



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

**MEMORANDUM**

MAY 22 2000

TO : Michael Cohen  
Assistant Secretary  
Office of Elementary and Secondary Education

FROM : *for* John P. Higgins, Jr. *Thomas A. Carter*  
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.

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**

<b>Control Component</b>	<b>Deficiencies</b>
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 OESE and staff in OCFO of the improper charge, we were told that the senior management in OESE had not been informed and the senior managers we spoke with confirmed they had no knowledge of the incident. In our review of purchase card documents, we determined that the improper charge was ultimately credited to the Department. However, while 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 Central 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 – OESE 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	<ul style="list-style-type: none"> <li>• Policies and Procedures – Although required by the Department’s Directive on <i>Commercial Credit Card Service</i> (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.</li> <li>• 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.</li> <li>• 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.</li> <li>• Approval – We were told that the practice within OESE was for the Executive Officer to approve all purchases. <ul style="list-style-type: none"> <li>✓ In a random sample of 50 TPDS checks, we noted four purchase requests that were not signed by the Executive Officer.</li> <li>✓ 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.</li> </ul> </li> <li>• 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.</li> <li>• Documentation – Documentation should be maintained to support all purchases. <ul style="list-style-type: none"> <li>✓ 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.</li> </ul> </li> </ul>
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	<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 where 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, OESE could have used a single Treasury check or an electronic funds transfer.</li> </ul>
<p>Information &amp; Communications</p>	<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 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>

	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.
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 OESE.</li><li>• On-going Monitoring – The OESE 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.