



U.S. Department of Energy  
Office of Inspector General  
Office of Audit Services

# Audit Report

The Department's Federal Purchase  
Card Program at Headquarters




## Department of Energy

Washington, DC 20585

February 11, 2005

### MEMORANDUM FOR THE SECRETARY

FROM:

  
Gregory H. Friedman  
Inspector General

SUBJECT:

Audit Report on "The Department's Federal Purchase Card Program at Headquarters"

### BACKGROUND

To promote efficiency and economy in contracting and to avoid unnecessary burdens on agencies and contractors, Congress enacted the *Federal Acquisition Streamlining Act* (Streamlining Act) in 1994 covering purchases of commercial goods and services costing \$100,000 or less. While the Department of Energy developed several streamlined procurement mechanisms, it relies primarily on the use of purchase cards to satisfy the intent of the *Streamlining Act*. In Fiscal Year 2003, approximately \$13.4 million in goods and services were acquired at Headquarters through purchase cards. To increase the efficiency of these procurements, the Department implemented and required the use of an automated system known as the Simplified Electronic Commerce System (DOE/C-Web) for all Headquarters purchase card transactions.

Breakdowns in the controls over purchase card programs at several agencies, including the Department, have been the subject of Congressional and media scrutiny. As discussed in our report, *U.S. Department of Energy's Purchase Card Programs – Lessons Learned* (I01OP001, February 2002), the Department's system of controls over purchase cards has not always functioned effectively, and key "lessons learned" could significantly improve the operation and performance of purchase card programs. Congress has expressed its concerns in this area by considering legislation that, if enacted, would require periodic purchase card reviews across the Federal government. Because of the sensitivity of this issue and the potential for abuse associated with purchase card misuse, we initiated this audit to determine whether the Department was monitoring and controlling its purchase card system at Headquarters in a cost effective manner.

### RESULTS OF AUDIT

We found that the Department's Headquarters purchase card program was not always administered effectively and that implementation and execution of necessary and appropriate control procedures were sometimes inadequate. Specifically, certain purchase cardholders:

- Did not take full advantage of the automated system (DOE/C-Web) procurement efficiencies and made about \$2.8 million (21 percent) in purchases without using the system;



- Acquired accountable items that were not entered into the Department's property management system;
- Exceeded documented purchasing authority;
- Did not demonstrate a continued need for a purchase card; and,
- Acquired several items that reflected a questionable use of the purchase card.

DOE/C-Web was not fully utilized because several organizations did not follow Headquarters policies and operating procedures, nor did Headquarters Procurement Services enforce the use of DOE/C-Web. Additionally, training and oversight for the purchase card program were not always sufficient to prevent or detect purchase card problems.

We concluded that greater use of DOE/C-Web could help the Department improve its oversight of purchase card transactions. Further, not following established Headquarters purchase card policies and operating procedures could lead to abuses similar to those which have been experienced at a number of Government agencies. This includes, for example, the failure to maintain documentation, secure timely approvals, and conduct robust oversight programs.

During the course of our audit, the Department informed us that it had taken actions to improve control and oversight of purchase card transactions including the establishment of formalized training requirements and oversight reviews of cardholders. While these actions are noteworthy, additional steps are necessary to ensure that the Department's purchase card program is efficient and that the governing internal controls are effective. Accordingly, we made several recommendations to enhance the Department's purchase card program and to correct the specific problems described in our report.

#### MANAGEMENT REACTION

The Office of Management, Budget and Evaluation/Chief Financial Officer generally concurred with the conclusions and recommendations, stating that the report identified a number of purchase card-related activities which present opportunities for improvement. Management's comments have been included in their entirety as Appendix 4.

#### Attachment

cc: Under Secretary for Energy, Science and Environment  
Administrator, National Nuclear Security Administration  
Director, Office of Management, Budget and Evaluation/Chief Financial Officer

# **REPORT ON THE DEPARTMENT'S FEDERAL PURCHASE CARD PROGRAM AT HEADQUARTERS**

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## **HEADQUARTERS PURCHASE CARD PRACTICES**

### **Headquarters Purchase Card Program**

The Department of Energy's (Department) Headquarters purchase card program was not always administered in an efficient manner and implementation of controls was sometimes inadequate. Our audit found that Headquarters organizations did not take full advantage of a required electronic system intended to streamline procurements, and that purchase card controls were not sufficient to prevent or detect violations of policies. In addition, some cardholders had purchase limits that exceeded their documented delegation of purchase authority, were not aligned with their demonstrated needs, or should have been terminated because they were no longer needed.

#### Electronic Procurement System

Headquarters program offices were not fully realizing the efficiency and control benefits available by using the Simplified Electronic Commerce System (DOE/C-Web). During Fiscal Year (FY) 2003, Headquarters employees made over 8,700 purchases with a purchase card at a cost of approximately \$13.4 million. We learned, however, that 1,900 of these transactions, or about \$2.8 million of the total, were executed without the benefit of DOE/C-Web. This internet-based system was designed to streamline the procurement process by automating the requisition, solicitation, funding, and approval processes.

DOE/C-Web offers several advantages, such as electronically notifying vendors of solicitations they may bid on and awards they have received. It is particularly suited to paying for purchases with a purchase card, in part, since it directly interfaces with the Department's accounting system and provides a secure processing environment. In addition, a description is required with an amount for each item purchased, a practice that facilitates oversight activities such as mining purchase data for potentially fraudulent or prohibited transactions. The *Headquarters Procurement Services Policies and Operating Procedures for the Use of the Government Purchase Card* requires that all Headquarters organizations use DOE/C-Web for all their purchase card procurements.

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### Purchase Card Transactions

Purchase cardholders at 17 Headquarters program offices also did not regularly follow existing purchase card procedures when executing transactions. For example, we identified problems in 143 of the 166 transactions (86 percent) we reviewed that increased the risk of credit card misuse (see Appendix 1 for details.) For example, we found that purchase cardholders and/or approving officials:

- Followed inappropriate procurement practices, including making a \$3,000 payment to a florist who accepted it on behalf of a legal service firm for a patent-related service, and several purchases in which purchase card numbers were shared;
- Purchased over \$47,000 of property that was not recorded in the Department's property management system, as well as \$16,000 in property that was recorded incorrectly;
- Did not review periodic transaction statements for accuracy or perform timely reviews to ensure that charged transactions were valid;
- Completed purchases without proper authorization or pre-approval of funding;
- Did not provide sufficient supporting documentation to show that purchased items were actually received, and, in several cases, that competitive bids had been obtained to ensure that the Department paid a reasonable price for the item acquired; and,
- Purchased several items that we questioned as an inappropriate use of the purchase card.

### Purchase Card Privileges and Accounts

Some cardholders had been granted privileges that exceeded their documented purchasing authority, were not aligned with their needs, or should have been terminated because of lack of use. Specifically, we found:

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- Purchase card authority was not adequately documented for 21 of the cardholders. For example, Bank of America's Electronic Account Government Ledger System (EAGLS) showed four cardholders had limits that were higher than the documented limit delegated to the cardholder by Headquarters Procurement Services. Two of these cardholders also made a total of 36 transactions in excess of their documented delegated purchasing authority, for a total of over \$345,000.
  - Thirty-seven cardholders made only one or no purchases during FY 2003, and an additional 38 cardholders with monthly credit limits of at least \$100,000 who made less than \$10,000 in total purchases during the fiscal year.
  - Nine individuals whose accounts were open in EAGLS, but had either left the Department or told us that they no longer held a credit card. While there were no recent purchases made on those accounts, they all should have been closed a year or more ago, with one account that should have been closed more than five years earlier.

## **Program Controls**

DOE/C-Web was not fully utilized because programs did not follow Department policy for using the system, and Headquarters Procurement Services did not enforce its use. In addition, the errors we found during our review of purchase card transactions were caused by problems with program oversight, purchase card training, and related purchase card procedures.

### Using DOE/C-Web

Several programs did not require cardholders to use DOE/C-Web. Representatives from these offices told us that they did not use the system for reasons such as personnel turnover, vacancies, and small numbers of transactions. In some cases, cardholders indicated that they were not aware that DOE/C-Web existed or that its use was required by purchase card procedures. Additionally, even though Headquarters Procurement Services had the authority to enforce use of DOE/C-Web, it chose not to do so. A Headquarters Procurement Services official stated

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that use of DOE/C-Web was not enforced because the system was not always the most efficient way to make purchases for certain classes of transactions such as very small dollar purchases. However, in order to respond to new Federal reporting requirements, the Department now plans to enforce the use of DOE/C-Web for all purchases over \$2,500.

#### Purchase Card Training

A lack of training contributed, at least in part, to problems we observed. Several cardholders responsible for the errors cited in this report indicated that they had not been properly trained. In 35 cases, Headquarters Procurement Services issued cards to individuals even though their application forms showed that initial training requirements were not met. Similarly, 15 approving officials could not provide or did not respond to our request for evidence that they received required training. We also noted that Headquarters Procurement Services does not require cardholders or approving officials to certify that they have read and understand purchase card procedures prior to accepting the card for use or periodically thereafter. The Government Accountability Office (GAO) has noted that proper training of both cardholders and approving officials is a key element of internal controls.

According to a Headquarters Procurement Services official the Department strengthened its training program including requiring new cardholders and approving officials to complete training prior to becoming cardholders or approving officials and periodic refresher training for cardholders. Despite these improvements, the results of our review indicate that some cardholders continue to not be fully apprised of their roles and responsibilities.

#### Purchase Card Oversight

While Headquarters Procurement Services conducted a number of reviews of the purchase card program, they were not always rigorous enough to identify suspect transactions. Annual reviews performed of various program aspects disclosed a number of items requiring resolution; however, monthly reviews were not always documented or sufficient in scope. For example, a Headquarters Procurement Services official stated that monthly reviews were



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conducted, but she could not provide documentation supporting that assertion. Furthermore, the monthly review methodology described by the procurement official would not be adequate to identify suspect transactions because it could not identify what items were purchased; an essential element in determining whether the transaction was for legitimate purposes. Specifically, the review methodology generally included a visual scan of the EAGLS database that contains information such as the vendor names and an amount purchased, but does not describe the items purchased. The review methodology also did not include data mining DOE/C-Web to discover suspect items or verifying that property was entered into the property management system.

With regard to oversight of purchase card privileges, a senior Headquarters Procurement Services official told us that the Department had reviewed the appropriateness of purchase card authorization limits in FY 2003 but had not always been successful in reducing privileges to appropriate levels. The official noted that some program offices and/or cardholders resisted a reduction in purchase limit levels and justified the higher limits because of potential needs driven by mission requirements. The Headquarters Procurement Services official told us that the Department had planned to revisit the continuing mission need justification for the higher limits. Finally, Headquarters Procurement Services officials told us that they have had difficulties terminating cardholders purchase privileges because the bank sponsoring the cards sometimes fails to act on termination notifications sent by the Department.

#### Purchase Card Procedures

Additionally, purchase card guidance did not adequately define the responsibilities of purchase cardholders for accountability, property, or supporting documentation. For example, the procedures do not define the types of property that need to be recorded in the Department's property management system, or refer cardholders to related Departmental directives for clarification. Further, the procedures also did not describe the types of documentation cardholders should obtain to evidence receipt of goods.

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**Opportunities for Savings and Strengthened Controls**

By not fully utilizing DOE/C-Web, the Department is foregoing the opportunity to increase the efficiency of almost \$3 million in purchases. Additionally, without effective, properly functioning controls over the purchase card program, the Department is vulnerable to fraudulent and abusive use. While we did not find any indications of fraudulent activity, without improvement the Department's \$13 million in annual purchase card procurements will remain susceptible to restricted, prohibited, and questionable purchases. As noted by GAO, control weaknesses similar to those we observed led to fraudulent purchases at the Department of Navy for items such as stereos, digital cameras, and other electronic equipment purchased for personal use.

**Corrective Actions**

To its credit, the Department's Office of Management, Budget and Evaluation/Chief Financial Officer (OMBE) has taken corrective actions since our review started. Specifically, Headquarters Procurement Services is working on implementing DOE/C-Web and plans to enforce its use for purchases over \$2,500. Headquarters Procurement Services has also recently assigned additional resources to oversee its purchase card program, and is in the process of implementing a software package that would permit data mining of purchase card transactions. Additionally, Headquarters Procurement Services has acted on some of the issues identified during our audit, including requiring cardholders to take additional training. Furthermore, OMBE's Office of Administration has started tagging and tracking the property items as necessary.

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**RECOMMENDATIONS**

To strengthen the Department's controls over Federal purchase card procurements at Headquarters, we recommend that the Director of the Office of Management, Budget and Evaluation/Chief Financial Officer direct Headquarters Procurement Services to:

1. Ensure that program officials and purchase cardholders are knowledgeable of DOE/C-Web benefits and the requirement to use it;
2. Require cardholders and approving officials to periodically certify they have read and understand the Headquarters purchase card policies and operating procedures;
3. Suspend privileges for all cardholders who have not received training;
4. Plan and conduct monthly reviews of purchase card transactions that employ data mining of transactions to identify unusual item descriptions for follow-up and tests to ensure that purchased property has been entered into property accountability systems;
5. Ensure that cardholders' privileges are justified by mission needs, and perform periodic follow-up with the bank sponsoring the purchase card to ensure that privileges are terminated when appropriate; and,
6. Clarify Headquarters purchase card policies and procedures to provide guidance on the responsibility of cardholders for property accountability.

**MANAGEMENT  
REACTION**

The Director, Office of Management, Budget and Evaluation/Chief Financial Officer, generally concurred with the conclusions and recommendations, stating that the report identified a number of purchase card-related activities which present opportunities for improvement including expanded use of DOE/C-Web for purchases over \$2,500; annual certifications to the understanding of policies and procedures; and, review and monitor cardholder spending limits.

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Management, however, disagreed with the assertion that the situations of noncompliance with certain purchase card policies and procedures resulted from several programs not processing transactions via DOE/C-Web. Management's comments have been included in their entirety as Appendix 4.

**AUDITOR COMMENTS**

Management comments are generally responsive to our recommendations. As noted in the body of our report, we did not intend to assert that noncompliance with purchase card policies or procedures were caused by not using DOE/C-Web. Rather, we believe that the Department was not realizing the efficiency and control benefits provided by or through the use of DOE/C-Web because, despite guidance to the contrary, cardholders were not required to use the system. The errors we found during our review of purchase card transactions were primarily attributable to problems with purchase card training, program oversight, and related purchase card procedures. We have revised our report to clarify the distinction between the use of DOE/C-Web and the reasons for not following existing purchase card procedures when executing transactions.

# Appendix 1

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## SUMMARY OF REVIEW RESULTS

During our review we tested 166 transactions (purchases and returns or other adjustments) totaling \$618,000 and found errors in the execution of 143<sup>1</sup> of those transactions. The errors we found are described below:

- Five purchases totaling about \$5,182 that were inappropriate practices, including the payment to a florist who accepted it on behalf of a legal service firm; temporary services that continued longer than eight months; and purchases made by employees who were not authorized cardholders;
- Ten purchases totaling \$47,000 for physical property that were not tagged as Department property and tracked in the Department's asset management system, including a Toshiba color copier; 11 BlackBerrys; stereo speakers; a time clock; and a 13-inch television;
- Two purchases totaling \$16,000 for property that was not accurately tracked in the Department's asset management system property records, including a camera control unit and a copier;
- The purchase of 121 items totaling \$435,000 that failed to follow prescribed procurement practices, including untimely review by approving officials or cardholders; and improper authorization or pre-approval of funding. In addition, controls essential for ensuring that individual purchases were appropriate were not followed, such as cardholders not documenting that they reconciled their purchases; and cardholders or approving officials not signing and dating the statements of account;
- Seventy-six purchases totaling \$329,000 without sufficient supporting documentation, including 5 purchases over \$2,500 that did not indicate the receipt of competing bids or justification for sole-source procurement; and purchases that did not have a receipt of goods prior to payment; and,
- Six purchases totaling approximately \$4,957 for items that we questioned as an inappropriate use of the purchase card, including the purchase of recruitment advertising in the *Washington Post* without any evidence that the purchaser had obtained the required prior approval of the contracting officer; continued charges for *America Online*, even though the Department has its own secure access to the Internet; the printing of posters and flyers; the acquisition of an air purifier that could have been centrally procured by the Department; and food items.

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<sup>1</sup> In some instances single transactions accounted for multiple errors. Therefore, the aggregate number of purchases cited above is greater than the total number of transactions reviewed.

## Appendix 2

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<b>OBJECTIVE</b>	To determine whether the Department was cost-effectively monitoring and controlling its purchase card system at Headquarters.
<b>SCOPE</b>	The audit was performed between December 2003 and October 2004 at Department Headquarters in Washington, D.C., and Germantown, MD. We evaluated whether the Department had implemented controls over the use of streamlined procurements by Federal employees at Headquarters.
<b>METHODOLOGY</b>	<p>To accomplish our audit objective, we:</p> <ul style="list-style-type: none"><li>• Reviewed applicable Departmental and Headquarters guidelines, policies, and operating procedures pertaining to use of the Government purchase card and the DOE/C-Web electronic purchasing system;</li><li>• Reviewed relevant reports issued by the Office of the Inspector General, the Government Accountability Office, and the Office of Management, Budget and Evaluation/Chief Financial Officer;</li><li>• Reviewed the <i>Government Performance and Results Act of 1993</i> and determined whether performance measures had been established for purchase cards;</li><li>• Observed demonstrations of key purchase card and DOE/C-web policies, processes, and procedures;</li><li>• Identified the universe of FY 2003 purchase card transactions made at Headquarters as of September 11, 2003;</li><li>• Selected a sample of purchase card and convenience check transactions from Bank of America's Electronic Account Government Ledger System (EAGLS) using two different methods. The two methods are as follows:</li></ul>

1. *Data Mining / Judgmental Sampling.* We performed data mining on the universe of FY 2003 purchase card and convenience check transactions. Specifically we performed data mining techniques, using Audit Command Language (ACL), to identify and extract transactions with potentially improper merchant category codes, Federal holiday purchases, weekend purchases, and potentially split purchases. Using the data mining results, we judgmentally selected a sample of transactions for review. We also judgmentally selected a sample of convenience check transactions; credit transactions; and specific for FYs 2002, 2003, and 2004 transactions that, on the surface, appeared questionable; and,
  2. *Random Sampling.* To ensure broader coverage, we selected a random sample of FY 2003 purchase card transactions for review. Specifically, we used ACL to randomly select transactions from two separate strata---those transactions up to \$2,500 and those over \$2,500.
- Held discussions with personnel from Department Headquarters, including representatives from the Office of Headquarters Procurement Services, Capital Accounting Center, Property and Supply Management Team, and individual purchase cardholders; and,
  - Reviewed documentation for the sample of purchase card transactions against Departmental and Headquarters guidelines, policies, and operating procedures. We also reviewed cardholder and approving official files maintained by the Office of Headquarters Procurement Services and overall FY 2003 purchase card activity.

## **Appendix 2 (continued)**

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The audit was conducted in accordance with generally accepted Government auditing standards for performance audits and included tests of internal controls and compliance with laws and regulations to the extent necessary to satisfy the audit objectives. Accordingly, we assessed internal controls regarding streamlined procurement practices. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. In conducting our audit, we relied on computer-processed data from the credit card issuer. We tested the accuracy of this data by tracing it to source documents and concluded it was sufficiently reliable to meet our audit objectives. As part of our review, we determined that the Department established performance measures for the purchase card program, but did not establish measures on implementing DOE/C-Web. Therefore, we could not assess how measures in this area might have been used to measure performance.

Management waived the exit conference.



## Appendix 3

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### PRIOR REPORTS

#### Office of Inspector General Reports

- *Special Inquiry: Operations at Los Alamos National Laboratory* (DOE/IG-0584, January 2003). While the special inquiry did not specifically include a review of the Los Alamos purchase card systems, it did note weaknesses in the laboratory's controls over purchase cards, including: failure to properly account for controlled property; purchase of restricted items in violation of laboratory policies; and failure to properly manage cardholder spending limits.
- *Sandia National Laboratories Procurement Card Program* (WR-B-02-03, August 2002). The audit found that Sandia procurement cardholders bought restricted items, split purchases to avoid dollar limits, and allowed unauthorized users to charge purchases to their accounts.
- *U.S. Department of Energy's Purchase Card Programs--Lessons Learned* (I01OP001, February 2002). This report identified lessons learned which can be used to improve the operation and performance of the purchase card programs including: developing comprehensive guidelines for purchase card processes; clearly delineating unallowable and non-reimbursable items; taking aggressive steps to assure compliance with established policies and procedures; and establishing a system that provides a full accounting of the number of cardholders, cardholder status, and spending limitations.
- *Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Bechtel BWXT Idaho, LLC Under Department of Energy Contract No. DE-AC07-99ID13727* (WR-V-02-01, October 2001). The review found that an employee used a Government purchase card to buy property for personal or non-contract use; that items such as clothing and small tools were routinely purchased without following the proper purchase card processes; a lack of segregation of duties; and inadequate review and approval of purchases.
- *Sandia National Laboratories Personal Property Accountability* (DOE/IG-0523, September 2001). The audit found that the Sandia property database was not accurate. Property was not always included in the database, or could not always be physically located.
- *Inspection of Lawrence Livermore National Laboratory Credit Card Usage and Property Management Concerns* (INS-O-01-01, February 2001). The review sampled nearly 13,000 of 70,000 credit card transactions in FY 1999. The review did not provide an overall quantification of questioned costs, but identified weaknesses in the Livermore credit card program including failure to properly account for Government property purchased by credit cards, manipulation (by

## **Appendix 3 (continued)**

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- vendors) of pricing to circumvent cost limitation policies, and the failure to obtain competitive bids (including split purchases).
- *Credit Card Usage at the Ohio Field Office and the Fernald and Miamisburg Environmental Management Projects* (ER-B-99-04, March 1999). The Ohio Field Office, Fernald and Miamisburg Environmental Management Projects, and Babcock and Wilcox appeared to be using credit cards for appropriate purposes and within established limitations. Fluor Daniel, however, was not. The audit identified \$42,000 in unallowable costs out of total credit card charges incurred by Fluor Daniel in FY 1998 of \$3.6 million. Items unallowable per Fluor Daniel's contract, yet purchased via credit cards, included employee morale and recognition, items given to employees as safety incentives, and photos and memorabilia for community involvement and charitable activities.
- *Audit of the Bonneville Power Administration's Management of Information Resources* (WR-B-96-06, April 1996). The audit found that many credit card purchases of computer-related equipment were made by employees whose authority to buy was not properly documented, purchasing files lacked all documentation, and some purchases exceeded their purchase limits. The audit found that \$90,000 of equipment was bought by personnel without documented purchase authority, and about \$182,000 of purchases lacked supporting invoices. The audit methodology included a statistical sample of 137 items of computer-related equipment from a universe of almost 13,000 items included in Bonneville's property records.

### **Government Accountability Office Reports**

- *Lawrence Livermore National Laboratory: Further Improvements Needed to Strengthen Controls Over the Purchase Card Program* (GAO-04-986R, August 2004). Weaknesses in Livermore's purchase card program increased the lab's risk of improper purchases. For example, GAO found purchases split to circumvent single purchase limits, purchases without evidence of pre-approval, purchases deemed to be wasteful because they were excessive in cost and/or were of questionable need, and purchases without adequate supporting documentation.
- *Lawrence Berkeley National Laboratory: Further Improvements Needed to Strengthen Controls Over the Purchase Card Program* (GAO-04-987R, August 2004). Internal control weaknesses in Lawrence Berkeley's purchase card program increased the lab's risk of improper purchases. For example, GAO found split purchases, purchases of restricted items without documented pre-approval, wasteful purchases, and inaccuracies in the lab's property database.
- *Pacific Northwest National Laboratory: Enhancements Needed to Strengthen Controls Over the Purchase Card Program* (GAO-04-988R, August 2004). The audit identified control weaknesses in the lab's purchase card program that need to be strengthened to reduce the risk of improper purchases. For example, GAO found

## Appendix 3 (continued)

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split purchases, wasteful purchases, purchases of prohibited items, sharing of purchase cards, and lack of adequate supporting documentation.

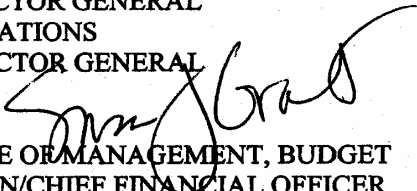
- *Sandia National Laboratories: Further Improvements Needed to Strengthen Controls Over the Purchase Card Program* (GAO-04-989R, August 2004). Internal control weaknesses in Sandia's purchase card program increased the laboratory's risk of improper purchases. For example, GAO found split purchases, wasteful purchases, untimely review and approval of purchases, inadequate supporting documentation, and inaccuracies in the laboratory's property database.



**Department of Energy**  
Washington, DC 20585

**JAN 28 2005**

MEMORANDUM FOR RICKEY R. HASS  
ASSISTANT INSPECTOR GENERAL  
FOR AUDIT OPERATIONS  
OFFICE OF INSPECTOR GENERAL

FROM: SUSAN J. GRANT   
DIRECTOR, OFFICE OF MANAGEMENT, BUDGET  
AND EVALUATION/CHIEF FINANCIAL OFFICER

SUBJECT: Response to Office of Inspector General (OIG) Draft Audit  
Report Entitled, "The Department's Federal Purchase Card  
Program at Headquarters"

Attached are the Office of Management, Budget and Evaluation/Chief Financial Officer's comments on the subject OIG draft audit report. If you have any questions in this regard, please contact Stephen Mournighan at (202) 287-1310.

Attachment



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## Appendix 4 (continued)

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### Comments on the Office of Inspector General (OIG) Draft Audit Report on the Department's Purchase Card Program at Headquarters

#### Management Reaction:

The subject audit was initiated over twelve months ago, not as a review of the purchase card program at Headquarters, but rather as an "Audit of the Department's Controls over Federal Streamlined Procurement Practices." Sometime after its initiation, the focus of the audit was revised to deal solely with the purchase card program at Headquarters.

Since its inception in 1991, the Headquarters purchase card program has been highly effective in reducing the costs of operations, improving customer satisfaction, and increasing productivity by simplifying methods in which the Department acquires and pays for low-dollar value goods and services. Moreover, the Office of Management, Budget and Evaluation/Chief Financial Officer (OMBE/CFO) takes its fiduciary responsibilities for the proper administration of its purchase card program very seriously. It is not enough simply to issue policies and procedures. Rather, OMBE/CFO has taken a proactive approach to addressing potential vulnerabilities in the purchase card program and has implemented a number of program improvements, including more stringent training requirements, and increased management and program oversight reviews.

Accordingly, we continually seek ways in which we can improve the management and oversight of the program. Although no fraudulent activity was found in the subject audit, the draft report identifies a number of purchase card-related activities which were concluded to have administrative deficiencies which present opportunities for improvement; particularly in the area of records management.

The draft report contains six recommendations with which we concur.

#### Recommendation 1

Ensure that program officials and purchase cardholders are knowledgeable of DOE/C-Web benefits and the requirements to use it.

#### Response

We concur for purchases over \$2,500. The Headquarters purchase card procedures currently prescribe that DOE/C-Web be used for all purchase card transactions. This requirement resulted from a joint memorandum that was issued in February 2000, by the DOE Senior Procurement Executive and the Chief Financial Officer requiring that DOE/C-Web be used for all purchase card transactions. However, as the regulations governing simplified acquisitions have evolved along with the development of new and innovative purchasing tools, implementation of this requirement proved to be impractical and not the most efficient means of processing all purchase card transactions – particularly those for small dollar value transactions. DOE/C-Web is but one of several tools that can be used to accomplish purchase card transactions (including GSA's on-line

## Appendix 4 (continued)

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E-buy system; on-line ordering directly from vendors; telephonic purchases, and in-store purchases).

We agree that information pertaining to transactions that are processed via DOE/C-Web can be accessed electronically and thus can provide for a more efficient means of conducting management oversight of such transactions. However, we disagree with the OIG's assertion that the situations of noncompliance with certain policies and procedures governing the purchase card program that are cited in the draft report resulted from several programs not processing transactions via DOE/C-Web. For example, the same procedures that govern requirements for the timely review of statements of account, supporting information regarding competition and sole-source justifications, and property accountability apply to all transactions regardless of the purchasing tool being used.

Notwithstanding, recent changes to the Federal Procurement Data System – Next Generation (FPDS-NG) will require Federal reporting of all transactions valued in excess of \$2,500. Because this reporting can be accomplished transparently via the DOE/C-Web system, DOE Headquarters will require that all purchase card transactions exceeding \$2,500 must be processed via DOE/C-Web to ensure that all transactions are properly reported and captured in FPDS-NG. Accordingly, we are currently in the process of requiring use of DOE/C-Web for purchases over \$2,500.

Headquarters procurement will amend its procedures to clarify the application and use of DOE/C-Web under the purchase card program.

### Recommendation 2

Require cardholders and approving officials to periodically certify they have read and understand the Headquarters purchase card policies and operating procedures.

### Response

Concur. We will require that all cardholders and approving officials annually certify that they have read and understand the Headquarters purchase card policies and operating procedures. This will augment existing features of the program which provide all cardholders and approving officials with immediate on-line access to up-to-date program policies, procedures and other guidance pertaining to the program, as well as existing requirements for all cardholders and approving officials to participate in refresher training at least every two years.

### Recommendation 3

Suspend privileges for all cardholders who have not received training.

## Appendix 4 (continued)

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### Response

Concur. Training requirements under the Headquarters program have evolved over the 14 years that the purchase card program has been in place at Headquarters. Initially, training consisted of a half-day session conducted by the Program Coordinator on the Headquarters guidelines and procedures. Cardholders and approving officials are now required to complete formal training in Simplified Acquisition Procedures, the General Services Administration's on-line SmartPay training course, and the on-line DOE Affirmative Procurement Training course which is sponsored by the Office of Environment, Safety and Health. These training requirements are detailed in the Headquarters purchase card procedures as well as in the recommendation for appointment for purchase card authority. All new cardholders and approving officials are now required to complete the requisite training prior to becoming a cardholder or approving official. In addition, formal refresher training is required for all cardholders and approving officials every two years. If a cardholder or approving official does not complete the required refresher training as required by the program, their purchase card authority will be suspended or rescinded.

### Recommendation 4

Plan and conduct monthly reviews of purchase card transactions that employ data mining of transactions to identify unusual item descriptions for follow-up and tests to ensure that purchased property has been entered into property accountability systems.

### Response

Concur. A data mining program was instituted in September 2004.

### Recommendation 5

Ensure that any cardholder privileges that exceed the planned for limit of \$2,500 are justified by mission needs, and perform periodic follow-up with the bank sponsoring the purchase card to ensure that privileges are terminated when appropriate.

### Response

Concur. Beginning in March 2003, the Director, Office of Headquarters Procurement Services (ME-64) directed a review of all purchase card delegations to ensure that delegations of authority are aligned with need. This review required that the approving official for each cardholder with authority in excess of \$2,500 justify, in writing, the need for the purchase card and the level of delegated authority. In addition, the Director, ME-64 also directed that the application for delegations under the purchase card program require that the employee's supervisor justify in writing the need for the card and the purchase level requested. As a result, a number of cardholder delegations have been rescinded or lowered. This review is an ongoing, material part of the Headquarters program. It should be noted that a number of purchase card holders do not use their card,

## Appendix 4 (continued)

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but are authorized to possess cards solely to fulfill their responsibilities in the event of an emergency pursuant to their respective organization's Continuity of Operations Plan (COOP).

### Recommendation 6

Clarify Headquarters purchase card policies and procedures to provide guidance on the responsibility of cardholders for property accountability.

### Response

Concur. The Headquarters purchase card policies and procedures currently contain five pages of guidance and instruction regarding cardholder responsibilities pertaining to personal property management and property accountability. These procedures specifically address cardholder responsibilities for the proper documentation, receipt, and tagging of goods that are acquired using the purchase card. We will review these policies and procedures and clarify/modify them as required.



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