

MEMORANDUM

TO : Arthur Love
Acting Director
Office of Bilingual Education and Minority Languages Affairs

FROM : John P. Higgins, Jr.
Acting Assistant Inspector General
Analysis and Inspection Services

SUBJECT : Results of the OIG Review of OBEMLA's Internal Controls Over
the Procurement of Goods and Services (A&I 2000-003)

INTRODUCTION

This memorandum transmits the results of our review of OBEMLA'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 23, 2000, OIG staff met with you to discuss the results of this review.

RESULTS

During our review in OBEMLA, we identified a significant instance of noncompliance with the Federal Acquisition Regulation (FAR) and current Department policies and procedures:

- ✓ Prior to January 7, 1999, an order was placed without the approval of the OBEMLA Executive Officer for the purchase of Hispanic Heritage posters for \$9,998.00. The order was placed without the solicitation of at least three bids or justification for a sole-source purchase. When the Executive Officer questioned the invoice she was ordered to pay the bill by a former Director of OBEMLA. The bill was paid with a check dated March 3, 1999, which is the same date that appears on the supporting purchase order. There is no documentation to demonstrate that an individual with properly delegated purchasing authority placed the order. In addition, the FAR requires the solicitation of quotes or offers from a reasonable number of sources or sole-source justification for any purchase of more than \$2,500.

Based on our review, we identified certain deficiencies, in addition to the instance of non-compliance identified above, that prevent OBEMLA from satisfying GAO's *Standards for Internal Control in the Federal Government*. For your information and corrective action, those 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 OBEMLA managers of inherent vulnerabilities we identified in several 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, including invoices, before forwarding them to OCFO for payment.
- ✓ 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.

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 OBEMLA's use of contracting or the "Corporate" Government Travel Account.

METHODOLOGY

To achieve our objectives, we conducted interviews with OBEMLA 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 through September 1999 (FY 1999) and October 1999 through January 2000 (FY 2000). We also judgmentally selected a sample of 11 bank statements and then selected 48 purchases of two purchase cardholders to review for the periods ending October 16, 1998 and February 16, 2000, thus disregarding any transactions dated prior to October 1, 1998 and after January 31, 2000. We based our conclusions about OBEMLA's internal controls on the information gathered during our interviews and transaction testing. We conducted our interviews and transaction testing between March 2, 2000 and April 19, 2000.

We assessed OBEMLA's internal controls based on GAO's *Standards for Internal Control in the Federal Government* issued November 1999. Attachment B to this memorandum 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

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.

**Internal Control Evaluation Form for the Office of Bilingual Education and Minority Language Affairs
Attachment A**

Control Component	Deficiencies
Control Environment	<ul style="list-style-type: none"> <li data-bbox="499 386 1900 743"> <p>• Noncompliance with Procurement Rules ✓ Prior to January 7, 1999, an order was placed without the approval of the OBEMLA Executive Officer for the purchase of Hispanic Heritage posters for \$9,998.00. The order was placed without the solicitation of at least three bids or justification for a sole-source purchase. When the Executive Officer questioned the invoice she was ordered to pay the bill by a former Director of OBEMLA. The bill was paid with a check dated March 3, 1999, which is the same date that appears on the supporting purchase order. There is no documentation to demonstrate that an individual with properly delegated purchasing authority placed the order. In addition, the FAR requires the solicitation of quotes or offers from a reasonable number of sources or sole-source justification for any purchase of more than \$2,500.00.</p> <li data-bbox="499 792 1900 857"> <p>• Organizational Structure ✓ There is no individual designated as the alternate for the Approving Official.</p> <li data-bbox="499 906 1900 1003"> <p>• Training ✓ The Executive Officer has not taken any recent or refresher training in procurement. In addition, all procurement staff could benefit from refresher training.</p>
Risk Assessment	<ul style="list-style-type: none"> <li data-bbox="499 1052 1900 1268"> <p>• Identification of Risks ✓ OBEMLA has no formal procedures for risk assessment in the procurement area. ✓ The Executive Officer/Approving Official has been assigned a moderate risk level when the position responsibilities suggest that a high risk level is more appropriate. ✓ One procurement staff member has been assigned a low risk level when the employee's responsibilities suggest that a moderate risk level is more appropriate.</p>
Control Activities	<ul style="list-style-type: none"> <li data-bbox="499 1312 1900 1409"> <p>• Policies and Procedures ✓ While we recognize that OBEMLA is a small office with only four individuals involved in the procurement process, the Department's Directive on <i>Commercial Credit Card Service</i> (C:FIM:6-102)</p>

	<p>dated March 12, 1990 (Directive) requires that Program Offices establish internal procedures on the safeguarding and authorized use of credit cards. OBEMLA has no written policies and procedures on the purchase card process.</p> <ul style="list-style-type: none"> • Recordkeeping – Purchase Cards <ul style="list-style-type: none"> ✓We were informed that cardholders do not use the EDCAPS log to reconcile monthly statements. Instead, we were informed that transactions are recorded in OBEMLA’s internal budget system, which is reconciled to EDCAPS. We were unable to trace transactions from the monthly card statements to determine if these procedures would result in proper accounting in EDCAPS. The Department’s Directive requires that “appropriate object class codes and accounting data” be entered on monthly purchase card statements. We noted that the accounting data was not consistently on the monthly purchase card statements. ✓In a judgmental sample of 48 charges to OBEMLA’s purchase cards, we noted 15 cases totaling \$2,755.24 for which supporting documents could not be found. In addition, for the two (2) credits we selected to review, there were no data input sheets available. There were five (5) General Service Administration (GSA) charges totaling \$1,803.61 which we were unable to reconcile to supporting documentation. • Recordkeeping – TPDS Checks <ul style="list-style-type: none"> ✓OBEMLA did not have a log to track unissued TPDS checks. Such a log would allow OBEMLA to identify any missing checks. We also noted that OBEMLA’s voided checks were not maintained in the payment files. ✓In an OCFO December 1997 memorandum, it was noted that four invoices were not date stamped. OIG noted during transaction testing that one invoice was not date stamped. ✓In a December 1997 memorandum, OCFO noted 25 instances where OBEMLA had not voided outstanding checks that were more than 90 days old. OIG identified one TPDS check that was outstanding for more than 90 days. This check should be voided in the system to de-obligate the funds.
Information & Communications	<ul style="list-style-type: none"> • Communication of Key Information <ul style="list-style-type: none"> ✓OBEMLA procurement staff were not familiar with the requirements of the Department’s Directive. ✓We were told that a possible cause of the noncompliant transaction for the purchase of posters described above was a lack of communication between procurement and program staff members.

Monitoring	<ul style="list-style-type: none">• On-going Monitoring<ul style="list-style-type: none">✓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 OBEMLA.
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