

*U.S. DEPARTMENT OF COMMERCE*  
*Office of Inspector General*

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**PUBLIC  
RELEASE**

*NATIONAL OCEANIC AND  
ATMOSPHERIC ADMINISTRATION*

*Internal Controls Over Southeastern  
Fisheries Science Center Bankcard  
Purchases Need Improvement*

*Audit Report No. ATL-11860-0-0001/March 2000*

*Office of Audits, Atlanta Regional Office*



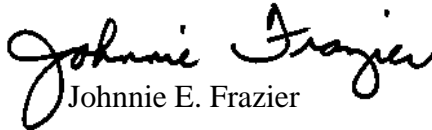


**UNITED STATES DEPARTMENT OF COMMERCE**  
**The Inspector General**  
Washington, D.C. 20230

March 17, 2000

MEMORANDUM FOR: Penelope Dalton  
Assistant Administrator  
National Marine Fisheries Service  
National Oceanic and Atmospheric Administration

FROM:

  
Johnnie E. Frazier

SUBJECT: Internal Controls Over Southeastern Fisheries Science  
Center Bankcard Purchases Need Improvement  
Audit Report No. ATL-11860-0-0001

The Office of Inspector General has completed an audit of bankcard transactions at the National Marine Fisheries Service's Southeastern Fisheries Science Center at Miami for the 12-month period ended September 1998 to determine whether the purchases were in compliance with applicable *Federal Acquisition Regulation* and *Commerce Acquisition Manual* requirements. By using the bankcard, the Southeastern Fisheries Science Center has reduced the administrative burden and cost associated with small purchases and enhanced its ability to fulfill its mission. However, we found deficiencies in internal control practices, which we believe can be prevented by cardholder training and stronger oversight from cognizant agency officials.

In response to the draft report, NOAA agreed with our findings and recommendations but requested clarifying instructions on how to implement the recommendation to ensure the security of bankcards when cardholders are in the field. We appreciate NOAA's positive response to the report. We recognize that cardholders in the field present a special situation but believe that the agency can develop a practical procedure for those cardholders that meets the intent of the *Commerce Acquisition Manual*. This could include keeping the bankcard in a wallet or purse providing the cardholder maintains control. NOAA's response to the draft audit report, excluding attachment, is included as Attachment 1 to this report.

Please provide your audit action plan addressing the recommendations within 60 calendar days, in accordance with Department Administrative Order 213-5. The plan should be in the format specified in Exhibit 7 of the DAO. Should you have any questions regarding the preparation of the audit action plan, please call me on 202-482-4661, or contact Larry Gross, Deputy Assistant Inspector General for Regional Audits on 202-482-1934 or William F. Bedwell, Jr., Regional Inspector General for Audits, Atlanta Regional Office, on 404-730-2780.

All correspondence should refer to the audit report number given above. We appreciate the cooperation and courtesies extended by the NOAA staff during our audit.

## INTRODUCTION

In 1986, several agencies, including the Department of Commerce, conducted a pilot project to evaluate the usage of bankcards. The project was successful in identifying opportunities for reducing procurement administrative costs. In 1989, the bankcard was made available governmentwide through a contract administered by the General Services Administration. The objectives of the Purchase Card Program were 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 from procurement offices to program offices the authority to make simple purchases. The General Accounting Office<sup>1</sup> 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, officials from the National Oceanic and Atmospheric Administration’s National Marine Fisheries Services (NMFS) must ensure that bankcard usage complies with *Federal Acquisition Regulation (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 NMFS HCO further delegated purchasing authority to local approving officials and individual cardholders. HCOs, approving officials, and cardholders all have the responsibility to ensure that the Purchase Card Program is properly administered.

## PURPOSE AND SCOPE OF AUDIT

We conducted the audit to determine whether NMFS’s Southeastern Fisheries Science Center 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 September 1998. During this period, the Center had 56 bankcard holders; however, only 46 cardholders used their card. Furthermore, we chose to audit the Miami and Panama City offices because of the large number of cardholders and the high total dollar value of the bankcard transactions at each location.

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

Our selection process began with the selection of all cardholders with purchases for fiscal year 1998 totaling at least \$4,000. This resulted in the selection of 14 cardholders, 10 from Miami and 4 from Panama City. For the 14 cardholders, we stratified their single purchases into three levels and sampled the results as follows: (1) \$2,500 and above were tested at 100 percent; (2) \$1,000 but less than \$2,500 were scientifically sampled at 25 percent; and (3) less than \$1,000 were scientifically sampled at 10 percent. We also selectively chose single purchases throughout the audit based on such characteristics as the vendor description or the nature of the item purchased. Our sample methodology resulted in a test of 270 transactions, or 17 percent of all transactions, and \$366,180, or about 57 percent of all dollars spent.

We reviewed applicable regulations, policies, and procedures; examined documentation, management reports, and 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 our fieldwork in May and June of 1999.

We reviewed administrative and accounting internal controls relating to the Center's use of the government purchase card, including controls over the physical security and authorized use of the bankcards, and the approval and recording of purchased items. We found that the Center 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 applicable regulations.

We relied on computer processed data in conducting our review. 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 Center'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**

### **1. Internal Controls over Card Use Need to Be Improved**

NMFS's Southeastern Fisheries Science Center is not following appropriate internal control procedures, including card security and use. Furthermore, the Center did not follow sound management practices in the ordering and recording of purchased goods. As a result, the Center is at risk for procurements that are unauthorized, improper, and uneconomical.

#### **A. Security over bankcards needs improvement**

Of the 11 cardholders we interviewed, 6 had their bankcards in a wallet or purse, 3 kept the card in an unlocked desk and 2 kept the card in an office safe. According to the *Commerce Acquisition Manual*, Part 13, Chapter 1, Item 8c.(10), cardholders must "Keep the Purchase Card in a secure place." If the bankcard is left in an unlocked desk drawer, cabinet or in a wallet or purse, there is a risk that the card could be stolen.

#### **B. Unauthorized card use found**

Three cardholders violated Commerce regulations by allowing other employees to use their bankcard or to sign for purchases ordered by the cardholder. For example, a cardholder at Panama City placed eight telephone orders for varied merchandise and services but someone other than the cardholder signed the cardholder's name to the receipts. Another cardholder at Panama City let someone else sign for five of his bankcard transactions made by telephone. A cardholder at Miami let another person use his bankcard to purchase air carrier support services. The individual using the bankcard was under contract for personal services and was not a NOAA employee. The *Commerce Acquisition Manual*, Part 13, Chapter 1, Item 8c.(1), states that "Cards may not be used by any person other than the person designated on the card."

#### **C. Purchases not always preapproved**

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." Center officials previously developed a form for preapprovals, NOAA Form 37-900, "Requisition For Supplies Or Services." Cardholders generally obtained the necessary prior approval before orders were placed; however, we found that 49 of the 270 purchase transactions we examined had not been preapproved.

**D. Property transaction forms not completed and property unaccounted for**

Our review of accountable and sensitive property purchased with government bankcards disclosed that cardholders do not always complete the required Commerce Form CD-509, "Property Transaction Request" or submit a property receipt to the appropriate official. *Commerce Acquisition 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.

During our audit, agency officials told us that they could not account for 65 personal property items totaling approximately \$293,000. The majority of the property unaccounted for was computer equipment. The officials stated that they are researching the documentation and contacting the individual cardholders in an effort to locate the property.

**E. Records not properly maintained**

Most of the bankcard purchase records for fiscal year 1998 were readily available for our review; however, Center officials could not provide four monthly statements or other documentation to support purchases made by seven cardholders. Part 13, Chapter 1, Item 19, of the *Commerce Acquisition Manual* states, "Purchase card records must be retained for 24 months after the end of the fiscal year in which the transaction occurred." From our sample of 270 transactions, we could not find documentation to support 14 single purchases, or 5 percent of the purchases included in our sample, for the six cardholders.

**F. Required training not provided**

Part 13, Chapter 1, Item 7b.(4), of the *Commerce Acquisition Manual* states "HCOs shall ensure cardholders and cardholder approving officials review these procedures and view the training video once every two years." Also, Item 7b.(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." Of the 11 cardholders we interviewed, 10 cardholders stated they do not remember receiving training on the bankcard and one cardholder stated that he had received training on the bankcard but did not remember when the training occurred. Center officials stated that they were not aware that cardholders had not received the required training.

**G. Inactive cardholders situation should be reassessed**

During fiscal year 1998, we found that 10, or 18 percent, of the 56 cardholders did not use their bankcard. Furthermore, the 10 cardholders had a combined single purchase limit of \$28,500 and a 30-day purchase limit of \$57,000. We believe that the number of cardholders is higher than needed given their purchasing capacity and the administrative burden of maintaining proper oversight of card use as required by the CAM. The *Commerce Acquisition Manual*, Part 13, Chapter 1, Item 8.a., requires that senior Commerce officials ensure that adequate internal controls are in place and that annual reviews of bankcard activity are conducted. Center officials should reassess its need for the 10 inactive cardholders since they can obligate federal funds and do so with little oversight through using the purchase card.

**H. Cardholders not maintaining required purchase card order log**

*Commerce Acquisition Manual*, Part 13, Chapter 1, Item 8.c.(5) requires cardholders to record all purchases to a Purchase Card Order Log. The log is the cardholder's record of account for each purchase card transaction. Without using the log to record all bankcard transactions when made, the cardholders cannot adequately document, control, and reconcile purchase activity with the bankcard statement and the approving officials cannot adequately determine whether the transactions are appropriate. Of the 11 cardholders we interviewed, only 6 kept a Purchase Card Order Log. As a result, the Center is at risk for unauthorized and improper procurements.

**I. Cardholders not always requesting sales tax exemption**

*Commerce Acquisition Manual*, Part 13, Chapter 1, Item 8.c.(8) requires cardholders to "Always request a sales tax exemption." We found that two cardholders failed to obtain the sales tax exemption on three separate occasions. While the amount involved in the tests was insignificant, the Center's approving official needs to enforce the requirement to obtain the sales tax exemption.

In summary, the Center's internal control practices do not provide assurance of the physical security and appropriate use of bankcards. Furthermore, the Center does not consistently follow sound management practices in the order and recording of purchased goods. As a result, the office is at risk for procurements that are unauthorized and improper. Corrective action must be taken to reduce potential waste and abuse of the bankcard authority by program officials.

**Recommendation**

We recommend that the HCO for NMFS's Southeastern Fisheries Science Center ensure that procedures are implemented by the Center to ensure effective internal control procedures for bankcard usage. We further recommend that the HCO monitor the effectiveness of the internal control procedures through his/her continuing reviews of the Center's procurement activity and ensure that:

- Bankcards are physically secure.
- Bankcards are used only by authorized employees.
- All purchases have prior approvals.
- Required Property Transaction Request Forms (CD 509) are completed and forwarded to the servicing property office and property is properly accounted for.
- Monthly statements along with invoices and receipts are properly maintained.
- Cardholders receive required training.
- The Center reassess its need for inactive cardholders to continue to hold cards.
- Cardholders maintain a Purchase Card Ordering Log.
- Cardholders always obtain the sales tax exemption.

In addition, we request that the HCO provide our office with the results of his/her efforts to locate the property that was missing.

### **NOAA Response**

NOAA agreed with all the recommendations made in the draft audit report but requested clarifying instructions on how to implement the recommendation to ensure that bankcards are physically secure. NOAA expressed concern that too rigorous a policy may not serve to ease the acquisition process for cardholders in the field. NOAA stated it will work to improve the Southeastern Fisheries Science Center Bankcard Program by providing instructions to cardholders on the physical security of bankcards, authorized usage, prior approval of purchases, proper use of the CD-509, Property Transaction Reports, training requirements, maintaining a purchase card order log, and instructions to obtain the sales tax exemption.

In response to the recommendation to ensure that monthly statements along with invoices and receipts are properly maintained, NOAA stated that it has established a policy to document all requests for access to files. In addition, NOAA provided a January 2000 report showing one current cardholder as inactive and stated that it will continue to monitor inactive status. Finally, NOAA stated that the 65 personal property items cited in the report were found, property records reconciled and properly reported to the Central Administrative Support Center Facilities and Logistics Division, and that a system has been put in place to ensure timely submission of the CD-509s. A copy of NOAA's response, excluding attachment, is included as Attachment 1.

### **OIG Comments**

We appreciate NOAA's positive response to provide written instructions to its cardholders and approving officials and to monitor operations to ensure that effective internal control procedures are implemented and followed by the Southeastern Fisheries Science Center. NOAA should provide to the OIG copies of all memorandums issued to ensure that the Center has implemented the appropriate internal control procedures. The Center should also provide the OIG documents



supporting the proper accounting and reporting of the missing 65 personal property items cited in the report. All requested information should be provided to the OIG with NOAA's action plan.

We recognize that cardholders in the field present a special situation but believe the agency can develop practical procedures that meet the intent of the Commerce Acquisition Manual. This could include keeping the bankcard in a wallet or purse providing the cardholder maintains control.

Attachment

cc: Paul Roberts, Chief Financial Officer and Chief Administrative Officer, NOAA  
Barbara Martin, Chief, Audit and Internal Control Staff Office, NOAA



**UNITED STATES DEPARTMENT OF COMMERCE**  
**National Oceanic and Atmospheric Administration**  
CHIEF FINANCIAL OFFICER/CHIEF ADMINISTRATIVE OFFICER

FEB 21 2000

MEMORANDUM FOR: Mary L. Casey  
Acting Assistant Inspector General  
for Auditing

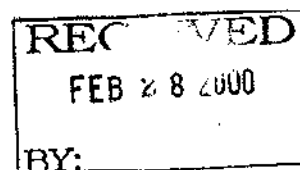
FROM: Paul F. Roberts *Paul F. Roberts*

SUBJECT: NOAA Response to Draft OIG Audit Report "Internal  
Controls Over Southeastern Fisheries Science Center  
Bankcard Purchases Need Improvement,"  
Report No. ATL-11860-0-XXXX/January 2000

Thank you for the opportunity to review and comment on the subject draft report concerning the internal controls over the National Marine Fisheries Service's Southeastern Fisheries Science Center Bankcard Program. The National Oceanic and Atmospheric agrees with the Office of Inspector General's (OIG) finding and concurs with eight of the nine recommendations made by the OIG to improve the Southeastern Fisheries Science Center Bankcard Program. We are requesting additional clarifying information concerning one of the recommendations.

If you have any questions concerning our response, or should you require further assistance, please contact Barbara Martin on 301-713-1150.

Attachment



NOAA Response to Draft Audit OIG Report "Internal Controls Over Southeastern Fisheries Science Center Bankcard Purchases Need Improvement," Report No. ATL-11860-0-XXXX/January 2000

OIG Recommendation 1: *Ensure that bankcards are physically secure.*

NOAA Response: While we recognize the need for enhanced security, we are unsure how to apply the policy to employees who are in the field a significant portion of the time and who may need to use a credit card on a frequent basis. We would appreciate receiving clarification from the Office of Inspector General (OIG) on the meaning of "secure" in the context of the Commerce Acquisition Manual (CAM), Part 13, Chapter 1. Too rigorous a policy in this area may defeat the intent of the credit card program to ease the acquisition process, especially in field locations. A memorandum from the Southeastern Fisheries Science Center Director will direct all cardholders to secure cards in a locked desk, cabinet, or safe when in the office.

OIG Recommendation 2: *Ensure bankcards are used only by authorized employees.*

NOAA Response: Concur. The Panama City employees cited in the report signed for telephone orders placed by senior scientists. In August 1999 the facility increased the number of cardholders to facilitate the acquisition process, and have since stopped this practice. The Miami Laboratory cardholder cited in the report gave his card number over the telephone to the contract employee (the marine mammals stranding coordinator) when she was requesting emergency helicopter service to address a marine mammal stranding event in the field. The cardholder should have spoken directly to the vendor. The contractor was a prior government employee, then converted to a contractor, and is now a NMFS employee and a cardholder. This issue (only the cardholder using his/her card) will be covered in a memorandum from the Southeastern Fisheries Science Center Director.

OIG Recommendation 3: *Ensure all purchases have prior approval.*

NOAA Response: Procurement Memorandum 95-25, issued by the Department's Chief Finance 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." This statement implies verbal or written approval. Although we are unaware of written documentation requiring mandatory use of the NOAA Form 37-900, "Requisition for Supplies or Services" for bankcard services, the general policy at Southeastern Fisheries Science Center has been to use the form. There are field situations when prior approval is not practical, and the standard practice has been that, e.g., port agents have verbal authorization to make small

purchases (up to \$200) without the supervisor's written approval for office/field supplies and emergency needs (also, these cards have a \$500 limited monthly cycle). The project leaders in the field have had specific verbal authority to purchase research supplies and services to meet research objectives. Project leaders are aware of funding availability. The Southeastern Fisheries Sciences Center Director will issue a memorandum to staff reiterating the policy on verbal and written preapprovals.

**OIG Recommendation 4:** *Ensure that the required Property Transaction Request Forms (CD 509) are completed and forwarded to the servicing property office and property is properly accounted for.*

**NOAA Response:** The 65 personal property items cited in the report were found, properly reconciled, and the CD-509 Property Transaction Reports were submitted to the Central Administrative Support Center (CASC) Facilities and Logistics Division. A system has been put in place to ensure timely submission of the CD-509s. Upon receipt of the accountable property, the cardholder prepares and submits the Accountable Property Preliminary Information Sheet to the property officer. After the approving official reviews all statements and the electronic file are transmitted to CASC, the property officer receives a copy of the electronic bankcard file, and the procurement and property documents for cardholders who purchased accountable property. He signs a log for receipt of these documents. Upon receipt of this information, the property officer is required to promptly attach bar codes to the equipment and submit the CD-509 to CASC. Frequently, the equipment is already bar coded by the time he receives the information from the approving official. The Southeastern Fisheries Science Center is current on all property transactions. The Southeastern Fisheries Science Center Director's memorandum to staff will reinforce the existing policy.

**OIG Recommendation 5:** *Ensure that monthly statements along with invoices and receipts are properly maintained.*

**NOAA Response:** Concur. Some files were not in the appropriate file folders during the audit. Files are centrally maintained by the name of the cardholder and by fiscal year. Since the conclusion of this audit, we have established a policy whereby all requests for file access are documented. In the past, some individuals had undocumented access to these files to reconcile accountable property, answer vendor or project manager queries, and research NOAA accounting discrepancies or NMFS Financial Reporting System problems.

**OIG Recommendation 6:** *Ensure cardholders receive required training.*

**NOAA Response:** Concur. Effective July 1, 1999, the Bankcard Training Video became obsolete. CAM Part 13, Chapter 1, is currently under revision. We will work with CASC to obtain a package of current regulations and procedures to be issued with the Southeastern

Fisheries Science Center Director's policy memorandum. In addition, training has been requested from the Eastern Administrative Support Center. Per Mr. Mal DesJarlais, Ms. Caroline Collins should be available to conduct an 8-hour training class. For control purposes, we will recommend to CASC that all new bankcards be mailed directly to the approving official, so he or she can meet individually with the cardholder and review the guidelines. We also recommend that Citibank or CASC considers sending periodic training reminders to the approving official.

**OIG Recommendation 7:** *Ensure the Center reassess its need for inactive cardholders to continue to hold cards.*

**NOAA Response:** Concur. We concur that the cardholders should be reassessed annually. Citibank issues a report entitled, "Forecast of Reissue/Non-Issue" which shows inactive accounts. (The January 31, 2000, report is attached.) Only one Southeastern Fisheries Science Center employee was identified as inactive. The purpose of the bankcard is to facilitate the acquisition process. Employees work on different research projects, however, and procurement activity may vary considerably from year to year. The administrative burden is less with a bankcard. The Southeastern Fisheries Science Center will continue to monitor inactive status.

**OIG Recommendation 8:** *Ensure cardholders maintain a purchase card order log.*

**NOAA Response:** Concur. Since the audit, we have required that a credit card log sheet is submitted with each statement. This log and supporting documentation (NOAA Form 37-900, original receipts, etc.) are used to verify purchases and enter commitments into the NMFS Financial Reporting System. The CAM does not require the log be attached to the monthly statement, only that one be maintained by the cardholder. In the past, these logs were submitted to CASC upon their request. The memorandum from the Southeastern Fisheries Science Center Director will direct all cardholders to maintain logs in accordance with official procedures.

**OIG Recommendation 9:** *Ensure cardholders always obtain the sales tax exemption.*

**NOAA Response:** Concur. Cardholders are experiencing difficulties with small businesses accepting the tax exemption certificate locally and in the field. Store employees do not know how to process the exemption transaction and/or feign ignorance. In many ways this problem parallels the problems faced by federal travelers who find it burdensome and frustrating to negotiate tax immunity with hotels. Nevertheless, the Southeastern Fisheries Science Center policy memorandum will direct all cardholders to use sales tax exemption forms and to contact Citibank immediately when a vendor will not cooperate.