

U.S. DEPARTMENT OF COMMERCE
Office of Inspector General



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**MINORITY BUSINESS
DEVELOPMENT AGENCY**

*Internal Controls Over
Bankcard Use Are Sound*

Final Audit Report No. BTD-12022-0-0001/December 1999

Office of Audits, Business and Trade Audits Division





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

December 17, 1999

MEMORANDUM FOR: Courtland Cox
Director
Minority Business Development Agency

FROM:

Johnnie E. Frazier

SUBJECT:

Internal Controls Over Bankcard Use Are Sound
Final Audit Report No. BTD-12022-0-0001

The Office of Inspector General has completed an audit of bankcard use during FY 1998 by the Minority Business Development Agency. The oversight and review provided by MBDA management and staff have resulted in sound internal controls over MBDA bankcard transactions. We found that MBDA personnel complied with regulations over bankcard use and maintenance. However, among the internal controls required by the *Commerce Acquisition Manual* as a means of detecting bankcard misuse is an annual review of bankcard use. MBDA did not perform the full review as required, but only limited procedures. Our only recommendation for your action is to ensure that a review is conducted annually.

We shared our findings and recommendation with MBDA, which agreed to them and will conduct the review during FY 2000. Accordingly, we are issuing this final report, and we consider the recommendation resolved with no audit action plan needed. A copy of MBDA's memorandum to us, indicating agreement with the recommendation, is attached. We appreciate the cooperation and courtesies extended to us by MBDA staff during the review.

Introduction

In 1986, several agencies, including the Department of Commerce, conducted a pilot project to evaluate the use of credit cards (the "bankcard") for small purchases. In 1989, the bankcard was made available governmentwide through a contract administered by the General Services Administration. The objectives of the bankcard 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 Department's Office of Acquisition Management, which is responsible for overseeing the management of the program within Commerce, in turn has delegated that authority to the Heads of Contracting Offices (HCOs). The Chief of the Office of Administration and Financial Management for MBDA serves also as the agency's Acting HCO. The Acting HCO has further

delegated purchasing authority to MBDA local approving officials and individual cardholders. The Acting HCO, approving officials, and cardholders are responsible for ensuring that the program is properly administered.

Purpose and Scope of Audit

In conjunction with our plan to periodically review Commerce agencies' use of the bankcards, we conducted an audit to determine whether MBDA was utilizing its bankcards in accordance with the *Federal Acquisition Regulation*, Part 13, "Simplified Acquisition Procedures"; the *Commerce Acquisition Manual*, Part 13, Chapter 1, "Commerce Purchase Card Procedures," as revised; and the *Commerce Acquisition Circular* 96-01, "Change to the Commerce Acquisition Manual (CAM), Part 13, Chapter 1, 'Commerce BankCard Procedures,'" dated July 1, 1996.

MBDA headquarters personnel made 462 transactions during FY 1998. The total amount of the transactions processed was \$361,192, for an average of \$782 per transaction. We selected a random sample of 60 transactions, or 13 percent of the total population of transactions, to test for errors among cardholder records. This represented a sample size sufficient to find 95 percent of errors that would likely occur within the sample population. The sample was not stratified, as we were specifically measuring attributes of the MBDA cardholder transactions.

We reviewed applicable regulations, policies, and procedures; examined documentation, management reports, and records; and interviewed officials, as deemed necessary. We also reviewed management reports on bankcard usage prepared by the Commerce Bankcard Center. We conducted our fieldwork in August and September 1999 at MBDA headquarters in Washington, D.C. We analyzed the administrative and accounting internal controls relating to MBDA'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.

In conducting our review, we relied on computer-processed data. We tested the accuracy of the data by tracing it 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 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.

MBDA Complied with Bankcard Regulations Over Use and Card Maintenance

As part of the review, we tested our sample for compliance with all regulations over bankcard use. We found no prohibited transactions or other improper actions. Specifically:

- The cardholders stayed within their assigned purchase limits.
- Approving officials properly documented their approvals.
- No purchasers split a single purchase into two transactions to avoid single purchase limits cited in the regulations.
- Competitive bidding, when required, as well as use of mandatory sources of supply, such as Federal Supply Schedules, was sought and performed.
- Cardholders properly secured their cards within their offices to prevent unauthorized use.

MBDA Did Not Conduct an Annual Review of Purchase Card Use

MBDA did not conduct the required annual review of card use during fiscal year 1998. The *Commerce Acquisition Manual*, Part 13, Chapter 1, charges HCOs with the responsibility for "...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 procedures involved in such a review, according to Attachment A of the *Commerce Acquisition Circular 96-01*, include interviewing approving officials to determine how well the system is working and reviewing a random selection of files and documentation to ensure that:

- cards are used only for authorized purchases by authorized cardholders;
- single purchase limits are not exceeded;
- competition is obtained, where required, and prices are fair and reasonable;
- purchases are not split into multiple transactions;
- items are purchased from required sources of supply; and
- purchase ordering logs are established and documented.

The Acting HCO did not conduct the full review, but performed only limited procedures to determine whether authorizing officials had properly approved selected transactions. He concluded that the MBDA cardholders needed to improve their processing of supply orders, from the initiation through completion of the bankcard transactions, to ensure compliance with the regulations.

Recommendation

We recommend that the Director of the Minority Business Development Agency ensure that the Acting HCO conducts an annual review of bankcard use, as required by Part 13, Chapter 1, of the *Commerce Acquisition Manual*.

Attachment



UNITED STATES DEPARTMENT OF COMMERCE
Minority Business Development Agency
Washington, D.C. 20230

DEC - 7 1999

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

From: Courtland Cox *Courtland Cox*
Director

Subject: Internal Controls Over Bankcard Use are Sound
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After reviewing the report, MBDA will not challenge the findings. MBDA will comply with your recommendation to conduct the required annual review in accordance with the Commerce Acquisition Manual, Part 13, Chapter 1.

Your report is appreciated. Should you have any questions, please contact me on 482-5061 or Edith McCloud on 482-3341.