



## OFFICE OF INSPECTOR GENERAL

### MEMORANDUM

**DATE:** May 6, 1999

**TO:** Chairman

**FROM:** Inspector General

**SUBJECT:** Report on Audit of the Federal Communications Commission Purchase Card Program

Attached please find a copy of the subject audit report. The primary objective was to review the Commission's purchase card program. This encompassed reviewing documents, conducting interviews, and evaluating cardholder and approving official compliance with purchase card program policies and procedures.

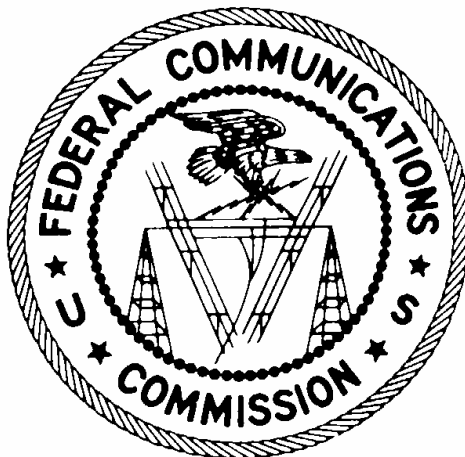
The auditors determined that the Commission developed comprehensive purchase card program internal control policies and procedures, effectively communicated the program requirements to all cardholders and approving officials, and made the necessary checklists and supporting reference materials readily available.

However, this report cites that cardholders and approving officials were not in full compliance with the purchase card program policies and procedures because they failed to complete the required Checklist C-1 prior to making purchases. This report contains a recommendation to address this condition. OIG auditors also identified isolated instances in which program policies and procedures were also bypassed by cardholders. Management concurred with our recommendations and will institute review procedures to ensure compliance with the Commission's purchase card program policies and procedures.

H. Walker Feaster III

Attachment  
Cc: Chief of Staff  
Managing Director  
Manager, Contracts and Purchasing Center

**FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF INSPECTOR GENERAL**



**AUDIT REPORT NO. OIG 98-06  
REPORT ON AUDIT OF THE FEDERAL  
COMMUNICATIONS COMMISSION PURCHASE CARD PROGRAM**

**May 6, 1999**

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**ASSISTANT IG FOR AUDITS**

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**SENIOR AUDITOR**

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**INSPECTOR GENERAL**

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**REPORT ON AUDIT OF  
THE FEDERAL COMMUNICATIONS COMMISSION  
PURCHASE CARD PROGRAM**

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## EXECUTIVE DIGEST

As a result of our audit, we determined that the FCC developed comprehensive policies and procedures for making purchase card transactions of goods and services up to \$25,000 that are in compliance with the Federal Acquisition Regulations (FAR). However, even though all FCC cardholders and approving officials were formally trained in their FCC Government Purchase Card Program responsibilities, OIG auditors found that certain FCC employees are not in full compliance with those internal control policies and procedures because cardholders failed to complete and file the required *Checklist C-1* (FCC Form A-526) documenting their purchase card transactions. The Commission's Checklist C-1 creates a record documenting the card users compliance with the rules governing each purchase card transaction.

OIG auditors also identified isolated instances in which program policies and procedures were bypassed as follows:

- One cardholder placed a split order to evade the single-order purchase limit.
- Two cardholders made information technology component purchases from vendors other than those on the approved vendor list.

## AUDIT OBJECTIVES

The audit objectives included determining whether (1) FCC card holders and approving officials purchase goods and services in compliance with prescribed policies and procedures and, (2) whether the Purchase Card Program controls and infrastructure sufficiently support card holder and approving official purchase activities<sup>1</sup>.

## AUDIT SCOPE

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether Commission's Purchase Card Program is free of material misstatement. An audit includes:

- obtaining an understanding of the Purchase Card Program system and related internal controls;

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<sup>1</sup>FCC Directive 1097.1, Use of Federal Government Purchase Card for Small Purchases, effective August 8, 1997, and User Guide UG-1, FCC Government Purchase Card Program, February 23, 1998.

- determining if the internal controls are adequate and in operation;
- assessing control risk to use as a basis for planning the nature, timing, extent of testing;
- examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed; and,
- evaluating the overall data and records presentation.

We evaluated approximately 90 percent of the Commission's January 1998 purchase card transaction dollar volume by selecting all transactions that were \$5000 or more, randomly selecting transactions from \$1,000 to \$4,999, and judgmentally selecting transactions under \$1,000. We used the applicable requirements contained in the following as the basis for our review:

- OMD FCC Government Purchase Card Program Policies and Procedures binder;
- FCC Directive No. 1097.1, *Use of Federal Government Purchase Card for Small Purchases*;
- Federal Acquisition Regulation (FAR) 90-41, Part 8, *Required Sources of Supplies and Services*;
- FAR 90-40, Part 13, *Simplified Acquisition Procedures*; and,
- Anti-deficiency Act (31 USC 1341, 1342, and 1512).

Our audit specifically covered the FCC Government Purchase Card Program system's internal control procedures associated with the following control objectives:

- Operational control ensures that card holders and approving officials make and approve purchases effectively and efficiently; and,
- Compliance control ensures that cardholders and approving officials comply with applicable laws and regulations.

We believe that our audit provides a reasonable basis for our opinion.

## BACKGROUND

On October 13, 1994, Congress enacted the Federal Acquisition Streamlining Act of 1994<sup>2</sup> (FASA) in order to streamline the acquisition process and better align Government with commercial practices and empower contracting officers (CO) with maximum flexibility wherever possible. FASA also encourages Agencies to use the Government-wide commercial purchase card and electronic purchasing techniques to the maximum extent practicable<sup>3</sup>.

In August 1995, OMD issued FCC Directive FCCINST 1097.1<sup>4</sup>, *Use of Federal Government Purchase Cards for Small Purchases*, detailing the policies and procedures for FCC use of Federal government purchase cards. Under this program, select FCC employees outside the Office of the Managing Director's (OMD) Contracts and Purchasing Center, were issued VISA purchase cards to make official purchases of goods and services. OMD provided these employees with VISA purchase cards to improve efficiency, save time, and eliminate non-value-added processing and paperwork for making purchases in accordance with FASA.

Prior to issuing purchase cards to cardholders and approving officials, OMD instructed Commission employees on its purchase card program policy, responsibility hierarchy, unauthorized purchase card transactions and establishments, required sources for supplies and services, and security responsibilities. Additionally, OMD notified each cardholder and approving official of the prescribed penalties for violating the Commission directive.

On February 27, 1997, OMD began formally training all FCC cardholders and approving officials on their duties and responsibilities under the program. OMB provided each participant with a policies and procedures binder, entitled "FCC Purchase Card Program For Small Purchases \$25K and Below," and instructed them on using and approving purchase cards in accordance with the above Directive and FASA. Employees unable to attend the classes, such as the Compliance and Information Branch (CIB) field office employees, received instruction through interactive compact disks. Once trained, each employee signed a "PROCUREMENT INTEGRITY CERTIFICATION OF FCC PROCUREMENT OFFICIALS," certifying their familiarity with the applicable provisions of the Federal Procurement Policy Act (41 U.S.C. Section 423) concerning prohibited conduct by procurement officials and certifying that they will not engage in any conduct prohibited by that Act.

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<sup>2</sup>Public Law 103-355, effective October 1, 1995.

<sup>3</sup>48 CFR, Chapter 1, Part 13, subpart 13.103.

<sup>4</sup>Amended, effective August 19, 1997.

Since empowering FCC employees with VISA purchase cards to make small purchases under the program, the Commission has experienced improved efficiency, time-savings, and eliminated non-value-added processing and paperwork for making small purchases under the program. For example, from January 9, 1998, through February 6, 1998, FCC cardholders made 441 purchases for \$206,711 in goods and services, which, prior to the program's inception, would have required processing by OMD's Contracts and Purchasing Center.

## FINDING AND RECOMMENDATION

**Approximately 88 percent (sixteen of eighteen cardholders) reviewed by the OIG did not complete and file the required *Checklist C-1* (FCC Form A-526) documenting their purchase card transactions.** Additionally, interviews with the cardholders' approving officials revealed that the approving officials did not require their cardholders to complete the Checklist C-1.

Reasons given for failing to complete the Checklist C-1 by cardholders and approving officials included:

- Preparing the Checklist C-1 for each transaction became redundant;
- The cardholder keeps alternative records and tracks purchases against the budget;
- Approving officials review the monthly statement of account and signs the *CARDHOLDER CERTIFICATION STATEMENT* printed on the back of each statement; and,
- Per an Information and Technology Center (ITC) approving official, "ITC is not necessarily held to the letter of the Purchase Card Program because ITC knows the procurement rules and information technology for selected vendors/products."

The above occurred even though the Contracts and Purchasing Center required that, before being accepted into the program, all prospective FCC cardholders and approving officials had to attend the *FCC Purchase Card Program for Small Purchases \$25,000 and below* training program and certify to their familiarity with, and agree to, abide by the Office of Federal Procurement Policy Act Amendments of 1988.

FCC Directive FCCINST 1097.1, Section 6.i. requires cardholders to complete the Checklist C-1 provided by the Acquisitions Branch for each transaction in order to establish an audit trail. This audit trail includes obtaining the approving official's purchase authorization **before** the user makes the transaction. The Directive also requires that users "must retain the checklist and other records of the transaction in his/her files for the one (1) year retention period specified in Federal Acquisition Regulations 4.805(b)(10).

When a purchase cardholder fails to complete the Checklist C-1 documenting his/her transaction's compliance with FAR requirements and approving official authorization prior to making purchases, cardholders and approving officials are circumventing the internal control requirements prescribed in FCC Directive FCCINST 1097.1. This noncompliance breaks the audit trail, thereby jeopardizing the integrity of Commission's purchase card program and increases the possibility for misuse of purchase cards and increases the likelihood for fraud. FCC cardholders violating this responsibility also expose themselves to losing their purchase card privileges and possible disciplinary action.

**Recommendation** The OMD takes appropriate measures to ensure that all FCC cardholders and approving officials be required to comply with FCC Directive FCCINST 1097.1 requirements by completing the Checklist C-1 prior to making purchase card transactions or promulgating explicit exceptions to the policies of the FCC Directive.

**Management Response** The Managing Director and Contracts and Purchasing Center concur with this finding (Please see the Appendix). They further stated that they will start conducting random audits to verify use of the Checklist C-1 and will revoke purchase card privileges from individuals that do not comply.

## **OTHER ISSUES IDENTIFIED**

- 1. One cardholder placed a split-order to evade the \$25,000 single-order purchase limit.**  
The cardholder stated that the subject split-order transaction was made on the same day in order to renew the FCC's annual subscription for the Commission's library from a sole source vendor. Per both the cardholder and the approving official, they felt that this type purchase card transaction was not subject to the split-order limitation because they were renewing a long-standing subscription for the FCC library.

The FCC Government Purchase Card Program User Guide UG-1, No. 8, *Consider Applicable Dollar Limitations*, expressly prohibits cardholders from making split orders in order to evade single-order dollar limits. This prohibition is founded in FAR Part 13.103(c), which prescribes that: "Requirements aggregating more than the simplified acquisition



threshold or the micro-purchase threshold shall not be broken down into several purchases that are less than the applicable threshold merely to permit use of simplified acquisition procedures, or to avoid any requirements that apply to purchases exceeding the micro-purchase threshold.”

Violations of the above FAR and FCC prohibitions could result in the cardholder and approving official losing their purchase card privileges and other sanctions. Additionally, per Acquisitions officials, should split orders continue to be used for evading single-order dollar limits, the FCC could be suspended from participating in the purchase card program.

Per discussion with the Contracts and Purchasing Center, subscription renewals are problematic for the purchase card program. However, they are working on making FCC library subscription renewals an exception to the purchase card program’s \$25,000 single purchase limitation.

Management concurred and directed the library to stop splitting purchase card transactions (see the Appendix).

**2. Two cardholders made information technology component purchases from vendors other than those on the approved vendor list.**

At the direction of an employee other than the approving official, a cardholder in the Office of General Counsel (OGC) purchased six Hewlett Packard LaserJet 6Lse printers directly from an office supply store that was not on the approved vendor list. We also found that the cardholder had no record of making price comparisons from at least three vendors and did not consult with their Information Technology Center (ITC) customer service representative (CSR) prior to making the above purchases. The cardholder stated that the printers were purchased from the non-approved vendor because time was of the essence and the office supply store’s prices were approximately the same as other quoted prices.

An ITC cardholder purchased computer hardware from a vendor other than one on the approved vendor list. Additionally, the cardholder had no record of price quotations for the above transaction and did not complete the Checklist C-1. The cardholder stated that they make purchases through the approved vendor list except when emergency and availability are at issue for keeping the Commission’s computer networks operating.

In addition to completing a Checklist C-1 and obtaining approving official authorization prior to making a purchase, the FCC Government Purchase Card Program User Guide UG-1 also requires cardholders to:

- Consult with their ITC CSR before purchasing information technology items;
- Select vendors from the approved vendor list for the item(s) being purchased; and,
- Obtain at least three vendor price quotations for all purchases over \$2,500.00 and at least one quote (preferably two) for every purchase less than \$2,500.00.

Purchase card holders who do not comply with the FCC's purchase card program requirements are circumventing Commission internal controls and violating their responsibility to make transactions in accordance with FCC Directive FCCINST 1097.1. This noncompliance jeopardizes the integrity of Commission's purchase card program and increases the possibility for misuse of purchase cards and unnecessarily exposes the Commission to possible fraud. FCC cardholders violating this responsibility also expose themselves to losing their purchase card privileges and possible disciplinary action.

Management concurred and stated that they will continue emphasizing the importance of utilizing vendors on the approved vendor list (see the Appendix).