

U.S. DEPARTMENT OF COMMERCE
Office of Inspector General



**PUBLIC
RELEASE**

BUREAU OF THE CENSUS

*Atlanta Bankcard Purchases Need
Improved Internal Controls*

Audit Report No. ATL-10316-8-0001 / March 1998

Office of Audits, Atlanta Regional Office



CONTENTS

| | Page |
|--|------|
| EXECUTIVE SUMMARY | I |
| INTRODUCTION | 1 |
| PURPOSE AND SCOPE OF AUDIT | 1 |
| FINDINGS AND RECOMMENDATIONS | 3 |
| INTERNAL CONTROLS OVER CARD USE NEED TO BE IMPROVED | 3 |
| Annual Review of Bankcard Activity Not Performed | 3 |
| Bankcards Not Maintained In Secure Location | 3 |
| Unauthorized Card Use and Purchase of Prohibited Items | 3 |
| Purchases Not Preapproved | 4 |
| Receipt of Goods Not Documented | 4 |
| Property Transaction Forms Not Completed | 4 |
| Records Not Properly Maintained | 4 |
| Required Training Not Provided | 5 |
| Recommendation | 5 |
| Census Response | 6 |
| OIG Comments | 6 |

| | |
|--|---|
| COMPETITION NOT PROMOTED FOR PURCHASES OVER \$2,500 | 7 |
| Recommendation | 7 |
| Census Response | 7 |
| OIG Comments | 8 |

APPENDIX

I - CENSUS BUREAU'S RESPONSE TO DRAFT AUDIT REPORT

EXECUTIVE SUMMARY

In 1986, several agencies, including the Department of Commerce, conducted a pilot project to evaluate the usage of bankcards. The pilot project was successful in identifying opportunities for reducing administrative procurement costs. In 1989, the bankcard was made available governmentwide through a contract administered by the General Services Administration. Bankcard use was facilitated by the Federal Acquisition Streamlining Act of 1994 and Executive Order 12931, which eliminated some requirements for purchases of \$2,500 or less, known as “micro-purchases,” and encouraged agencies to move the authority to make simple purchases from procurement offices to program offices.

In conjunction with our plan to periodically review Commerce field units’ use of bankcards, we audited bankcard transactions at the Census Bureau’s Atlanta Regional Office for the 12-month period ended in July 1997 to determine whether the purchases were in compliance with applicable Federal Acquisition Regulations and Commerce Acquisition Manual requirements. We found internal control deficiencies that we believe can be prevented by cardholder training and stronger oversight from cognizant agency officials. Among the problems identified were:

- # Bankcard activity not reviewed by the Head of the Contracting Office.
- # Bankcards not always stored in a secure location.
- # Unauthorized card use and purchase of prohibited items.
- # Purchases not preapproved, receipt of goods not documented, and property transaction forms not completed.
- # Records not properly maintained.
- # Mandatory training not performed.

We also found that the Regional Office did not routinely promote competition for purchases over \$2,500, as required.

By using the bankcard, the Regional Office has reduced the administrative burden and cost associated with small purchases and enhanced its ability to fulfill its mission. However, contracting office oversight, sound management practices, and cardholder training are needed to ensure that regulations are followed and risk of misuse is minimized.

We recommend that the Head of the Contracting Office for the Census Bureau ensure that effective internal control procedures are followed, including a requirement that competitive procedures be followed for purchases over \$2,500, and that the required annual review of bankcard activity be performed.

In its February 3, 1998 written response to our January 6, 1998 draft report, the Census Bureau partially agreed with the draft report's recommendations. The Bureau stated that it will ensure the internal control recommendation is carried out and that cardholders will be reminded in a formal memorandum of the importance of the issues cited in the report. The Bureau also stated that Bankcard activity is reviewed and monitored through the Bankcard Information System (BCIS) on a bi-weekly basis. In addition to monitoring BCIS, an annual review is conducted at Bureau headquarters on a random basis. Finally the Bureau stated that through training and education of the cardholders and approving officials, it can promote awareness of competition requirements. A copy of the Bureau's response is included as Appendix I.

In addition to the Bureau's planned formal memorandum on adherence to internal control procedures, a follow-up review is necessary to ensure that the Atlanta Office has implemented the appropriate internal control procedures and is following appropriate competitive procedures for purchases over \$2,500. Therefore, we reaffirm our draft report recommendation that the Bureau's Head of Contracting Office perform a review of the Atlanta Office's bankcard activity as part of the Bureau's annual review of the Purchase Card Program. In addition, we have modified the draft report recommendation to provide for specific time frames for the review and to request that the OIG be provided the results of the review.

INTRODUCTION

In 1986, several agencies, including the Department of Commerce, conducted a pilot project to evaluate the usage of bankcards. The pilot project was successful in identifying opportunities for reducing administrative procurement costs. In 1989, the bankcard was made available governmentwide through a contract administered by the General Services Administration (GSA). The objectives of the Purchase Card Program are to (1) reduce procurement administrative costs and improve cash management by expediting and simplifying small purchases, and (2) improve internal controls to eliminate the fraud and abuse present in other small purchase methods.

Bankcard use was facilitated by the Federal Acquisition Streamlining Act of 1994 and Executive Order 12931, which eliminated some requirements for purchases of \$2,500 or less, known as “micro-purchases,” and encouraged agencies to move the authority to make simple purchases from procurement offices to program offices. The General Accounting Office¹ found that the use of bankcards has skyrocketed, and “using the purchase card has helped government agencies achieve administrative savings and efficiencies, absorb some of the impact of staffing cuts, and improve their abilities to fulfill their missions.” In FY 1995, bankcards were used governmentwide to make about 4 million purchases totaling over \$1.6 billion.

While use of the bankcard has been encouraged by the Federal Acquisition Streamlining Act, Census Bureau Officials are responsible for ensuring that bankcard usage complies with Federal Acquisition Regulations (FAR) and Commerce Acquisition Manual requirements. The Department’s Office of Acquisition Management is responsible for overseeing the management of the Purchase Card Program within Commerce and, in turn, has delegated that authority to the Heads of Contracting Offices (HCOs). The Census Bureau HCO further delegated purchasing authority to local approving officials and individual cardholders. HCOs, approving officials, and cardholders all have responsibilities to ensure that the Purchase Card Program is properly administered.

PURPOSE AND SCOPE OF AUDIT

In conjunction with our plan to periodically review Commerce field units’ use of bankcards, we conducted an audit to determine whether the Census Bureau’s Atlanta Regional Office was utilizing its bankcards in accordance with FAR, Part 13, *Simplified Acquisition Procedures*, and the Commerce Acquisition Manual, Part 13, *Commerce Purchase Card Procedures*.

Our audit covered the 12-month period ended July 1997, during which time the Regional Office purchased 139 items, totaling \$53,485, using the bankcard. We reviewed all 13 transactions of \$1,000 and over, and every seventh item below \$1,000. This sample methodology resulted in a selection of 32 of the 139 transactions, or 23 percent, for testing. We reviewed applicable regulations, policies, and procedures; examined documentation, management reports, and

¹ GAO report number GAO/NSIAD-96-138, *Acquisition Reform*, August 1996.

records; and interviewed officials as deemed necessary. We also reviewed the monthly management reports on bankcard usage prepared by the Commerce BankCard Center. We conducted fieldwork in August and September 1997.

We reviewed administrative and accounting internal controls relating to the Atlanta Regional Office's use of the government purchase card, including controls over the physical security and authorized use of the bankcards, and the approval, order, and receipt of purchased items. We found that the Regional Office needed to improve internal control practices as discussed in the "Findings and Recommendations" section of this report. As a result, we could not rely on the controls in developing our audit approach. Consequently, we conducted extensive testing to achieve our audit objective of determining whether the office complied with the applicable regulations.

In conducting our review, we relied on computer processed data. We tested the accuracy of the data by tracing the data to original source documents and by comparing it to the same data in other documents. Based on our tests, we concluded that the data was sufficiently reliable for use in meeting our objectives.

We also evaluated the Regional Office's compliance with laws and regulations applicable to the use of government bankcards. We identified FAR, Part 13, and the Commerce Acquisition Manual, Part 13, as the applicable regulations. We found that the office was not in compliance with certain requirements. The noncompliance was deemed material and is detailed in the "Findings and Recommendations" section of this report.

We conducted the audit in accordance with generally accepted government auditing standards and under authority of the Inspector General Act of 1978, as amended, and Department Organization Order 10-13, dated May 22, 1980, as amended.

FINDINGS AND RECOMMENDATIONS

INTERNAL CONTROLS OVER CARD USE NEED TO BE IMPROVED

The Atlanta Regional Office is not following appropriate internal control procedures, including card security and use, and it is not following sound management practices in the order, receipt, and recording of purchased goods. As a result, the office is at risk for procurements that are unauthorized, improper, and uneconomical.

Annual Review of Bankcard Activity Not Performed

Commerce Acquisition Manual Part 13, Chapter 1, charges the Census Bureau's HCO with the responsibility of "reviewing the Purchase Card Program at least once a year to ensure that cardholders and cardholder approving officials use internal controls and follow proper procedures." The Census Bureau's HCO stated that, due to limited travel funds, annual reviews of Atlanta's purchase card procurements have never been performed. This review is an important internal control technique in the detection and prevention of problems such as those discussed in the following subsections.

Bankcards Not Maintained in Secure Location

A lack of proper security measures places the Regional Office at risk for unauthorized use and improper purchases. The office has three cardholders who maintain a lockbox, stored in a locked file cabinet, for securing the bankcards while not in use. We made an unannounced visit and found only one of the cards in the lockbox. The other two cards were in the possession of the cardholders, one of whom was out of the office on leave. According to the Manual, Part 13, Chapter 1, Item 8 b. (10), cardholders must "Keep the Purchase Card in a secure place."

Unauthorized Card Use and Purchase of Prohibited Items

A Regional Office cardholder violated Commerce regulations by allowing an unauthorized employee to use a bankcard, even though there were two other authorized cardholders in the office. The unauthorized user purchased printed invitations from a commercial print shop for \$635. The Manual, Part 13, Chapter 1, Item 8 b.(1), states that "Cards may not be used by any person other than the person designated on the card."

On two occasions the Regional Office purchased prohibited items. The first occasion is noted above, while the second occasion involved a cardholder purchasing printing supplies from a commercial print shop for \$575. The Manual, Part 13, Chapter 1, Item 11 c., states "The only time a cardholder may obtain printing with the purchase card is (1) when the cardholder orders printing directly from the Government Printing Office (GPO) or (2) obtains a waiver from the GPO to buy commercially." The office did not obtain the required waivers.

Purchases Not Preapproved

The Regional Office cardholders did not obtain approval before orders were placed for 13 of the 32 purchase transactions we examined. Procurement Memorandum 95-23, issued by the Department's Chief Financial Officer on August 9, 1995, states "Cardholders are now required to obtain prior approval from their supervisor or cardholder approving official before making any purchase." The required approval need not be administratively burdensome. An electronic e-mail message or other informal means of documentation is adequate. The office previously developed an approval form which, if followed, would meet this requirement.

Receipt of Goods Not Documented

The Regional Office was not able to provide documentation to evidence receipt of goods for 21 of the 32 transactions we reviewed. Sound management practices call for a procedure to ensure that cardholder purchases are received. This inspection could be performed by the approving official or another designated employee to verify, at least on a random basis, that cardholder purchases are received. These procedures need not be administratively burdensome, and could be accomplished by having another employee sign that the goods were received.

Property Transaction Forms Not Completed

The Regional Office did not complete the required Property Transaction Request Form (CD 509) for two of the purchases we reviewed. These purchases involved property valued at over \$2,500, known as accountable property, and were the only test items subject to this requirement. The Manual, Part 13, Chapter 1, Item 16, states "When purchasing any personal property at \$2,500 or more...the cardholder must forward a Form CD 509, 'Property Transaction Request' or the property receipt to their servicing property office." This step is necessary to ensure that the accountable property is recorded in the agency's inventory.

Records Not Properly Maintained

One cardholder did not keep several of the monthly statements along with the necessary supporting documentation such as receipts and invoices. As a result, the Regional Office could not provide supporting documentation for five purchases amounting to \$4,391. According to the

Manual, Part 13, Chapter 1, Item 19, "Purchase card records must be retained for 24 months after the end of the fiscal year in which the transaction occurred."

Required Training Not Provided

Two of the cardholders at the Regional Office had not viewed the training videotape, which discusses restricted and prohibited purchases such as printing services. This training is essential to educate cardholders as to the proper use of the bankcard and is required by the Manual, Part 13, Chapter 1, Item 7 b. (4), which states "HCOs shall ensure cardholders and cardholder approving officials review these procedures and view the training video once every two years." Also, Item 7 b. (1) of the Manual states, "HCOs should provide cardholders and cardholder approving officials with information and basic instructions on how to use the purchase card. HCOs may require cardholders and cardholder approving officials to take additional training."

In summary, the Regional Office's internal control practices need to be improved to ensure the physical security and appropriate use of bankcards. In addition, the office does not consistently follow sound management practices in the order, receipt, and recording of purchased goods. As a result, the office is at risk for procurements that are unauthorized, improper, and uneconomical. Corrective action must be taken to curb potential waste and abuse of the bankcard authority by program officials.

Recommendation

We recommend that the Census Bureau's HCO ensure that effective internal control procedures are implemented and followed by the Atlanta Regional Office. The HCO should monitor the effectiveness of the internal control procedures by:

- (1) Completing timely reviews of the office's procurements;
- (2) Performing a review of the Atlanta Office's bankcard activity as part of its annual review of the Purchase Card Program. The review should be accomplished no earlier than 6 months, or later than 18 months, from the date of this report and the OIG' Office of Audits should be provided the results of the review; and
- (3) Ensuring that:
 - # Bankcards are physically secure.
 - # Bankcards are used only by authorized employees and for allowable purchases.
 - # All purchases have signed prior approvals.

- # The receipt of goods and services is documented.
- # Required Property Transaction Request Forms (CD 509) are completed and forwarded to the servicing property office.
- # Monthly statements along with invoices and receipts are properly maintained.
- # Cardholders receive required training.

Census Response

The Census Bureau partially agreed with the draft audit report recommendation. The Bureau stated it will remind cardholders in a formal memorandum of the importance of their adherence to the cited issues. The Bureau also stated that Bankcard activity is reviewed and monitored through the Bankcard Information System (BCIS) on a bi-weekly basis. With BCIS the HCO has the ability to view all or as many transactions as deemed necessary. Usage of BCIS is mandatory for all cardholders. In addition to monitoring BCIS, an annual review is conducted at Bureau headquarters on a random basis. Approving officials and cardholders are selected based on usage of cards and the limits. The Bureau further stated that Property Transaction Request Forms (CD 509) are no longer required because of information available in the Bankcard Information System. A copy of the Census Bureau's response is included as Appendix I.

OIG Comments

We appreciate the Census Bureau's positive response to the internal control recommendation in our draft audit report. However, in addition to the Bureau's planned formal memorandum on adherence to internal control procedures, a follow-up review is necessary to ensure that the Atlanta Office has implemented the appropriate procedures. Therefore, we reaffirm our recommendation that the Bureau's HCO perform a review of the Atlanta Office's bankcard activity as part of its annual review of the Purchase Card Program. In addition, we have modified the draft report recommendation to provide for specific time frames for the review and to request that the OIG be provided the results of the review.

The Commerce Acquisition Manual, Part 13, Chapter 1, *Commerce Purchase Card Procedures* requires the completion of Property Transaction Request Form (CD 509) for purchases of personal property of \$2,500 or more. If the Bureau's management concludes that the new Bankcard Information System renders this form obsolete, the Bureau should have this change incorporated into the Commerce Acquisition Manual.

COMPETITION NOT PROMOTED FOR PURCHASES OVER \$2,500

One cardholder in the Regional Office made two purchases in excess of \$2,500 without obtaining required competitive quotations or developing a sole-source justification. As a result, the Census Bureau cannot document that the most competitive price was received. For purchases exceeding the micro-purchase threshold of \$2,500, the FAR, Part 13.106-2 (4), states that "solicitation of at least three sources generally may be considered to promote competition to the maximum extent practicable." Part 13.106-2 (d) (3) of the regulation adds, "If only one source is solicited and the acquisition does not exceed the simplified acquisition threshold [\$100,000], an additional notation shall be made to explain the absence of competition..."

In September 1996, an overhead projector was purchased for \$5,459. The cardholder made the purchase without obtaining competitive quotes or developing a sole-source justification. While the cardholder stated that Census headquarters provided authorization for the purchase of the projector, there was no required documentation to show that the Regional Office received the most favorable price.

In December 1996, a purchase request was authorized by the approving official for the \$7,484 purchase of property data maps covering nine counties in Georgia and Florida. While the purchase request stated that the items were not available through normal GSA channels, there was no sole-source justification or evidence that the vendor had the most competitive price or was the only available supplier. To ensure that the Regional Office receives the lowest price, the approving official must ensure that all purchases over \$2,500, including the purchases of maps, conform to FAR.

Recommendation

We recommend that the Census Bureau's HCO provide written instructions to the Atlanta Regional Office directing the office to comply with the FAR requirements for proper competitive procedures or sole-source justifications for purchases over \$2,500, and perform a review to ensure that the office is following appropriate procedures.

Census Response

The Census Bureau stated that through training and education of the cardholders and approving officials, it can promote awareness of competition requirements. The Bureau also stated that the only cardholders making these types of purchases are the ones with the \$25,000 per purchase limit, who have the required training, but further stated it would reduce their limits to \$2,500 per purchase if necessary. A copy of the Census Bureau's response is included as Appendix I.

OIG Comments

We believe it is necessary for the Bureau to take a more active role in assuring that the proper competitive procedures are followed. Therefore, we have modified our draft report recommendation to require the Bureau's HCO to provide written instructions to the Atlanta Regional Office directing the office to comply with the FAR requirements and perform a review to assure that the office is following appropriate procedures.

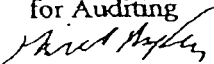


UNITED STATES DEPARTMENT OF COMMERCE
Bureau of the Census
Washington, DC 20233-0001

OFFICE OF THE DIRECTOR

February 3, 1998

MEMORANDUM FOR George E. Ross
Assistant *Inspector General*
for Auditing

From: 
Michael S. McKay
Acting Associate Director for
Administration/Controller

Subject: Internal Controls Over Atlanta Bankcard Purchases Need
Improving, Draft Audit Report No. ATL-10316-8-XXXX

Thank you for the opportunity to comment on the subject draft report of the need for improvement of the Atlanta Regional Office internal controls over bankcard purchases. We have attached the Census Bureau's response to the recommendations. Additionally, Field Division will issue a memorandum to the Regional Offices addressing the issues cited in the report as a reminder of the importance of internal control practices to assure the physical security and appropriate use of bankcards. If you have any questions, please contact me at 301-457-3115.

Attachment

Draft OIG Report
“Internal Controls Over Atlanta Bankcard Purchases Need Improving”
Report No. ATL-10316-8-XXXX

Recommendation 1:

We recommend that the Census Bureau’s HCO ensure that effective internal control procedures are implemented and followed by the Atlanta Regional Office. The HCO should monitor the effectiveness of the internal control procedures by completing timely reviews of the office’s procurements and perform the required annual review of bankcard activity.

Bureau Response: Bankcard activity is reviewed and monitored through the Bankcard Information System (BCIS) on a bi-weekly basis. With BCIS the HCO has the ability to view all or as many transactions as deemed necessary. Usage of BCIS is mandatory for all cardholders. In addition to monitoring BCIS, an annual review is conducted at Bureau headquarters on a random basis. Approving officials and cardholders are selected based on usage of cards and their limits.

The Bureau will assure that:

- **Bankcards are physically secure.**

Bureau Response: Cardholders are told to keep the card stored in a safe, locked location. The only time that they are permitted to remove the card is when using it to make a purchase. When conducting annual reviews, cardholders are questioned as to the whereabouts of the card and to actually show where the card is kept.

- **Bankcards are used only by authorized employees and for allowable purchases.**

Bureau Response: Cardholders are made aware when trained that unauthorized use of the card is not allowed under any circumstances. When the approving official is made aware of a situation of this type, he/she should inform the HCO immediately so that the appropriate action may be taken. Appropriate action would be, and has been, canceling the card with no chance for reinstatement.

The purchase of prohibited items also is not allowed. When reviewing the BCIS, if a transaction is found to be questionable, a memo is sent to the cardholder and approving official for clarification. Upon receipt of an explanation, a decision is made as to whether the card can be kept. If the purchase is justified and explained fully, the cardholder is allowed to keep the card. If not reasonably justified, the card is canceled.

- **All purchases have signed prior approvals.**

Bureau Response: Procurement Memorandum 95-23, issued on August 9, 1995, states that prior approval is required before making any purchase. This can be accomplished electronically or verbally with the cardholder making notation to that effect.

- **The receipt of goods and services is documented.**

Bureau Response: We maintain a file of packing slips and we also enter the required information on items received in the electronic log of the BCIS. Additionally, for items costing under \$2,500, we maintain a file of invoices with our signature acknowledging that the item was received; for items costing over \$2,500, we prepare a BC-1681A, Regional Office Purchase Order Receiving Report, forward one copy of the form to the Administrative and Customer Services Division (ACSD), and retain one copy in our files.

- **Required Property Transaction Request Forms (CD 509) are completed and forwarded to the servicing property office.**

Bureau Response: Cardholders using BCIS do not have to complete the required form. The ACSD has electronic access to all BCIS transactional data. This data duplicates the information that appears on the CD-509. Therefore, completion and submission of this form to the property office is not necessary.

- **Monthly statements along with invoices and receipts are properly maintained.**

Bureau Response: Cardholders must maintain statements and all supporting documentation for a period of 24 months after the end of the fiscal year in which the transactions occurred per Census Administrative Manual Chapter 13. Supporting documentation consists of the bank statement, invoices, bills, and packing slips.

- **Cardholders receive required training.**

Bureau Response: It is mandatory for cardholders and approving officials to view the video from the Commerce Bankcard Center. The video is to be viewed on a bi-yearly basis. Cardholders with the \$25,000 per purchase and monthly limits must attend the 40-hour Simplified Acquisition Class. After two years, they must attend the refresher for this class to maintain their limits.

Cardholders will be reminded in a formal memorandum of the importance of their adherence to the above cited issues

Recommendation 2:

We recommend that the Census Bureau's HCO require that the Atlanta Regional Office comply with FAR by requiring proper competitive procedures or sole-source justifications for purchases over \$2,500.

Bureau Response: Through training and education of the cardholders and approving officials, we can promote awareness of the competition requirements. The only cardholders making these types of purchases are the ones with the \$25,000 per purchase limit. These cardholders have the required training. If necessary, their limits will be reduced to \$2,500 per purchase.