Officer (CFO) an annual certification and supporting records. Our audit also noted that for the one fund reviewed, it was primarily used to purchase goods from vendors rather just making change for fee collections. APHIS officials also

informed us that it has established imprest funds at foreign locations, and noted that the transaction fees established by Department of State to be excessive.

OCFO officials advised us that FAS and APHIS actions to establish imprest funds are not in accordance with the Department's policies and procedures regarding establishing and operating imprest funds. OCFO officials further advised us that FAS and APHIS should use the existing Department of State financial services, where available or claim reimbursement for cash transactions following existing departmental procedures. We concluded that FAS and APHIS officials had improperly established imprest funds, improperly used convenience checks to maintain and fund imprest funds "off the books," and issued checks to employees to obtain cash which circumvents DR's prohibiting the negotiation of checks for cash. In addition, these actions are in direct conflict with the Department of the Treasury⁶ and the Department's⁷ policy statements to eliminate imprest funds.

We transmitted our concerns and recommendations to the cited agencies, OCFO, and departmental Administration in two management alerts dated July 17 and September 19, 2000.

<p style="text-align: center;">RECOMMENDATIONS FOR THE ASSISTANT SECRETARY FOR ADMINISTRATION AND THE CHIEF FINANCIAL OFFICER</p>
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RECOMMENDATION NO. 1

Require the cited agencies to immediately discontinue use of imprest funds, and coordinate with them to provide an orderly closeout of these funds.

Agency Response

We concur with the recommendation. In a memorandum to Agency Heads dated February 14, 2001, the OCFO stated that all imprest funds must be eliminated by October 1, 2001, except where the need for an imprest fund is justified and the imprest fund is operated in compliance with the Treasury policy directive. The memorandum requested a certification that agency imprest funds are managed and operated in accordance with Treasury and USDA regulations, justification for each imprest fund that any agency intends to maintain after

⁶ Imprest Fund Policy Statement dated November 9, 1999.

⁷ Policy on the Reduction and Elimination of Imprest Funds dated August 1, 1997.

September 30, 2001, and an elimination plan for how agencies intend to meet the above requirements. By July 31, 2001, the OCFO will send a follow-up memorandum to the Chief Financial Officers (CFO) of the Marketing Regulatory Programs (MRP) and the Farm and Foreign Agricultural Services (FFAS) requesting a certification within 30 days stating that they have discontinued the imprest funds set up and reimbursed by convenience checks or that they have established a plan to discontinue the imprest funds by September 30, 2001.

OIG Position

We concur with the management decision to this recommendation.

RECOMMENDATION NO. 2

Ensure a full, independent reconciliation is made of all cash transactions made through these imprest funds.

Agency Response

We concur with the recommendation. In the memorandum, mentioned in the management response to Recommendation Number 1, OCFO will request that the MRP and FFAS certifications include information that a full independent reconciliation was made of all cash transactions made through these imprest funds by September 30, 2001 (prior to closing the funds).

OIG Position

We concur with the management decision to this recommendation.

RECOMMENDATION NO. 3

Determine whether other USDA agencies have improperly established imprest funds. Require any agencies found to have improperly established imprest funds to immediately close them out, and ensure full independent reconciliations are made of all transactions made through these funds.

Agency Response

We concur with the recommendation. By July 31, 2001, the OCFO will send a follow-up memorandum to the CFO Advisory Council requesting a certification within 30 days stating whether or not they have imprest funds set up and reimbursed by convenience checks. Any agency found to have imprest funds would be required to establish a plan to discontinue

the imprest funds by September 30, 2001, including ensuring that full, independent reconciliations are made.

OIG Position

We concur with the management decision to this recommendation.

RECOMMENDATION NO. 4

Revise DR's so they more clearly prohibit the use of convenience checks to establish imprest funds.

Agency Response

We concur with the recommendation. The Office of Procurement and Property Management (OPPM) agrees to modify DR 5013-6 to specifically prohibit the use of convenience checks to establish and/or replenish imprest funds. The change to DR 5013-6 shall be made no later than the 4th quarter of FY 2001. OCFO will revise DR 2250-001, by no later than the end of the 4th quarter of FY 2001 as well, to clearly prohibit the use of convenience checks to establish imprest funds.

OIG Position

We concur with the management decision to this recommendation.

FINDING NO. 2

**APHIS AND NRCS USED
CONVENIENCE CHECKS TO MAKE
INDEMNITY AND DISASTER
PAYMENTS**

Two agencies have used the Purchase Card Program to make disaster, indemnity, and other program payments to producers by directly issuing convenience checks instead of using existing departmental and U.S. Treasury disbursing operations to make the payments. While these payments were made prior to establishing the requirement that prior written

approval be granted, we believe that the practice has exposed the agencies to additional inherent internal control and financial risks. We estimate that APHIS and NRCS made over \$64.4 million in indemnity and disaster payments through the Purchase Card Program between October 1, 1998, and February 29, 2000, and question the appropriateness of using convenience checks to make program payments.

DR 5013-6, dated February 22, 2000, provides, in part, that the Office of Procurement Property and Emergency Preparedness (OPPEP) Director may authorize the use of the Purchase Card Program for disaster,

indemnity, and other program payments. Agencies cannot use the purchase card and/or convenience checks for program payments without prior approval. To obtain approval, the agency will forward a decision memorandum addressing among other things the; rationale for using the purchase card and/or convenience checks to make payments; anticipated average and maximum payment amounts, as well as, the estimated total of all payments to be issued; method to be used to document program payments and internal controls to be implemented. Initially, the DR and Purchase Card Program Procedures did not address using the purchase card and convenience checks to make program payments. Secretary Memorandum 1010-4, Restructuring of Departmental Administration, provides, in part, that the Director of OPPEP is responsible for disaster management and coordination of emergency programs. However, this memorandum does not discuss what the Director's authorities are, if any, to use procurement mechanisms such as, the Purchase Card Program to directly disburse program benefits to recipients. In addition, departmental policies do not require approval and/or concurrence by CFO or other high level departmental officials, such as the Deputy Secretary.

We identified from our statistical sample of 400 purchase card and convenience check transactions totaling about \$10.6 million, 50 convenience check transactions made by two agencies totaling about \$8.5 million, that were made for program payments. Details follow:

- We found 49 transactions totaling about \$8.4 million, where APHIS cardholders used convenience checks to directly indemnify swine producers under its Accelerated Pseudo-Rabies Eradication Program. Since the majority of payments were made before DR 5013-6 was effective, APHIS had not obtained formal written approval from the Department to use the Purchase Card Program for disbursing indemnity payments. In addition, we did not find where APHIS had completed a risk assessment to identify relevant risks associated with disbursing program payments using convenience checks such as, increased check issuance amounts, separation of duties, additional accounting and budget controls needed, etc. To illustrate, the normal maximum limit amount set for procurement activities is \$2,500 per transaction. However, we noted that indemnity payments under this program have exceeded \$800,000. In addition, we noted that none of the controls established over its check writing operations by the FSA, which disburses funds outside of the U.S. Treasury, have been identified or implemented. These include cosigning checks, separating duties, accounting for used and unused checks, etc. Therefore, risk assessments are necessary to measure inherent and control risks.

According to APHIS officials, the agency chose to make these indemnity payments using convenience checks rather than utilizing OCFO/NFC for making the disbursements because APHIS did not believe it could expedite making these payments to the producers under the circumstances. In addition, APHIS did not attempt to use another agency, such as the FSA, an existing payment operation that already has substantial existing internal control processes in place.

During our review, we learned that APHIS has submitted two other requests and received Departmental approval to use convenience checks to pay indemnity claims to select sheep owners to depopulate three diseased flocks and for its Bovine Tuberculosis Eradication Program payments in Michigan and other States. The anticipated payments under the programs were estimated at about \$4 million, and \$250,000, respectively. In their requests, APHIS advised that each claim would be documented on Appraisal Indemnity Claim Forms completed by APHIS personnel and signed by the livestock owners and the area Veterinarian-in-Charge. APHIS, PCMS, LAPC's would provide program oversight by monitoring transactions using the PCMS alert system, providing management information from PCMS, utilizing data query and conducting statistical sampling reviews. APHIS personnel were to monitor OCFO/NFC reports and reconcile them to agency records to ensure amounts paid were correct and properly accounted for. However, we found that the cited PCMS management oversight tools were not being effectively used by the agency (see Findings Nos. 4, 5, and 6).

- We found one transaction for \$87,498 where NRCS used a convenience check in order to expedite disaster payments to producers arising from an ice storm that damaged poultry facilities. In this case, a NRCS cardholder issued the convenience check to the conservation district and thereby, provided the district with the necessary funds to enable it to disburse individual payments to the producers according to the terms of their respective contracts with the district. NRCS officials advised us the departmental approval was not obtained for this Purchase Card Program transaction because DR's and instructions at the time did not prohibit making disaster or other program payments under the Purchase Card Program and it was not until the February 22, 2000, revision of DR 5013-6 that formal written approval was required. From our database analysis, there are indications that NRCS has intermittently used convenience checks to pay other program benefits.

In its requests, APHIS stated that the normal process for paying indemnity claims and other program payments by APHIS is processing them through the OCFO/NFC Miscellaneous Payments System, which requires the subsequent issuance of a Treasury check or by Electronic Funds Transfer (EFT) Fedwire utilizing NFC's Vendor Express (this process takes a minimum of 7-10 days). In special circumstances, agencies can request the U.S. Treasury to wire transfer funds to the payee's bank within 48 hours. In this case, APHIS believed the purchase card convenience check writing capability allowed it to issue disaster indemnity and other program payments immediately to the producer.

However, agencies can expedite processing payments through the OCFO/NFC by submitting an electronic "payment voucher" which results in the issuance of a Treasury check in approximately 6 days, or an EFT within 1 day. Therefore, we question APHIS' assertion that processing payment requests through the OCFO/NFC adversely impacts its ability to timely issue disaster, indemnity and other program payments to recipients.

Internal controls over the Department's disbursing operations are unnecessarily placed at risk by manually issuing payments through convenience checks. By using convenience checks to disburse disaster, indemnity and other program payments, agencies assume additional financial risk and internal control responsibilities regarding those matters previously handled by departmental and U.S. Treasury disbursing operations (e.g. required administrative offsets may not be accomplished against those program participants who owe outstanding debts to the Federal government, etc.).

Our review has disclosed that established PCMS controls are not being effectively utilized to identify transaction errors and supervisory management oversight needs to be strengthened. We have found that a significant number of purchase card transactions are not being timely reconciled (see Finding No. 4 for further details). In addition, we have found that use of the alert and statistical sampling management oversight tools of the PCMS is lacking (see Finding Nos. 5 and 6). These conditions raise doubts about APHIS assertions that adequate internal controls over these indemnity payments will be provided. Where agencies utilized the Purchase Card Program convenience checks to disburse employee spot awards and emergency salary advances, and accounted for these transactions separately through the OCFO/NFC accounting systems, we found these system records did not reflect or accurately include these payments (see Finding No. 3). Similar conditions may be experienced in accounting for these program payments as well.

Because of the aforementioned internal control weaknesses and the fact that program participants could expeditiously receive their benefits through the Department's and U.S. Treasury's established disbursing operations, purchase card convenience checks should not be utilized for program payment purposes without a comprehensive risk assessment being performed. The Purchase Card Program should be limited to only the acquisition of goods and services within specified guidelines. It should not be used to disburse payments for recurring programs or on a continuing basis. From our review results and discussions with agency personnel, agency officials plan to continue to use convenience checks to disburse program payments. When unique situations occur that may warrant immediate program disbursements, a comprehensive risk assessment must be performed to assure that adequate controls are in place to reduce risk to acceptable levels, all government-wide and departmental financial management requirements are met, or appropriate waivers by CFO and other high level officials are obtained.

RECOMMENDATIONS FOR THE ASSISTANT SECRETARY FOR ADMINISTRATION AND THE CHIEF FINANCIAL OFFICER

RECOMMENDATION NO. 5

Conduct a comprehensive risk assessment in conjunction with the CFO to determine whether USDA agencies should use the Purchase Card Program to disburse program benefits to participants. Ensure Purchase Card Program managers periodically review the PCMS database to identify convenience checks issued by USDA agencies for program payment purposes, and ensure they are appropriately approved by responsible departmental officials and prescribed requirements are being observed if it is determined that they will be used in the future.

Agency Response

OPPM instituted the program payment capability using convenience checks in the Purchase Card Program at the request of several USDA agencies in order to provide the fastest possible "emergency" payments. Comprehensive procedures for requesting this authority are contained in Departmental Regulation 5013-6, paragraph 19. However, we note that this process is increasingly being requested for "routine" program payments as opposed to payments in genuine emergencies. We anticipate making a decision on whether or not to discontinue the use of convenience checks for program payments by the end of FY 2001.

OIG Position

We are unable to agree with management decision on this matter. Once a decision is made, as noted above, we will need a time phased corrective action plan.

RECOMMENDATION NO. 6

Ensure comprehensive risk assessments are always completed before approving requests to use the Purchase Card Program to disburse program benefits in the future.

Assure required risk assessments demonstrate adequate controls are in place to reduce risks to acceptable levels and Department financial management requirements are met or ensure waivers from these requirements are obtained from the CFO or other high level Department officials where warranted.

Agency Response

The ASA and Acting CFO advised they are considering discontinuing use of convenience checks for program payments as noted in their reply to Recommendation No. 5.

OIG Position

We are unable to agree with management decision on this matter. Once a decision is made, as noted above, we will need a time phased corrective action plan.

CHAPTER 2**PROCEDURES FOR RECORDING SPOT CASH AWARDS AND EMERGENCY SALARY PAYMENTS USING THE CONVENIENCE CHECKS WERE NOT FOLLOWED BY AGENCIES.****FINDING NO. 3**

We found the Department's personnel/payroll system records frequently did not reflect or accurately include spot awards and emergency salary payments issued to employees by convenience checks through the Purchase Card Program. This problem occurred because agencies have not adhered to prescribed internal control procedures over check issuance activities or implemented additional compensating controls relating to these transactions; and the PCMS is not fully integrated with the personnel/payroll system. As a result, a large number of spot awards, and emergency salary payments made through the Purchase Card Program, were not properly accounted for through the personnel/payroll system. In addition, the Department has not complied with Sections 3402 and 6722 of the Internal Revenue Code⁸, concerning tax withholding and information reporting requirements. This may have resulted in some affected personnel understating their Federal and State income tax liabilities. In addition, duplicate and erroneous payments to employees have been made in some instances. We noted where payments made during the period October 1, 1998, through February 29, 2000, totaling about \$693,000, failed either to be recorded or correctly recorded in the personnel/payroll system.

DR's authorize the use of convenience checks to issue spot awards up to \$500, and emergency salary payments⁹. According to the PCMS/Micro-Purchase Guide, agencies must assure that all awards and emergency salary advances are entered in the personnel/payroll system, and that awards and emergency salary advances must be made in accordance with agency and Department personnel regulations. The guide further emphasizes the importance of entering emergency salary payments into the personnel/payroll system and Time and Attendance System to "prevent duplicate payments¹⁰."

To ascertain the extent of the problems relating to the spot awards and salary advances, we performed a database analysis of over 1.5 million purchase card transactions totaling about \$577.7 million for the period October 1, 1998, through February 29, 2000. We identified in PCMS

⁸ 26 U.S.C. §§ 3402 and 6722.

⁹ DR 5013-6, Section 15(b) 3, dated February 22, 2000.

¹⁰ PCMS/Micro-Purchase Guide, Section III, page 10, dated October 29, 1999.

approximately 23,500 convenience checks totaling \$5.6 million that were issued during this period by using four budget object codes identified to be the most commonly used codes to record spot cash awards. In addition, we identified in PCMS 411 convenience checks totaling \$140,000, issued between October 1, 1998, and February 29, 2000, for emergency salary advances (budget object code of 1405).

Spot Awards. We selected random samples of 150 spot award transactions paid through the Purchase Card Program and found the following:

- Fifty spot award transactions totaling \$10,750 were not recorded in the personnel/payroll system. As a result, tax withholdings and information reported to the Internal Revenue Service (IRS) for these employees were incorrect.
- One transaction for \$100 was duplicated because it was incorrectly coded in the personnel/payroll system causing the OCFO/NFC to generate an additional payment for the same award. The incorrect coding also resulted in no tax withholdings or income reported to the IRS for the award paid by the convenience check because there was no record of it in the personnel/payroll system.
- Five transactions totaling \$1,375 were not included in the employees' earnings because the transactions were incorrectly coded in the personnel/payroll system. This resulted in no tax withholdings and inaccurate income reported to the IRS.
- Forty-seven transactions contained employee Social Security Number (SSN) input errors in PCMS. In addition, we determined that the "tax identification" fields for PCMS and the personnel/payroll system have different field lengths, 20 characters for PCMS and 9 characters for the personnel/payroll system. Therefore, there is no effective way to match this information for reconciliation purposes or data retrieval. In addition, we found the "tax identification" field in PCMS was frequently either (1) left blank by the cardholder, (2) contained incorrect SSNs, dashes, or identical digits (e.g. nine, nine, nine, etc.), or (3) the Department's tax identification (ID) was entered instead of the employee's SSN.
- Multiple budget object codes were used to record spot cash awards and were inconsistently applied. Therefore, there is no effective way to use this information for reconciliation purposes or data retrieval. DR 5013-6 does not address which budget object codes cardholders are to use for spot cash awards.

Salary Advances. We selected a random sample of 25 out of 411 salary advances issued through the Purchase Card Program to review. Our review disclosed that one employee received a duplicate payment of \$1,200.

We transmitted our concerns and recommendations to the OCFO and Departmental Administration in a Management Alert, dated July 17, 2000. Agency officials agreed the existence of the cited conditions and advised us they planned to take corrective actions to resolve them.

RECOMMENDATIONS FOR THE ASSISTANT SECRETARY FOR ADMINISTRATION AND THE CHIEF FINANCIAL OFFICER

RECOMMENDATION NO. 7

Develop an automated interface between the PCMS and personnel/payroll systems to ensure spot cash awards and salary advances issued through the Purchase Card Program are promptly and accurately entered in the personnel/ payroll system. Establish appropriate accounting controls to assure transactions are suspended if they are not processed correctly.

Agency Response

OPPM established the spot cash award functionality with the Purchase Card Management System at the behest of the Human Resources (HR) community. The idea was to provide the ability for managers to continue to confer awards “on the spot” in spite of the significant reduction in the number of imprest fund activities across USDA. Similar issues drove the request for PCMS to handle emergency salary payments.

However, we agree that despite clear policy addressing how these transactions are to be processed, agencies have encountered significant difficulty in ensuring that spot cash awards are reconciled properly to the correct budget object classification code and that the proper personnel paperwork (AD form 287-2) is correctly filled out and forwarded in a timely manner to HR offices for processing. The same types of problems have occurred with emergency salary payments. OPPM, in consultation with the Office Of Human Resource Management (OHRM) and the OCFO has therefore decided to terminate the use of the Purchase Card Program for spot cash awards effective September 28, 2001. OHRM is working with the National Finance Center (NFC) to implement a process in the Payroll/Personnel Remote Entry and the Entry, Processing, Inquiry and Correction Systems to allow a front-end user to enter an authority code of “Pay.” This action will send a record to the Manual Payments System,

and a spot cash award check should be issued within 24 hours. Since the Manual Payment System interfaces with the payroll/personnel system, all appropriate payroll/personnel updates will be made to the check recipient's payroll record. This new process is expected to be operational by the end of Fiscal Year (FY) 2001.

Once this new process comes on-line, we will phase out the use of PCMS for spot cash awards. OPPM is now developing the policy changes for the convenience check side of these issues with a September 28, 2001 cut-off date in mind. After that date, USDA policy would prohibit the use of convenience checks for spot cash awards. Use of the convenience checks for emergency salary payments would continue until the plan developed by OHRM is implemented.

In terms of the emergency salary payment issue, OHRM is working to identify alternatives to the use of convenience checks and will provide a plan, developed in consultation with OCFO and OPPM, to OIG under separate cover by no later than September 28, 2001 addressing this situation.

OIG Position

We agree with the actions taken for spot awards. However, before we can agree with management decision, we need a plan to address the emergency salary payment issue.

RECOMMENDATION NO. 8

Instruct the agencies to correct the personnel/payroll records for those spot cash award and salary advance transactions that were not entered into personnel/payroll system, or were entered into the personnel/payroll system in error and to recover any overpayments to affected employees for our sample.

Agency Response

OPPM is providing monthly reports to OHRM on spot cash awards from January 2000 forward. In turn, OHRM is providing this information to agency HR offices for the use in corrective actions. Reports on emergency salary payments will be similarly provided. These reports are not limited to the OIG sample. We believe it would be impractical to correct spot cash award and salary advance information prior to January 2000 due to the complexity and cost involved in identifying and acting upon any erroneous actions. OHRM believes that the clean up of the payroll/personnel records from January 2000 forward has been completed and that only recent transactions are being processed at this time.

OIG Position

We concur with the management decision to this recommendation.

RECOMMENDATION NO. 9

Instruct the agencies to research the remaining purchase card transactions to ensure each one has been correctly recorded into the personnel/payroll system and any overpayments are recovered from affected employees where appropriate.

Agency Response

As noted in the management response to finding 3, recommendation 8, OPPM is providing monthly reports to OHRM that they, in turn, provide to agency HR offices for their use in ensuring spot cash award transactions using convenience checks have been properly entered into the personnel/payroll system and that any overpayments from FY 2000 forward are recovered. Use of convenience checks for spot cash awards and emergency salary payments, as noted in the response to finding 3, recommendation 7, is being discontinued effective September 28, 2001.

OIG Position

We concur with the management decision to this recommendation.

RECOMMENDATION NO. 10

Instruct the agencies to periodically review purchase card program spot award and emergency salary transactions to ensure that the transactions have been properly recorded in the personnel/payroll system until the PCMS and personnel/payroll system are integrated or adequate interim internal controls are in place. Further, instruct the agencies to provide the results of their periodic review to the Department.

Agency Response

As noted above, we will be discontinuing the use of convenience checks for spot cash awards. OPPM continues to provide monthly reports to OHRM to assist the agencies in ensuring these actions are promptly and timely entered into the Payroll/Personnel System. Use of convenience checks for spot cash awards and emergency salary payments, as noted in the response to finding 3, recommendation 7, is being discontinued effective September 28, 2001.

OIG Position

We concur with the management decision to this recommendation.

RECOMMENDATION NO. 11

Establish single budget object codes to be used by all agencies for spot cash awards and salary advances to facilitate reconciliation activities in the future.

Agency Response

As we are discontinuing the use of convenience checks for spot cash awards and emergency salary payments effective September 28, 2001, there is no need to take action on this recommendation.

OIG Position

We concur with the management decision to this recommendation.

RECOMMENDATION NO. 12

Revise the "Tax Identification Number" field in PCMS to be consistent with those in the personnel/payroll system and assure effective system edits are implemented.

Agency Response

We concur with the recommendation. This correction was made with the release of PCMS version 4.0 in FY 2000. The size of the Tax ID No (TIN) field on the card transaction screen was changed to only accept 9 characters instead of 10. System edits were added to ensure the user does not enter erroneous TIN's like '000000000' thru '999999999' and to ensure all characters entered are numeric.

OIG Position

We concur with the management decision to this recommendation.

Purchase Card Program Managers need to strengthen and improve internal controls over certain purchase card operations and better utilize PCMS automated system oversight tools. We found (1) purchase card transactions and reconciliation's are not being periodically reviewed as required by procedures for propriety; (2) cardholders are not timely reconciling their individual purchase card transactions in PCMS; (3) the management oversight tools within the PCMS for alerts and statistical sample audits are not effectively used by the Department and agency program managers; and (4) additional controls are needed over the accountability, custody, and control over convenience checks held by cardholders. As a result, the Department has reduced assurance that cardholders are complying with departmental and procurement regulations and the program is subject to increased risk relating to convenience checks issuance activities for a program approaching \$500 million in annual purchases.

General Accounting Office (GAO) standards for internal control in the government provide, in part, that key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions and handling any related assets. No one individual should control all key aspects of a transaction or event¹¹.

FINDING NO. 4

CONTROLS NEED TO BE STRENGTHENED TO ENSURE TIMELY RECONCILIATION OF CARD TRANSACTIONS

Our review disclosed that 25 percent of purchase card transactions in FY 2000 were not timely reconciled. This occurred because the Department has not developed effective controls to ensure that cardholders timely reconcile their individual transactions. As a result, the dispute rights¹² on about 12 percent or \$54 million in annual credit card

transactions are unnecessarily jeopardized and reports showing transaction accounting information are inaccurate and/or incomplete. Furthermore, this situation precludes the Department from completely

¹¹ Publication "Standards for Internal Control in the Federal government", GAO dated November 1999 (GAO/AMID-00-21.3.1)

¹² Section C.35.8 of the GSA SmartPay Master Contract provides that the agency is responsible for reporting any items in dispute within 60 calendar days of the receipt of the invoice. A transaction dispute is disagreement between the cardholder or account holder and the merchant with respect to a transaction.

complying with payment information reporting requirements of the IRS¹³. DR's states that it is USDA policy for cardholders to reconcile their accounts no later than 30 calendar days after a transaction appears in PCMS, absent extenuating circumstances. Failure to timely and accurately reconcile shall constitute grounds for management to revoke purchase card and convenience check privileges and possible disciplinary action¹⁴.

The APC/LAPC Purchase Card Program Guide requires APC's to conduct agency-wide oversight of the Purchase Card Program, review program compliance, and file retention. LAPC duties include reconciling accounts when purchases have not been timely reconciled by the cardholder, reconciling "trailing" transactions after a cardholder account is closed and reconciling purchases made by personnel located at remote sites who provides for disciplinary actions for failing on a consistent basis to reconcile transactions in PCMS. The penalty for the first offense is a verbal warning from the LAPC and for the second offense; the cardholder could receive a written warning or a loss of purchase card privileges. The PCMS/Micro-Purchase Guide for cardholders lists timely reconciliation as a cardholder responsibility and states that cardholders are to reconcile their transactions at least once a month in PCMS. In addition, there is no requirement in either DR 5013-6 or these cited guides that Purchase Card Program responsibilities should be incorporated into APC, LAPC and cardholder performance standards.

We analyzed FY 2000 purchase card transactions in PCMS to determine the timeliness of reconciliation's for these transactions by cardholders. As of January 7, 2001, our analysis showed the following:

CATEGORY	NO. OF ACCOUNTS	NO. OF TRANSACTIONS	PERCENTAGE OF TRANSACTIONS	TRANSACTION AMOUNTS
Reconciled within 30 days	18,564	1,029,140	74.84%	\$375,411,996
Reconciled in 31 to 60 days	15,257	181,994	13.24%	\$64,034,112
Reconciled after 60 days	11,598	130,341	9.48%	\$41,395,347
Unreconciled	4,582	33,568	2.44%	\$12,601,082
TOTALS		1,375,043	100.00%	\$493,442,537.00

¹³ 26 USC Section 6041 (a) requires a statement (1099-MISC) be furnished to the payee no later than January 31 of the year following the calendar year for which the return was required to be made.

¹⁴ DR 5013-6 Sec. 6(j), dated February 22, 2000

In addition, we identified about 6,000 transactions from FY 1999 activity that were unreconciled as of January 7, 2001. These transactions totaled about \$1.4 million and involved about 550 cardholder accounts.

We believe that additional automated controls and increased supervisory oversights will contribute to lowering the Department's high number of untimely-reconciled purchases. It is critical that all purchase check transactions be reconciled within a maximum of 60 days to preserve the governments dispute rights for errors or faulty goods or services. In addition, we believe all convenience checks written in the preceding calendar year should be reconciled by the end of January to ensure that the Department can comply with IRS informational reporting requirements (Form 1099).

Recommendations addressing this finding can be found at the end of Chapter 3.

FINDING NO. 5
THE DEPARTMENT HAS NOT
EFFECTIVELY IMPLEMENTED
ALERTS

The Department has not effectively implemented the alert subsystem of PCMS, or implemented other similar compensating controls. This occurred because the Department Program Managers have not (1) provided any guidance or training to Agency and/or local program coordinators on use of

the system; (2) established specific timeframes for reviewers to resolve and respond to alert messages; and (3) established a mechanism to collect, evaluate, and quantify the results and effectiveness of individual alerts. As a result, the Department has reduced assurance that errors and abuse are promptly detected and that cardholders are complying with purchase card and procurement regulations.

The PCMS contains an alert system that monitors the database for pre-established conditions, which may indicate potential abuse by cardholders and notifies agency and local coordinators by sending them system generated electronic messages. The coordinators are to periodically access their alert messages in PCMS and review the details for questionable transactions. Cardholders are to be contacted, if necessary, to verify any discrepancies or to provide any additional information in order to resolve individual alert messages. In order, to close out alert messages, reviewers must change the message status to read and explain any necessary details to resolve the alerts. DR's¹⁵ state that

¹⁵ DR 5013-6(1) b dated February 22, 2000.

agency and local coordinators are to regularly monitor and follow-up on alert messages to provide oversight of cardholder purchases and frequency of their transaction reconciliations.

Our review of the alerts in the PCMS database for FY 1999 and 2000, disclosed that only about 29,600 out of 50,500 alerts had been read as of January 9, 2001. Of the approximately 29,600 alerts read, only about 6,100 contained responses. Without policies and procedures that will ensure that agency and local coordinators review and properly resolve those alerts provided to them, the Department cannot effectively evaluate their usefulness and make decisions in regard to revising, adding or eliminating ineffective alerts. The following table shows a break down of alert conditions generated by PCMS and their status:

ALERT DESCRIPTION	ALERTS REVIEWED	ALERTS NOT REVIEWED	TOTAL ALERTS
Spending limit changed to greater than \$50,000	56	39	95
Disputed transaction not resolved within 45 days	1,404	410	1,814
Disputed transaction not resolved within 90 days	1,333	481	1,814
Invalid Standard Industrial Code (SIC)	8,396	8,728	17,124
Profile accounting changed more than twice a month	11,114	6,175	17,289
Purchase made on Holiday	6,893	4,363	11,256
Single purchase limit increased above \$2,500	38	11	49
Transaction amount not properly allocated for accounting purpose.	5	3	8
Charges were made to Product Codes 26 and 27 for aviation fuel	352	707	1,059
Enter license number in property	0	12	12
TOTALS	29,591	20,929	50,520

Department Program Managers said they have received comments from coordinators that the message system within PCMS is slow and does not automatically notify them when they have alerts on file. In addition, the coordinators have complained that many of the designed alert conditions do not provide useful information and generate too many alerts that do not represent true error or abuse situations. In response to these complaints, Department Program Managers advised that many of the alert messages have been discontinued, such as, purchases made on holiday, unresolved transaction disputes, etc.

We believe that in order for the Department to make a decision regarding the validity and effectiveness of individual alerts, it must obtain complete information regarding the resolution of existing alerts in order to properly

evaluate them. Currently, only 59 percent of alerts have been read and only 12 percent of these messages have apparently been satisfactorily resolved, i.e. contain comments.

Recommendations addressing this finding can be found at the end of Chapter 3.

FINDING NO. 6

THE DEPARTMENT HAS NOT EFFECTIVELY IMPLEMENTED STATISTICAL REVIEW OF PCMS TRANSACTIONS

The Department has not effectively implemented reviews of statistically sampled transactions, a key internal control process of the PCMS. This occurred because the Department Purchase Card Program Managers have not (1) provided any guidance or training on performing these statistical sample transactions reviews; (2) established

any specific timeframes for responding to and completing the statistical transaction reviews; and (3) established a mechanism to quantify, evaluate, and report on the results of these statistical reviews. As a result, the Department has reduced assurance that fraud, waste, and abuse is kept to a minimum and that cardholders are complying with departmental and procurement regulations.

The PCMS includes a statistical sampling system that randomly selects transactions for review by LAPC's to assure cardholder compliance with policies and procedures. The system provides messages for specified transactions by answering a set of questions about them. Questions include, in part, whether the transaction was supported by valid documentation, the merchant's tax identification number or employee SSN was correct, accounting and budget object codes were proper and accurate, etc. For any questions that cannot be answered, LAPC's are to provide explanations in the comments field of the messages. In order to close out statistical sample messages, LAPC's must change each message status as read, answer each individual question or provide explanations for any questions that cannot be answered.

Our review of program regulations and instructions, including the APC/LAPC PCMS User's Guide disclosed that although reviews of statistically sampled transactions are to be completed and agency and local coordinators are to regularly monitor and follow up statistical sampling features of PCMS, these policies and procedures do not specify timeframes for completing these reviews, or follow up by program managers to ensure they are timely accomplished. In addition, we did not note any process or procedures for compiling the results of these reviews and/or evaluating and reporting on the results of these reviews by departmental program managers.

As of January 9, 2001, only 88 out of 2,217 transactions selected for audit in FY 2000 have been completed by local coordinators. Agency and local coordinators contacted during our review informed us that they had not completed reviews of these statistically sampled transactions because of problems they have experienced with the PCMS message system, such as, the system's slow response time and it containing an excessive number of messages to answer.

Although, DR 5013-6 provides that Department, agency and local program coordinators are to monitor purchase card transactions through PCMS' alert system, statistical sampling, or the Discoverer query tool software, the aforementioned findings demonstrate that these oversight tools are not being fully utilized by Departmental or agency oversight personnel (also see Finding Nos. 4, 5, and 6). Cardholders have the authority to make purchases without management approval or without any formal request. Essentially, the cardholder has complete control over the transactions from initiation of a purchase to reconciliation of the transaction without any supervisory review or approval being required or supervisory oversight being exercised now.

We believe this situation increases the potential for cardholders to make unauthorized purchases without detection. For example, we recently learned that a FS employee was found to have used his government issued purchase card for personal use. The OIG investigation of this employee's purchase activities disclosed that from December 24, 1998, through November 8, 1999, the employee used the purchase card for personal use totaling \$23,083. The employee used the card to purchase food, clothing, utilities, telephone, gas, and parts for computers. This employee also had extensive unrecognized purchases for the period October 8, 1998, through September 29, 1999. This example, illustrates what can happen when only one individual authorizes, processes, reviews, and reconciles purchased transactions. Without effective and timely supervisory oversight, employee wrongdoing can occur and may go undetected. Therefore, we believe the Department needs to require agency managers and/or purchase cardholder's immediate supervisors to periodically review their cardholders transactions utilizing the PCMS until other existing PCMS oversight tools are being effectively utilized.

RECOMMENDATIONS FOR THE ASSISTANT SECRETARY FOR ADMINISTRATION AND THE CHIEF FINANCIAL OFFICER

RECOMMENDATION NO. 13

Deactivate cardholder accounts with transactions in an unapproved status for more

that 60 days until transaction reconciliations are brought and maintained current. Revise Departmental Regulations and Purchase Card Program instructions accordingly.

Agency Response

Given the extenuating circumstances often faced by field personnel (fires and other natural disasters) as well as employee issues that may affect their ability to reconcile (extended illness, birth of a child, etc.), we do not agree with this recommendation. These employees may have transactions from purchases made prior to their absence which appears in PCMS after their departure which require reconciliation. This is why current purchase card policy does not mandate a hard and fast date for deactivating accounts, and instead relies on local management officials and PCMS managers to make the call as to when it is appropriate to deactivate an account (see DR5013-6, section 6, paragraph j) due to a failure to timely reconcile. Current policy requires transactions to be reconciled within 30 days from when they appear in PCMS, absent extenuating circumstances (and any special year-end deadlines). We recommend this procedure remain unchanged.

OIG Position

We do not agree with management decision on this recommendation. Because of the number of delinquent accounts some additional actions are necessary.

RECOMMENDATION NO. 14

Ensure all convenience check transactions for the preceding year are immediately reconciled in PCMS. Establish a cutoff date for reconciling all convenience check transactions at the end of each calendar year to ensure timely compliance with IRS payment reporting requirements.

Agency Response

We concur with this recommendation, with the exception of the word "immediate." We will issue a PCMS bulletin board message reminding cardholders to keep their reconciliations current by no later than August 17, 2001. In terms of deadlines, it appears 2 are actually required. The first is for fiscal year end (for fiscal year-end closing); the second for calendar year end (when W-2s, 1099, and other tax-related information is generated). OPPM will issue policy by no later than August 31, 2001 indicating the need for cardholders to have all their

unreconciled transactions visible on the PCMS card transactions screen reconciled in accordance with agency procedures at fiscal year end, or where no agency policy exists, by no later than 30 days after the end of the fiscal year.

OIG Position

We concur with the management decision to this recommendation.

RECOMMENDATION NO. 15

Require agencies to incorporate into performance standards of APC, LAPC, and cardholders responsibilities for Purchase Card Program operations and activities including reconciliation responsibilities.

Agency Response

We do not concur that adding yet another element to employee performance plans really will solve the issue of untimely transaction reconciliation. Instead, we believe holding agency management accountable while providing agencies with the tools and training necessary to conduct effective oversight is the best approach. (Please see our response to recommendation 18, below, in regard to agency training plans and refresher training.) We believe it is inappropriate for the Department to attempt to mandate detailed performance requirements for specific groups of employees. The manager to whom the employee reports is in the best position to define and evaluate the accomplishment of performance requirements. Moreover, we are not aware of what elements are already included in employee performance plans, and may inadvertently duplicate or conflict with the existing agency requirement already reflected in these plans.

OIG Position

We do not concur with management decision. We believe additional actions are necessary to reduce the high number of individuals that do not timely reconcile their accounts. The Department needs to implement our recommendations or provide other alternatives to resolving this issue.

RECOMMENDATION NO. 16

Instruct agency and local coordinators to immediately review and resolve all their outstanding alert conditions and direct Purchase Card Program Managers to evaluate the effectiveness of individual alert conditions and eliminate those found to be ineffective or inappropriate.

Agency Response

We concur with this recommendation. However, we believe a large number of the outstanding alerts are defective because the alert system did not function properly during the early phase of the program, we plan to purge all past alerts from the system and take no further action on them.

Based on our experience, we plan to place greater emphasis on and expand the use of the Oracle Discover data query software. This software has proven far more effective in detecting questionable transactions and potential abuse than the alert system. Additionally, the automated statistical sampling process would continue to operate.

At present, OPPM is having an Independent Verification and Validation (IV&V) performed of the Purchase Card Management System. This will further define key PCMS areas to be addressed and recommended priorities for dealing with them. OPPM believes this OIG report, coupled with the IV&V report, will provide the best possible basis for decision-making in terms of future management action with PCMS. The IV&V report is scheduled to be submitted in September 2001. OPPM will then analyze these recommendations during the first quarter of FY 2002, giving full consideration to OIG audit recommendations, and make appropriate management decisions regarding the future of the alert and statistical sampling systems (finding 6, recommendation 17, below refers). We will advise OIG of these management decisions by the end of the first quarter, FY 2002.

OIG Position

We agree with the actions taken, but cannot agree to management decision until we receive a time phased corrective action plan.

RECOMMENDATION NO. 17

Ascertain the procedural and training needs of agency and local coordinators to ensure they timely and completely conduct reviews of all statistically selected purchase card transactions, and ensure program managers provide any written procedures and formal training to these coordinators as appropriate. Instruct agency and local program coordinators to immediately complete and resolve reviews for all outstanding statistical sample transactions provided to them to date.

Agency Response

OPPM, in coordination with OCFO, agrees to evaluate operation of the statistical sampling process to determine how best to proceed, including training aids and process oversight. See the response to finding 6, recommendation 16, above, for information regarding the Independent Verification and Validation and the anticipated time line for providing detailed management decisions on the statistical sampling issue.

OIG Position

We agree with the actions taken, but cannot agree to management decision until we receive a time phased corrective action plan.

RECOMMENDATION NO. 18

Institute a requirement that supervisors periodically review and approve their subordinates' purchase card transactions to confirm they are appropriate, are for official purposes, and are reconciled timely until existing PCMS oversight tools are functioning effectively. Revise Departmental Regulations and Purchase Card Program instructions accordingly.

Agency Response

We do not concur with this recommendation as the audit itself points out the following in the Executive Summary:

Our review of a statistical sample of credit card and convenience check transactions disclosed no material problems with the transactions tested. Generally, the transactions were appropriately authorized for proper purposes, supported by required documentation, and entered in the Purchase Card Management System (PCMS).

We believe the existing APC/LAPC management structure, coordinating with line management as needed, has proven itself as an effective approach. Instead of requiring supervisors to periodically review and approve their subordinates' purchase card transactions, we recommend that greater emphasis be placed on the APC/LAPC management structure operating as required, including training to reinforce the application of proper procedures and the use of the Oracle Discover reporting tool software. As stated in DR 5013-6, paragraph 12, an APC is responsible for the overall [purchase card] program in each agency and is the agency's contact with the DPC [Departmental Program Coordinator]." An

APC is ‘appointed locally by Head of the Contracting Office....’ “The LAPC is responsible for the day-to-day operations of the purchase card program at each site. This includes cardholder training, purchase card record maintenance, and *oversight of purchases card transactions* [emphasis added].” Reinforcing proper accountability within the APC/LAPC management chain is an ongoing effort. By the end of March 2002, we will ask agencies to provide a training plan addressing any remaining Discover training to be conducted as well as refresher training for LAPCs regarding their responsibilities.

OIG Position

We agree to the alternative actions by the ASA and Acting CFO, and agree to management decision.

FINDING NO. 7

**SOME CARDHOLDERS
INTENTIONALLY SPLIT
PURCHASES TO AVOID SINGLE
PURCHASE LIMITS**

Some agency cardholders have intentionally made multiple purchase transactions with the same vendors in amounts exceeding their established single purchase limits. As a result, departmental procurement regulations and Federal Acquisition Regulations are being circumvented by cardholders and are not being complied with by USDA agencies under

the Purchase Card Program. Using the Discoverer Query software available within PCMS, we identified 5,358 instances totaling \$30.5 million where cardholders made multiple purchases to the same vendor on the same day in excess of their single purchase limits.

The PCMS/Micro-Purchase Guide provides, in part, that use of the purchase card by a cardholder is subject to a single purchase limit. The single purchase limit is a dollar amount on the procurement authority delegated to the cardholder, usually \$2,500. A “single purchase” is the total of those items purchased at one time from a particular vendor. Multiple items may exceed the authorized single purchase limit. Purchases above the micro-purchase threshold must be made by agency warranted procurement personnel consistent with their individual warrant limitations.

We developed a query using Discoverer Query Software that identifies cardholders with multiple credit card transactions to the same vendor on the same day in excess of their single purchase limit. This query identified 5,358 instances involving 2,486 cardholder accounts, which met the selection criteria for the period October 1, 1998, through September 30, 2000. These questionable transactions totaled about \$30.5 million.

From this listing, we judgmentally selected 10 cardholders that had highly questionable transactions located in the Washington, D.C. area to confirm whether the transactions identified represented purchases that had been divided (split) in order to circumvent their single purchase limits. We confirmed that five of the 10 selected cardholders had processed multiple credit card transactions to circumvent their single purchase limits. We also verified that the transactions for the other five cardholders did not involve divided purchases. For example, the PCMS database showed that one of the cardholders purchased two personal computers from one merchant on February 16, 2000, for \$2,497 each, or a total of \$4,994. The cardholder's single purchase limit was shown to be \$2,500. The cardholder advised us that he had purchased both computers separately pursuant to his supervisor's instructions so that the transactions could be promptly completed at that level.

During our audit, we were made aware that two departmental employees were found to have intentionally made multiple purchases of computer equipment with the same merchant in amounts exceeding their established single purchase limits. An Office of Inspector General investigation disclosed that these employees purchased computer systems totaling \$121,123 by structuring their individual purchases of components in amounts less than their individual single purchase limit of \$2,500. The investigation showed that in September 1999, a computer procurement valued at \$47,475 was made using 20 individual credit card transactions during a 4-day period. The investigation showed another computer procurement valued at \$36,418 was made in November 1999, using 15 individual credit card transactions during a 3-day period. The investigation further showed that in June 2000, another computer procurement valued at \$37,230 was completed using 15 individual credit card transactions during a 5-day period. These procurements should have been made by a warranted contracting officer.

Purchase Card Program Managers informed us that they had not developed any PCMS queries for identifying cases where cardholders have split purchase transactions to stay within their single purchase limits and had not conducted any reviews of their cardholder's purchase histories for this purpose either.

RECOMMENDATIONS FOR THE ASSISTANT SECRETARY FOR ADMINISTRATION

RECOMMENDATION NO. 19

Develop and implement a PCMS database query identifying cardholders who have made multiple credit card and convenience check transactions to identical vendors in amounts

totaling in excess of their established single purchase limits. Require agency and/or local coordinators to periodically run this query for their cardholders and follow up on questionable purchase activities identified. Ensure appropriate corrective and/or disciplinary actions are taken by agency and local coordinators against offending cardholders where warranted.

Agency Response

We understand OIG has already developed a Discover query that identifies potential split purchases. If this information is accurate, OPPM requests that OIG provide an electronic copy of this query to us so we can share it with appropriate agency management and oversight officials, as well as coordinate further with OIG on this matter. Agencies will be required to use this query and take appropriate corrective action when split purchases are discovered. The date for providing the query and any related policies/ instructions to the agencies will be conveyed to OIG with the management decisions on alerts and statistical sampling to be provided by OPPM at the end of the first quarter FY 2002.

OIG Position

We agree with the management decision. We will work with departmental officials on this matter.

FINDING NO. 8

**ACCOUNTABILITY OVER
CONVENIENCE CHECK
INVENTORIES AND ISSUANCE
OPERATIONS NEEDS
STRENGTHENING**

Cardholder accountability and internal controls over convenience check inventory and issuance operations need to be strengthened. This occurred because the Department has not established or implemented specific controls or procedures over the accountability, custody, and control of convenience checks held by cardholders and convenience check issuance operations. As a result, the

Department's Purchase Card Program is vulnerable to increased risk of convenience checks being lost, stolen or fraudulently used as well as the risk of these conditions going undetected.

GAO Standards for Internal Control in the Federal government¹⁶ provides, in part, that agencies must establish physical control to secure and safeguard vulnerable assets. Examples include security for an limited access to assets such as cash, negotiable instruments, inventories, etc., that might be vulnerable to risk of loss or unauthorized use. Such assets

¹⁶ "Standards for Internal Control in the Federal Government", GAO dated November 1999 (GAO/AMID-00-21.3.1).

should be periodically counted and compared to control records. In addition, access to resources and records should be limited to authorized individuals, and accountability for their custody and use should be assigned and maintained. Periodic comparison of resources with the accountability records should be made to help reduce the risk of errors, fraud, misuse or unauthorized alteration.

According to current program procedures,¹⁷ convenience checks are to be ordered by LAPC's for their authorized cardholders from the contractor bank. The initial check orders for new cardholders are sent by the contractor bank to the LAPC's and these coordinators are responsible for providing these checks to their cardholders. Checks are ordered in a minimum number per box, usually 50 per box. Replenishment of cardholder check inventories are to be accomplished through an automatic reorder triggering mechanism with the contractor bank and the bank is to mail these checks directly to applicable cardholders. When a specific check number such as 39, is issued, it will trigger a replenishment order of 50 additional checks when it is processed by the contractor bank. Cardholders are to contact their LAPC's to request replenishment of their check inventories if the reorder trigger does not function or to order larger quantities of checks. Cardholders are not authorized to order checks directly from the contractor bank.

In addition, program procedures provide that cardholders are to surrender their credit cards and unused convenience checks to the LAPC's for destruction prior to their separation from their agency or reassignment to another function that does not require cardholder authority. APC's and LAPC's are to submit requests for deactivation of cardholder accounts to the contractor bank and are to determine whether all issued checks by the cardholder have cleared and/or the number of them that are outstanding. In order, to allow outstanding checks to clear the contractor bank, APC's and LAPC's are allowed to lower the single purchase limits to \$1; thereby; preventing purchases using the card until it is deactivated by the contractor bank. However, neither APC's nor LAPC's that we interviewed had any information on the number of convenience checks held by their cardholders to ensure their checks could be appropriately accounted for when warranted.

Our review of DR's, purchase card handbooks and instructions and interviews with Purchase Card Program Managers as well as agency and local coordinators disclosed that there are no specific procedures regarding custody, control, and accountability for convenience checks. For example, we found no policies or instructions available relative to

¹⁷ APC/LAPC Purchase Card Program Guide Section III-10 and 11.

receiving, safeguarding, and accounting for convenience checks held by cardholders; handling convenience checks reported to be lost, stolen, destroyed or expired; accounting for voided or cancelled convenience checks; issuing substitute convenience checks; reviewing check transactions for alterations of monetary amounts; conducting periodic inventories of convenience checks on hand and reconciling these counts to agency and contractor bank records; or destroying unused convenience checks returned to agency and local coordinators by cardholders. Further, we did not note any specific policies and procedures for agency and local coordinators to periodically monitor their cardholder's inventories of convenience checks on hand and/or reordering of convenience checks from the contractor bank.

This situation increases the potential risk of convenience checks being lost, stolen, or used for unauthorized or improper purposes. For example, we learned during our review that a significant number of convenience checks had been sent by the contractor bank to incorrect addresses because automated cardholder records used for the transition from the previous contractor bank to the current contractor bank contained errors. As a result, Departmental Administration conducted an inventory of convenience checks by all USDA APC's through their LAPC's to ensure all their cardholder's convenience checks were accounted for and to identify missing or incorrectly addressed checks so they could be cancelled by the contractor bank. In order, to conduct this inventory, the contractor bank was requested to report all convenience checks it had provided to USDA agency cardholders at that time. This report disclosed that the contractor bank had issued 1,428,451 convenience checks to USDA cardholders. Using the report, Departmental Administration developed guidance to USDA agencies for completing the check inventory. The agencies completed the inventory and reported that 113,672 convenience checks were either missing or improperly issued. USDA provided the contractor bank a report showing those convenience checks found to be missing or unaccounted for and the contractor bank immediately cancelled all missing checks. However, there have been no other inventories and reconciliation's of convenience checks completed since that time.

Accordingly, the lack of internal inventory controls over convenience checks and failure to periodically reconcile check inventories with contractor bank records increases the risk checks may be lost, stolen and/or misused and these occurrences may go undetected. This is especially important since over a quarter of purchase card transactions are not being timely reconciled by cardholders. (See Finding No. 4.)

**RECOMMENDATION FOR THE ASSISTANT SECRETARY FOR ADMINISTRATION
AND CHIEF FINANCIAL OFFICER**

RECOMMENDATION NO. 20

misused, (e.g. periodic departmental regulations accordingly.

Develop and implement appropriate internal control procedures over the custody, control, accountability, and issuance operations for convenience checks to ensure they are not inventories reconciliations, etc). Revise and Purchase Card Program instructions

Agency Response

By the terms of the contract with the Bank that provides purchase card services, USDA is not liable for lost or stolen convenience checks. While we have existing policies in place regarding: cardholder/check writer delegations of authority, card number and check security, and reconciliation time frames, OPPM agrees to refine the existing policies in these areas. The revised policies will be issued by no later than March 30, 2002.

OIG Position

We concur with the management decision to this recommendation.

FINDING NO. 9

We reviewed a statistical sample of purchase card transactions selected from PCMS for four USDA agencies APHIS, ARS, FS and NRCS.

We reviewed the transactions to determine whether they were valid, properly approved, timely reconciled, appropriately recorded into property, accurately assigned budget object codes, accurately recorded tax identification numbers, and sufficiently supported. In addition, we determined whether cardholders used proper sources of supply and stayed within their single purchase limits. Generally, we found that the transactions reviewed were appropriately authorized, were for authorized purposes, were supported by required documentation, and were accurately entered and reported in the PCMS.

We reviewed a random sample of purchase card transactions that were statistically selected from the PCMS with purchase dates between October 1, 1998, and February 29, 2000, and accepted into the PCMS as of March 10, 2000. The sample transactions were statistically selected using a stratified simple random sampling scheme. The sample unit consisted of a purchase card transaction in the PCMS database. We excluded convenience check transaction fees from our selection.

The sample was stratified by those four USDA agencies, FS, ARS, APHIS and NRCS, which conducted the largest number of transactions and those made by the other remaining USDA agencies. The audit universe consisted of 1,372,389 transactions totaling \$517,420,159 shown in PCMS. Our review consisted of 400 sample units for these four cited USDA agencies totaling \$10,651,852 (absolute value). The reportable problems noted are as follows:

- Timely Reconciliation We noted that 141 transactions totaling \$3,909,813 were not timely reconciled. DR 5013-6 provides that cardholders shall reconcile their accounts no later than 30 calendar days after a transaction appears in PCMS, absent extenuating circumstances. The transactions remained unreconciled from 31 to 543 days after a transaction appears in PCMS. We estimate that 31.56 percent of PCMS transactions were untimely reconciled for estimated \$164,653,196. See Finding No. 4 for further details regarding our additional database analysis of unreconciled cardholder transactions.

- Incorrect Taxpayer Identification Numbers For convenience check transactions, cardholders are required to obtain and record in PCMS the taxpayer's tax ID number. We found that 55 convenience check transactions had erroneous tax ID numbers. We estimate that 11.40 percent of convenience check transactions with an estimated value of \$70.4 million are in error. See Finding No. 3 for further discussion on incorrect taxpayer ID numbers.
- Budget Object Codes The PCMS/Micro Purchase Guide requires cardholders to record the budget object code that is most descriptive of the items purchased. We found 51 occurrences where cardholders did not use the most descriptive budget object codes available. This occurred because cardholders either used the default budget object code, which was incorrect, or used an object code that was not sufficiently descriptive of the items purchased. Procedures for recording transactions provide that cardholders have over 600 budget object codes available to select from. Accordingly, this makes it difficult for them to select the most descriptive code. As a result, we estimate that 11.48 percent of budget object codes assigned by cardholders are incorrect and that \$82.8 million in purchases have been misclassified. See Finding No. 3 for further discussion on cardholder use of budget object codes.
- Property Transactions. We found that seven purchases totaling \$161,936 of accountable property made through the Purchase Card Program were not entered into the Department's Personal Property System. This occurred because the Department has not ensured agencies have adopted necessary controls to ensure that accountable property purchased through the Purchase Card Program is always recorded in the Department's property system when warranted. As a result, a purchase made through the Purchase Card Program may not be recorded in OCFO/NFC accounting systems.

RECOMMENDATIONS FOR THE ASSISTANT SECRETARY FOR ADMINISTRATION AND THE CHIEF FINANCIAL OFFICER

RECOMMENDATION NO. 21

Instruct USDA agencies to review their controls for ensuring they always properly record accountable property purchases valued at \$5,000 or more in, the OCFO/NFC Property System and have them report the corrective actions taken.

Agency Response

OPPM agrees to issue an AGAR Advisory reminding contracting and purchasing personnel to ensure appropriate property information is entered into PCMS when acquiring accountable property. This Advisory will be issued by no later than March 30, 2002.

OIG Position

We concur with the management decision to this recommendation.

RECOMMENDATION NO. 22

Notify all USDA APC's of the conditions cited above and instruct them to send memorandums to their respective cardholders and their supervisors reminding them of their responsibilities under the Purchase Card Program to prevent recurrence of the cited conditions in the future.

Agency Response

OPPM has issued such notices in the past and will continue to do so. OPPM/PPD agrees to work with the agencies to generate a summary of the OIG findings in this report that can be provided to agency cardholders and their managers. This memorandum will be completed and issued by no later than March 30, 2002.

OIG Position

We concur with the management decision to this recommendation.

EXHIBIT A – STATISTICAL SAMPLING PLAN FOR SPOT AWARDS

The general statistical sample design for this audit was a simple random sampling scheme where spot award transactions were selected. A 95 percent two-sided confidence level was used for all the statistical estimates in this review.

A universe of 23,505 spot award transactions was identified for this simple random sample design.¹⁸ There was no stratification of these 23,505 award transactions. A sample of 50 spot award transactions was selected. All transactions were selected with equal probability without replacement. The sample unit was a spot award transaction.

All statistical sample design, selection, and statistical estimation were accomplished on a DELL Pentium Personal Computer using SAS and SUDAAN. The statistical estimates used for projections along with their standard errors were produced using the Windows version of SUDAAN, a software system that analyzes sample survey data gathered from complex multistage sample designs. SUDAAN was written by B.V. Shah of Research Triangle Institute, Research Triangle Park, North Carolina.

The term sample precision (sp), as used in the report for estimating averages and number of occurrences, is defined as

$$sp = \frac{t * STDERR}{PTEST}$$

where

t - t factor for a 95 percent two-sided confidence level
PTEST - point estimate (total)
STDERR - standard error of the point estimate

The sample precision for estimating percentage values is defined as

$$sp = t * STDERR$$

where

t - t factor for a 95 percent two-sided confidence level
STDERR - standard error of the point estimate (percentage value)

¹⁸ The universe represents convenience check transactions by Department agencies between October 1, 1998 and February 29, 2000 that contained a budget object code of 1150, 1152, 1153, or 1406.

EXHIBIT B – STATISTICAL PROJECTIONS FOR SPOT AWARDS

PROJECTED ERROR RATE

RESULTS	POINT ESTIMATE	LOWER 95% CONFIDENCE LEVEL	UPPER 95% CONFIDENCE LEVEL	PRECISION
Spot awards not recorded in the personnel/payroll system.	18.00%	6.98%	29.02%	11.018

PROJECTED NUMBER OF OCCURRENCES

RESULTS	POINT ESTIMATE	LOWER 95% CONFIDENCE LEVEL	UPPER 95% CONFIDENCE LEVEL	PRECISION
Spot awards not recorded in the personnel/payroll system.	4,231	1,641	6,821	.612

PROJECTED DOLLAR VALUE

RESULTS	POINT ESTIMATE	LOWER 95% CONFIDENCE LEVEL	UPPER 95% CONFIDENCE LEVEL	PRECISION
Spot awards not recorded in the personnel/payroll system.	\$693,398	\$221,923	\$1,164,872	.680

EXHIBIT C – STATISTICAL SAMPLING PLAN FOR TRANSACTION REVIEWS

The general statistical sample design for this audit was a stratified simple random sampling scheme where transactions were selected from PCMS. The universe was composed of PCMS transactions for fiscal year 1999 and the first five months of fiscal year 2000. There were 1,372,389 PCMS transactions for fiscal year 1999 and the first five months of fiscal year 2000 in the NFC supplied database. The 1,372,389 transactions were stratified into four primary strata according to agency designation (MAJOR) and further within each agency with respect to the type of transaction (TTYPE).

Agency	MAJOR	Type of Transaction	TTYPE
ARS	1	Card	1
		Check	2
		All Others	3
FS	2	Card	1
		Check	2
		All Others	3
NRCS	3	Card	1
		Check	2
		All Others	3
APHIS	4	Card	1
		Check	2
		All Others	3

Further stratification with respect to the transaction amount was accomplished within each of the three transaction type strata for each agency. This resulted in the formation of 53 strata (STRATA 1-53). The cumulative square root of the frequencies methodology (Cochran, SAMPLING TECHNIQUES) with respect to the transaction amount was used to form 3 strata in each of the categories above. Additionally, in most categories an additional strata was subjectively formed for all transactions at or above \$10,000. This stratification was followed except for the following categories, where the frequency distribution of the transaction amounts dictated a different stratification:

Agency	MAJOR	Type of Transaction	TTYPE	Stratification
ARS	1	All Others	3	Subjective
FS	2	Card	1	Subjective for amounts less than 0
FS	2	Check	2	Subjective for amounts less than 0
FS	2	All Others	3	Subjective
NRCS	3	All Others	3	Subjective
APHIS	4	Check	2	6 strata; Subjective for amounts greater than 300,000
APHIS	4	All Others	3	Subjective

The following table gives the specifics of the stratification used in this sample design.

STRATA	BOUNDARY Transaction Amount	Number Of Transactions	Transaction Amount	Absolute Transaction Amount	n=400
MAJOR = 1 TTYPE = 1					
1	Less than 400	209,582	23,139,127.39	23,139,127.39	18
2	400-2,800	46,478	45,263,854.80	45,263,854.80	36
3	2,800-10,000	3,710	18,705,563.43	18,705,563.43	15
4	Over 10,000	778	15,439,864.54	15,439,864.54	12
SUBTOTAL STRATA 1-4		260,548	102,548,410.16	102,548,410.16	81
MAJOR = 1 TTYPE = 2					
5	Less than 400	21,401	2,413,173.88	2,413,173.88	2
6	400-2,100	6,045	5,030,716.49	5,030,716.49	4
7	2,100-10,000	964	3,609,477.08	3,609,477.08	3
8	Over 10,000	77	1,286,600.70	1,286,600.70	2
SUBTOTAL STRATA 5-8		28,487	12,339,968.15	12,339,968.15	11
MAJOR = 1 TTYPE = 3					
9	Less than -10,000	17	-440,877.04	440,877.04	2
10	-10,000 to -1,000	525	-1,332,351.40	1,332,351.40	2
11	-1,000 to 0	7,924	-1,157,059.67	1,157,059.67	2
12	Over 0	266	132,046.53	132,046.53	2
SUBTOTAL STRATA 9-12		8,732	-2,798,241.58	3,062,334.64	8
SUBTOTAL MAJOR 1		297,767	112,090,136.73	117,950,712.95	100
MAJOR = 2 TTYPE = 1					
13	Less than 0	20	-2,710.41	2,710.41	2
14	0-300	424,349	35,000,069.15	35,000,069.15	15
15	300-1,800	107,346	72,761,622.75	72,761,622.75	31
16	1,800-10,000	13,909	42,544,533.78	42,544,533.78	18
17	Over 10,000	641	10,798,107.99	10,798,107.99	4
SUBTOTAL STRATA 13-17		546,265	161,101,623.26	161,107,044.08	70
MAJOR = 2 TTYPE = 2					
18	Less than 0	3	-262.00	262.00	3
19	0-400	205,759	22,973,780.53	22,973,780.53	9
20	400-2,800	53,679	55,020,010.47	55,020,010.47	22
21	2,800-10,000	4,078	20,647,063.40	20,647,063.40	8
22	Over 10,000	887	17,728,855.20	17,728,855.20	8
SUBTOTAL STRATA 18-22		264,406	116,369,447.60	116,369,971.60	50

STRATA	BOUNDARY Transaction Amount	Number Of Transactions	Transaction Amount	Absolute Transaction Amount	n=400
MAJOR = 2 TTYPE = 3					
23	Less than -10,000	11	-236,448.42	236,448.42	2
24	-10,000 to -1,000	732	-1,579,471.06	1,579,471.06	10
25	-1,000 to 0	17,368	-2,185,613.08	2,185,613.08	14
26	0 to 10,000	1,144	307,367.20	307,367.20	2
27	Over 10,000	6	151,930.14	151,930.14	2
SUBTOTAL STRATA 23-27		19,261	-3,542,235.22	4,460,829.90	30
SUBTOTAL MAJOR 2		829,932	273,928,835.64	281,937,845.58	150
MAJOR = 3 TTYPE = 1					
28	Less than 200	71,771	4,047,501.18	4,047,501.18	6
29	200-1,600	17,728	8,390,311.99	8,390,311.99	12
30	1,600-10,000	1,664	5,181,281.31	5,181,281.31	7
31	Over 10,000	128	2,497,565.81	2,497,565.81	4
SUBTOTAL STRATA 28-31		91,291	20,116,660.29	20,116,660.29	29
MAJOR = 3 TTYPE = 2					
32	Less than 200	34,274	1,992,772.17	1,992,772.17	4
33	200-1,600	11,650	5,304,050.29	5,304,050.29	9
34	1,600-10,000	1,060	3,239,363.28	3,239,363.28	6
35	Over 10,000	119	2,192,778.07	2,192,778.07	4
SUBTOTAL STRATA 32-35		47,103	12,728,963.81	12,728,963.81	23
MAJOR = 3 TTYPE = 3					
36	Less than -10,000	3	- 68,271.20	68,271.20	2
37	-10,000 to -1,000	82	- 182,009.76	182,009.76	2
38	-1,000 to 0	2,907	- 269,444.83	269,444.83	2
39	Over 0	43	24,749.17	24,749.17	2
SUBTOTAL STRATA 36-39		3,035	- 494,976.62	544,474.96	8
SUBTOTAL MAJOR 3		141,429	32,350,647.48	33,390,099.06	60
MAJOR = 4 TTYPE = 1					
40	Less than 200	59,640	3,380,283.17	3,380,283.17	3
41	200-1,500	16,384	7,996,722.22	7,996,722.22	6
42	1,500-10,000	1,877	5,460,561.29	5,460,561.29	5
43	Over 10,000	67	1,144,400.08	1,144,400.08	2
SUBTOTAL STRATA 40-43		77,968	17,981,966.76	17,981,966.76	16
MAJOR = 4 TTYPE = 2					
44	Less than 400	17,259	1,711,557.69	1,711,557.69	2
45	400-2,700	3,520	3,380,419.28	3,380,419.28	3

STRATA	BOUNDARY Transaction Amount	Number Of Transactions	Transaction Amount	Absolute Transaction Amount	n=400
46	2,700-12,000	756	4,435,123.33	4,435,123.33	4
47	12,000-36,400	373	8,078,307.00	8,078,307.00	7
48	36,400-82,400	319	18,106,296.99	18,106,296.99	15
49	82,400-300,000	229	32,804,604.81	32,804,604.81	26
50	Over 300,000	32	13,047,126.13	13,047,126.13	11
SUBTOTAL STRATA 44-50		22,488	81,563,435.23	81,563,435.23	68
MAJOR = 4 TTYPE = 3					
51	Less than -1,000	88	-221,858.43	221,858.43	2
52	-1,000 to 0	2,651	-302,825.26	302,825.26	2
53	Over 0	66	29,821.13	29,821.13	2
SUBTOTAL STRATA 51-53		2,805	- 494,862.56	554,504.82	6
SUBTOTAL MAJOR 4		103,261	99,050,539.43	100,099,906.81	90
TOTAL		1,372,389	517,420,159.28	533,378,564.40	400

A sample size of 400 transactions was selected. The sample size of 400 was allocated subjectively with proportional allocation with respect to the transaction amount as a guide. All transactions in STRATA 18 were selected, thus having a probability of one of being selected. The transactions in STRATA 1-17 and 19-53 were selected with equal probability without replacement within each strata. The sample unit within each strata was a transaction. The table above contains the details for this allocation and sample selection. A 95 percent two-sided confidence level was used for all the statistical estimates in this review.

Statistical Analysis

All statistical sample design, selection, and statistical estimation were accomplished on a DELL Pentium Personal Computer using SAS and SUDAAN. The statistical estimates used for projections along with their standard errors were produced using the Windows version of SUDAAN, a software system that analyzes sample survey data gathered from complex multistage sample designs. SUDAAN was written by B.V. Shah of Research Triangle Institute, Research Triangle Park, North Carolina.

The term sample precision (sp), as used in the report for estimating dollar values, averages, and number of occurrences is defined as

$$sp = \frac{t * STDERR}{PTEST}$$

where

t - t factor for a 95 percent two-sided lower confidence level
PTEST - point estimate (estimate of the total, mean, or number of occurrences)
STDERR - standard error of the point estimate

The sample precision for estimating percentage values is defined as

$$sp = t * STDERR$$

where

t - t factor for a 95 percent two-sided lower confidence level
STDERR - standard error of the point estimate (percentage value)

EXHIBIT D – STATISTICAL PROJECTIONS FOR TRANSACTION REVIEWS

PROJECTED ERROR RATE

RESULTS	POINT ESTIMATE	LOWER 95% CONFIDENCE LEVEL	UPPER 95% CONFIDENCE LEVEL	PRECISION
Transactions Not Timely Reconciled	31.56%	21.25%	41.87%	10.311
Budget Object Codes Incorrect	11.48%	4.57%	18.38%	6.907
Tax Identification Numbers Incorrect	11.40%	6.40%	16.39%	4.996
Property Transactions Not Recorded	.05%	.01%	.10%	.044
Program Payments	.07%	.04%	.10%	.030

PROJECTED NUMBER OF OCCURRENCES

RESULTS	POINT ESTIMATE	LOWER 95% CONFIDENCE LEVEL	UPPER 95% CONFIDENCE LEVEL	PRECISION
Transactions Not Timely Reconciled	433,090	291,588	574,592	.327
Budget Object Codes Incorrect	157,486	62,700	252,272	.602
Tax Identification Numbers Incorrect	156,418	87,854	224,983	.438
Property Transactions Not Recorded	705	105	1,304	.851
Program Payments	905	498	1,311	.450

PROJECTED DOLLAR VALUE

RESULTS	POINT ESTIMATE	LOWER 95% CONFIDENCE LEVEL	UPPER 95% CONFIDENCE LEVEL	PRECISION
Transactions Not Timely Reconciled	164,653,196	130,595,772	198,710,620	.207
Budget Object Codes Incorrect	82,848,404	56,278,553	109,418,254	.321
Tax Identification Numbers Incorrect	70,373,143	50,651,499	90,094,786	.280
Property Transactions Not Recorded	10,158,764	2,844,813	17,472,715	.720
Program Payments	64,448,162	53,814,530	75,081,794	.165

EXHIBIT E – AGENCY'S RESPONSE


United States
Department of
Agriculture

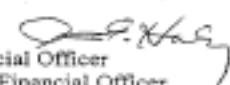
Office of the
Assistant Secretary
for Administration

1400 Independence
Avenue SW

Washington, DC
20250-0103

TO: Thomas F. Heideman
Regional Inspector General for Audit
Office of Inspector General JUL 27 2001

FROM: Lou Gallegos 
Assistant Secretary for Administration

Patricia E. Healy 
Acting Chief Financial Officer JUL 27 2001
Office of the Chief Financial Officer

SUBJECT: Management Responses Regarding Office of Inspector General Official
Draft Audit No. 50099-26-FM entitled "Some Changes Would Further
Enhance Purchase Card Management System Internal Controls"

A consolidated set of management responses from the Offices of the Chief Financial Officer, Human Resource Management and Procurement and Property Management to the subject official draft audit report are attached. We appreciate the opportunity provide these comments. Our organizations are interested in continuously improving the purchase card program, and value the Office of Inspector General (OIG) recommendations.

The fact that the draft report makes the following statement confirms that progress is being made in re-engineering Department of Agriculture (USDA) administrative systems:

Our [OIG] review of a statistical sample of credit card and convenience check transactions disclosed no material problems with the transactions tested. Generally, the transactions were appropriately authorized for proper purposes, supported by required documentation, and accurately entered and reported in the Purchase Card Management System (PCMS).

While there are certainly opportunities for improvement, PCMS is performing its core procurement, reconciliation and payment functions well. As a result of the audit, and as indicated in the attached management responses, we will largely eliminate certain non-core uses of PCMS, such as spot cash awards. We will also examine eliminating the use of PCMS for program payments provided suitable alternative payment systems exist or can be quickly established.

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Again, thank you for the opportunity to comment on the report. Should you need any further information regarding our management responses, please contact David J. Shea, Chief, Procurement Policy Division, at (202) 720-6206 or via e-mail at david.shea@usda.gov.

Attachment

cc: Management Council
Wendy Snow, OCFO
Denise Leger-Lee, OHRM
USDA Procurement Council Executive Committee
CFO Advisory Council

**Consolidated OCFO, OHRM & OPPM Management Responses to Official
Draft OIG Audit 50099-26-FM, "Some Changes Would Further Enhance
Purchase Card Management System Internal Controls"**

Audit Recommendation Finding 1, Recommendation 1: Require the cited agencies to immediately discontinue use of imprest funds, and coordinate with them to provide an orderly closeout of these funds.

Management Response: We concur with the recommendation. In a memorandum to Agency Heads dated February 14, 2001, the Office of the Chief Financial Officer (OCFO) stated that all imprest funds must be eliminated by October 1, 2001, except where the need for an imprest fund is justified and the imprest fund is operated in compliance with the Treasury policy directive. The memorandum requested a certification that agency imprest funds are managed and operated in accordance with Department of the Treasury and USDA regulations, justification for each imprest fund that any agency intends to maintain after September 30, 2001, and an elimination plan for how agencies intend to meet the above requirements. By July 31, 2001, the OCFO will send a follow-up memorandum to the Chief Financial Officers (CFO) of the Marketing Regulatory Programs (MRP) and the Farm and Foreign Agricultural Services (FFAS) requesting a certification within 30 days stating that they have discontinued the imprest funds set up and reimbursed by convenience checks or that they have established a plan to discontinue the imprest funds by September 30, 2001.

Audit Recommendation Finding 1, Recommendation 2: Ensure a full independent reconciliation is made of all cash transactions made through these imprest funds.

Management Response: We concur with the recommendation. In the memorandum, mentioned in the management response to Recommendation Number 1, OCFO will request that the MRP and FFAS certifications include information that a full independent reconciliation was made of all cash transactions made through these imprest funds by September 30, 2001 (prior to closing the funds).

Audit Recommendation Finding 1, Recommendation 3: Determine whether other USDA agencies have improperly established imprest funds. Require any agencies found to have improperly established imprest funds to immediately close them out, and ensure full independent reconciliations are made of all transactions made through these funds.

Management Response: We concur with the recommendation. By July 31, 2001, the OCFO will send a follow-up memorandum to the CFO Advisory Council requesting a certification within 30 days stating whether or not they have imprest funds set up and reimbursed by convenience checks. Any agency found to have such imprest funds would

be required to establish a plan to discontinue the imprest funds by September 30, 2001, including ensuring that full, independent reconciliations are made.

Audit Recommendation Finding 1, Recommendation 4: Revise DRs (Departmental Regulations) so they more clearly prohibit the use of convenience checks to establish imprest funds.

Management Response: We concur with the recommendation. The Office of Procurement and Property Management (OPPM) agrees to modify DR 5013-6 to specifically prohibit the use of convenience checks to establish and/or replenish imprest funds. The change to DR 5013-6 shall be made no later than the 4th quarter of FY 2001. OCFO will revise DR 2250-001, by no later than the end of the 4th quarter of FY 2001 as well, to clearly prohibit the use of convenience checks to establish imprest funds.

Audit Recommendation Finding 2, Recommendation 5: Conduct a comprehensive risk assessment in conjunction with the CFO to determine whether USDA agencies should use the Purchase Card Program to disburse program benefits to participants. Ensure Purchase Card Program managers periodically review the Purchase Card Management System (PCMS) database to identify convenience checks issued by USDA agencies for program payment purposes, and ensure they are appropriately approved by responsible Departmental officials, and prescribed requirements are being observed if it is determined that they will be used in the future.

Management Response: OPPM instituted the program payment capability using convenience checks in the Purchase Card Program at the request of several USDA agencies in order to provide the fastest possible "emergency" payments. Comprehensive procedures for requesting this authority are contained in Departmental Regulation 5013-6, paragraph 19. However, we note that this process is increasingly being requested for "routine" program payments as opposed to payments in genuine emergencies. As negotiated with the contractor bank, our convenience check process was not designed with this level of activity in mind. As a result, the bank maintains that the use of convenience checks in this manner is beyond the current contract scope. We suspect this position may be valid, and find opening the existing check pricing agreement to renegotiation unacceptably risky given that we have one of the best deals in government. As a result, we are looking to discontinue use of convenience checks for program payments, provided program needs can be acceptably met some other way. In preparation for a meeting with agency officials, a "pre-meeting" with OCFO and OPPM staff was held on July 25 to outline alternative payment processes. We are now in the process of scheduling a meeting with agencies that have a need for a quick payment process, along with OCFO (inclusive of NFC) representatives to determine what alternatives exist for quick payments aside from the convenience checks. We will also invite OIG participation in this process, in part to obtain additional information on

recommendations regarding risk assessments and what they should contain. We anticipate making a decision on whether or not to discontinue the use of convenience checks for program payments by the end of FY 2001.

Audit Recommendation Finding 2, Recommendation 6: Ensure comprehensive risk assessments are always completed before approving requests to use the Purchase Card Program to disburse program benefits in the future. Assure required risk assessments demonstrate adequate controls are in place to reduce risks to acceptable levels and Department financial management requirements are met or ensure waivers from these requirements are obtained from the CFO or other high level Department officials where warranted.

Management Response: As noted above, we are considering discontinuing use of the convenience checks for program payments. However, to address requests in the interim, we need information from OIG as to what exactly needs to be included in a risk assessment in order to update our policy governing Departmental approval to issue convenience checks for "emergency" program payments. This information is also needed to design a replacement process for the use of convenience checks, should a new process be needed. As indicated earlier, we expect to make a decision on whether or not to continue the use of convenience checks for emergency program payments by the end of CY 2001.

Audit Recommendation Finding 3, Recommendation 7: Develop an automated interface between the PCMS and personnel/payroll systems to ensure spot cash awards and salary advances issued through the Purchase Card Program are promptly and accurately entered into the personnel/payroll system. Establish appropriate accounting controls to assure transactions are suspended if they are not processed correctly.

Management Response: OPFM established the spot cash award functionality within the Purchase Card Management System at the behest of the Human Resources (HR) community. The idea was to provide the ability for managers to continue to confer awards "on the spot" in spite of the significant reduction in the number of imprest fund activities across USDA. Similar issues drove the request for PCMS to handle emergency salary payments.

However, we agree that despite clear policy addressing how these transactions are to be processed, agencies have encountered significant difficulty in ensuring that spot cash awards are reconciled properly to the correct budget object classification code and that the proper personnel paperwork (AD form 287-2) is correctly filled out and forwarded in a timely manner to HR offices for processing. The same types of problems have occurred with emergency salary payments. OPFM, in consultation with the Office Of Human Resource Management (OHRM) and the OCFO has therefore decided to

terminate the use of the Purchase Card Program for spot cash awards effective September 28, 2001. OHRM is working with the National Finance Center (NFC) to implement a process in the Payroll/Personnel Remote Entry and the Entry, Processing, Inquiry and Correction Systems to allow a front-end user to enter an authority code of "Pay." This action will send a record to the Manual Payments System, and a spot cash award check should be issued within 24 hours. Since the Manual Payment System interfaces with the payroll/personnel system, all appropriate payroll/personnel updates will be made to the check recipient's payroll record. This new process is expected to be operational by the end of Fiscal Year (FY) 2001.

Once this new process comes on-line, we will phase out the use of PCMS for spot cash awards. OPPM is now developing the policy changes for the convenience check side of these issues with a September 28, 2001 cut-off date in mind. After that date, USDA policy would prohibit the use of convenience checks for spot cash awards. Use of the convenience checks for emergency salary payments would continue until the plan developed by OHRM is implemented.

In terms of the emergency salary payment issue, OHRM is working to identify alternatives to the use of convenience checks and will provide a plan, developed in consultation with OCFO and OPPM, to OIG under separate cover by no later than September 28, 2001 addressing this situation.

Audit Recommendation Finding 3, Recommendation 8: Instruct the agencies to correct the personnel/payroll records for those spot cash award and salary advance transactions that were not entered personnel/payroll system or were entered in the payroll/personnel system in error and to recover any overpayments to affected employees for our sample.

Management Response: OPPM is providing monthly reports to OHRM on spot cash awards from January 2000 forward. In turn, OHRM is providing this information to agency HR offices for use in corrective actions. Reports on emergency salary payments will be similarly provided. These reports are not limited to the OIG sample. We believe it would be impractical to correct spot cash award and salary advance information prior to January 2000 due to the complexity and cost involved in identifying and acting upon any erroneous actions. OHRM believes that the clean up of the payroll/personnel records from January 2000 forward has been completed and that only recent transactions are being processed at this time.

Audit Finding Recommendation Finding 3, Recommendation 9: Instruct the agencies to research the remaining purchase card transactions to ensure each one has been correctly recorded into the personnel/payroll system and any overpayments are recovered from the affected employees where appropriate.

Management Response: As noted in the management response to finding 3, recommendation 8, OPPM is providing monthly reports to OHRM that they, in turn, provide to agency HR offices for their use in ensuring spot cash award transactions using convenience checks have been properly entered into the personnel/payroll system and that any overpayments from FY 2000 forward are recovered. Use of convenience checks for spot cash awards and emergency salary payments, as noted in the response to finding 3, recommendation 7, is being discontinued effective September 28, 2001.

Audit Recommendation Finding 3, Recommendation 10: Instruct the agencies to periodically review Purchase Card Program spot award and emergency salary transactions to ensure that the transactions have been properly recorded in the personnel/payroll system until the PCMS and personnel/payroll system are integrated or adequate interim internal controls are in place. Further, instruct the agencies to provide the results of their periodic review to the Department.

Management Response: As noted above, we will be discontinuing the use of convenience checks for spot cash awards. OPPM continues to provide monthly reports to OHRM to assist the agencies in ensuring these actions are promptly and timely entered into the Payroll/Personnel System. Use of convenience checks for spot cash awards and emergency salary payments, as noted in the response to finding 3, recommendation 7, is being discontinued effective September 28, 2001.

Audit Recommendation Finding 3, Recommendation 11: Establish single budget object codes to be used by all agencies for spot cash awards and salary advances to facilitate reconciliation activities in the future.

Management Response: As we are discontinuing the use of convenience checks for spot cash awards and emergency salary payments effective September 28, 2001, there is no need to take action on this recommendation.

Audit Recommendation Finding 3, Recommendation 12: Revise the "Tax Identification Number" field in PCMS to be consistent with those in the personnel/payroll system and assure effective system edits are implemented.

Management Response: We concur with the recommendation. This correction was made with the release of PCMS version 4.0 in FY 2000. The size of the Tax ID No (TIN) field on the card transaction screen was changed to only accept 9 characters instead of 10. System edits were added to ensure the user does not enter erroneous TIN's like '00000000' thru '99999999' and to ensure all characters entered are numeric.

Audit Recommendation Finding 6, Recommendation 13: Deactivate cardholder accounts with transactions in unapproved status for more than 60 days until transaction

reconciliations are brought and maintained current. Revise Departmental Regulations and Purchase Card Program instructions accordingly.

Management Response: Given the extenuating circumstances often faced by field personnel (fires and other natural disasters) as well as employee issues that may affect their ability to reconcile (extended illness, birth of a child, etc.), we do not agree with this recommendation. These employees may have transactions from purchases made prior to their absence which appear in PCMS after their departure which require reconciliation. This is why current purchase card policy does not mandate a hard and fast date for deactivating accounts, and instead relies on local management officials and PCMS managers to make the call as to when it is appropriate to deactivate an account (see DR 5013-6, section 6, paragraph j) due to a failure to timely reconcile. Current policy requires transactions to be reconciled within 30 days from when they appear in PCMS, absent extenuating circumstances (and any special year-end deadlines). We recommend this procedure remain unchanged.

Audit Recommendation Finding 6, Recommendation 14: Ensure all convenience check transactions for the preceding year are immediately reconciled in PCMS. Establish a cutoff date for reconciling all convenience check transactions at the end of each calendar year to ensure timely compliance with IRS payment reporting requirements.

Management Response: We concur with this recommendation, with the exception of the word "immediate." We will issue a PCMS bulletin board message reminding cardholders to keep their reconciliations current by no later than August 17, 2001. In terms of deadlines, it appears 2 are actually required. The first is for fiscal year end (for fiscal year-end closing); the second for calendar year end (when W-2s, 1099, and other tax-related information is generated). OPPM will issue policy by no later than August 31, 2001 indicating the need for cardholders to have all their unreconciled transactions visible on the PCMS card transactions screen reconciled in accordance with agency procedures at fiscal year end, or where no agency policy exists, by no later than 30 days after the end of the fiscal year.

Audit Recommendation Finding 6, Recommendation 15: Require agencies to incorporate into performance standards of APC, LAPC, and cardholders responsibilities for Purchase Card Program operations and activities including reconciliation responsibilities.

Management Response: We do not concur that adding yet another element to employee performance plans really will solve the issue of untimely transaction reconciliation. Instead, we believe holding agency management accountable while providing agencies with the tools and training necessary to conduct effective oversight is the best approach. (Please see our response to recommendation 18, below, in regard to agency training plans)

and refresher training.) We believe it is inappropriate for the Department to attempt to mandate detailed performance requirements for specific groups of employees. The manager to whom the employee reports is in the best position to define and evaluate the accomplishment of performance requirements. Moreover, we are not aware of what elements are already included in employee performance plans, and may inadvertently duplicate or conflict with existing agency requirements already reflected in these plans.

Audit Recommendation Finding 6, Recommendation 16: Instruct agency and local coordinators to immediately review and resolve all their outstanding alert conditions and direct Purchase Card Program managers to evaluate the effectiveness of individual alert conditions and eliminate those found to be ineffective or inappropriate

Management Response: We concur with this recommendation. However, we believe a large number of the outstanding alerts are defective because the alert system did not function properly during the early phase of the program, we plan to purge all past alerts from the system and take no further action on them.

Based on our experience, we plan to place greater emphasis on and expand the use of the Oracle Discoverer data query software. This software has proven far more effective in detecting questionable transactions and potential abuse than the alert system. Additionally, the automated statistical sampling process would continue to operate.

At present, OPPM is having an Independent Verification and Validation (IV&V) performed of the Purchase Card Management System. This IV&V will further define key PCMS areas to be addressed and recommended priorities for dealing with them. OPPM believes this OIG report, coupled with the IV&V report, will provide the best possible basis for decision-making in terms of future management action with PCMS. The IV&V report is scheduled to be submitted in September 2001. OPPM will then analyze these recommendations during the first quarter of FY 2002, giving full consideration to OIG audit recommendations, and make appropriate management decisions regarding the future of the alert and statistical sampling systems (finding 6, recommendation 17, below, refers). We will advise OIG of these management decisions by the end of the first quarter, FY 2002.

Audit Recommendation Finding 6, Recommendation 17: Ascertain the procedural and training needs of agency and local coordinators to ensure they timely and completely conduct reviews of all statistically selected purchase card transactions, and to ensure program managers provide any written procedures and formal training to these coordinators as appropriate. Instruct agency and local program coordinators to immediately complete and resolve reviews for all outstanding statistical sample transactions provided to them to date.

Management Response: OPPM, in coordination with OCFO, agrees to evaluate operation of the statistical sampling process to determine how best to proceed, including training aids and process oversight. See the response to finding 6, recommendation 16, above, for information regarding the Independent Verification and Validation and the anticipated time line for providing detailed management decisions on the statistical sampling issue.

Audit Recommendation Finding 6, Recommendation 18: Institute a requirement that supervisors periodically review and approve their subordinates' purchase card transactions to confirm they are appropriate, are for official purposes, and are reconciled timely until existing PCMS oversight tools are functioning effectively. Revise Departmental Regulations and Purchase Card Program instructions accordingly.

Management Response: We do not concur with this recommendation as the audit itself points out the following in the Executive Summary:

Our review of a statistical sample of credit card and convenience check transactions disclosed no material problems with the transactions tested. Generally, the transactions were appropriately authorized for proper purposes, supported by required documentation, and entered in the Purchase Card Management System (PCMS).

We believe the existing APC/LAPC management structure, coordinating with line management as needed, has proven itself as an effective approach. Instead of requiring supervisors to periodically review and approve their subordinates' purchase card transactions, we recommend that greater emphasis be placed on the APC/LAPC management structure operating as required, including training to reinforce the application of proper procedures and the use of the Oracle Discover reporting tool software. As stated in DR 5013-6, paragraph 12, an APC "is responsible for the overall [purchase card] program in each agency and is the agency's contact with the DPC [Departmental Program Coordinator]." An LAPC is "appointed locally by the Head of the Contracting Office...." "The LAPC is responsible for the day-to-day operations of the purchase card program at each site. This includes cardholder training, purchase card record maintenance, and *oversight of purchase card transactions* [emphasis added]." Reinforcing proper accountability within the APC/LAPC management chain is an ongoing effort. By the end of March 2002, we will ask agencies to provide a training plan addressing any remaining Discoverer training to be conducted as well as refresher training for LAPCs regarding their responsibilities.

Audit Recommendation Finding 7, Recommendation 19: Develop and implement a PCMS database query identifying cardholders who have made multiple credit card and convenience check transactions to identical vendors in amounts totaling in excess of their

established single purchase limits. Require agency and/or local coordinators to periodically run this query for their cardholders and follow up on questionable purchase activities identified. Ensure appropriate corrective and/or disciplinary actions are taken by agency and local coordinators against offending cardholders where warranted.

Management Response: We understand OIG has already developed a Discoverer query that identifies potential split purchases. If this information is accurate, OPPM requests that OIG provide an electronic copy of this query to us so we can share it with appropriate agency management and oversight officials, as well as coordinate further with OIG on this matter. Agencies will be required to use this query and take appropriate corrective action when split purchases are discovered. The date for providing the query and any related policies/instructions to the agencies will be conveyed to OIG with the management decisions on alerts and statistical sampling to be provided by OPPM at the end of the first quarter FY 2002.

Audit Recommendation Finding 8, Recommendation 20: Develop and implement appropriate internal control procedures over the custody, control, accountability, and issuance operations for convenience checks to ensure they are not misused, (e.g., periodic inventories, reconciliations, etc). Revise departmental regulations and Purchase Card Program instructions accordingly.

Management Response: By the terms of the contract with the Bank that provides purchase card services, USDA is not liable for lost or stolen convenience checks. While we have existing policies in place regarding: cardholder/check writer delegations of authority, card number and check security, and reconciliation time frames, OPPM agrees to refine the existing policies in these areas. The revised policies will be issued by no later than March 30, 2002.

Audit Recommendation Finding 9, Recommendation 21: Instruct USDA agencies to review their controls for ensuring they always properly record accountable property purchases valued at \$5,000 or more in the OCFO/NFC Property Management Information System and have them report the corrective action taken.

Management Response: OPPM agrees to issue an AGAR Advisory reminding contracting and purchasing personnel to ensure appropriate property information is entered into PCMS when acquiring accountable property. This Advisory will be issued by no later than March 30, 2002.

Audit Recommendation Finding 9, Recommendation 22: Notify all USDA APCs of the conditions cited above and instruct them to send memoranda to their respective cardholders and their supervisors reminding them of their responsibilities under the Purchase Card Program to prevent recurrence of the cited conditions in the future.

Management Response: OPPM has issued such notices in the past and will continue to do so. OPPM/PPD agrees to work with the agencies to generate a summary of the OIG findings in this report that can be provided to agency cardholders and their managers. This memorandum will be completed and issued by no later than March 30, 2002.

ABBREVIATIONS

APHIS	Animal and Plant Health Inspection Service
APC	Agency Program Coordinator
ARS	Agricultural Research Service
CFO	Chief Financial Officer
DPC	Department Program Coordinator
DR	Department Regulation
EFT	Electronic Funds Transfer
FAS	Foreign Agricultural Service
FSA	Farm Service Agency
FS	Forest Service
FY	Fiscal Year
GAO	General Accounting Office
ID	Identification
IRS	Internal Revenue Service
LAPC	Local Agency Program Coordinator
NRCS	National Resources Conservation Service
OCFO	Office of the Chief Financial Officer
OCFO/NFC	Office of the Chief Financial Officer/National Finance Center
OPPEP	Office of Procurement Property and Emergency Preparedness
PCMS	Purchase Card Management System
SSN	Social Security Number
USDA	U.S. Department of Agriculture