

U.S. DEPARTMENT OF COMMERCE
Office of Inspector General



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***NATIONAL TELECOMMUNICATIONS
AND INFORMATION
ADMINISTRATION***

*Internal Controls Over
Bankcard Use Are Sound*

Audit Report No. BTD-11549-9-0001 / September 1999

Office of Audits, Business and Trade Audits Division






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

September 1, 1999

MEMORANDUM FOR: Larry Irving
Assistant Secretary for Communications
and Information

FROM:


for Johnnie L. Frazier
Inspector General

SUBJECT: *Internal Controls Over Bankcard Use Are Sound*
Final Audit Report No. BTD-11549-9-0001

The Office of Inspector General has completed an audit of bankcard use during FY 1998 by the National Telecommunications and Information Administration. The continued oversight and review provided by NTIA management, and by staff of the National Institute of Standards and Technology (NIST) who provide contracting support to NTIA, have resulted in sound internal controls over NTIA bankcard transactions. We also found that NIST personnel properly conducted the required annual review of bankcard use. We noted several minor internal control deficiencies requiring management action as follows:

- consideration should be given, during the next annual bankcard review, to reducing the number of cardholders to further improve internal controls and use existing bankcards more efficiently;
- not all cardholders are storing their credit cards in a secure location; and
- not all cardholders are receiving the required training or maintaining training documentation on site.

Our recommendations to address these concerns are on page 4.

In response to the draft report, NTIA agreed with most of our findings and recommendations. NTIA requested that we change the title so as to not leave an unnecessary perception that is unjustified by our findings. We agree and have so changed the title. NTIA also disagrees with our recommendation to consider reducing the number of cardholders. NTIA believes at this time that the distribution of cardholders is based on the needs of each program office and has advantages for management control. NTIA stated that limiting the number of cardholders is not required, and doing so would decrease the efficiency and effectiveness of the bankcard purchasing system, reduce its ability to easily maintain purchasing accountability, and possibly unnecessarily burden those cardholders that remained. For the reasons stated in the draft report and reiterated

below, we continue to recommend that NTIA examine the necessity for the total number of cardholders during the next annual review. NTIA's complete response to the draft audit report is attached.

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 plans, please contact Andrew R. Cochran, Director, Business and Trade Audits Division, at (202) 482-4415. We appreciate the cooperation extended to us by NTIA 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 Acquisition and Assistance Division at NIST serves as the NTIA HCO. That HCO further delegated purchasing authority to NTIA local approving officials and individual cardholders. NTIA officials are responsible for ensuring that bankcard usage complies with the applicable regulations, policies, and procedures. The 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 NTIA was utilizing its bankcards in accordance with the *Federal Acquisition Regulation*, Part 13, "Simplified Acquisition Procedures"; the *Commerce Acquisition Manual*, Part 13, "Commerce Purchase Card Procedures," as revised; and the *Commerce Acquisition Circular* 96-01, dated July 1, 1996.

Our audit covered 1,163 discrete transactions, including credits and charge-backs, made by NTIA headquarters personnel, in Washington, D.C., during FY 1998. The total amount of the transactions processed was \$682,243, for an average of \$587 per transaction. We selected a random sample of 81 transactions, or 7 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 NTIA 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 from November 1998 through January 1999 at NTIA headquarters in Washington, D.C. We analyzed the administrative and accounting internal controls relating to NTIA'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.

Required Annual Review of Bankcard Activity Was Performed

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." In response to this requirement, personnel from NIST performed a management control review of NTIA bankcard use during the first quarter of calendar year 1998. We found that the review was thorough, documented, and included all issues for which the office is responsible. The review concluded that NTIA was in compliance with the requirements of the *Commerce Acquisition Manual* and the bankcard program, with minor concerns to be addressed by NTIA officials.

NTIA Should Reassess the Number of Cardholders and Utilize Potential Purchasing Capacity

During fiscal year 1998, NTIA had 30 cardholders among its 187 headquarters employees, a ratio of one card for every 6.2 employees. Single purchase and monthly credit limits generally were

\$2,500 and \$10,000, respectively; only one employee had \$25,000 single purchase and \$25,000 monthly limits under an exception to the usual limits. NTIA cardholders' purchases averaged about \$22,741 per cardholder. Thus, on average, only 19% of the annual cardholder's purchasing power was used during fiscal year 1998. We believe that the number of cardholders is higher than needed, given the unused purchasing capacity and the administrative burden of maintaining proper oversight of card use as required by the *Commerce Acquisition Manual*. A review of the need for so many cards might result in the reduction of the total number of cards and permit more efficient utilization of the remaining cards. As discussed above, NTIA did not agree with us in its response to the draft report, preferring to maintain the current number of cardholders.

Cardholders Should Store Cards in Secure Location

Of 19 NTIA headquarters cardholders we interviewed, 4 had their bankcards in a wallet or purse, and 4 kept their cards in an unlocked file cabinet or desk. One bankcard was left at home. According to the *Commerce Acquisition Manual*, Part 13, Chapter 1, Item 8. c. (10), cardholders must, "Keep the purchase card in a secure place." If the purchase card is left in a wallet, purse, or an unlocked cabinet or desk drawer, there is a risk that the card could be stolen. In its response to the draft report, NTIA agreed to send reminders about the cardholder responsibilities to safeguard bankcards.

Cardholders Should Receive Training and Maintain Training Documentation

Part 13, Chapter 1, Item 7 b. of the manual states, "HCOs shall ensure cardholders and cardholder approving officials review these procedures and view the training video once every two years....This training could be a standard course or one customized to address unique needs or characteristics for the purchasing organization." Of the 19 NTIA cardholders interviewed, all told us that they had viewed the standard training video for all departmental cardholders. However, four told us that they had not received an additional one-day bankcard training class developed and taught by the purchase card coordinators at NIST to educate cardholders on proper use. Additionally, no written documentation was available at NTIA to demonstrate that the cardholders had met the training requirements. Only one employee believed that a certificate may have been distributed at the NIST class, although that employee was not certain. While not critical to the maintenance of internal controls, some documentation should be kept on-site at NTIA to document that such training has been received. In its response to the draft report, NTIA agreed that the NTIA contact point for cardholder training will maintain a listing of students to document that all required training has been taken. We have clarified the recommendation accordingly.

Recommendations

We recommend that the Assistant Secretary for Communications and Information ensures that:

1. A needs analysis is performed by the NTIA HCO, during the next annual bankcard review, to determine whether the number of credit cards currently held can be reduced.
2. Bankcards are physically secure at all times.
3. NTIA cardholders receive all required training, and documentation of their training is maintained at NTIA.

Attachment

cc: Norman L. Osinski
Chief, Acquisition and Assistance Division
National Institute of Standards and Technology

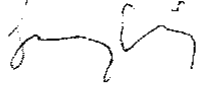


ATTACHMENT

UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Communications
and Information
Washington, D.C. 20230

JUL 29 1999

MEMORANDUM FOR George E. Ross
Assistant Inspector General for Auditing

FROM: Larry Irving 

SUBJECT: *Internal Controls Over Bankcard Use*
Are Sound But Can Be Improved
Draft Audit Report No. BTD-11549-9-XXXX

Thank you for providing NTIA with the opportunity to review and comment on the draft audit report *Internal Controls Over Bankcard Use Are Sound But Can Be Improved*. I appreciate the efforts of you and your staff in working with NTIA to complete this audit.

In general, NTIA agrees with the findings in the draft audit report, as summarized in the following statement from page 3 of the draft report: "...The review concluded that NTIA was in compliance with the requirements of the *Commerce Acquisition Manual* and the bankcard program, with minor concerns to be addressed by NTIA officials." Although NTIA agrees that any process can be improved, the title of the report leaves an unnecessary negative perception on the part of casual readers that is not justified by the minor concerns identified. Please consider shortening the title to *Internal Controls Over Bankcard Use Are Sound*.

Specific comments to the recommendations on page 4 of the draft report follow:

Recommendation 1. A needs analysis is performed to determine whether the number of credit cards currently held can be reduced.

NTIA Response: The current distribution of bankcards is based upon an assessment of and plan for the needs of each program office. The preferred distribution matches bankcard controls with other administrative and organizational controls. Specifically, the advantages of the bankcard and the savings afforded by its use are achieved while fitting nicely into NTIA's management controls on spending within each program area. NTIA is not aware of any DOC requirement that limits the number of cardholders in an operating unit, and have used the distribution, and modest spending limits, to make use of the required procurement tool in a safe manner. As indicated in the draft report, "... the Federal Acquisition Streamlining Act of 1994 and Executive Order 12931.... encouraged agencies to move the authority to make simple purchases from procurement offices to program offices."

A review of bankcard activities will be undertaken together with NIST on a periodic basis. NTIA, however, believes at this time that reducing the number of cardholders would decrease the efficiency and effectiveness of the bankcard purchasing system, reduce the agency's ability to easily

maintain purchasing accountability, and possibly unnecessarily burden those cardholders that remained. The current system evenly distributes the workload across the divisions and offers requisitioners additional cardholder services during absences.

Recommendation 2. Bankcards are physically secure at all times.

NTIA Response: Security of the Bankcard is emphasized during all training sessions conducted by NIST. In addition to the training sessions for new cardholders, NTIA will periodically send out reminders about the cardholder responsibilities to safeguard the Bankcard.

Recommendation 3. NTIA cardholders receive all required training and keep documentation of their training on site.

NTIA Response: It is NTIA policy that all cardholders receive the mandatory training prior to their card being activated. Cardholders are also required to maintain the training manual at their individual workstation. NIST does not issue certificates upon completion of the training course, but instead maintains a master listing of all students that have successfully completed the training course. We will require that our agency contact point maintain a listing as well.

Thank you again for providing this opportunity to comment on the draft report. Please have your staff contact Ed Ryan of my staff on (202) 482-1056 should you have any questions.