



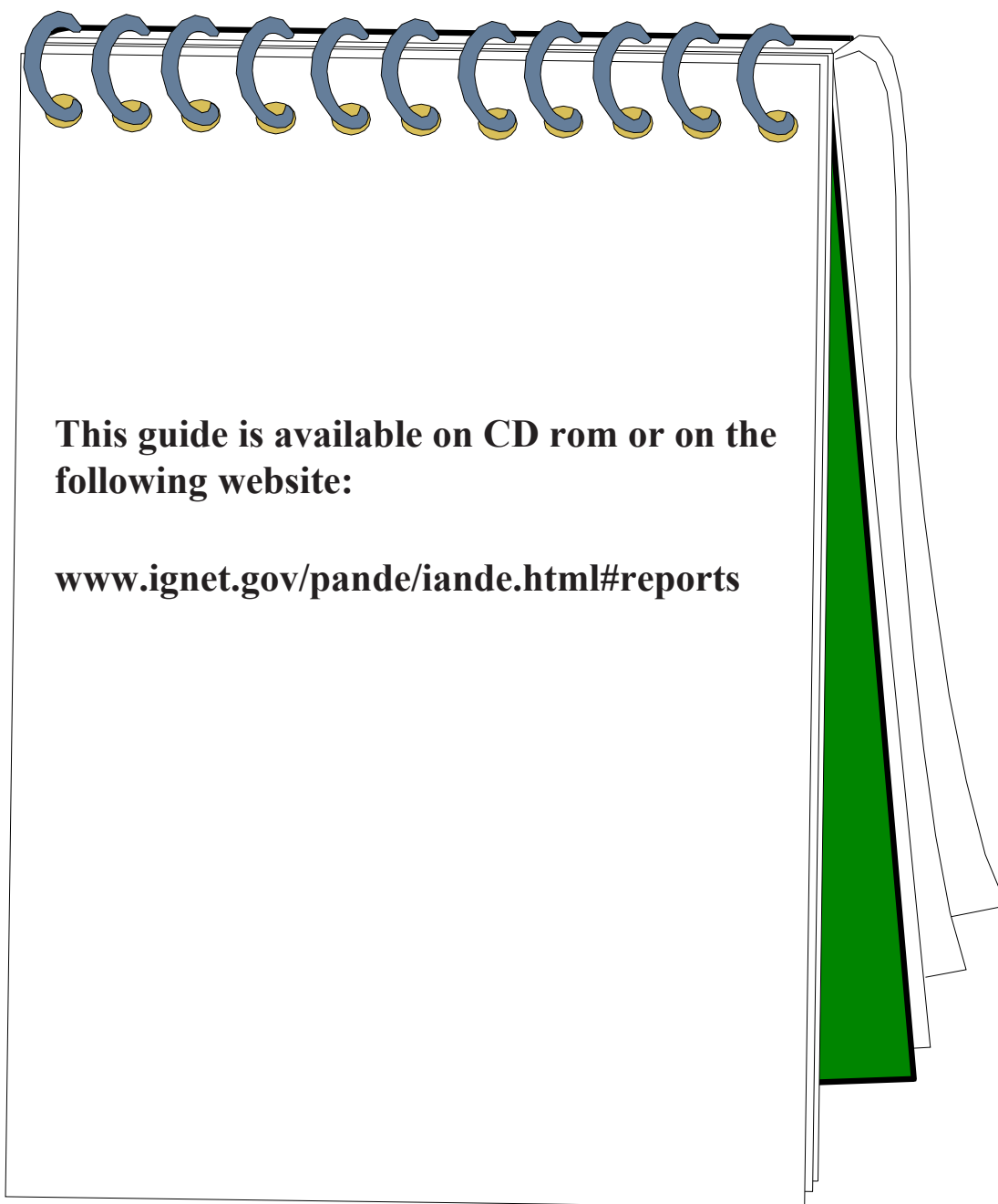
# A Practical Guide for Reviewing Government Purchase Card Programs



**INSPECTION AND EVALUATION COMMITTEE**

**PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY  
EXECUTIVE COUNCIL ON INTEGRITY AND EFFICIENCY**





**This guide is available on CD rom or on the following website:**

**[www.ignet.gov/pande/iande.html#reports](http://www.ignet.gov/pande/iande.html#reports)**

# TABLE OF CONTENTS



## MESSAGE FOR THE PCIE and ECIE

Foreword	
Introduction .....	1
Review Objectives.....	2
Guidance.....	2
Standards.....	2
Roles.....	3
Review Preparation.....	4
Conducting the Review.....	7
Common Problems.....	7
Communicating Results.....	10
Follow-up.....	11

## APPENDICES 1 and 2

1	Resource List for Purchase Card Reviews .....	12
2	GAO's Standards for Internal Controls in the Federal Government .....	16

## ATTACHMENT 1

1.1	Guide for Interviews of Purchase Cardholders.....	19
1.2	Guide for Interviews of Approving Officials.....	29
1.3	Guide for Interviews of Administrative/Executive Officers.....	40
1.4	Guide for Interviews of Senior Officials.....	51

## ATTACHMENT 2 ..... 60

Record of Interview

## ATTACHMENT 3 ..... 62

Individual Report - SAMPLE

## ATTACHMENT 4..... 72

Capping Report - SAMPLE

## ATTACHMENT 5 ..... 84

Follow Up Reports - SAMPLES



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

June 2002

**MEMORANDUM FOR MEMBERS OF THE  
PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY  
EXECUTIVE COUNCIL ON INTEGRITY AND EFFICIENCY**

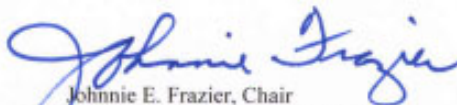
**SUBJECT:** *A Practical Guide for Reviewing Government Purchase Card Programs*

On behalf of the PCIE Inspection and Evaluation Committee, I am pleased to provide this reference guide for use in reviewing government purchase card programs. My hope is that this guide will serve as one example of the type of work we can do to establish a more effective, efficient, and focused program for preventing as well as detecting waste, fraud, and abuse by government purchase cardholders.

As you well know, use of federal purchase cards has skyrocketed in recent years, and now accounts for billions of dollars in federal spending. Although the program has brought increased efficiencies and savings to the purchasing process, it has at the same time opened up a whole new area of potential fraud, waste, and abuse that requires close scrutiny by Inspectors General. Many of us have already been called to testify before the Congress on our oversight of the purchase card program in our agencies, and others may be asked to do so in the future.

Presented by the Inspection and Evaluation Committee, *A Practical Guide for Reviewing Government Purchase Card Programs* is a valuable addition to the tools that many federal Inspectors General have developed for use in overseeing purchase card activities in their agencies. It provides common sense advice on conducting purchase card reviews and includes a number of practical features to enhance the review process, such as questionnaires, templates, and sample reports. This document is intended to supplement existing federal law, regulations, and internal agency guidelines. We also suggest that you use this guide in conjunction with other audit, inspection, or investigative tools, and include additional steps or questions tailored to evaluate the specific purchase card program in your agency. It comes at a most opportune time--as many of us are initiating or conducting work in this critical area.

Our special thanks go to the Department of Education's Office of Inspector General for taking the lead in developing this guide. We believe it serves as yet another example of the commitment of the Inspectors General to work collectively in promoting efficiency and effectiveness throughout the federal government. If you would like additional information about the guide, please contact me at (202) 482-4661, or Mary Mitchelson, Assistant Inspector General for Analysis and Inspection, U.S. Department of Education, Office of Inspector General, at (202) 260-3556.

  
Johnnie E. Frazier, Chair  
Inspection and Evaluation Committee





## FOREWORD

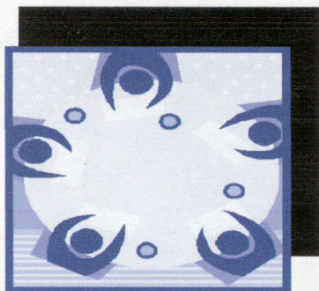
The President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE) were established by Executive Order 12805, May 11, 1992, to

- address integrity, economy, and effectiveness issues that transcend individual government agencies, and
- increase the professionalism and effectiveness of Inspector General personnel throughout the government.

The PCIE is primarily composed of the presidentially appointed IGs. The ECIE is mainly composed of the IGs who are appointed by agency heads. Chairing both councils is the Deputy Director for Management of the Office of Management and Budget. The Chair appoints a Vice Chair from each council to assist in carrying out its functions. Officials from the Office of Management and Budget, Federal Bureau of Investigation, Office of Government Ethics, Office of Special Counsel, and Office of Personnel Management serve on both councils.

To accomplish their mission, PCIE and ECIE members conduct interagency audit, inspection, and investigative projects aimed at promoting economy, efficiency, and effectiveness in federal programs and operations. To enhance the efficiency of these projects, the councils have also developed policies, standards, and approaches that have helped build a well-trained and highly skilled IG workforce. Because the PCIE and ECIE are made up of members from many federal agencies, these projects can effectively address cross-cutting or government-wide issues of fraud, waste, and abuse.

## INSPECTION AND EVALUATION COMMITTEE



The Inspection and Evaluation Committee provides contributions to the Inspector General community as well as the federal government as a whole by helping to (1) improve the management of Federal programs; (2) improve the practice of inspections and evaluation by sharing effective practices and insights; and (3) improve the analytic and administrative skills of OIG inspectors and evaluators by providing training in a variety of pertinent topics. The Committee is supported by a very active and supportive Inspections and Evaluation Roundtable. The Roundtable, created in 1993, generally comprises the directors or heads of inspection and evaluation units within federal Offices of Inspector General. Its purpose is to promote the professional development of employees of those units,

improve the practice of evaluation and analysis, and provide positive contributions to the Inspector General community. These advances in professionalism and service aid the federal government as a whole in improving the management of programs and operations. The Roundtable also serves as an adjunct to the Inspection and Evaluation Committee of the PCIE/ECIE.

# INTRODUCTION

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A U.S. government purchase card is an internationally accepted credit card issued by individual contractors and available to personnel in all federal agencies under a single General Services Administration (GSA) contract. The purpose of Purchase Card Programs is to minimize the paperwork needed to make, with proper authorization, purchases of up to \$25,000. According to GSA, in 2000, the cards were used for more than 23 million transactions worth \$12.3 billion. By avoiding the formal procurement process, GSA estimates the annual savings to be \$1.2 billion.

Although they provide efficiency and savings to the government, Purchase Card Programs are high-risk because they allow the same individual to order, pay for, and receive goods and services. This offers the potential for fraud and abusive and improper transactions if not carefully monitored.

Effective Purchase Card Programs depend on the users having been properly trained to manage their card use.

*Treasury Financial Manual*, Vol. 1, Part 4, Section 4525, requires each agency to have its own internal procedures for using purchase cards, so cardholders must be made aware of the applicable laws, regulations, and procedures developed by their agency. Management's understanding of internal controls is essential in ensuring accountability at all levels of purchase card use. (The terms "management controls" and "internal controls" are used interchangeably in this guide.)

## What topics does the guide cover?

- Review Objectives
- Guidance
- Standards
- Roles
- Review Preparation
- Conducting the Review
- Common Problems
- Communicating Results
- Follow Up

The guide is written primarily for auditors, evaluators, inspectors, and investigators who may be involved in reviewing purchase card programs. It is based largely on the methods and resources used to produce individual office reports and a capping report within the Department of Education Office of Inspector General (ED/OIG). In preparing this guide, the authors also reviewed many audits and reports produced within the IG community, as well as a General Accounting Office (GAO) report. All the sources reviewed for this guide are listed in Appendix 1. Other audit, inspection, investigative, and evaluation tools have been developed by OIGs for use in reviewing their agency purchase card programs.

This guide is not intended to supercede federal law, regulations, or internal agency guidelines. It is structured in a question-and-answer format, asking the questions you would ask, structured to provide the answers you need, ordered in a format intended to lead you through the process. It also offers links to examples of questionnaires, templates, and reports you will need to complete the process.





# REVIEW OBJECTIVES

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## What are the primary review objectives?

In general, the primary objectives of a purchase card review are to assess (1) compliance with laws and regulations, (2) efficiency of operations, and (3) adequacy of internal or management controls to help prevent fraud, waste and abuse by cardholders or others who attempt to manipulate the program. We recommend that you focus on all three.



## GUIDANCE

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### What guidance covers the use of government purchase cards?

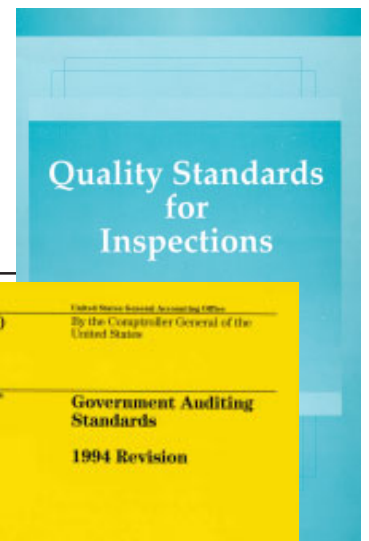
- Federal Acquisition Regulation (FAR), Part 2, Definitions of Words and Terms; Part 8, Required Sources of Supplies and Services; and Part 13, Simplified Acquisition Procedures
- *Treasury Financial Manual*, - Vol. I, Part 4, Chapter 4500, “Government Purchase Cards”
- Code of Federal Regulations, Title 5, Administrative Personnel, Chapter III, “Office of Management and Budget,” Part 1315, Prompt Payment
- Agency directives pertaining to purchase cards and accountable property
- Government vendor contract (for example, Bank of America or Citibank)

## STANDARDS

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### Are there some general standards that can be used as a resource in conducting this evaluation?

- President’s Council on Integrity and Efficiency *Quality Standards for Inspection*, March 1993
- General Accounting Office *Standards for Internal Control in the Federal Government*, November 1999 (Appendix 2 contains a summary of the standards)
- General Accounting Office *Government Auditing Standards*, 1994 Revision



# ROLES

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## **What agency offices are involved in purchase card operations?**

- The program is usually administered by a component of the agency's Office of the Chief Financial Officer (OCFO) or the procurement office. That staff should be able to provide a complete list of that agency's cardholders and approving officials. They may also be able to provide the training status of the cardholders or at least identify the office responsible for conducting and documenting credit card training.
- Depending on agency policy for the issuance of cards, every major office and many subunits may have cardholders.

## **What is management's role in operating a purchase card program?**

- Managers are responsible for the internal controls of the program. The most important internal control is the monthly review of the cardholder's statement by the approving official. Failure of approving officials to properly conduct this review has contributed to many of the problems outlined below. (See the "Common Problems" section.)
- Managers are also responsible for program performance, productivity, controlling costs, and assuring that programs are managed with integrity and in compliance with applicable laws. As defined by OMB Circular A-123, Management Accountability and Control,

“Management controls are the organization, policies, and procedures used to reasonably ensure that (i) programs achieve their intended results; (ii) resources are used consistent with agency mission; (iii) programs and resources are protected from waste, fraud, and mismanagement; (iv) laws and regulations are followed; and (v) reliable and timely information is obtained, maintained, reported and used for decision making.”

Management controls are used to assure that there is prevention or timely detection of unauthorized acquisition, use, or disposition of the entity's assets.



# REVIEW PREPARATION

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## How can the standards be used?

- One effective approach is to develop questionnaires based on the GAO Standards (Appendix 2), which have five elements of internal control: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring. These five elements can be broken down into a series of questions for cardholders, approving officials, and others. The roles of these individuals are described below in the “Review Preparation” section, under “Who should be interviewed?” An example of the questionnaires developed by ED/OIG (see Attachment 1.1) can be accessed at <http://www.ed.gov/offices/OIG/AIRreports.htm>.

## What personnel should be selected to conduct the review?

- Inspectors/management analysts, auditors, and investigators can be effective in conducting the interviews with cardholders, approving officials, and others. They also can be effective in reviewing the cardholders’ financial records and the OCFO. Ideally, entry-level auditors can do much of this work, under the supervision of an experienced auditor who can evaluate progress and provide guidance. Although non-auditors could conduct the financial review, they may need additional training and/or the guidance of someone with an audit background.
- Investigators can also participate in these reviews, but this guide does not describe methods to use should a formal investigation be needed or preferred as an overall approach.

## Which directives and program components should be reviewed?

- Agency purchase card directives, policies, policy procedures or manuals should be made available to you and used to provide guidance on how your agency’s purchase card program should be operated. This information should be incorporated into your questionnaire and financial review work.
- As part of your review, you should assess your agency’s purchase card directives and guidance to ensure that they are clear and adequate.
- An element of your review should be the agency’s purchase card training program and its effectiveness, as determined by the level of compliance with the procedures and regulations covering purchase card use. It is important to incorporate training questions into your questionnaire.

# REVIEW PREPARATION

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## Who should be interviewed during the review?

- Talk to people who are in the best position to know where potential problems may be. For example, managers of offices maintaining a large number of cardholders and high volume of purchases should be first in line to be interviewed. Also, sources in your own OIG are a good place to start; coordinate with your criminal investigators to determine if there are any ongoing fraud cases. Review any previous work done by your evaluators or auditors for information on internal control issues. Card issuing companies may also have suggestions regarding problem users.
- Individual employees to whom purchase cards are issued—those, authorized to order and receive purchases—are the next most likely on the list. In compliance with the agency’s regulations and procedures and the General Services Administration’s (GSA) Government Commercial Credit Card Services contract, the card bears the employee’s name and can be used only by that employee and only for official purchases.
- Approving officials are next; they act as the key internal control in the process. They are responsible for authorizing cardholder purchases and ensuring that the purchase card statement is reconciled and submitted to the designated billing office in a timely manner. This review is the essential control component in the process.
- Executive and administrative officers often play a major part in the administration of the purchase cards for their areas of responsibility and may also serve as interviewees. They are often involved in the administration of the purchase card program in their office, especially as it relates to their budget.
- Senior management interviews will help you evaluate the climate of internal control in the organization. At the least, inform senior management of problems uncovered, especially if their staff has not made them aware of existing problems.
- We suggest you also interview individuals who administer the program as well as the manager responsible for it. Interview these individuals early in the review to get their perception of how the program is operating, then compare that to the findings.
- Designated billing office staff should also be considered for interviewing. The designated billing office is the one to which the “official invoice” is submitted. That invoice is a consolidated report listing all cardholder charges for the entity the office serves. The designated billing office is responsible for ensuring that payment of the official invoice is made in accordance with Prompt Payment Act deadlines.
- Other interviews may be required in order to resolve potential issues uncovered during the review.

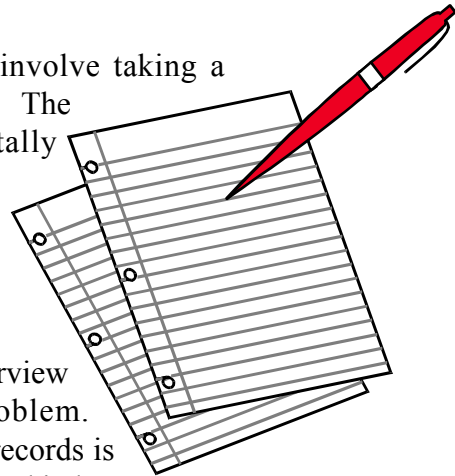


# REVIEW PREPARATION

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## How do I select the sample size of purchase card transactions to review?

- If you want to project your findings you will need to do a statistical sample, such as a stratified random probability sample. But if a statistical instead of a judgmental sample is used, care must be taken to credibly develop the sample size and confidence level. We recommend looking at the financial records and supporting documentation for several separate time periods, as this could reveal any trends in the process. Chose a representative sample of purchase card transactions consistent with the size of the agency and your own resources.
- Another approach to examining purchase cards could involve taking a “snapshot” of transactions rather than a statistical sample. The “snapshot” is a list of transactions that are judgmentally determined to be problems or indicators of problems based on specific attributes.



## Why must financial records be checked?

- The basis of the review must be quantifiable. Narrative interview information is important but does not quantify a problem. Noncompliance found by reviewing financial accounting records is the proof that the weaknesses identified in the review resulted in harm to the agency.
- Interviewees may not be aware of problems or the extent of the problems.

## What records should be checked?

- Check the individual cardholder records for supporting documentation, for example, invoices, sole-source justifications, purchase logs, object-class codes, and records of competitive bids.
- Check the records in OCFO or the designated billing office for receipt of signed statements, prompt payment, and other procedural requirements.
- Check the integration of electronic-based systems to support common business processes. The purchase card contractor should provide invoices electronically to the designated billing offices, accept payments electronically from federal government payment centers, and provide electronic access to account data and reports.

## When should the records be checked relative to the interviews?

- Conduct the interviews first. The interviews may provide information on issues such as split procurements and card sharing that might highlight the need to examine specific records. However, there might be occasions when it would be helpful to look at the records first.



# CONDUCTING THE REVIEW

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## How should interviews be conducted and recorded?

- Experience has shown that interview teams of two evaluators/auditors—one person focusing on conducting the interview and the other taking notes and writing up the interview—are effective. The interviewer will then review the write-up and make any additions or corrections. The interview team can reverse roles for the next interview.
- Developing an interview template for recording results in a consistent manner is a very useful tool, especially when a number of teams are operating at the same time. A copy of the ED/OIG Record of Interview template (see Attachment 2) is available at <http://www.ed.gov/offices/OIG/AIRreports.htm>
- Adding an issue section to the end of each interview writeup in which problems are summarized is very useful when pulling together reports and addressing problems and trends. Listing any promised documents will help account for documentation and serve as a reminder for follow-up work.

## COMMON PROBLEMS:

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### CONTROL WEAKNESSES AND NONCOMPLIANCE

#### Based on the OIGs' experiences, what kinds of problems should I be looking for?

##### Control weaknesses

- **Inadequate review of purchases by approving officials.** The approving official's review is the most essential management element in the purchase card control system. The approving official is responsible for ensuring that all purchases made by the cardholder are appropriate and that the charges are accurate. Review of the purchase cardholder's official invoice should be completed and resolved in time for it to be submitted for payment in accordance with the Prompt Payment Act. Prior approval may be required for certain types of purchases.
- **Unmanageable span of control.** The number of cardholders an approving official reviews should be manageable. For example, the Department of Defense suggests that an approving official review no more than five to seven cardholders. A recent GAO report noted that at one Navy facility, one approving official was responsible for 1,526 cardholders and, as a consequence, all purchases were "approved" before they were reviewed.

# COMMON PROBLEMS:

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## CONTROL WEAKNESSES AND NONCOMPLIANCE

- **Excessive number of purchase cardholders.** In the aforementioned example, the 1,526 cardholders represented 36 percent of the employees in the facility. There was no documentation justifying the need for that many employees to be cardholders. Further, such a proliferation of cardholders greatly increases the government's financial exposure and makes it difficult to maintain effective internal controls. The lack of card activity should warrant a management review of a cardholder's need of a card.
- **Exceeding authorized purchase limits.** Management should be aware of the charge limits of their cardholders and monitor card use to ensure that cardholders do not exceed their assigned purchase level. Managers also should exercise extreme caution when increasing purchase levels for cardholders. For some increases, further training and the issuance of a warrant may be required.
- **Lack of documentation/inadequate documentation.** The cardholder is responsible for documenting purchase receipt and acceptance of all acquired goods and services. Documentation must be submitted that supports sole-source purchases or purchases based on multiple bids. Documentation should clearly identify what was purchased, from where, and by whom.
- **Inappropriate purchase method.** Look at the agency acquisition guidance to determine whether goods and services such as software and other equipment upgrades should have been paid by purchase card or whether the items should be subject to purchase orders or negotiated contracts.
- **Unrecorded accountable property.** Invoices for purchases such as Palm Pilots, computers, and flat screens should contain product serial numbers that should be entered into the appropriate control systems, which will allow you to match the invoice numbers with the equipment purchased. Proper recording and accounting of equipment is essential to ensure accountability for government property and prevent theft or misuse. Each agency should define the dollar threshold for recording accountable property and sensitive items.
- **Lack of security over the purchase card.** Agency procedures must address safeguarding purchase cards when not in use. Cards should be safeguarded in the same manner as cash.
- **Inadequate agency purchase card directive.** Review your agency's purchase card directive. The *Treasury Financial Manual*, Vol. 1, Part 4, Section 4525, requires each agency to have its own internal procedures for using purchase cards. Review the agency directive against the *Treasury Financial Manual*. It should comply with the established criteria, contain the procedures to be followed with the current contractor, and have provisions to address various types of problems described in this guide.
- **Inadequate training/lack of documented training for cardholders and approving officials.** Training is an essential human capital activity to ensure that employees have the skills to carry out their responsibilities. Purchase card training should be comprehensive to ensure all cardholders and approving officials are adequately trained. Records should indicate training taken, when taken, and, if appropriate, when refresher training is due.

# COMMON PROBLEMS:

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## CONTROL WEAKNESSES AND NONCOMPLIANCE

- **Inappropriate object class.** Purchases should not be routinely grouped into one miscellaneous or object class but, rather, recorded in the appropriate accounting classification. The Office of Management and Budget (OMB) Circular A-11, *Preparation and Submission of Budget Estimates*, requires federal agencies to report obligations and expenditures by object class, thus indicating the nature of the expenditure. Object classification data are reported in the President's Annual Budget submission to Congress. Accurate object class data are critical to the reliability of the President's budget submission and to budget projections based on this data. In addition, Congress has asked for and is using object class information for oversight activities. Inaccurate reporting by object class could impede congressional oversight.
- **Late payments.** Invoices should be paid in accordance with the Prompt Payment Act. They should also be date stamped when received to establish the proper payment due date under the Act.
- **Inadequate reconciliation.** The monthly purchase card statements for the individual principal offices should be reconciled with the agency-wide statement and with the agency accounting system to ensure that the payment is accurate. There should be a system in place to track and account for any missing statements.

### Noncompliance

- **Nonreferral of potentially fraudulent purchases.** All suspected fraud must be reported to the agency's OIG. In cases of identified misuse of a purchase card, review the agency personnel records for disciplinary action taken and to determine whether the incident was reported to OIG.
- **Unauthorized and potentially fraudulent purchases.** Items purchased that are not likely to have been purchased for official use or were not authorized could include such items as home furnishings, toys, cosmetics, groceries, gift certificates, jewelry, and clothing. Such purchases should be examined and, as appropriate, referred to the OIG's criminal investigators.
- **Abusive purchases/no documented need.** Review purchases to determine whether they were for appropriate government use, from designated government sources, or obtained at excessive cost. An example might be the purchase of flat screen monitors for between \$800 and \$2,500 when a regular 17-inch monitor is available from the GSA schedule for \$300. Other examples are purchases of Palm Pilots with designer carrying cases and designer briefcases when there is no documented government need for such items.
- **Improper split procurements.** The Federal Acquisitions Regulation (FAR), 48 C.F.R. 13.003(c), prohibits submitting individual purchase documentation to "avoid any requirement that applies to purchases exceeding the micro purchase threshold." Indicators of such action include sequential invoice numbers, receipts close in time—for example, minutes apart—and sequential purchase orders with similar items purchased the same day.



## COMMON PROBLEMS:

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### CONTROL WEAKNESSES AND NONCOMPLIANCE

- **Credit card sharing or use by unauthorized individual.** Treasury Department policy states that only the person assigned the purchase card may use that card. In addition, if an approving official uses a cardholder's purchase card to make purchases, there may be no separation of duties when the approving official makes and reviews his or her own purchases. Likewise, contractors that provide administrative or procurement support services to an agency are not permitted to place vendor orders on behalf of the civil servants they support.
- **Improper transactions.** The FAR, 48 C.F.R. 13.301(a), states that the purchase card "may be used only for purchases that are otherwise authorized by law or regulations." Thus, the purchase of personal items such as flowers or food for employees are only lawful if it would be lawful using conventional procurement methods.
- **Sole-source purchases without appropriate documentation.** The FAR, 48 C.F.R. 13.106-3(b), requires solicitation of quotes or bids from a reasonable number of sources or, in lieu of that, sole source justifications for any purchase of more than \$2,500.
- **Failure to use required sources of supply.** The FAR, 48 C.F.R. 8.001, requires agencies to acquire supplies and services from designated sources, if those sources are capable of providing them.

## COMMUNICATING RESULTS

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### What is an effective way to communicate the results of your review?

- Individual reports to the appropriate senior officials (e.g. often Assistant Secretaries or their equivalent) provide specific information to managers so they can make management improvements. Producing a report will require that individual interviews be reviewed collectively as one document and analyzed. Look for areas of agreement, as well as disagreement. Where substantial disagreements cannot be resolved, additional interviews may be necessary. See <http://www.ed.gov/offices/OIG/> (Attachment 3) for individual report samples.
- A summary or capping report will give the senior agency management an overall look at the program and provide the basis for agency-wide corrective action. See <http://www.ed.gov/offices/OIG/> (Attachment 4) for a summary report sample.
- To add a positive note to the review results where appropriate, a best practices approach could be used to give senior management suggestions as to how systemic problems could be corrected or to share "best practices" noted.

# FOLLOW-UP

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## What type of follow-up work should be undertaken?

- If your agency issues a corrective action plan, review it to see whether the actions proposed will resolve the problems found. If the plan appears responsive and adequate, follow up on implementation within the projected time frames. After allowing sufficient time for the problems to be resolved, select financial records for use in conducting a similar review, but not necessarily as large as the first one. If, for example, the initial review revealed that statements had been received without the required approving official's signature, look at two or more sets of monthly statements to determine whether this is still the case. See <http://www.ed.gov/offices/OIG/> (Attachment 5) for samples of follow-up reports.

# RESOURCE LIST FOR PURCHASE CARD REVIEWS

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The following OIG and General Accounting Office reports and resources are just a sample of the numerous audit, inspection and other reports that the various OIGs and GAO have issued on the purchase card program. Many of them were used to prepare this guide or could be used in preparing to conduct purchase card reviews. However, this list is not inclusive. Websites of the various Offices of Inspector General, as well as the GAO, should be consulted for additional resources.

## **U.S. Department of Agriculture OIG**

Security Over the Purchase Card Management System  
50099-25-FM/January 2001

## **U.S. Department of Commerce OIG**

National Institute of Standards and Technology – Internal Controls Over NIST’s Bankcard Program Need Improvement DEN-11787/March 2001

Patent and Trademark Office – Minor Internal Control Deficiencies Found in Bankcard Program  
BTD-10901-9-0001/March 1999

National Telecommunications and Information Administration – Internal Controls Over Bankcard Use Are Sound  
BTD-11549-9-0001/September 1999

Minority Business Development Agency – Internal Controls Over Bankcard Use Are Sound  
BTD-12022-0-0001/December 1999

Bureau of the Census – Atlanta Bankcard Purchases Need Improved Internal Controls  
ATL-10316-8-001/March 1998

Office of the Chief Financial Officer and Assistant Secretary for Administration – Commerce’s Purchase Card Program Needs Stronger Internal Controls and Oversight  
EAD-7301-0001/September 1995

## **U.S. Department of Education OIG**

Department-wide Purchase Card Statement Late Notices for June 2001  
ED-OIG/A&I 2001-05/November 20, 2001 (PDF Format 222k)

Follow-up Review of Internal Controls Over Purchase Cards  
ED-OIG/A&I 2001-04/September 28, 2001 (PDF Format 564k)

OIG Review of Student Financial Assistance’s (SFA) Performance Plan and draft report  
ED-OIG/A&I 2001-02 September 24, 2001 (PDF Format 972k)



## RESOURCE LIST FOR PURCHASE CARD REVIEWS

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OIG Review of OVAE's Internal Controls Over the Procurement of Goods and Services  
April 18, 2000 (PDF Format 36k)

OIG Review of OBEMLA's Internal Controls Over the Procurement of Goods and Services  
A&I 2000-003/May 23, 2000 (PDF Format 45k)

OIG Review of OESE's Internal Controls Over the Procurement of Goods and Services  
A&I 2000-002/May 22, 2000 (PDF Format 49k)

OIG Review of OM's Internal Controls Over the Procurement of Goods and Services  
A&I 2000-004/June 26, 2000 (PDF Format 48k)

OIG Review of OSERS' Internal Controls Over the Procurement of Goods and Services  
A&I 2000-005/July 19, 2000 (PDF Format 56k)

OIG Review of OCFO and OCIO Internal Controls Over the Procurement of Goods and Services  
A&I 2000-006/July 26, 2000 (PDF Format 53k)

OIG Review of OERI's Internal Controls Over the Procurement of Goods and Services  
A&I 2000-009/August 28, 2000 (PDF Format 38k)

OIG Review of OCR's Internal Controls Over the Procurement of Goods and Services  
A&I 2000-007/August 2, 2000 (PDF Format 47k)

OIG Review of OIIA's Internal Controls Over the Procurement of Goods and Services  
A&I 2000-008/August 18, 2000 (PDF Format 41k)

OIG Review of OS/ODS/OLCA's Internal Controls Over the Procurement of Goods and Services  
A&I 2000-010/August 31, 2000 (PDF Format 41k)

OIG Review of OGC's Internal Controls Over the Procurement of Goods and Services  
A&I 2000-012/September 18, 2000 (PDF Format 39k)

OIG Review of OUS's Internal Controls Over Procurement of Goods and Services  
A&I 2000-011/September 19, 2000 (PDF Format 39k)

OIG Review of OPE's Internal Controls Over the Procurement of Goods and Services  
A&I 2000-013/September 19, 2000 (PDF Format 40k)

OIG Review of SFA's Internal Controls Over the Procurement of Goods and Services Using Third Party  
Drafts and Purchase Cards  
A&I 2000-014/October 5, 2000 (PDF Format 61k)

# RESOURCE LIST FOR PURCHASE CARD REVIEWS

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OIG Review of Internal Controls Over the Use of Purchase Cards and Third Party Drafts  
A&I 2000-015/October 13, 2000 (PDF Format 39k)

## **U.S. Department of Energy OIG**

Inspection of Lawrence Livermore National Laboratory Credit Card Usage and Property Management Concerns  
INS-0-01-01/February 2001

## **General Services Administration OIG**

OIG Review of Management Controls Over Purchase Cards, Federal Supply Service, Pacific Rim Region  
A995326/F/9/V00004/February 29, 2000

## **U.S. Department of the Interior OIG**

Use of the Governmentwide Purchase Card, Office of the Secretary  
99-I-375/March 1999

Use of the Governmentwide Purchase Card, Office of Surface Mining Reclamation and Enforcement  
98-I-197/January 1998

Use of the Governmentwide Purchase Card, Bureau of Indian Affairs  
98-I-283, February 1998

Use of the Governmentwide Purchase Card, Bureau of Reclamation  
98-I-253, February 1998

Use of the Governmentwide Purchase Card, U.S. Geological Survey  
98-I-316, March 1998

Use of the Governmentwide Purchase Card, Bureau of Land Management  
98-I-352, March 1998

## **U.S. Department of State OIG**

Survey of the Worldwide Purchase Card Program. Domestic Operations  
01-FMA-M-081, September 2001

## **U.S. Department of Transportation OIG**

Use of Government Credit Cards Department of Transportation  
FI-2001-095, September 2001

# RESOURCE LIST FOR PURCHASE CARD REVIEWS

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## **U.S. Department of Veterans Affairs OIG**

Audit of the Department of Veterans Affairs Purchase Card Programs  
Report no. 9R3-E99-037 February 12, 1999

Combined Assessment Program Review of the VA New York Harbor Healthcare Systems  
Report no. 00-01223-104 dated August 3, 2000

## **United States General Accounting Office**

Purchase Cards – Control Weaknesses Leave Two Navy Units Vulnerable to Fraud and Abuse  
GAO-02-32/November 2001

# GAO'S STANDARDS FOR INTERNAL CONTROLS IN THE FEDERAL GOVERNMENT

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## Components of Internal Controls

- **Control Environment** – Management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal controls and conscientious management.

### Factors:

- ✓ **Management and staff maintain and demonstrate integrity and ethical values.**
  - ✓ **Management maintains an active commitment to competence.**
  - ✓ **Management's philosophy and operating style exert a positive influence on the organization (especially toward information systems, accounting, personnel functions, monitoring and audits).**
  - ✓ **Organizational structure is appropriately centralized or decentralized, and facilitates the flow of information across all activities.**
  - ✓ **Agency delegates authority and responsibility and establishes related policies throughout the organization in a manner that provides for accountability and control.**
  - ✓ **Agency establishes human resource policies and practices that enable it to recruit and retain competent people to achieve its goals.**
- **Risk Assessment** – Internal controls should provide for an assessment of the risks the agency faces from both external and internal sources.
- ✓ **Precondition** – establishment of clear and consistent agency objectives.

# GAO'S STANDARDS FOR INTERNAL CONTROLS

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## IN THE FEDERAL GOVERNMENT Continued

- ✓ Risk assessment – the comprehensive identification and analysis of relevant risks associated with achieving agency objectives, like those defined in strategic and GPRA annual performance plans, and forming a basis for determining how the agency should manage risks.
- ✓ Risk identification – methods may include qualitative and quantitative ranking activities, management conferences, forecasting and strategic planning, and consideration of findings from audits and other assessments.
- ✓ Risk analysis – generally includes estimating the risk's significance, assessing the likelihood of its occurrence, and deciding how the agency should manage its risk.
- **Control Activities** – Internal control activities help ensure that employees carry out management directives. The control activities should effectively and efficiently accomplish agency control objectives.
  - ✓ The control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives. They help ensure that employees take actions to address risks.
  - ✓ Control activities occur at all levels and functions of the entity, and include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and creation and maintenance of related records that document the execution of these activities.
- **Information and Communications** – Employees should record and communicate information to management and others within the entity who need it in a form and within a time frame that enables them to carry out their internal control (and other) responsibilities effectively and efficiently.
  - ✓ An organization must have relevant, reliable, and timely communications relating to internal as well as external events. Information is needed throughout the agency to achieve all its operational and financial objectives.
  - ✓ Effective communications should occur in a broad sense with information flowing down, across, and up the organization.
  - ✓ Management should ensure there are adequate means of communicating with, and obtaining information from, external stakeholders that may have a significant impact on the agency achieving its goals.



# GAO'S STANDARDS FOR INTERNAL CONTROLS

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## IN THE FEDERAL GOVERNMENT Continued

- **Monitoring** – Internal control monitoring should assess the quality of performance over time and ensure that audit and other review findings are promptly resolved.
  - ✓ Includes regular management and supervisory activities, comparisons, reconciliations, and other actions employees take in performing their duties.
  - ✓ Should include policies and procedures for ensuring that audit and other review findings are promptly resolved.

# GUIDE FOR INTERVIEWS OF PURCHASE CARDHOLDERS

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**Purpose of the interview** – To obtain information on the processes that the principal office component (POC) uses to ensure compliance with laws and regulations during the procurement of goods and services using the government purchase card.



**Background** – The purchase cardholder’s primary functions are to purchase goods or services in accordance with established policy and procedures, reconcile monthly statements, attach daily order logs to reconciled statements, note any disputed items and complete questioned item forms explaining reason for any disputed items, forward signed copies of reconciled statements with any questioned item forms to the Approving Official within established time frames, maintain supporting documentation, and safeguard the card against theft.

**Preparation for the interview** –

Obtain from the POC the following information:

- (1) Name of the purchase cardholder
- (2) Name of the purchase cardholder’s Supervisor
- (3) Name of the purchase cardholder’s Approving Official
- (4) Name of the purchase cardholder’s Administrative/Executive Officer
- (5) Spending Limits
- (6) Any other pertinent information that may be readily available (e.g. training record, warrants)

# Questions about the purchase cardholder’s experience and training

*The purpose of these questions is to obtain information about the purchase cardholder’s workload, experience and training. Collectively, the answers to these questions will provide information about how the POC staffs the purchase cardholder function that, in turn, provides information about the control environment. Note: First, verify the interviewee’s name and his/her supervisor.*

<i>Interview Questions</i>	<i>GAO Standard</i>
1. How were you selected to be a cardholder?	Control Environment – Commitment to Competence
2. How long have you been a cardholder?  **Possible follow-up – explain your purchase card/procurement experience.	Control Environment – Management Philosophy and Operating Style
3. What is your purchase card single purchase limit?  If appropriate, if more than \$2,500, do you have a warrant?  What steps/procedures/ training were followed for you to receive the warrant?	
4. Are your purchase cardholder responsibilities included in your performance plan? Recognized in your appraisal?	Control Environment – Assignment of Authority and Responsibility
5. In addition to your purchase card responsibilities, please describe your other responsibilities.  How do those responsibilities impact your purchase card responsibilities?  What percentage of your time is spent on purchase card activities?  Which of your responsibilities takes precedence?  How do you manage these competing priorities?	Control Environment – Assignment of Authority and Responsibility
6. What are the purchase cardholder training requirements?  Have you taken all required training?  Was the training sufficient?	Control Environment – Commitment to Competence
7. Have you taken or planned refresher training?	

**Questions about how the cardholder performs his/her duties**

*The purpose of these questions is to obtain information about how the purchase cardholder performs his/her duties. The answers to these questions will provide information about Control Activities, Information and Communication, and Monitoring. Note: During this section, the purchase cardholder should show you documents, such as his/her daily log. Add notes as needed and maintain them.*

***Interview Questions***

***GAO Standard***

1. Briefly describe the steps/process that you follow to purchase an item/items using your purchase card.

2. What type of goods and services do you generally purchase?

3. Has anybody else ever used your card? Is so, why and is your approving official aware of this practice and did they approve it?

4. When you review and reconcile monthly purchase statements, what are you looking for? (Price accuracy, receipt of goods received)

Understanding the Process

Control Activities

***Follow-up questions***

- ✓ What supporting documents do you maintain?  
Note - Review daily logs and other supporting documentation.
- ✓ Who else reviews the monthly statements?  
Approving official?
- ✓ What supporting documents do you maintain to ensure that statements submitted to CFO are supported with adequate documentation?  
Monthly folder – contains requests; also copies of daily receipts/ invoices.
- ✓ Have you ever been late in reconciling your statement?
- ✓ Where do you keep your purchase card?

5. Have you ever questioned monthly statement costs?  
If so, what procedures did you follow?

Fill out bank dispute form and submit with monthly statement to the approving official.

6. As a cardholder, if you decide to decline a deliverable, what procedures do you follow?

7. As a cardholder, have you ever needed to ask the vendor to ship goods somewhere other than to Departmental property? If so, where? Why?

SECTION II *Continued*

**Questions about how the cardholder performs his/her duties**

<i>Interview Questions</i>	<i>GAO Standard</i>
<p>8. As a cardholder, how would you respond to vendor performance problems?</p> <p>Follow-up: Have you had occasion to do so in the past?</p> <p>Did management support you?</p>	
<p>9. Describe how you work with the approving official and the administrative executive officer. (Note: May be same person.)</p> <p>Follow-up: Are there other approving officials within your principal office component (POC?)</p>	<p>Information and Communication</p>
<p>10. Do you have sufficient time to perform your duties adequately as a Purchase cardholder?</p> <p>Follow-up: Are you overly pressured to meet deadlines?</p>	
<p>11. What guidance (POC, agency, and Government-wide) do you follow as a purchase cardholder, including any specific written procedures?</p>	<p>Information</p>



**SECTION III**

**Questions about the purchase cardholder’s work in relation to the office**

*The purpose of these questions is to obtain information about the Control Environment, Information and Communication and Monitoring.*

<i>Interview Questions</i>	<i>GAO Standard</i>
1. What resources do you need to accomplish your tasks as purchase cardholder? Do you have them?  What is not being accomplished if you don't?	Control Environment – Management Philosophy
2. Who provides you purchase card information requirements?	Information
3. Within the last month, have your supervisors or others asked you questions about purchase card transactions that you handled?	Control Environment – Management Philosophy
4. As a purchase cardholder, what support do you expect from your approving official and administrative/executive officer?	
5. Do you have the authority you need to carry out your purchase cardholder duties?	Control Environment – Assignment of Authority and Responsibility
6. How often does your supervisor and approving official meet with you to review your purchase cardholder job performance and provide improvement suggestions?	Control Environment – Human Resource Policies and Practices

**SECTION IV**

**Questions about ethics and ethics training**

*The purpose of these questions is to ascertain the extent of ethics training and the organization's commitment to integrity and ethical values.*

<i>Interview Questions</i>	<i>GAO Standard</i>
1. How does the Department provide Standards of Conduct information to you?	Control Environment – Integrity and ethical values
2. Does the Department's required ethics training provide adequate information to you? Why/Why not?	Control Environment – Integrity and ethical values
3. Do you believe ethics training specifically for procurement staff would be beneficial?	Control Environment – Integrity and ethical values
4. How does your office convey a commitment to integrity and ethical values?	Control Environment – Integrity and ethical values
5. When you have a question about ethics or the Standards of Conduct, whom do you go to?	

SECTION V

**Questions about the goals  
and risks of procurement activities**

*The purpose of these questions is to obtain information about the control element of Risk Assessment.*

<i>Interview Questions</i>	<i>GAO Standard</i>
1. How do purchase card procurements affect program operations in your office?	Risk Assessment – Objectives
2. When was the last time you had a discussion with fellow principal office personnel/ management about vulnerabilities associated with purchase card purchases?  Follow-up: Tell me about the discussion.	Risk Assessment – Risk
3. What has been done to minimize purchase card purchase risks?	Risk Assessment - Risk

## SECTION VI

## Questions about how a non-compliance or ethical situation is handled

*The purpose of these questions is to (1) allow the interviewee an opportunity to identify any situation that has occurred where the interviewee believed there may have been an ethical or compliance issue and (2) to obtain information about whether the purchase cardholder understands how to handle a situation where there is an ethical or compliance issue.*

### Interview Questions

1. As a purchase cardholder, have you ever encountered a situation where you believed that the vendor was deficient (i.e., not meeting your expectations) or that the agency did not receive its money's worth?  
If yes, what did you do about it?

**IF YES**, Potential follow-up questions (ask as necessary) Note: These questions, both yes and no, can be used for the next two questions also.

- ✓ Did you document it in your files?
- ✓ Whom did you report the matter to?
- ✓ How did the person you reported to deal with the matter?
- ✓ How was it resolved?
- ✓ Has management established lines of reporting to address this situation?

**IF NO**, what would you do if you encountered such a situation?

Potential follow-up questions (ask as necessary)

- ✓ Would you feel comfortable telling management (supervisor, supervisor's superior)?
- ✓ Whom would you report the matter to?
- ✓ How would you expect them to deal with the matter?

2. As a purchase cardholder, have you ever encountered a situation where you had misgivings (i.e., ethical concerns) about what you were asked to do by the authorizing official, executive officer, or other agency officials?  
  
If yes, what did you do about it?

### GAO Standard

Control Environment – Follow-up  
Communication and Information  
Monitoring

Control Environment – Follow-up  
Communication and Information  
Monitoring

SECTION VI *Continued*

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**Questions about how a non-compliance or ethical situation is handled**

<i>Interview Questions</i>	<i>GAO Standard</i>
<p>3. As purchase cardholder, have you ever encountered a situation where you suspected that someone having an interest in the procurement process may have violated the law or possibly committed a crime?</p> <p>If yes, what did you do about it?</p>	<p>Control Environment – Follow-up Communication and Information Monitoring</p>
<p>4. Are you aware of the requirement to report all indications of fraud or criminal activities to the OIG, including using the hotline. If so, have you ever needed to report a purchase card or procurement-related condition?</p>	<p>Communication</p>



**SECTION VII**

**Questions about purchase cardholder’s evaluation of the system**

<i>Interview Questions</i>	<i>GAO Standard</i>
<p>1. How would you rate communication between staff involved in the purchase card process?</p>	<p>Communication</p>
<p>2. What type of communication is there between your POC’s purchase card staff and CFO staff that you interact with as part of the process?</p> <p>Do you have any ideas about improving the process?</p>	
<p>3. Does your approving official have the necessary knowledge and skills to be a good approving official?</p> <p>Does your administrative or executive officer have the knowledge and skills to oversee purchase card activity?</p>	<p>Control Environment – Commitment to Competence</p>

**Final question:**

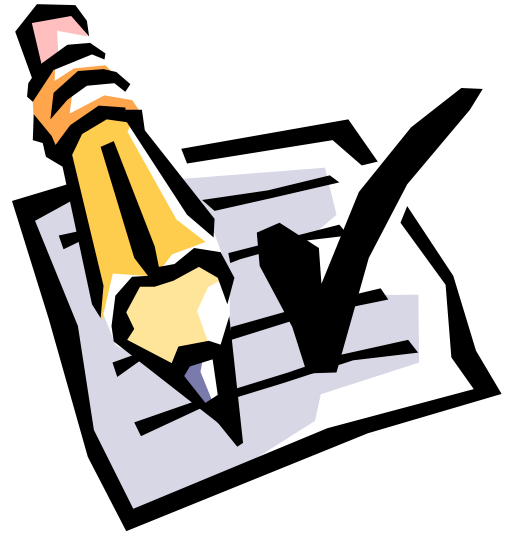
Are there any other areas we did not cover that you want to share with us?

# GUIDE FOR INTERVIEWS OF APPROVING OFFICIALS

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**Purpose of the interview** – To obtain information on the processes used in the principal office component (POC) to ensure compliance with laws and regulations during the procurement of goods and services with government purchase cards.

**Background** – The approving official is the key control individual in the process. The approving official's review of the credit card purchases is the essential control component in the process.



**SECTION I**

**Questions about the approving official's experience and training**

*The purpose of these questions is to obtain information on the approving official's workload, experience and training. Collectively, the answers to these questions will provide information on how the POC staffs the approving official function that, in turn, provides information about the Control Environment. Note: First, verify the interviewee's name and his/her supervisor.*

<i>Interview Questions</i>	<i>GAO Standard</i>
1. How and why were you selected to be an approving official?	Control Environment – Commitment to Competence
2. How long have you been an approving official?	Control Environment – Management Philosophy and Operating Style
3. Describe your responsibilities as an approving official?	Control Environment – Organizational Structure
4. Are your approving official responsibilities included in your position description?	Control Environment – Organizational Structure
5. Are your approving official responsibilities included in your performance plan as an element that you are rated on? Are they recognized in your appraisals?	Control Environment – Assignment of Authority and Responsibility
6. In addition to your approving official work, what are your other responsibilities?  How do those responsibilities impact your approving official work?  Which of your responsibilities takes precedence?  How do you manage your competing priorities?	Control Environment – Assignment of Authority and Responsibility
7. What are the training requirements for approving officials?  Have you taken all the required training including refresher training?	Control Environment – Commitment to Competence

**SECTION II****Questions about the approving official performs his/her duties**

*The purpose of these questions is to obtain information about how the approving official performs his/her duties. The answers to these questions will provide information about Control Activities, Information and Communication, and Monitoring.*

***Interview Questions***

1. When you review purchase card invoice costs, what are you looking for?
  - ✓ What practices/procedures are in place to ensure that the vendor invoices submitted are supported with adequate documentation?
  - ✓ What do you consider “adequate” documentation?
2. As an approving official, have you ever questioned invoice costs? If so, how did you handle the situation?
3. Are annual or periodic reviews required? Have you conducted them?

***GAO Standard***

Understanding the Process

Control Activities

**SECTION III**

**Questions about the approving official’s work  
in relation to the office**

*The purpose of these questions is to obtain information about the Control Environment, Information and Communication and Monitoring.*

<i>Interview Questions</i>	<i>GAO Standard</i>
1. How is information related to purchase cards communicated?	Control Environment – Organizational Structure
2. What expectations for purchase card procurement does management convey?	Control Environment – Management Philosophy
3. What resources do you need to accomplish your task as an approving official?  Do you have them?  What is not being accomplished if you don’t?	Control Environment – Management Philosophy

## SECTION IV

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**Questions about ethics and ethics training**

*The purpose of these questions is to ascertain the extent of ethics training and the organization's commitment to integrity and ethical values.*

***Interview Questions***
***GAO Standard***

1. How does the Department provide Standards of Conduct information to you?	Control Environment – Integrity and ethical values
2. Does the Department's required ethics training provide adequate information to you? Why/Why not?	Control Environment – Integrity and ethical values
3. How does your office convey a commitment to integrity and ethical values?	Control Environment – Integrity and ethical values
4. When you have questions about ethics, Standards of Conduct, whom do you go to?	Control Environment – Integrity and ethical values



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## Questions about the goals and risks of procurement activities

*The purpose of these questions is to obtain information about the control element of Risk Assessment.*

### *Interview Questions*

1. When was the last time you had a discussion about the vulnerabilities related to purchase card?

Follow-up: Tell me about the discussion.

2. What has been done to limit these risks?

### *GAO Standard*

Risk Assessment – Risk

Risk Assessment - Risk

## Questions about how a non-compliance or ethical situation is handled

*The purpose of these questions is to (1) allow the interviewee an opportunity to identify any situation that has occurred where the interviewee believed there may have been an ethical or compliance issue and (2) to obtain information on whether the approving official understands how to handle a situation where there is an ethical or compliance issue.*

### *Interview Questions*

1. As an approving official, have you ever encountered a situation where you believed that the vendor of goods or services was deficient (i.e., not meeting your expectations) or that the agency was not receiving its money's worth? Has management established lines of reporting?

**IF YES**, what did you do about it?

Potential follow-up questions (ask as necessary)

- ✓ Did you document it in your files?
- ✓ Whom did you report the matter to?
- ✓ How did the person you reported it to deal with the matter?
- ✓ How was it resolved?

**IF NO**, what would you do if you encountered such a situation?

Potential follow-up questions (ask as necessary)

- ✓ Would you feel comfortable telling management (supervisor, supervisor's superior,)?
- ✓ Whom would you report the matter to?
- ✓ How would you expect them to deal with the matter?

### *GAO Standard*

Control Environment – Follow-up  
Communication and Information  
Monitoring

## Questions about how a non-compliance or ethical situation is handled

### *Interview Questions*

2. As an approving official, have you ever encountered a situation where you had misgivings (i.e., ethical concerns) about what you were asked to do?

**IF YES**, what did you do about it?

Potential follow-up questions (ask as necessary)

- ✓ Did you document it in your files?
- ✓ Whom did you report the matter to?
- ✓ How did the person you reported it to deal with the matter?
- ✓ How was it resolved?

**IF NO**, what would you do if you encountered such a situation?

Potential follow-up questions (ask as necessary)

- ✓ Would you feel comfortable telling management?
- ✓ Whom would you report the matter to?
- ✓ How would you expect them to deal with the matter?

### *GAO Standard*

Control Environment – Follow-up  
Communication and Information  
Monitoring

3. As an approving official, have you ever encountered a situation where a vendor of purchase card goods or services was in non-compliance (violation) with the terms of the contract, or related rule or regulation? Has management established lines of reporting?

**IF YES**, what did you do about it?

Potential follow-up questions (ask as necessary)

- ✓ Did you document it in your files?
- ✓ Whom did you report the matter to?
- ✓ How did the person you reported it to deal with the matter?

Control Environment – Follow-up  
Communication and Information  
Monitoring

## Questions about how a non-compliance or ethical situation is handled

### *Interview Questions*

- ✓ How was it resolved?

**IF NO**, what would you do if you encountered such a situation?

Potential follow-up questions (ask as necessary)

- ✓ Would you feel comfortable telling management? (Whom would you report the matter to?)
- ✓ How would you expect them to deal with the matter?

### *GAO Standard*

Control Environment – Follow-up  
Communication and Information  
Monitoring

4. As an approving official, have you ever encountered a situation where you suspected that the vendor, or someone else having an interest in the procurement process, may have violated the law or possibly committed a crime? Has management established lines of reporting?

**IF YES**, what did you do about it? Potential follow-up questions (ask as necessary)

- ✓ Did you document it in your files?
- ✓ Whom did you report the matter to?
- ✓ How did the person you reported it to deal with the matter?
- ✓ How was it resolved?

**IF NO**, what would you do if you encountered such a situation?

Potential follow-up questions (ask as necessary)

- ✓ Would you feel comfortable telling management (supervisor, supervisor's superior, approving official, and contracting officer)?
- ✓ Whom would you report the matter to?
- ✓ How would you expect them to deal with the matter?

Control Environment – Follow-up  
Communication and Information  
Monitoring

**Questions about how a non-compliance or ethical situation is handled**

<i>Interview Questions</i>	<i>GAO Standard</i>
5. Are you aware of the requirement to report all indications of fraud or criminal activities to the OIG, including using the hotline? If so, have you ever needed to report a purchase card or procurement-related condition?	Communication
6. Have you ever used the OIG hotline to report a condition related to purchase cards or procurement?	Communication
7. What ethical standards are vendors held to?	Communication

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## Questions about approving official's evaluation of the system

The purpose of these questions is to obtain the approving official's evaluation of the procurement process.

### *Interview Questions*

1. What type of communication is there between the staff involved in the purchase card process? Do you have any ideas for improving it?
2. Have you identified any best practices related to the purchase card program? Have you shared these with others? Please share them with us!

### *GAO Standard*

Communication

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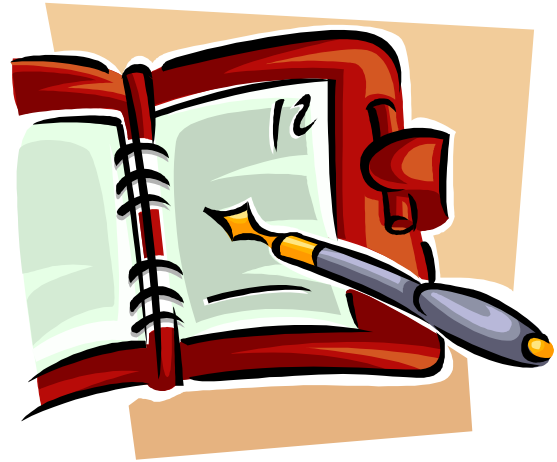
#### **Final question:**

Are there any other areas we did not cover that you want to share with us?

# GUIDE FOR INTERVIEWS OF ADMINISTRATIVE/EXECUTIVE OFFICERS

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**Purpose of the interview** – To obtain information on the processes used by (specific office) to ensure compliance with laws and regulations during the procurement of goods and services using the government purchase card.





**SECTION I**

**Questions about the administrative/executive officer’s experience and training**

The purpose of these questions is to obtain information on the administrative/executive officer’s workload, experience and training. Collectively, the answers to these questions will provide information on how the PO staffs the administrative/executive officer function that, in turn, provides information about the Control Environment.

<i>Interview Questions</i>	<i>GAO Standard</i>
1. How long have you been an administrative/executive officer?	Control Environment – Management Philosophy
2. Describe your responsibilities as an administrative/executive officer?	Control Environment – Commitment to Competence and Operating Style
3. How were you selected to be an administrative/executive officer?	Control Environment – Organizational Structure
4. Are your administrative/executive officer responsibilities included in your position description? As a performance appraisal rating element(s)?	Control Environment – Organizational Structure
5. In addition to your administrative/executive officer work, what are your other responsibilities?  Which of your responsibilities takes precedent?	Control Environment – Assignment of Authority and Responsibility
6. What experience do you have in the purchase card process?	Control Environment – Organizational Structure
7. Have you had any formal purchase card training? When? What?	Control Environment – Commitment to Competence

**SECTION II**

**Questions about how the administrative/executive officer performs his/her duties**

*The purpose of these questions is to obtain information about how the administrative/executive officer performs his/her duties. The answers to these questions will provide information about Control Activities, Information and Communication, and Monitoring. Note: Review the administrative/executive officer's "Delegation of Authority" – Warrant.*

<i>Interview Questions</i>	<i>GAO Standard</i>
1. Briefly describe your role in the purchase card process.	
2. As an administrative/executive officer, have you ever questioned invoice costs? If so, how did you handle the situation?	
3. How many purchase cards are currently active in your principal office component (POC)? Who are the card holders? Who retains the purchase card certification forms and the approving official's certification forms?	
4. What criteria are used to determine who is issued a purchase card and who decides? Do you think that the number of purchase cardholders is appropriate? Could be reduced?	
5. How many approving officials for purchase cards does your POC have and who are they?	
6. Describe the review/approval process you use for authorizing payment of purchase card billing statements? What documentation do you review? What do you question or not question (daily card holder purchase log)?	
7. Do you ever experience situations where card holders are late in submitting their monthly statements to you? If so, what action have you taken to correct the situation?	
8. Do you know the total dollar amount of purchases made each month with purchase cards assigned to staff in your office.	

## SECTION III

## Questions about the administrative/executive officer's work in relation to the office

*The purpose of these questions is to obtain information about the Control Environment, Information and Communication and Monitoring.*

<i>Interview Questions</i>	<i>GAO Standard</i>
1. How is information related to purchase cards communicated?	Control Environment – Organizational Structure
2. What expectations for purchase card procurement does management convey?	Control Environment – Management Philosophy
3. What resources do you need to accomplish your administrative/executive officer tasks? Do you have them? What is not being accomplished if you don't?	Control Environment – Management Philosophy
4. Who provides you information on purchase card requirements?	Information
5. Do you have the authority you need to have to carry out your duties?	Control Environment – Assignment of Authority and Responsibility
6. Who is monitoring your activities as administrative/executive officer?	Monitoring – Ongoing
7. How often does your supervisor meet with you to review job performance and provide suggestions for improvement?	Control Environment – Human Resource Policies and Practices

**SECTION IV**

**Questions about ethics and ethics training**

*The purpose of these questions is to ascertain the extent of ethics training and the organization's commitment to integrity and ethical values.*

***Interview Questions***

***GAO Standard***

1. How does the Department provide Standards of Conduct information to you?

Control Environment – Integrity and ethical values

2. Does the Department's required ethics training provide adequate information to you? Why/Why not?

Control Environment – Integrity and ethical values

3. How does your office convey a commitment to integrity and ethical values?

Control Environment – Integrity and ethical values

4. When you have questions about ethics, Standards of Conduct, whom do you go to?

Control Environment – Integrity and ethical values

SECTION V

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**Questions about the goals  
and risks of procurement activities**

*The purpose of these questions is to obtain information about the control element of Risk Assessment.*

***Interview Questions***

1. When was the last time you had a discussion about any possible vulnerability associated with the procurement of goods and services with the purchase card in your principal office?

Follow-up: Tell me about the discussion.

Is there a formal risk assessment process in your POC?

- 
2. What has been done to limit these procurement risks?

***GAO Standard***

Risk Assessment – Risk

Risk Assessment - Risk

## SECTION VI

## Questions about how a non-compliance or ethical situation is handled

*The purpose of these questions is to (1) allow the interviewee an opportunity to identify any situation that has occurred where the interviewee believed there may have been an ethical or compliance issue and (2) to obtain information on whether the administrative/executive official understands how to handle a situation where there is an ethical or compliance issue.*

### *Interview Questions*

1. As an administrative/executive officer, have you ever encountered a situation where you believed that the vendor of purchase card goods or services was deficient (i.e., not meeting your expectations) or that the agency was not receiving its money's worth? Has management established lines of reporting?

**IF YES**, what did you do about it?

Potential follow-up questions (ask as necessary)

- ✓ Did you document it in your files?
- ✓ Whom did you report the matter to?
- ✓ How did the person you reported it to deal with the matter?
- ✓ How was it resolved?

**IF NO**, what would you do if you encountered such a situation?

Potential follow-up questions (ask as necessary)

- ✓ Would you feel comfortable telling management (supervisor, supervisor's superior, and contracting officer)?
- ✓ Whom would you report the matter to?
- ✓ How would you expect them to deal with the matter?

### *GAO Standard*

Control Environment – Follow-up  
Communication and Information  
Monitoring

SECTION VI *Continued*

## Questions about how a non-compliance or ethical situation is handled

### *Interview Questions*

2. As an administrative/executive officer, have you ever encountered a situation where you had misgivings (i.e., ethical concerns) about what you were asked to do?

**IF YES**, what did you do about it?

Potential follow-up questions (ask as necessary)

- ✓ Did you document it in your files?
- ✓ Whom did you report the matter to?
- ✓ How did the person you reported it to deal with the matter?
- ✓ How was it resolved?

**IF NO**, what would you do if you encountered such a situation?

Potential follow-up questions (ask as necessary)

- ✓ Would you feel comfortable telling management?
- ✓ Whom would you report the matter to?
- ✓ How would you expect them to deal with the matter?

### *GAO Standard*

Control Environment – Follow-up  
Communication and Information  
Monitoring

3. As an administrative/executive officer, have you ever encountered a situation where a vendor was in non-compliance (violation) with the terms of the contract, or related rule or regulation? Has management established lines of reporting?

**IF YES**, what did you do about it?

Potential follow-up questions (ask as necessary)

- ✓ Did you document it in your files?
- ✓ Whom did you report the matter to?
- ✓ How did the person you reported it to deal with the matter?

Control Environment – Follow-up  
Communication and Information  
Monitoring



SECTION VI *Continued*

## Questions about how a non-compliance or ethical situation is handled

### *Interview Questions*

- ✓ How was it resolved?

**IF NO**, what would you do if you encountered such a situation?

Potential follow-up questions (ask as necessary)

- ✓ Would you feel comfortable telling management (supervisor, supervisor's superior)?
- ✓ Whom would you report the matter to?
- ✓ How would you expect them to deal with the matter?

### *GAO Standard*

Control Environment – Follow-up  
Communication and Information  
Monitoring

4. As administrative/executive officer, have you ever encountered a situation where you suspected that the contractor, or someone else having an interest in the procurement process, may have violated the law or possibly committed a crime? Has management established lines of reporting?

**IF YES**, what did you do about it? Potential follow-up questions (ask as necessary)

- ✓ Did you document it in your files?
- ✓ Whom did you report the matter to?
- ✓ How did the person you reported it to deal with the matter?
- ✓ How was it resolved?

**IF NO**, what would you do if you encountered such a situation?

Potential follow-up questions (ask as necessary)

- ✓ Would you feel comfortable telling management (supervisor, supervisor's superior)?
- ✓ Whom would you report the matter to?
- ✓ How would you expect them to deal with the matter?

Control Environment – Follow-up  
Communication and Information  
Monitoring

SECTION VI *Continued*

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**Questions about how a non-compliance or ethical situation is handled**

*Interview Questions*

5. Are you aware of the requirement to report all indications of fraud or criminal activities to the OIG, including using the hotline. If so, have you ever needed to report a purchase card or procurement-related condition?

6. Have you ever used the OIG hotline to report a condition related to purchase card use or procurement?

*GAO Standard*

Communication

Communication

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## SECTION VII

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### Questions about the administrative/executive officer's evaluation of the system

*The purpose of these questions is to obtain the administrative/executive officer's evaluation of the procurement process.*

#### *Interview Questions*

1. How do you rate the communication between the staff involved in the purchase card process?
2. Are you aware of any best practices related to the purchase card program?

#### *GAO Standard*

Communication

#### **Final question:**

Are there any other areas we did not cover that you want to share with us?

# GUIDE FOR INTERVIEWS OF SENIOR OFFICIALS

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**Purpose of the interview** – To obtain information on the processes used by agency and the principal office components (POC) to ensure compliance with laws and regulations during the procurement of goods and services using the government purchase card.

**Background** – The appropriate senior official (assistant secretary or the deputy assistant secretary or the equivalent) has the ultimate responsibility for the proper operation of the POC, including the POC’s purchase card procurement practices.



**Preparation for the interview** – All other principal office (PO) interviews should be completed so the interview with the senior official is used not only to solicit additional information but also to provide that senior official with a summary of our preliminary findings.

**Interview** – Interview steps should include (1) providing the senior official with a summary of the evaluation criteria used in our review; (2) completing all necessary interview questions; and (3) providing a summary of our preliminary findings.

- **Criteria** – We are performing an assessment of the internal controls used by each principal office in the procurement of goods and services. Our evaluation uses the internal control standards established by GAO. The five standards are:
  - Control Environment
  - Risk Assessment
  - Control Activities
  - Information and Communications
  - Monitoring

We have developed a series of questions based on these standards to use in our interviews with staff and in our overall evaluation of each PO and the Department.

- Preliminary Findings for the principal office.

**SECTION I**

**Questions about the Senior Official’s experience**

First, verify the interviewee’s name and his/her supervisor.

<i>Interview Questions</i>	<i>GAO Standard</i>
1. How long have you been a senior official for your office?	Control Environment – Management Philosophy and Operating Style
2. What is your experience with the procurement processes of the Department?	Control Environment – Assignment of Authority and Responsibility
3. Are you evaluated on the procurement processes of your office? By whom?	
4. Who do you consider to be part of your procurement staff?	Control Environment – Organizational
5. How did you select your procurement staff?	Control Environment – Commitment to Competence
6. How often do you meet with your procurement staff?	Control Environment – Organizational Structure

## SECTION II

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**Questions about how the senior official performs his/her duties**


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<i>Interview Questions</i>	<i>GAO Standard</i>
1. Do you review any documents related to the procurement process?	Understanding the Process
2. How do you monitor the procurement activities in your office and the performance of your procurement staff?	Understanding the Process Control Activities Monitoring – Ongoing
3. Have you ever been advised of any problem with the procurement processes in your office?	
4. How would you respond to procurement performance problems?	
5. Do you have sufficient time to adequately perform your procurement responsibilities?	
6. Does your procurement staff have sufficient time to adequately perform their procurement responsibilities?	
7. What guidance (office, agency, and government-wide) do you use to fulfill your procurement responsibilities?	Information
8. Do you have an inventory of assets procured by your office?	Monitoring – Ongoing

**SECTION III**

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**Questions about the senior official’s work  
in relation to the office**

*The purpose of these questions is to obtain information about the Control Environment, Information and Communication and Monitoring.*

***Interview Questions***

***GAO Standard***

1. How do you convey your expectations in the purchase card procurement area?
2. Who provides you information on procurement requirements?
3. What are the consequences of noncompliance by your procurement staff?

Control Environment – Management  
Philosophy

Information



## SECTION IV

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**Questions about ethics and ethics training**

<i>Interview Questions</i>	<i>GAO Standard</i>
1. How does the Department provide information to you on the Standards of Conduct?	Control Environment – Integrity and ethical values
2. How does the Department provide information to your procurement staff on the Standards of Conduct?	Control Environment – Integrity and ethical values
3. Does the Department’s ethics training provide adequate ethics information to you? Why/Why not?	Control Environment – Integrity and ethical values
4. Does the Department’s required ethics training provide adequate ethics information to your procurement staff? Why/Why not?	Control Environment – Integrity and ethical values
5. Should there be specific ethics training for procurement staff? Why/Why not?	Control Environment – Integrity and ethical values
6. How do you convey a commitment to integrity and ethical values?	Control Environment – Integrity and ethical values
7. When you have a question about ethics or the Standards of Conduct, whom do you go to?	Control Environment – Integrity and ethical values

SECTION V

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**Questions about the goals  
and risks of procurement activities**

*Interview Questions*

1. Do you have discussions within your office regarding the risks associated with the purchase card procurement process?

Follow-up: Tell me about the discussion(s).

*GAO Standard*

Risk Assessment – Risk

2. What has been done to limit these risks?

Risk Assessment - Risk

## SECTION VI

## Questions about how a non-compliance or ethical situation is handled

*The purpose of these questions is to (1) allow the interviewee an opportunity to identify any situation that has occurred where the interviewee believed there may have been an ethical or compliance issue and (2) to obtain information on whether the senior official understands how to handle a situation where there is an ethical or compliance issue.*

### *Interview Questions*

1. Series of situational questions:

Have you ever encountered a situation where you believed that a vendor was deficient (i.e., not meeting your expectations) or that the agency was not receiving its money's worth?

Have you ever encountered a situation where you had misgivings (i.e., ethical concerns) about actions that occurred or were proposed in the procurement process?

Have you ever encountered a situation where you suspected that the vendor, or someone else having an interest in the procurement process, may have violated the law or possibly committed a crime?

For all three:

**IF YES**, what did you do about it?  
Potential follow-up questions (ask as necessary)

- ✓ Did you document it in your files?
- ✓ Whom did you report the matter to?
- ✓ How did the person you reported it to deal with the matter?
- ✓ How was it resolved?

**IF NO**, what would you do if you encountered such a situation?

Potential follow-up questions (ask as necessary)

- ✓ Whom would you report the matter to?
- ✓ How would you expect them to deal with the matter?

### *GAO Standard*

Control Environment – Follow-up  
Communication and Information  
Monitoring

**SECTION VI** *Continued*

**Questions about how a non-compliance or ethical situation is handled**

<i>Interview Questions</i>	<i>GAO Standard</i>
<p>2. As a senior official, have you ever encountered a situation where you suspected that someone having an interest in the procurement process may have violated the law or possibly committed a crime?</p> <p>If yes, what did you do about it?</p>	<p>Communication</p>
<p>3. Have you ever used the OIG hotline to report a condition related to purchase card use or procurement?</p>	<p>Communication</p>
<p>4. Is your procurement staff aware of the OIG hotline?</p>	<p>Communication</p>

**SECTION VII**

**Questions about the senior official's evaluation of the system**

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<i>Interview Questions</i>	<i>GAO Standard</i>
1. How do you communicate issues related to procurement with the individuals above and below you?	Communication
2. How do you rate the communication between the staff involved in the procurement process?	Communication

**Final question:**

Are there any other areas we did not cover that you want to share with us?

**ATTACHMENT 2**  **RECORD OF INTERVIEW**

# RECORD OF INTERVIEW

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**Purpose:** To obtain information on the process used by (Agency), a Purchase Card Approving Official, and Purchase Cardholder to ensure compliance with laws and regulations during the procurement of goods and services.



**Date and Time:**

**Location:**

**Participants:**

At the outset of the interview (name) was advised of the purpose of the interview. The interview began at about (time) and concluded at approximately (time). (name) provided the following information, in substance:

**Discussion:**

**Experience & Training** (Control Environment):

**Performance of Duties** (Control Activities):

**Work in relation to POC** (Control Environment, Information and Communication and Monitoring):

**Ethics and Ethics Training** (Control Environment):

**Goals and Risks of Procurement Activities** (Risk Assessment):

**Non-compliance or ethical situations** (Control Environment, Communication & Information and Monitoring):

**Evaluation of procurement process** (Communication and Control Environment):

**Documents Promised:**

**Issues for follow up:**

For the following attachments go to the Department of Education, Office of Inspector General web site [www.ED.gov/offices/OIG/](http://www.ED.gov/offices/OIG/). Click on Analysis and Inspection Reports in the left-hand column.

**ATTACHMENT 3**  **INDIVIDUAL REPORT - SAMPLE**





UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

MEMORANDUM

MAY 22 2000

TO :

Assistant Secretary  
Office of Elementary and Secondary Education

FROM :

for John P. Higgins, Jr. *John P. Higgins, Jr.*  
Acting Assistant Inspector General  
Analysis and Inspection Services

SUBJECT :

Results of the OIG Review of OESE's Internal Controls Over the  
Procurement of Goods and Services (A&I 2000-002)

INTRODUCTION

This memorandum transmits the results of our review of OESE's internal controls over the procurement of goods and services. This review is part of OIG's Department-wide review of this area. The Department's management is responsible for establishing and maintaining internal controls. We will transmit the Department-wide results to the Deputy Secretary with copies to the Assistant Secretaries when we complete our review. On May 17, 2000, OIG staff met with you to discuss the results of this review.

RESULTS

We identified significant noncompliance in OESE with current Department policies and procedures for the Purchase Card Program:

- ✓ At least two purchase cards have been shared among employees in OESE with management's knowledge. The employees involved told us that managers authorized the card sharing. The managers told us that they were aware that employees shared cards and had authorized some card sharing. The Department's directive on *Commercial Credit Card Service* states: "Each card has the cardholder's name embossed on it and may be used only by that person. No one else is authorized to use the card."
- ✓ The approving official has not been reviewing and signing the monthly purchase card statements nor forwarding the statements to OCFO for payment. The Department's directive requires the approving official to review, sign and then forward the monthly statements to OCFO for payment.

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We also identified many significant internal control deficiencies. The noncompliance and internal control deficiencies we identified prevent OESE from meeting GAO's *Standards for Internal Control in the Federal Government*. For your information and corrective action, the noncompliance and internal control deficiencies are listed in the attached chart (Attachment A). In the future, we anticipate conducting a follow-up review to assess the actions you have taken to correct the deficiencies identified in Attachment A.

In addition, we want to advise you and OESE managers of inherent vulnerabilities we identified in two Department procurement systems.

- ✓ Purchase Cards -- For efficiency reasons, the Department designed a purchase card system where cardholders can order, receive and approve payments for goods and services. Consequently, as a control, the Department established approving officials to review the use of purchase cards. Therefore, it is important that approving officials properly review all cardholder statements before forwarding them to OCFO for payment. As noted above, the OESE approving official has not routinely reviewed these statements.
- ✓ Third Party Draft System (TPDS) -- An individual with signature authority can issue TPDS checks without the involvement of anyone else. Therefore, it is important that, at a minimum, the supervisor of the individual with signature authority conduct periodic reviews of sample TPDS disbursements. As noted in the attached chart, this review is not being conducted in OESE.

### OBJECTIVE

Our review objective was to assess the internal controls over compliance with laws and regulations for the procurement of goods and services other than studies or evaluations.

### SCOPE

We limited our work to procurements by the Third Party Draft System (TPDS) and Purchase Cards. We did not conduct testing on OESE's use of contracting or the "Corporate" Government Travel Account.

### METHODOLOGY

To achieve our objectives, we conducted interviews with OESE staff who were involved with the procurement process and reviewed relevant documents. As part of our work, we reviewed a randomly selected sample of 50 TPDS checks issued between October 1998 and January 2000 (FY 1999 and the first four months of FY 2000). We also reviewed a judgmentally selected sample of 50 charges to purchase cards. Those charges appeared on card statements between March 1999 and February 2000. We based our conclusions about OESE's internal controls on the information gathered during our interviews and transaction testing. We conducted our interviews and transaction testing between March 7, 2000 and May 9, 2000.

We assessed OESE's internal controls based on GAO's *Standards for Internal Control in the Federal Government* issued November 1999. Attachment B to this letter contains a summary of the GAO Standards. We conducted our work in accordance with the President's Council on Integrity and Efficiency (PCIE) *Quality Standards for Inspection* dated March 1993.

We appreciate the cooperation shown by your staff during our review. If you have any questions regarding the results of this review, please call me at 205-5439.

Attachments

cc: Deputy Secretary

Internal Control Evaluation Form for the Office of Elementary and Secondary Education Attachment A

Control Component	Deficiencies
Control Environment	<ul style="list-style-type: none"> <li>Overall - Although many of the procurement staff we interviewed claimed to understand their roles and responsibilities, our testing identified areas of noncompliance with Department policies and procedures indicating that some staff members did not understand their roles and responsibilities. For example, one cardholder told us that an improper charge had been made to his/her purchase card. Although the cardholder informed the Executive Officer in OUSE and staff in OCFO of the improper charge, we were told that the senior management in OUSE had not been informed and the senior managers we spoke with determined they had no knowledge of the incident. In our review of purchase card documents, we reviewing those documents we noted other charges from the same vendor to the same purchase card that appeared to have been split presumably to avoid the multiple bid requirement for purchases above \$2,500. In an office with good internal controls, an improper charge would have been reported to senior managers and monitored until resolved. In addition, proper management review should have identified the split purchase.</li> <li>Assignment of Authority - One cardholder with a limit over \$2,500 (micro-purchase level) has never had a background investigation and does not have an active warrant. In 1998, OESE was informed by OIG that the cardholder did not have a background investigation. OCFO records were in error on the status of the warrant.</li> <li>Relationships with Control Offices - OCFO informed us that OESE has not provided card statements in a timely manner. For example, the approving official did not sign the February 2000 statements until after the deadline for submission to OCFO. Those statements are necessary for OCFO to pay the bill on behalf of the Department.</li> </ul>
Risk Assessment	<ul style="list-style-type: none"> <li>Identification of Risks - OUSE has no formal procedures for risk assessment in the procurement area.</li> <li>Identification of Risks - Three procurement staff members have been assigned moderate risk levels when their responsibilities suggest that a high risk level is more appropriate.</li> </ul>

Control Activities

- Policies and Procedures – Although required by the Department's Directive on Commercial Credit Card Service (C:FIM:6-102) dated March 12, 1990 (Directive), OESE has no written policies and procedures on the purchase card process. Such written policies and procedures could provide clarification for staff. For example, one cardholder attempted to terminate the purchase card by cutting up the card. Since nothing was reported to the OCFO Coordinator for the Purchase Card Program, the purchase card account is still open and being used even though the physical purchase card has been destroyed.
- Authorization – Although prohibited by the Directive, at least two purchase cards were shared among employees. The employees involved told us that managers authorized the card sharing. The managers told us that they were aware that employees shared cards and had authorized some card sharing. In addition, we noted documentation that indicated a non-cardholder had access to and was using two purchase cards.
- Management review – Although required by the Directive, the approving official had not been reviewing and signing the monthly card statements nor forwarding those statements to OCFO. Instead, one of the cardholders reconciled most of the statements and sent an e-mail with accounting data to OCFO. The approving official told us that she would begin reviewing the statements. We noted that the approving official signed the February 2000 statements.
- Approval – We were told that the practice within OESE was for the Executive Officer to approve all purchases.
  - ✓ In a random sample of 50 TPDS checks, we noted four purchase requests that were not signed by the Executive Officer.
  - ✓ In a judgmental sample of 50 charges to OESE purchase cards, we noted that only 10 were approved by the Executive Officer; 24 had no evidence of approval and 16 lacked sufficient documentation to determine the approval status.
- Authorization – Total charges on two May 1999 purchase card statements exceeded the cardholders' approved monthly purchase limits. Total charges on one April 1999 purchase card statement exceeded the cardholder's approved monthly purchase limit.
- Documentation – Documentation should be maintained to support all purchases.
  - ✓ In a random sample of 50 TPDS checks, we noted seven checks for which supporting documentation could not be found. We noted one check without sufficient documentation. All of the checks were for more than \$100 and one of the checks was for more than \$1,000.

<ul style="list-style-type: none"> <li>✓ In a judgmental sample of 50 charges to OESE purchase cards, we noted 16 charges for which supporting documentation could not be found. Eleven of these charges were for more than \$100 and one of the charges was for more than \$900.</li> <li>• Reconciliation - In a judgmental sample of 50 charges to OESE purchase cards, we noted 15 cases with an EDCAPS log was not available for our review. Cardholders are required to reconcile their monthly statements with the EDCAPS log.</li> <li>• Recordkeeping - Some of the cardholders we interviewed told us that they recorded their charges into EDCAPS from their monthly statement instead of at the time of the order. None of the 23 charges for which we were provided both the invoices and the EDCAPS log were recorded into EDCAPS within a 48-hour window.</li> <li>• Recordkeeping - OESE did not have a log to track the TPDS checks assigned to the office. Such a log would allow OESE to identify any missing checks.</li> <li>• Recordkeeping - We identified 37 TPDS checks totaling \$100,282 that had been outstanding for more than 90 days. These checks should have been voided in the system to de-obligate the funds. In a July 1997 memorandum, OCFO noted that OESE was not voiding checks that were outstanding for more than 90 days.</li> <li>• Policies and Procedures - Principal offices are encouraged to maximize the use of purchase cards because the use of purchase cards saves money in processing costs for each transaction. We reviewed the FY 1999 and FY 2000 reports on TPDS checks. We noted that sometimes TPDS checks are used even when the vendor will accept the purchase card. In a July 1997 memorandum, OCFO noted 89 cases where the purchase card could have been used instead of TPDS checks. We also noted many instances where an invoice over \$10,000 was paid using several TPDS checks, in some cases as many as nine checks. Instead of issuing multiple TPDS checks, OESEs could have used a single Treasury check or an electronic funds transfer.</li> </ul>	
<ul style="list-style-type: none"> <li>• Communication of Key Information - The OESE Executive Officer did not provide key information to her supervisor concerning problems in the procurement area.</li> <li>• Communication of Key Information - Only one of the OESE's procurement staff that we interviewed indicated an awareness of the Department's Directive on purchase cards.</li> <li>• Understanding of Control Responsibilities - The procurement staff do not seem to understand their</li> </ul>	<p>Information &amp; Communications</p>

	<p>control responsibilities because (1) purchase cards were shared among staff; (2) the approving official was not routinely reviewing the monthly card statements; and (3) the cardholders were not reconciling their own monthly statements with EDCAPS.</p>
Monitoring	<ul style="list-style-type: none"> <li>• On-going Monitoring – The supervisor of the individual with signature authority for TPDS checks does not perform periodic reviews of the EDCAPS reports on the checks issued by OESSE.</li> <li>• On-going Monitoring – The OESSE approving official does not perform periodic spot checks of the invoices related to purchase card transactions.</li> </ul>

### Components of Internal Control

- **Control Environment** – Management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal controls and conscientious management.

Factors:

- ✓ Management and staff maintain and demonstrate integrity and ethical values.
  - ✓ Management maintains an active commitment to competence.
  - ✓ Management's philosophy and operating style exerts a positive influence on the organization (especially toward information systems, accounting, personnel functions, monitoring and audits).
  - ✓ Organizational structure is appropriately centralized or decentralized, and facilitates the flow of information across all activities.
  - ✓ Agency delegates authority and responsibility and establishes related policies throughout the organization in a manner that provides for accountability and control.
  - ✓ Agency establishes human resource policies and practices that enable it to recruit and retain competent people to achieve its goals.
- **Risk Assessment** – Internal controls should provide for an assessment of the risks the agency faces from both external and internal sources.

Precondition: establishment of clear and consistent agency objectives.

Risk assessment: the comprehensive identification and analysis of relevant risks associated with achieving agency objectives, like those defined in strategic and GPRA annual performance plans, and forming a basis for determining how the agency should manage risks.

Risk identification: methods may include qualitative and quantitative ranking activities, management conferences, forecasting and strategic planning, and consideration of findings from audits and other assessments.

Risk analysis: generally includes estimating the risk's significance, assessing the likelihood of its occurrence, and deciding how the agency should manage its risk.



- **Control Activities** – Internal control activities help ensure that employees carry out management directives. The control activities should effectively and efficiently accomplish agency control objectives.
  - ✓ The control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives. They help ensure that employees take actions to address risks.
  - ✓ Control activities occur at all levels and functions of the entity, and include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and creation and maintenance of related records that document the execution of these activities.
- **Information and communications** – Employees should record and communicate information to management and others within the entity who need it in a form and within a time frame that enables them to carry out their internal control (and other) responsibilities effectively and efficiently.
  - ✓ An organization must have relevant, reliable, and timely communications relating to internal as well as external events. Information is needed throughout the agency to achieve all its operational and financial objectives.
  - ✓ Effective communications should occur in a broad sense with information flowing down, across, and up the organization.
  - ✓ Management should ensure there are adequate means of communicating with, and obtaining information from, external stakeholders that may have a significant impact on the agency achieving its goals.
- **Monitoring** – Internal control monitoring should assess the quality of performance over time and ensure that audit and other review findings are promptly resolved.
  - ✓ Includes regular management and supervisory activities, comparisons, reconciliations, and other actions employees take in performing their duties.
  - ✓ Should include policies and procedures for ensuring that audit and other review findings are promptly resolved.

**ATTACHMENT 4**  **CAPPING REPORT - SAMPLE**



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

INSPECTION MEMORANDUM

OCT 13 2000

**TO:**

Deputy Secretary

**FROM:**

Mary Mitchelson  
Assistant Inspector General  
Analysis and Inspection Services

**SUBJECT:**

Results of the OIG Review of Internal Controls Over the Use of  
Purchase Cards and Third Party Drafts (A&I 2000-15)

At the Department of Education's (Department) request, we reviewed the internal control over the Department's use of purchase cards and third party drafts. We previously submitted to you 14 individual principal office reports. In each principal office, we interviewed procurement staff and tested a sample of purchase card and third party draft transactions from FY 1999 and FY 2000 for adherence to internal control procedures and compliance with laws and regulations.

In this memorandum, we highlight the most significant issues from the individual reports and, in Attachment A, provide suggested recommendations that address these issues. Your attention to these concerns will improve the Department's internal control over these two programs: This will help safeguard against potential misuse or waste and ensure that purchase card transactions and third party drafts serve program needs.

Although the Department established control activities to ensure the financial integrity of the purchase card and third party draft programs, we found that prescribed control activities are not always followed. Additionally, we found that the office with responsibility for both programs, the Financial Management Policies and Administrative Programs Group (FMPAP), within the Office of the Chief Financial Officer (OCFO), needs to improve its administration of these programs. Consequently, the Department did not fully satisfy the General Accounting Office (GAO) *Standards for Internal Control in the Federal Government* in all cases.

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## **PURCHASE CARDS**

### **Approving official review**

The most important control activity in the purchase card program is approving officials' review of cardholders' monthly statements, as required by the Department of Treasury Financial Manual. Approving officials are responsible for ensuring that all credit card transactions are for authorized purchases and in accordance with Department and other Federal regulations. Approving officials document their review by signing the purchase card statements before submitting the statements to FMPAP for payment. We found several instances, however, where approving officials had not signed monthly statements of individual purchase cardholders.

We reviewed the purchase card statements in FMPAP files for September 1999 and March 2000. In September 1999, for 70 percent of the individual cards with balances either the purchase card statement was missing or the statement was not signed. In March 2000, that figure was 48 percent.<sup>1</sup> These high percentages may be attributable to several factors. Within FMPAP we found a lack of effective communication and program oversight. Additionally, FMPAP does not regularly update its lists of principal office cardholders and approving officials. Without such a list, FMPAP cannot verify that individual purchase card statements have been approved by the appropriate officials.

### **Maintaining supporting documents**

Cardholders must maintain supporting documentation of individual transactions, such as receipts, invoices and purchase orders. That documentation should be readily available for examination. We identified transactions lacking sufficient documentation in most principal offices. This documentation is important to confirm that the purchase cards are being used to support the Department's needs.

In addition, we were unable to trace some purchase card transactions to expenditures on reports from the Department's accounting system, EDCAPS. In some cases, transaction numbers were not listed on the statements. In other cases, the transaction numbers did not appear on EDCAPS reports of expenditures. We also found some transactions recorded with incorrect dollar amounts.

### **Reconciliation of monthly purchase card bill**

FMPAP authorized the payment of the September 1999 and March 2000 purchase card bills without reconciling the monthly Department-wide statement to the individual principal office purchase card statements or to the Department accounting system, EDCAPS. Reconciliation helps ensure that the payment is accurate.

<sup>1</sup> The percentages are obtained by adding the number of missing statements and statements not signed, divided by the number of statements with activity:  $40 + 95 = 135 / 192 = 70$  percent for September 1999 and  $9 + 85 = 94 / 194 = 48$  percent for March 2000.

### **Purchase card directive**

FMPAP has not updated its *Commercial Credit Card Directive* (Directive), originally released on March 3, 1990 and modified by pen and ink changes in March 1992. FMPAP should update the Directive to reflect current requirements and practices, and to provide necessary guidance to cardholders.

### **Cardholder training**

The Department provides a short training course for new cardholders. The training does not cover certain important areas such as approval procedures, nor does it define improper payments. There also is no requirement that cardholders receive any refresher training.

## **THIRD PARTY DRAFTS**

### **Separation of duties**

To prevent noncompliance and safeguard assets by separating duties, the Department's policy is that a person with signature authority (an authorizing official) cannot produce (print) a draft that he or she signs. Drafts are to be produced by a data entry person. We identified six employees from five offices who serve both as authorizing officials and data entry personnel. While we did not identify any drafts that these individuals both signed and printed, FMPAP has not identified any physical or system control activities that would prevent or detect such an occurrence.

### **Monitoring of drafts**

The Department's *Third Party Draft Operating Procedures Manual* (Manual) requires that authorizing officials periodically review drafts issued under their authority. The system in which issued drafts are recorded, EDCAPS, contains a number of errors. EDCAPS reports on third party draft activity listed drafts with more than one mutually exclusive status code: outstanding, voided, and cleared. Therefore, it is not a reliable record for the authorizing official's use. In addition, some principal offices were not maintaining logs of blank drafts, which are negotiable instruments. Without such a log, an authorizing official would find it difficult to identify missing drafts. Moreover, this review control from the Manual does not provide for sufficient separation of duties because it calls for review by the same official who approves the drafts.

### **Maintaining Supporting Documents**

We also discovered that principal offices were not maintaining sufficient documentation to support individual third party draft transactions. In some cases, approval signatures were missing from claim documents or files were either missing or unavailable for our review. In other cases, the invoice amount did not match the amount of the draft.

## **INTERNAL CONTROL OVER BOTH PROGRAMS**

### **Risk Assessment**

We found the Department is not conducting a comprehensive, formal risk assessment of its purchase card and third party draft programs. While staff in some principal offices told us that they had discussed vulnerabilities and controls over the programs, we noted the absence of a formal risk assessment process in all principal offices.

### **Procurement Authority**

Department policy requires employees with single purchase limits above \$2,500 to take simplified acquisition training and obtain warrants. Several cardholders had not satisfied this requirement. In addition, we found errors in the list of staff with procurement authority maintained by Contracts and Purchasing Operations (CPO), within OCFO. For example, some warrants were not cancelled when employees left the Department or changed principal offices, as required by Department policy. Also, the current list does not include information about third party draft signature authority.

### **Security Clearances**

In some offices, we identified procurement staff members that had been assigned lower risk levels when the employees' procurement responsibilities suggested that a higher risk level should be considered.

## **RESULTING PROBLEMS**

These control deficiencies increase the vulnerability of the Department to potential misuse or waste. We identified several problems that deserve special attention.

### **Sole-source procurement without appropriate documentation**

We identified transactions exceeding the \$2,500 micro-purchase threshold that lacked appropriate documentation to demonstrate compliance with the FAR. The FAR requires solicitation of quotes or offers from a reasonable number of sources or sole-source justification for any purchase of more than \$2,500.

### **Split procurements**

We identified acquisitions that were split into multiple purchases, apparently to avoid the \$2,500 micro-purchase threshold or the spending limits of individual purchase cardholders. The FAR prohibits the division of an acquisition to "avoid any requirement that applies to purchases exceeding the micro-purchase threshold."

### Sharing of purchase cards

We discovered several instances of cardsharing among employees with their approving officials' knowledge. To prevent purchase card misuse, Treasury Department policy states that only the person assigned the purchase card may use that card. In addition, although Department policy does not permit an approving official to serve as a cardholder, we found some approving officials used cardholders' purchase cards to make purchases. As a result, there was no separation of duties because these approving officials were both making and reviewing their own purchases.

### Late payments

We found several invoices that were not paid in accordance with the Prompt Payment Act. We also found several invoices that were not date stamped upon receipt to establish the proper payment due date under the Act.

## OBJECTIVE, SCOPE, AND METHODOLOGY

We reviewed internal control over the Department's use of purchase cards and third party drafts. We assessed the Department's internal control against the *GAO Standards for Internal Control in the Federal Government* issued November 1999. (Appendix B contains a summary of the GAO Standards.)

We limited our review to purchase card and third party draft use in Washington, D.C. (Headquarters). In evaluating the Department's internal control, we focused on the objective of compliance with laws and regulations.

To achieve our objective, we reviewed internal control in each principal office. For those reviews, we treated OCFO and the Office of the Chief Information Officer as one office because the offices share an Executive Office and Executive Officer. We also treated the Office of the Secretary, the Office of the Deputy Secretary, and the Office of Legislation and Congressional Affairs as one office for the same reason. In total, we conducted 14 individual office reviews. In each principal office, we interviewed staff involved with procurement.

We tested a sample of purchase card and third party draft transactions from FY 1999 and FY 2000 for adherence to internal control procedures and compliance with laws and regulations. We also verified the security clearance of some of the staff involved with procurement. After we completed the review of each principal office, we interviewed and briefed the office's senior official on the review results and issued a memorandum summarizing our findings.

In addition to the work in each principal office, we interviewed OCFO staff involved with the purchase card and third party draft programs and reviewed the policies and procedures for these programs. We examined the staff procurement authority records.

We also examined purchase card records maintained by FMPAP for the months of September 1999 and March 2000.

We interviewed more than 100 staff and senior officials. We conducted our interviews and internal control and compliance tests between February 24, 2000 and October 4, 2000. We conducted our work in accordance with the President's Council on Integrity and Efficiency (PCIE) *Quality Standards for Inspection* dated March 1993.

We have designated you as the primary action official for the recommendations attached to this memorandum. Please respond within 45 days from the date of this memorandum on what actions, if any, you plan to take.

We appreciate the cooperation shown by your staff during our review. If you have any questions regarding the results of this review, please call me at 260-3556.

Attachments

cc: Senior Officers



**OIG Recommendations Regarding the Department's  
Internal Controls Over the Use of Purchase Cards  
and Third Party Drafts**

**CONTROL ENVIRONMENT:** Management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal controls and conscientious management.

**Recommendations**

Based on our review we recommend the following actions be taken by the Department to strengthen the control environment over the use of purchase cards and drafts:

1. Increase the scope of procurement training to ensure that all cardholders, approving officials, data entry personnel, authorizing officials, supervisors and senior officials involved with simplified acquisitions have an adequate understanding of procurement requirements and procedures.
2. Establish a requirement for refresher training for all staff with procurement authority.
3. Establish a training requirement for FMPAP personnel, and ensure that FMPAP staff adhere to established policies and procedures.
4. Require that all staff with procurement authority, regardless of grade level, attend annual ethics training or include an ethics component in the procurement training.

**RISK ASSESSMENT:** Internal controls should provide for an assessment of the risks the agency faces from both external and internal sources.

**Recommendations**

Based on our review we recommend the following actions be taken by the Department to strengthen risk assessment in the use of purchase cards and drafts:

1. Establish formal policies and procedures to identify, analyze and, as appropriate, take steps to mitigate procurement risks at all levels.

2. Require all principal offices to assess the level of security clearance performed on their staff with procurement authority and schedule appropriate updates as necessary.

**CONTROL ACTIVITIES:** Internal control activities help ensure that employees carry out management directives. The control activities should effectively and efficiently accomplish agency control objectives.

#### Recommendations

Based on our review we recommend the following actions be taken by the Department to strengthen control activities over the use of purchase cards and drafts.

1. Update the *Commercial Credit Card Directive* and communicate it to all cardholders, approving officials and Executive Officers.
2. Enforce Department policy that approving officials must be at a managerial level and may not serve as a cardholder or use a cardholder's account.
3. Require that all approving officials review and sign monthly purchase card statements.
4. Reduce spending limits for cardholders until they obtain required warrants from CPO.
5. Reestablish the policy of written delegation from CPO to all cardholders as defined in the Department of Treasury Financial Manual.
6. Require that principal offices submit their signed purchase card statements to FMPAP on time.
7. Ensure that each principal office is provided with a sequentially numbered stock of blank third party drafts and that each principal office maintains a log of the stock received and updates the log as each draft is issued.
8. Require that each principal office have a manager, other than an authorizing official, perform periodic reviews of the EDCAPS reports on third party draft activity and the log of issued third party drafts.
9. Ensure that the Department's accounting system (currently EDCAPS) correctly records and reports procurement activity.

**INFORMATION AND COMMUNICATION:** Employees should record and communicate information to management and others within the entity who need it in a form and within a time frame that enables them to carry out their internal control (and other) responsibilities effectively and efficiently.

**Recommendations**

Based on our review we recommend the following actions be taken by the Department to strengthen information and communication regarding the use of purchase cards and drafts:

1. Maintain and publicize an updated, consolidated, user-friendly web site on the Department's Intranet to convey procurement requirements and information;
2. Identify, obtain and distribute management reports necessary for monitoring purchase cards and drafts.
3. Continuously update procurement authority records.
4. Provide to all staff with procurement activity clear instructions on how to handle and report suspected abuse or fraud.

**MONITORING:** Internal control monitoring should assess the quality of performance over time and ensure that audit and other review findings are promptly resolved.

**Recommendations**

Based on our review we recommend the following actions be taken by the Department to strengthen monitoring over the use of purchase cards and drafts:

1. Reconcile the monthly Department-wide purchase card statement to the monthly statements from the principal offices and to the Department's accounting system (EDCAPS).
2. Manage and monitor primary controls such as the approving official signature on monthly purchase card statements.
3. Monitor information on staff with procurement authority provided by CPO.


*GAO's Standards for Internal Control in the Federal Government*  
Components of Internal Control

- **Control Environment** – Management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal controls and conscientious management.

Factors:

- ✓ Management and staff maintain and demonstrate integrity and ethical values.
  - ✓ Management maintains an active commitment to competence.
  - ✓ Management's philosophy and operating style exert a positive influence on the organization (especially toward information systems, accounting, personnel functions, monitoring and audits).
  - ✓ Organizational structure is appropriately centralized or decentralized, and facilitates the flow of information across all activities.
  - ✓ Agency delegates authority and responsibility and establishes related policies throughout the organization in a manner that provides for accountability and control.
  - ✓ Agency establishes human resource policies and practices that enable it to recruit and retain competent people to achieve its goals.
- **Risk Assessment** – Internal controls should provide for an assessment of the risks the agency faces from both external and internal sources.
    - ✓ **Precondition** – establishment of clear and consistent agency objectives.
    - ✓ **Risk assessment** – the comprehensive identification and analysis of relevant risks associated with achieving agency objectives, like those defined in strategic and GPRA annual performance plans, and forming a basis for determining how the agency should manage risks.
    - ✓ **Risk identification** – methods may include qualitative and quantitative ranking activities, management conferences, forecasting and strategic planning, and consideration of findings from audits and other assessments.
    - ✓ **Risk analysis** – generally includes estimating the risk's significance, assessing the likelihood of its occurrence, and deciding how the agency should manage its risk.

- **Control Activities** – Internal control activities help ensure that employees carry out management directives. The control activities should effectively and efficiently accomplish agency control objectives.
  - ✓ The control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives. They help ensure that employees take actions to address risks.
  - ✓ Control activities occur at all levels and functions of the entity, and include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and creation and maintenance of related records that document the execution of these activities.
  
- **Information and Communications** – Employees should record and communicate information to management and others within the entity who need it in a form and within a time frame that enables them to carry out their internal control (and other) responsibilities effectively and efficiently.
  - ✓ An organization must have relevant, reliable, and timely communications relating to internal as well as external events. Information is needed throughout the agency to achieve all its operational and financial objectives.
  - ✓ Effective communications should occur in a broad sense with information flowing down, across, and up the organization.
  - ✓ Management should ensure there are adequate means of communicating with, and obtaining information from, external stakeholders that may have a significant impact on the agency achieving its goals.
  
- **Monitoring** – Internal control monitoring should assess the quality of performance over time and ensure that audit and other review findings are promptly resolved.
  - ✓ Includes regular management and supervisory activities, comparisons, reconciliations, and other actions employees take in performing their duties.
  - ✓ Should include policies and procedures for ensuring that audit and other review findings are promptly resolved.

**ATTACHMENT 5**  **FOLLOW UP REPORTS - SAMPLE**



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

NOV 20 2001

INSPECTION MEMORANDUM

TO:

Deputy Chief Financial Officer  
Office of the Chief Financial Officer

FROM:

Mary Mitchelson   
Assistant Inspector General  
Analysis and Inspection Services

SUBJECT:

Review of the Department-wide Purchase Card Statement Late  
Notices for June 2001 (ED-OIG/A&I 2001-05)

On September 28, 2001, we issued *Follow-up Review of Internal Control Over Purchase Cards* (ED-OIG/A&I 2001-04). We stated that Financial Management Policies and Administrative Programs (FMPAP) sent out 124 late notices to approving officials for the June 16, 2001, Department-wide purchase card statement. Because FMPAP does not date stamp the statements when received from the approving officials, the actual date of receipt is not clearly documented. To determine if the late notices were warranted, we reviewed the approving officials' signature and date on the available statements that were identified as late and discussed the submissions of those statements with the approving officials.

The following is our analysis, performed between October 17-23, 2001, of the 124 late notices sent by FMPAP on July 11, 2001. The due date for approving officials to submit the June statements to FMPAP was July 10, 2001.

1. Three of the 124 statements can be documented by a shipping receipt as received by FMPAP on July 10, 2001.
2. Forty-nine of the 124 statements were signed on or before July 10, 2001, but we could not determine whether FMPAP received them by that date. Of these 49 statements:
  - Fourteen statements were signed and, according to the approving officials, sent to FMPAP before the due date. These approving officials, however, cannot document the date they transmitted the statements to FMPAP or when FMPAP received them.

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- Twenty-four additional statements were signed before the due date, but the approving officials cannot recall if the statements were sent to FMPAP before the due date.
  - Five statements were signed and, according to approving officials, sent to the applicable executive office before the due date. There is no documentation of when the executive offices transmitted the statements to FMPAP.
  - Six statements were signed before the due date, but not by the designated approving officials, therefore FMPAP characterized them as late.
3. Four of the 124 statements had no approving official signature, therefore FMPAP categorized them as late.
  4. Four of the 124 statements could not be located at FMPAP during our review. The approving officials could not recall if the statements were sent to FMPAP before the due date.
  5. Sixty-four of the 124 statements were signed after July 10, 2001.

The analysis indicates that record keeping at FMPAP may have been inadequate to accurately track the timeliness of purchase card statement submissions. Beginning with the procedures instituted in July 2001, the receipt of statements at FMPAP are intended to be documented electronically. We suggest that you solicit and receive assurance from the responsible FMPAP official that the new procedures are working.

We conducted our review in accordance with the President's Council on Integrity and Efficiency (PCIE) *Quality Standards for Inspections* dated March 1993.

If you have any questions regarding the results of this review, please call me at 260-3556 or Brent Weston at 205-9833.



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**Action Official**

**Deputy Chief Financial Officer  
Office of the Chief Financial Officer  
Federal Building No. 6, Room 4E314  
400 Maryland Avenue, S.W.  
Washington, D.C. 20202**

**Other ED Offices**

**Deputy Secretary of Education,**

**Chief of Staff,**

**Under Secretary,**

**General Counsel, Office of the General Counsel,**

**Assistant Secretary, Office of Intergovernmental and Interagency Affairs,**

**Supervisor, Post Audit Group, Office of Chief Financial Officer,**

**Office of Public Affairs,**

**OIG**

**Inspector General  
Deputy Inspector General  
Assistant Inspector General for Investigation Services  
Assistant Inspector General for Audit Services**



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

INSPECTION MEMORANDUM

SEP 28 2001

**TO:**

Deputy Chief Financial Officer  
Office of the Chief Financial Officer

**FROM:**

Mary Mitchelson  
Assistant Inspector General  
Analysis and Inspection Services

**SUBJECT:**

Follow-up Review of Internal Control Over Purchase Cards  
(ED-OIG/A&I 2001-04)

This is a follow-up to our memorandum, *Results of the OIG Review of Internal Controls Over the Use of Purchase Cards and Third Party Drafts (A&I 2000-15)*, dated October 13, 2000. The purpose of our review was to determine if the Department completed certain corrective actions in response to recommendations contained in our memorandum.

The review focused on two recommendations for key control activities in the purchase card program:

- Require that all approving officials review and sign monthly purchase card statements, and
- Reconcile the monthly Department-wide purchase card statement to the monthly statements from the principal offices and to the Department's accounting system, EDCAPS.

On April 26, 2001, we began our inspection by reviewing the Department's monthly purchase card statements for the period ending February 16, 2001. On July 24, 2001, we also reviewed the Department's monthly purchase card statements for the period ending June 16, 2001.

We found that for the period ending February 16, six of 184 statements lacked required signatures, and 68 statements were not submitted timely. Additionally, three statements were still unsigned or missing when the bill was paid, 38 days after the due date.

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When we reviewed the statements for the period ending June 16, we found four of 185 statements lacked required signatures, 124 statements were not submitted timely and one statement was missing. OCFO informed us that the four unsigned statements were returned to the approving officials for signature, but the one missing statement was still unsigned when the bill was paid, four days after the due date.

During the time of our review, staff in Financial Management Policies and Administrative Programs (FMPAP) used the Department's Impac Card Reconciliation System (ICRS) to reconcile the monthly Department-wide purchase card statement to the monthly statements from the principal offices and to the Department's accounting system, EDCAPS. Although we found some inaccuracies in the ICRS summary of cardholder activity, the balance of the statements did not appear to be affected.

For the period ending July 16, 2001, the Office of the Chief Financial Officer (OCFO) began the transfer of some purchase card responsibilities from FMPAP to Contracts and Purchasing Operations (CPO). As part of the new system, cardholders will be responsible for reconciling their monthly statements from the vendor to the purchases they recorded in the Department's accounting system.

#### Approving Official Review: February 2001

Cardholders typically receive their statements between the twentieth of the month and the end of the month. At the time of our review, FMPAP staff stated that its policy was for principal offices to submit all cardholder statements, signed by the approving official, by the fifth to the seventh working day of the following month.

On April 26, 2001, we reviewed February 2001 purchase card statements for 184 cardholders and found four statements, or two percent, totaling \$20,729, that were not signed by the approving official. We found two statements, or one percent, totaling \$5,360, that were not signed by the cardholder. Additionally, two statements, totaling \$13,750, were missing. Subsequently, one of the missing statements was signed by the approving official on May 15, the other on May 16, 2001. At the time of our initial review, FMPAP was not aware that six statements were missing the required signatures or that two statements had not been submitted.

Because FMPAP does not date-stamp the statements, we could not determine when that office received them. Based on the date the approving officials signed the statements, however, 68 statements, or 37 percent, were not timely submitted by the eighth working day of the following month, March 12.

FMPAP paid the bill - due March 18 - on April 25, 2001.<sup>1</sup> FMPAP officials stated that late fees have not been assessed because the vendor has had problems meeting its

<sup>1</sup> When the February bill was paid, three statements had not been signed by the approving official. In addition to the two missing statements signed in May 2001, one other statement was signed on April 27, 2001.

requirements under the contract. FMPAP staff stated that discussions with the vendor have been ongoing to address a variety of concerns.

#### **Approving Official Review: June 2001**

On July 24, 2001, we reviewed June 2001 purchase card statements for 185 cardholders and found four statements, or two percent, totaling \$14,061, that were not signed by the required approving official. Of these four statements, one also was not signed by the cardholder. In addition, we found 124 statements, or 67 percent, were not submitted timely. One statement was missing at the time of our review.

OCFO responded that FMPAP staff returned the four unsigned statements to the approving officials for signatures and paid the bill before they were returned because the staff had discussed the statements with the officials.

On the seventh working day of July, FMPAP sent out 124 late notices to twelve offices, a notification procedure that was initiated with the April statement. No further late notices were sent, but a FMPAP staff member stated phone calls and personal visits were made to obtain all the statements.

The bill, due on July 16, was paid on July 20, 2001. No late fee was assessed. All statements were signed by the required approving official before the bill was paid except for the missing statement, totaling \$3,508, that was located but not signed until August 27, 2001.

#### **Reconciliation of Statements**

The Department's purchase card vendor provides FMPAP with an electronic file containing the activity detail for each cardholder. During the period of our review, to reconcile the vendor's file to a cardholder's activity recorded in EDCAPS, an FMPAP staff member entered the last digits of the card number into the ICRS. The system scrolled to find the cardholder's activity in EDCAPS and matched the activity against the vendor's electronic file.

For the February 2001 purchase card statement, we found that four cardholders were not listed on the ICRS summary of cardholder activity. The four purchase cards, however, were found in ICRS under the correct card number but under a different cardholder's name. This did not appear to have an impact on the balance of the affected statements; but it does demonstrate a lack of accuracy in the ICRS summary.

Additionally, the ICRS summary does not have updated information on the cardholders' approving officials. FMPAP officials stated that it is not possible to update that information in the ICRS.

For the June 2001 purchase card statement, we found 16 statements were not listed in the ICRS summary. FMPAP officials stated that the ICRS, developed in 1996 to manage a small volume of data, is a cumbersome and inefficient system. Because of the

incomplete information in the ICRS summary, FMPAP used the vendor's individual cardholder activity summary to perform the reconciliation with EDCAPS for June.

#### **Department-wide purchase card statement: July 2001**

FMPAP officials informed us that beginning with the Department-wide purchase card statement for July 2001, cardholders are responsible for reconciling their monthly purchases. In that process, the vendor's electronic file is loaded into EDCAPS where cardholders are able to retrieve their purchase card statements as well as the data they input into EDCAPS at the time of purchase. After reviewing their statements and reconciling with the purchases recorded in EDCAPS, cardholders forward their file electronically to their approving official. The cardholders also give all supporting documents for their purchases to their approving official.

To facilitate the transfer of purchase card responsibilities within OCFO, CPO is requiring training in the electronic reconciliation payment approval process for cardholders, approving officials, and alternate approving officials. CPO is also continuing policy and procedural training for cardholders, approving officials, alternate approving officials and supervisors.

FMPAP's role in the process is to send out late notices to the approving officials, reconcile the Department-wide monthly statement against the approved cardholder statements and pay the vendor.

Policies and procedures for the cardholder program are documented in a draft Directive, which OCFO indicates is in the final review process.

#### **Conclusion:**

Although improvements are being made in the purchase card program, more work needs to be done. The review of the June 2001 statements, for example, indicates that approving officials are not responding timely. This could lead to the assessment of penalty interest. In addition, it is important to complete the Directive so that all participants will have guidance in understanding the purchase card program requirements.

#### **OCFO's Reply**

On September 26, 2001, OCFO provided the following response to our draft memorandum:

Our CPO office is currently seeking concurrence on the revised Purchase Card Directive from two Principal offices and have asked they complete their reviews / address concerns with us by September 28. All other offices have concurred with the directive. Upon final approval the Directive will be distributed to Principal offices including

all cardholders, approving officials and supervisors. In addition, the Directive will be accessible on the Department's intranet.

Our FMO Office indicates that they did not have the original signed documentation for four statements. They had returned the originals to the authorities to have them sign. However, while waiting for the signed copies, they chose to pay the statements on time, as they had been in touch with the certifying officials.

#### **OIG's Response**

We have modified our memorandum to reflect OCFO's comments.

#### **Scope and Methodology**

In our initial review, conducted from April 25, 2001 to May 18, 2001, we reviewed all February 2001 cardholder statements and matched them to the ICRS summary of cardholder activity. We also interviewed FMPAP staff to gain an understanding of the systems used to reconcile and pay the Department-wide purchase card statement. We continued our review by examining all June 2001 cardholder statements from July 24, 2001 to August 13, 2001. We did limited testing of the effectiveness of the reconciliation process. We did not test the reliability of the data in the ICRS or EDCAPS.

We conducted our work in accordance with the President's Council on Integrity and Efficiency (PCIE) *Quality Standards for Inspection* dated March 1993.

We appreciate the cooperation shown to us during our review. If you have any questions regarding the results of this review, please call me at 260-3556 or Brent Weston at 205-9833.

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**Action Official**

**Deputy Chief Financial Officer  
Office of the Chief Financial Officer  
Room 4E 314  
400 Maryland Avenue, S.W.  
Washington, DC 20202**

**Other ED Offices**

**Deputy Secretary of Education,**

**Chief of Staff,**

**Under Secretary,**

**General Counsel, Office of the General Counsel,**

**Assistant Secretary, Office of Intergovernmental and Interagency Affairs,**

**Supervisor, Post Audit Group, Office of Chief Financial Officer,**

**Office of Public Affairs,**

**OIG**

**Inspector General  
Deputy Inspector General  
Assistant Inspector General for Investigation Services  
Assistant Inspector General for Audit Services**



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL


NOV 20 2001

INSPECTION MEMORANDUM

TO:

Deputy Chief Financial Officer  
Office of the Chief Financial Officer

FROM:

Mary Mitchelson   
Assistant Inspector General  
Analysis and Inspection Services

SUBJECT:

Review of the Department-wide Purchase Card Statement Late Notices for June 2001 (ED-OIG/A&I 2001-05)

On September 28, 2001, we issued *Follow-up Review of Internal Control Over Purchase Cards* (ED-OIG/A&I 2001-04). We stated that Financial Management Policies and Administrative Programs (FMPAP) sent out 124 late notices to approving officials for the June 16, 2001, Department-wide purchase card statement. Because FMPAP does not date stamp the statements when received from the approving officials, the actual date of receipt is not clearly documented. To determine if the late notices were warranted, we reviewed the approving officials' signature and date on the available statements that were identified as late and discussed the submissions of those statements with the approving officials.

The following is our analysis, performed between October 17-23, 2001, of the 124 late notices sent by FMPAP on July 11, 2001. The due date for approving officials to submit the June statements to FMPAP was July 10, 2001.

1. Three of the 124 statements can be documented by a shipping receipt as received by FMPAP on July 10, 2001.
2. Forty-nine of the 124 statements were signed on or before July 10, 2001, but we could not determine whether FMPAP received them by that date. Of these 49 statements:

Fourteen statements were signed and, according to the approving officials, sent to FMPAP before the due date. These approving officials, however, cannot document the date they transmitted the statements to FMPAP or when FMPAP received them.

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- Twenty-four additional statements were signed before the due date, but the approving officials cannot recall if the statements were sent to FMPAP before the due date.
  - Five statements were signed and, according to approving officials, sent to the applicable executive office before the due date. There is no documentation of when the executive offices transmitted the statements to FMPAP.
  - Six statements were signed before the due date, but not by the designated approving officials, therefore FMPAP characterized them as late.
3. Four of the 124 statements had no approving official signature, therefore FMPAP categorized them as late.
  4. Four of the 124 statements could not be located at FMPAP during our review. The approving officials could not recall if the statements were sent to FMPAP before the due date.
  5. Sixty-four of the 124 statements were signed after July 10, 2001.

The analysis indicates that record keeping at FMPAP may have been inadequate to accurately track the timeliness of purchase card statement submissions. Beginning with the procedures instituted in July 2001, the receipt of statements at FMPAP are intended to be documented electronically. We suggest that you solicit and receive assurance from the responsible FMPAP official that the new procedures are working.

We conducted our review in accordance with the President's Council on Integrity and Efficiency (PCIE) *Quality Standards for Inspections* dated March 1993.

If you have any questions regarding the results of this review, please call me at 260-3556 or Brent Weston at 205-9833.

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**Deputy Chief Financial Officer  
Office of the Chief Financial Officer  
Federal Building No. 6, Room 4E314  
400 Maryland Avenue, S.W.  
Washington, D.C. 20202**

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**Office of Public Affairs,**

**OIG**

**Inspector General**

**Deputy Inspector General**

**Assistant Inspector General for Investigation Services**

**Assistant Inspector General for Audit Services**