

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



*NATIONAL OCEANIC AND
ATMOSPHERIC ADMINISTRATION*

*Purchase Card Program at the Environmental
Technology Laboratory Needs Heightened
Monitoring and Strengthened Internal Controls*

Audit Report No. BTD-15139-3-0001/September 2003

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Office of Audits Business and Trade Division




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

SEP 30 2003

MEMORANDUM FOR: Louisa Koch
Acting Assistant Administrator for Oceanic
and Atmospheric Research
National Oceanic and Atmospheric Administration

FROM:


Johnnie Frazier

SUBJECT:

*Purchase Card Program at the Environmental Technology
Laboratory Needs Heightened Monitoring and
Strengthened Internal Controls*
Final Audit Report No. BTD-15139-3-0001

This is our final report on our review of ETL's internal controls over purchase card transactions. While we noted a number of weaknesses in internal controls and instances of noncompliance with the *Commerce Acquisition Manual*, we found no instance of fraud or material misuse in ETL's purchase card program. Many of the internal control weaknesses identified in this review were previously reported in an audit we conducted in fiscal year 2000, *Internal Controls Over ERL's Bankcard Program Need Improvement* (DEN-11627-0-0001), but remain unresolved. In light of the increased scrutiny that Congress and the Office of Management and Budget are giving purchase card use, we believe that ETL managers must ensure that measures for strengthening internal controls—contained in our earlier report and again in this one—are properly implemented and enforced. Our findings and recommendations appear on pages 3 through 11.

In responding to our draft report, NOAA agreed with our recommendations and described actions planned or taken to implement them. A summary of NOAA's response to each recommendation is included in the body of our report. The response in its entirety is attached as Appendix I.

With the exception of only one recommendation, NOAA's response constitutes an acceptable audit action plan. Please provide your audit action plan addressing recommendation number 3 (see p. 7) within 60 calendar days, in accordance with Department Administrative Order 213-5, *Audit Resolution and Follow-up*. The plan should be in the format specified in Exhibit 7 of the DAO.

If you would like to discuss the report's contents, please call me at (202) 482-4661, or Michael Sears, at (202) 482-1934.

We appreciate the cooperation and courtesies your staff extended to us during our review.

Attachment

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EXECUTIVE SUMMARY

The Environmental Technology Laboratory is one of the National Oceanic and Atmospheric Administration's research laboratories in the Office of Oceanic and Atmospheric Research (OAR). The lab develops remote sensors that collect high-resolution data needed for improved modeling and forecasting of the environment. In fiscal year 2001, ETL had 58 purchase cardholders and spent almost \$1.3 million using its purchase cards. In fiscal year 2002, the laboratory reduced the number of cardholders to 41 and purchases to \$645,685.

An earlier audit of ETL's purchase card program, conducted in fiscal year 1999, found weaknesses in internal controls that left the laboratory vulnerable to improper and wasteful spending. The purpose of this audit was to determine if previously identified internal control weaknesses had been properly addressed and whether additional controls were warranted. We also looked for indications of potential fraudulent or questionable purchases. This audit covered purchases made in fiscal years 2001 and 2002.

Although we noted no evidence of misuse of funds by cardholders, our review identified a number of problems with ETL's purchase-card-related internal controls that leave its program vulnerable to improper spending. Specifically, we found that:

1. ETL had not implemented recommendations resulting from our previous audit where we recommended and ETL agreed to obtain and document in writing preapprovals for purchases greater than \$2,500 or for purchases of accountable property. Written documentation is important because it ensures that approving officials have the necessary information needed to approve the purchase and helps to prevent unauthorized purchases. We recommend that the acting assistant administrator for OAR direct the head of ETL to issue policies and procedures to ensure that all purchases are appropriate by requiring cardholders to (1) obtain prior approval for all purchase card transactions, (2) document the approval in their purchase card files, and (3) identify circumstances under which exceptions may be made and blanket purchases may be authorized. (Pages 3 through 5)
2. From a sample of 20 cardholders, five had not adequately safeguarded their purchases cards. The five cardholders kept their cards in unlocked filing cabinets or desks, only locking their offices at night to secure the cards. We recommend that the acting assistant administrator for OAR direct the head of ETL to ensure that cardholders properly secure their credit cards when not using them, by locking them away in cabinets, desk drawers, or by appropriately securing them by other means. (Pages 5 though 6)
3. Of the ETL cardholders whose employment concluded during the period of our review, three had accounts which remained opened from several days to many weeks after the conclusion of their ETL employment. We recommend that the acting assistant administrator for OAR direct the head of ETL to implement procedures for promptly notifying the HCO when cardholders leave, or are

- intending to leave, ETL employment so that their accounts can be closed on or before the effective date of the separations. (Page 6 through 7)
4. Of the 58 purchase cardholders at ETL, six had credit card limits of more than \$2,500. Five of those six were more than 1 year delinquent in completing required refresher training. We recommend that the acting assistant administrator for OAR direct the head of ETL to ensure that cardholders with single-purchase limits of \$2,500 or more and approving officials complete the refresher training every 5 years, as required. (Page 7 through 8)
 5. We found no independent oversight of purchase card expenditures by ETL senior managers. As a result, they were not fully aware of the purchases being made using laboratory funds. We recommend that the acting assistant administrator for OAR direct the head of ETL to establish a review policy for purchase card activity that provides for management oversight and monitoring of ETL's purchase card expenditures. (Pages 8 through 9)
 6. ETL can reduce the purchase card program's vulnerability to abuse by issuing credit card privileges only to those employees who demonstrate both the mission-related need and the ability to properly use the cards. ETL had previously reduced the number of cardholders from 58 to 41. However, our analysis of purchases made by cardholders for fiscal year 2002 identified another 13, each of whom averaged either one or no transactions per billing period, and are thus candidates for card cancellation. We recommend that the acting assistant administrator for OAR direct the head of ETL to review the number of cardholders and instruct the HCO to close accounts for employees who no longer have a demonstrated need for the card. (Page 9 through 10)
 7. ETL had posted its administrative policies and procedures for acquiring and using purchase cards on its intranet. However, we found that these policies and procedures were unclear, and in at least one instance, improper—stating that cardholders could use purchase logs to document spending in lieu of receipts. In addition, the posted guidance was incomplete, including only a small portion of the lab's internal policies and procedures pertaining to purchase cards, and it was out of date, in that it did not reflect Commerce's automated purchase card procedures. We recommend that the acting assistant administrator for OAR direct the head of ETL to ensure that the purchase card information posted on ETL's intranet is revised to reflect current, comprehensive policies, procedures, and guidelines—including those from ETL, the *Commerce Administrative Manual*, and FAR—and is routinely updated. (Page 10 through 11)

NOAA concurred with our findings and draft report recommendations, however, with a qualification in one instance. In response to our first recommendation that ETL issue policies and procedures to ensure that all purchases are appropriate by requiring cardholders to (1) obtain prior approval for all purchase card transactions, and (2) document the approval in their purchase card files, NOAA stated that it would give

blanket purchase approval in certain circumstances, subject to spending and time limitations. We agreed with NOAA's rationale and revised our recommendation accordingly. NOAA also described actions planned or taken to implement our recommendations.

INTRODUCTION

The Environmental Technology Laboratory is one of 12 laboratories in the National Oceanic and Atmospheric Administration's Office of Oceanic and Atmospheric Research (OAR). The lab develops remote sensors that collect high-resolution data needed for improved modeling and forecasting of the environment.

In November 2001, the Department of Defense's Office of Inspector General completed an audit of the DOD/ETL Advanced Sensor Applications Program Joint Project. The audit raised a number of questions about ETL's financial management, and concluded that, from fiscal year 1998 through fiscal year 2000, the lab had inappropriately charged \$1.6 million in unrelated or unsupported costs to the joint project. These findings prompted our office to assess ETL's internal controls over its financial management, specifically focusing on budgetary and financial practices, as well as management of the travel card and purchase card programs. This report addresses purchase card management.

Background

The government purchase card program was established to streamline the federal acquisition process by enabling employees to use a federal credit card to buy low-cost goods and services directly from vendors. The card is the preferred method of payment for "micro-purchases"—for example, supplies and services costing up to \$2,500—but can be used for purchases of up to \$100,000. Cardholders may charge official government purchases only, and when using the card, must adhere to their operating unit's policies, procedures, and guidance as well as requirements contained in the Federal Acquisition Regulation (FAR) and the *Commerce Acquisition Manual*.

The Department of Commerce's purchase card program began in 1986 as a multi-agency pilot effort, which subsequently became the government-wide program in 1988 through a contract administered by the General Services Administration. The Federal Acquisition Streamlining Act of 1994 facilitated purchase card use by establishing the micro-purchase threshold of \$2,500, encouraging agencies to move authority for making simple purchases from procurement offices to program offices, and eliminating some requirements for low-cost purchases. Executive Order 12931 of October 13, 1994, Federal Procurement Reform, further encouraged expansion of micro-purchase authority.

The Department's Office of Acquisition Management is responsible for overseeing administration of the purchase card program within Commerce. It has delegated that authority to each Commerce unit's Head of the Contracting Office (HCO). The Commerce Bankcard Center, in Kansas City, Missouri, maintains purchase card data for all Commerce units, reports on Department-wide purchase card program activity, and is the contracting officer's technical representative for the GSA contract with Citibank, the Department's card issuer. HCOs, the Commerce Bankcard Center, approving officials,

and cardholders all share responsibility for ensuring that purchase card use complies with FAR and *Commerce Acquisition Manual* requirements. For ETL, the applicable HCO is located at the Mountain Administrative Support Center (MASC) in Boulder, Colorado.

In fiscal year 2001, ETL had 58 cardholders who made purchases totaling almost \$1.3 million. In fiscal year 2002, ETL reduced the number of cardholders to 41 and purchases to \$645,685. ETL managers explained the reduction in cardholders and expenditures as a reflection of (1) budget concerns, (2) efforts to become more financially efficient, and (3) a shift in program activities from acquiring and building equipment and instruments in fiscal year 2001 to conducting experiments in fiscal year 2002.

A previous OIG review of ETL's purchase card program, conducted during fiscal year 1999, noted weaknesses in internal controls over purchase card use that left the laboratory vulnerable to improper and wasteful spending (*Internal Controls Over ERL's Bankcard Program Need Improvement*, DEN-11627-0-0001). For example, some cardholders did not record purchases in a log, as required, did not promptly reconcile monthly statements, and did not obtain or document preapproval before making purchases that exceeded \$2,500. In addition, approving officials did not maintain or review summary reports of account activity to monitor cardholder spending.

In June 2000, NOAA automated the purchase card process with the installation of the Commerce Purchase Card System. According to NOAA, the system allows cardholders to electronically match and certify purchases against their monthly statements. It also facilitates oversight by enabling procurement, property, finance, and audit personnel to review transactions by cardholder, vendor, dollar amount, and invoice period, and by generating listings of delinquent cardholders and their corresponding approving officials. The automated system has helped correct some of the problems noted in the previous report, such as the failure to keep purchase logs and reconcile monthly statements. However, other problems remain.

OBJECTIVES, SCOPE, AND METHODOLOGY

We sought to evaluate the adequacy of ETL's internal controls related to the authorization and purchase of goods and services using government purchase cards, and to determine whether previously identified internal control weaknesses had been properly addressed. We also looked for indications of potential fraudulent or questionable purchases. Our review included analysis of the following:

- Current controls relating to purchase cards, including controls over physical security and authorized use, as well as any changes to controls that had occurred as a result of our previous audit.
- ETL's compliance with applicable federal regulations, policies, and procedures, including FAR, Part 13, "Simplified Acquisition Procedures,"

and the *Commerce Acquisition Manual*, Chapter 13, “Department of Commerce Purchase Card Procedures” (dated April 5, 2000).

- Purchase card transaction reports for fiscal years 2001 and 2002, including reviewing procedures, oversight, and user habits; a follow up on the status of recommendations made in our October 1999 audit report; and a selected judgmental sample of purchases for more detailed analysis.

In conducting our audit we relied on computer-based data from Citibank and tested its accuracy by tracing recorded transactions to source documents and comparing it to data in other documents. Based on our tests, we concluded the data was sufficiently reliable for use in meeting our audit objectives.

We performed our fieldwork from May through November 2002. Our audit was performed in accordance with generally accepted government auditing standards and was carried out 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

Properly designed and implemented internal controls provide reasonable assurance that an organization is (1) managing its operations efficiently and effectively, (2) producing reliable financial data, and (3) complying with applicable laws and regulations. GAO provides the standards¹ that define the minimum level of acceptable internal control in government. Our review uncovered a number of problems with ETL’s purchase card-related internal controls. Some of these problems had been identified in our previous report, but remained uncorrected. Although we noted no evidence of misuse of funds by cardholders, the weaknesses we did find continue to leave ETL’s purchase card program vulnerable to improper spending. We believe that ETL managers must take action to ensure that our recommendations—old and new—are properly implemented and followed.

1. Need for Policies and Procedures to Ensure that all Purchases are Appropriate

GAO internal control standard: Control Activities

Transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority. This is the principal means of assuring that only valid transactions to exchange, transfer, use, or commit resources and other events are initiated or entered

¹ U.S. General Accounting Office, November 1999. *Standards for Internal Control in the Federal Government*. GAO/AIMD-00-21.3.1. Washington D.C.: U.S. GAO.

into. Authorizations should be clearly communicated to managers and employees.

Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals, and may be in paper or electronic form. All documentation and records should be properly maintained.

The Department's purchase card procedures, detailed in the *Commerce Acquisition Manual* Part 1313.301, require operating units to (1) ensure that all charged supplies and services are authorized by law and regulation and are for official government purposes, and (2) establish administrative controls to prevent unauthorized use of the card. In addition, cardholders must ensure that the program has funds available to pay for the purchase prior to placing an order.

As a result of our previous audit, we recommended and ETL agreed to obtain and document in writing preapprovals for purchases greater than \$2,500 or for purchases of accountable property. However, in revisiting this internal control, we did not find any written requirements for documenting prior approvals. Nor did we find any written approvals in the files we reviewed. ETL senior managers told us that the decision on whether cardholders must obtain prior approval is left to each supervisor or project leader. Although ETL managers and approving officials assured us that the cardholder's supervisor or project leader preapproved all purchases regardless of amounts, the approvals were generally oral and cardholders were not required to document the approvals in their account files. ETL managers reported that they rely on the close working relationship and interaction between cardholders, their supervisors, and approving officials to ensure the appropriateness of purchases.

ETL's practices do not meet the Department's criteria for properly managing and overseeing purchase cards. The practices give the appearance that cardholders have the freedom to make purchases as they choose, and include no provisions for requiring approving officials to obtain the information they need to ensure the appropriateness of purchases, their costs, or the availability of funds. They also do not provide the administrative controls needed to prevent unauthorized use of the card. For example, we found that a cardholder was able to purchase \$7,000 worth of equipment for a University of Colorado contractor without disclosing that the purchase was for a contractor or including the certification that ETL requires prior to permitting a contractor to purchase equipment with ETL funds. We ultimately found that an ETL project leader had approved the purchase. However, without the written documentation, the purchase appeared unauthorized.

Because ETL is liable for purchases made by authorized cardholders, it must have written policies and procedures in place to prevent unauthorized purchases. We believe that one method for mitigating the risk of unauthorized purchases is to require cardholders to obtain and document approval before making any purchases.

Recommendation

The acting assistant administrator for OAR should direct the head of ETL to issue policies and procedures to ensure that all purchases are appropriate by requiring cardholders to (1) obtain prior approval for all purchase card transactions, (2) document the approval in their purchase card files, and (3) identify circumstances under which exceptions may be made and blanket purchases may be authorized.

NOAA Response

NOAA concurred with the original recommendation, with one qualification. It questioned the practicality of requiring written pre-approvals for all individual purchases. NOAA stated that under certain circumstances, such as when an employee is in the field installing a system, NOAA would give the cardholder blanket purchase approval. The documented blanket purchase approval would have spending and time limitations. Documented preapprovals for any purchase over \$2,500 and for any accountable property would still be required. ETL's Deputy Director and Deputy Chiefs would determine appropriate thresholds for blanket and single-purchase preapprovals. Cardholders will be made aware of the new requirements. The new requirements will be posted on ETL's intranet.

OIG Comments

We agreed with NOAA's response and revised our original recommendation accordingly. In light of NOAA's actions taken or planned, we consider the recommendation resolved and, hence, a separate Audit Action Plan is not required.

2. Purchase Cards Need To Be Better Secured

GAO internal control standard: Control Activities

An agency must establish physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories, and equipment which might be vulnerable to risk of loss or unauthorized use.

Section 2.2 of the *Commerce Acquisition Manual* notes that individual cardholders are responsible for the proper use and safeguarding of their cards and that they should take precautions comparable to those they use to protect their personal checks, cash, or credit

cards. According to the lab's HCO, adequate physical security means keeping cards under lock and key when they are not being used. We found that 5 of 20 cardholders interviewed kept their cards in unlocked filing cabinets or desks, only locking their offices at night to secure the cards.

Recommendation

The acting assistant administrator for OAR should direct the head of ETL to ensure that cardholders properly secure their credit cards when not using them, by locking them away in cabinets, desk drawers, or by appropriately securing them by other means.

NOAA Response

NOAA concurs with our recommendation and will remind cardholders of their responsibility for bankcard security.

OIG Comments

NOAA's actions taken or planned are responsive to our recommendation. Consequently, we consider the recommendation resolved and, hence, a separate Audit Action Plan is not required.

3. Accounts of Departing Employees Need To Be Promptly Closed

GAO internal control standard: Control Activities

Access to resources and records should be limited to authorized individuals, and accountability for this custody and use should be assigned and maintained.

In our previous audit we found one employee's account remained open after the employee had left ETL. During our current review, we identified three cardholders whose accounts remained open from several days to many weeks after the conclusion of their ETL employment because ETL had not promptly notified the HCO that the accounts should be closed. One employee resigned on August 24, 2001, but the account was not closed until August 30, 2001. Another employee resigned on January 9, 2002, but the account was active until January 24, 2002. The third situation involved an account that remained active for more than six weeks after the death of the account holder.

Recommendation

The acting assistant administrator for OAR should direct the head of ETL to implement procedures for promptly notifying the HCO when cardholders leave, or are intending to

leave ETL employment so that their accounts can be closed on or before the effective date of the separations.

NOAA Response

NOAA concurs with our recommendation stating that day-to-day responsibility for managing ETL's bankcard program will be assigned to the ETL Budget Office. The head of that office will be tasked with the prompt notification of the HCO upon the departure of an ETL cardholder.

OIG Comments

While we concur with NOAA's planned action to have the head of the ETL Budget Office tasked with the prompt notification of the HCO upon the departure of an ETL cardholder, ETL management would still need assurance that the requested action had been completed. Consequently, NOAA needs to submit an Audit Action Plan for this recommendation to extend the procedure to include ETL management receiving the HCO's assurance that the cards requested for cancellation were in fact canceled.

4. Required Refresher Training Needs To Be Obtained

GAO internal control standard: Control Activities

Effective management of an organization's workforce—its human capital—is essential to achieving results and an important part of internal control... Only when the right personnel for the job are on board and providing the right training, tools structure, incentives, and responsibilities is operational success possible.

Part 1313.301 of the *Commerce Acquisition Manual* stipulates training requirements for all cardholders to ensure they understand basic purchasing concepts and proper use of the card. All credit card applicants are required to complete GSA Purchase Card web-based training and are required to read and understand the DOC purchase card procedures. In addition to basic training, the Department requires approving officials and cardholders with single-purchase limits of more than \$2,500 to take a 40 hour simplified acquisition training course and a 24 hour refresher training course every 5 years.

In response to our previous audit, ETL provided its cardholders with the required basic training. In addition, we found that all cardholders who were required to take the 40 hour simplified acquisition course have done so. However, we found that five of six cardholders with credit card limits of more than \$2,500 were more than 1-year behind in completing the additional required refresher training. Training, whether basic or refresher, is key to ensuring that cardholders stay abreast of current and changing regulations, policies, and procedures.

Recommendation

The acting assistant administrator for OAR should direct the head of ETL to ensure that cardholders with single-purchase limits of \$2,500 or more and approving officials complete refresher training every 5 years, as required.

NOAA Response

NOAA concurs with the recommendation. NOAA stated that training is organized and monitored by the HCO who notifies cardholders when training is required. If the cardholder fails to complete the training within six months, the HCO notifies the individual and their approving official that their spending level will be decreased to a level commensurate with their training. ETL has requested that the HCO also notify the ETL laboratory director and deputy director. As of July 2003, all ETL cardholders are current on their training except for one individual whose spending limit will be decreased.

OIG Comments

NOAA's actions taken or planned are responsive to our recommendation. Consequently, we consider the recommendation resolved and, hence, a separate Audit Action Plan is not required.

5. Establishment of a Management Review Process Needed

GAO internal control standard: Control Activities

Managers also need to compare actual performance to planned or expected results throughout the organization and analyze significant differences

Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets.

OMB Circular A-123, Management Accountability and Control, states that federal managers are responsible for mitigating adverse aspects of agency operations, and assuring that programs are managed with integrity and in compliance with applicable law. With regard to ETL's purchase card program, both GAO and OMB guidelines require that managers create an operating environment that minimizes the program's susceptibility to improper or wasteful spending and fosters legislative and regulatory compliance.

Although in the two years covered by our audit ETL spent more than \$1.9 million using purchase cards, we found no independent oversight being done by senior managers. The individuals responsible for oversight were also cardholders or supervisors of cardholders. As a result, senior managers were not fully aware of the types of purchases being made, the level of spending using purchase cards, or instances in which cardholders used ETL funds to make purchases for non-federal employees. Senior managers were also unaware of the extent to which ETL employees gave non-ETL federal employees, such as NOAA Corps Officers, ETL project codes so that the non-ETL employees could charge their purchases to ETL accounts. We believe the level of ETL's purchase card spending merits greater independent oversight.

Recommendation

The acting assistant administrator for OAR should direct the head of ETL to establish a review policy for purchase card activity that provides for management oversight and monitoring of ETL's purchase card expenditures.

NOAA Response

NOAA concurs with the recommendation. The ETL Deputy Director and the head of ETL's budget office will review available financial records and design a suitable report summary for management review. The report will be generated quarterly and distributed to ETL senior managers who will review the report for obvious cases of misuse and underuse and require identified cardholders to either relinquish their cards or provide a compelling reason to keep them.

OIG Comments

NOAA's actions taken or planned are responsive to our recommendation. Consequently, we consider the recommendation resolved and, hence, a separate Audit Action Plan is not required.

6. Number of Cardholders Can Be Further Reduced

GAO internal control objective: Safeguarding Assets

Internal control should be designed to provide reasonable assurance regarding prevention or prompt detection of unauthorized acquisition, use, or disposition of an agency's assets

ETL can reduce the purchase card program's vulnerability to abuse by issuing credit card privileges only to those employees who demonstrate both the mission-related need and the ability to properly use the cards. As noted earlier, ETL had previously reduced the number of cardholders from 58 to 41. However, our analysis of purchases made by

cardholders for fiscal year 2002 identified another 13, each of whom averaged either one or no transactions per billing period, and are thus candidates for card cancellation.

As noted in the recently released *A Practical Guide for Reviewing Government Purchase Card Programs*, issued by the President's Council on Integrity and Efficiency, "a proliferation of cardholders greatly increases the government's financial exposure and makes it difficult to maintain effective internal controls." OMB promoted reducing the number of credit cards in an April 18, 2002 memorandum directing agencies to develop remedial plans for improving internal controls over purchase cards including examining the number of cards issued. The General Services Administration's manual, *Blueprint for Success: Purchase Card Oversight*, encourages program coordinators to examine the number of cardholders as part of their agency's annual review process, and to cancel cards that are used infrequently or not at all.

Recommendation

The acting assistant administrator for OAR should direct the head of ETL to review the number of cardholders and instruct the HCO to close accounts for employees who do not have a demonstrated need for the card.

NOAA Response

NOAA concurs with the recommendation and will use a recent survey of bankcard activity to close accounts of cardholders who have not demonstrated a need to keep them.

OIG Comments

NOAA's actions taken or planned are responsive to our recommendation. Consequently, we consider the recommendation resolved and, hence, a separate Audit Action Plan is not required.

7. Policies, Procedures, and Guidelines Need To Be Clarified

GAO internal control standard: Control Activities

Internal control activities help ensure that management directives are carried out... Control activities are the policies, procedures, techniques, and mechanisms that enforce management directives... Control activities are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results.

The *Commerce Acquisition Manual* encourages units to supplement federal and departmental purchase card guidance with operational policies and procedures of their

own. ETL has done so, and has posted its administrative policies and procedures for acquiring and using purchase cards on its intranet. However, we found that these policies and procedures were unclear, and in at least one instance, improper—stating that cardholders could use purchase logs to document spending in lieu of receipts. Additionally, the posted guidance was incomplete, including only a small portion of the lab's internal policies and procedures pertaining to purchase cards, and it was out of date, in that it did not reflect Commerce's automated purchase card procedures.

Without clear, comprehensive, up-to-date policies and procedures, cardholders and approving officials cannot be certain that they are properly adhering to the laws, regulations, and guidelines governing purchase card expenditures; and inappropriate transactions may occur.

Recommendation

The acting assistant administrator for OAR should direct the head of ETL to ensure that the purchase card information posted on ETL's intranet is revised to reflect current, comprehensive policies, procedures, and guidelines—including those from ETL, the *Commerce Administrative Manual*, and FAR—and is routinely updated.

NOAA Response

NOAA concurs with the recommendation and has placed checklists on its intranet to help guide approving officials and cardholders through the purchase card process.

OIG Comments

NOAA's actions taken or planned are responsive to our recommendation. Consequently, we consider the recommendation resolved and, hence, a separate Audit Action Plan is not required.



UNITED STATES DEPARTMENT OF COMMERCE
National Oceanic and Atmospheric Administration
NOAA FINANCE AND ADMINISTRATION
CHIEF FINANCIAL OFFICER/CHIEF ADMINISTRATIVE OFFICER

JUL 28 2003

MEMORANDUM FOR: Michael Sears
Assistant Inspector General for Auditing

FROM: Helen Hurcombe *Helen Hurcombe*
Acting Chief Financial Officer/
Chief Administrative Officer

SUBJECT: *Purchase Card Program at the Environmental Technology
Laboratory Needs Heightened Monitoring and
Strengthened Internal Controls*
Draft Audit Report No. BTD-15139-3-XXXX/June 2003

Attached is the National Oceanic and Atmospheric Administration's response to the Office of Inspector General's draft audit report on the purchase card program at the Environmental Technology Laboratory. The response was prepared in accordance with Department Administrative Order 213-3.

We appreciate the opportunity to respond to your draft audit report.

Attachment



**NOAA Comments of the Draft OIG Report Entitled
"Purchase Card Program at the Environmental Technology Laboratory Needs
Heightened Monitoring and Strengthened Internal Controls"
(BTD-15139-3-XXXX/June 2003)**

NOAA Response to OIG Recommendations

The OIG report states that "The (Acting) Assistant Administrator for OAR should direct the Director of ETL to:"

Recommendation 1: Issue policies and procedures to ensure that all purchases are appropriate by requiring cardholders to (1) obtain approval for all purchases card transactions, and (2) document the approval in their purchase card files.

NOAA Response: We concur, with qualifications. We agree that ETL's current procedures are unsatisfactory and need to be improved, but question the practicality of requiring cardholders to obtain written preapproval for all individual purchases. There are many instances in which an employee may be required to make a large number of purchases over a relatively short time to complete a task. Examples include an engineer who has been tasked to build a piece of equipment, or a field worker who needs to install a system at a remote location. For these cases, we feel that some type of documented blanket approval that limits the amount to be spent over a prescribed time interval would be a more reasonable alternative. This blanket approval would be coupled with documented approvals for single purchases over \$2,500, and purchases of accountable property, as directed in the OIG's previous review of ETL's purchase card program.

Action Taken or Planned: ETL has five divisions, each of which has a Deputy Chief charged with monitoring financial activity for that division. The ETL Deputy Director will meet with the Deputy Chiefs to determine appropriate thresholds for blanket and single-purchase preapprovals that will permit greater oversight of cardholder activity without significantly increasing the administrative burden on cardholders. Preapprovals will be required from the Deputy Chief (to determine availability of funds), and also from the approving official (to determine appropriateness of purchase). Non-standard purchases such as that cited in the current OIG report will require documentation. Cardholders will be made aware of the new requirements. The requirements will be posted on ETL's Intranet.

Target Date: 7/25/03

Recommendation 2: Ensure cardholders properly secure their credit cards when not using them, by locking them away in cabinets, desk drawers, or by appropriately securing them by other means.

NOAA Response: We concur.

Action Taken or Planned: ETL cardholders will be reminded of their responsibility regarding bankcard security.

Target Date: 7/25/2003

Recommendation 3: Implement procedures for promptly notifying the Head of the Contracting Office (HCO) when cardholders leave or are intending to leave ETL employment so that their account can be closed on or before the effective date of the separations.

NOAA Response: We concur.

Action Taken or Planned: Day-to-day responsibility for managing ETL's bankcard program will be assigned to the ETL Budget Office, and the head of that office will be tasked with the prompt notification of the HCO upon the departure of an ETL cardholder.

Target Date: 7/25/03

Recommendation 4: Ensure that cardholders with single-purchase limits of \$2,500 or more and approving officials complete refresher training every 5 years, as required.

NOAA Response: We concur.

Action Taken or Planned: Training of bankcard holders and approving officials is organized and monitored by the HCO for ETL. The HCO periodically notifies cardholders of required training, and organizes the training for the NOAA Boulder site. The cardholder is typically given 6 months to complete the training. If the cardholder fails to complete the required training within the 6 month period, the HCO notifies the individual and their approving official that their spending limit will be decreased to a level appropriate for their degree of training. ETL has requested that the HCO also inform lab management (i.e., the Director and Deputy Director) of this final action. As of July 2003, all cardholders are current in their training except for one individual, whose spending limit will be decreased. ETL will continue to rely on the HCO for oversight of bankcard holder training requirements.

Target Date: July 2003 (completed)

Recommendation 5: Establish a review policy for purchase card activity that provides for management oversight and monitoring of ETL's purchase card expenditures.

NOAA Response: We concur.

Action Taken or Planned: The ETL Deputy Director together with the head of the ETL Budget Office will review available records (from CAMS and Citibank) and design a summary report suitable for review by management. The head of the ETL Budget Office will be tasked with generating a summary report quarterly and distributing it to ETL

management (Director, Deputy Director, Chiefs, Deputy Chiefs). The ETL Deputy Director and the Deputy Chiefs will review the report quarterly for obvious cases of misuse and underuse, and require the identified cardholders to either relinquish their bankcards or provide a compelling reason to keep them.

Target Date: 9/30/03

Recommendation 6: Review the number of cardholders and instruct the HCO to close accounts for employees who do not have a demonstrated need for the card.

NOAA Response: We concur.

Action Taken or Planned: ETL will use a recent survey of bankcard activity to identify cases of underuse and request that identified cardholders relinquish their bankcards or provide a compelling reason to keep them.

Target Date: 8/15/03

Recommendation 7: Ensure that the purchase card information posted on ETL's Intranet is revised to reflect current, comprehensive policies, procedures, and guidelines – including those from ETL, the Commerce Administrative Manual, and FAR – and is routinely updated.

NOAA Response: We concur.

Action Taken or Planned: ETL recently posted a checklist for approving officials and cardholders on the Intranet to guide them through the important steps in the respective processes (see attached). The checklists reference specific sections of Chapter 13 of the DOC CAMS Manual. These checklists will be updated to reflect current concerns. The large number bankcard documents currently on ETL's Intranet will be consolidated into a single ETL Bankcard Guidelines document, and a link will be posted to the FAR, Part 13.

Target Date: 8/15/03

Approving Official Checklist

Approving Official: _____

Cardholder Name: _____

Statement Date: _____

Action	Yes	No	Remarks
1. Does the cardholder have <u>written</u> approval (email is OK) from a PI or Chief (for purchase authority) and Deputy Chief (for availability of funds) for purchases over \$500?			
2. Are the orders for authorized items? (p. 12-13)			
3. Is the authorized cardholder specified on the purchase card the same person that placed the order?			
4. Is the cardholder splitting a requirement to stay within the single purchase limit? (p. 16)			
5. Are the items on the orders required to be purchased from required sources of supply? (Attachment C)			
6. Are the orders within the cardholder's single-purchase and monthly-cycle limit? (p. 16)			
7. If any of the orders exceeded the micro-purchase threshold of \$2,500, were (p. 10 and attachment B):			
<ul style="list-style-type: none"> • the orders placed to a <u>small</u> business? • competitive quotations obtained to justify the reasonableness of the purchase price? 			
<ul style="list-style-type: none"> • a Sole Source Justification drafted if only a single source was solicited? • Commerce Business Daily (CBD) announcements prepared for purchases greater than \$25,000? 			
8. Are the Purchase Card Ordering Logs for these orders established and fully documented (i.e., adequate description, receipts/packing slips)? (p. 17)			
9. Are the items on the monthly Statement of Account reconciled in accordance with the Commerce Acquisition Manual (CAM) Purchase Card Procedures? (p. 19-20)			

Cardholder Checklist

Action	Yes	No	Remarks
1. Do you have written approval (email is OK) from a PI or Chief (for purchase authority) and Deputy Chief (for availability of funds) for purchases over \$500?			
2. Is your order for an authorized item? (p. 12-13)			
3. Do you need to purchase the item from a required source of supply? (Attachment C)			
4. Is your order within your single-purchase and monthly-cycle limit? (p. 16)			
5. Are multiple orders appropriately bundled to avoid splitting requirements? (p. 16)			
6. If your order exceeds the micro-purchase threshold of \$2,500, have you (p. 10 and Attachment B):			
<ul style="list-style-type: none"> • placed the order with a small business? 			
<ul style="list-style-type: none"> • documented that the purchase price is reasonable based on competitive quotations? 			
<ul style="list-style-type: none"> • drafted a Sole Source Justification if only a single source was solicited? 			
<ul style="list-style-type: none"> • prepared a Commerce Business Daily (CBD) announcement for purchases greater than \$25,000? 			
7. Have you recorded your purchases on the Purchase Card Ordering Log and retained receipts/packing slips? (p. 17)			
8. Have you reconciled the monthly Statement of Account in accordance with the Commerce Acquisition Manual (CAM) Purchase Card Procedures? (p. 19-20)			