

## **MEMORANDUM**

TO : Willie Gilmore  
Director  
Office of Management

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

SUBJECT : Results of the OIG Review of OM's Internal Controls Over the  
Procurement of Goods and Services (A&I 2000-004)

## **INTRODUCTION**

This memorandum transmits the results of our review of OM'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 June 23, 2000, OIG staff discussed the results of this review with you, your Deputy Director, Linda Stracke, and your Administrative Staff Director, Keith Berger.

## **RESULTS**

Based on our review, we identified certain deficiencies that prevent OM 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 satisfy GAO's *Standards for Internal Control in the Federal Government*.

In addition, we want to advise you and OM 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, 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.

During our review, we noted that some OM employees assigned purchase cards are below the minimum grade level (GS-9) required to receive annual ethics training. Because of their procurement responsibilities, we believe that ethics training would benefit these employees. Management should require them to attend annual ethics training.

### **OTHER MATTERS**

During our review, we interviewed some OM and OCFO staff members about contracts involving the purchase of goods and services. We did not review contract files. Based on our limited work in this area, we identified the following issues that management should consider for further review.

**Control Environment** – A good internal control environment requires that areas of authority and responsibility be clearly defined and reporting lines be clearly established. Two of the OM staff that OCFO identified as Contracting Officers Technical Representatives (COTRs) were not COTRs. They were Project Task Managers that perform duties similar to a COTR but for which there is no specific training requirement.

**Risk Assessment** – OM is responsible for several contracts involving the purchase of goods and services. There is no formal risk assessment process for these contracts. OM should review these processes periodically to determine if risks have changed and whether it is managing existing risks appropriately.

**Control Activities/Monitoring** – Past concerns raised by the OIG in the areas of property passes and mail management have not been fully addressed by OM. These concerns are contained in an OIG Investigative Advisory Program Report on Inventory Management (November 1994), a Management Review of Personal Property Management (November 1998) and an OIG Discussion Paper entitled “Mail Management” (June 1997).

The Executive Officer discontinued the purchase cards for certain OM employees because those cardholders were not following proper procedures. Such actions are appropriate and necessary to maintain an effective control environment.

## **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 in Washington, D.C. (Headquarters). Although we interviewed staff regarding contracts for the purchase of goods and services, we did not review contract files. We limited testing of accounting records to procurements using the Third Party Draft System (TPDS) and Purchase Cards. We did not conduct testing on OM's use of the "Corporate" Government Travel Account.

## **METHODOLOGY**

To achieve our objectives, we conducted interviews with OM staff who were involved with the procurement process and reviewed relevant documents. As part of our work, we reviewed 49 TPDS checks issued between October 1998 through September 1999 (FY 1999) and October 1999 through March 2000 (FY 2000).

We also judgmentally selected a sample of 21 card statements and then selected 49 purchases to review for the periods ending October 16, 1998 and February 16, 2000, thus disregarding any transactions dated prior to October 1, 1998. The OCFO provided us with a list of 18 cardholders in Headquarters. We reviewed card statements belonging to 15 of the 18 cardholders in Headquarters. We did not include the card statements of the cardholder assigned flexiplace outside of Washington, D.C. because we were informed that the documentation was maintained at the flexiplace. We were informed that two cardholders did not have activity during the timeframe we were reviewing; therefore, we did not review any card statements or transactions of those two cardholders.

We based our conclusions about OM's internal controls on the information gathered during our interviews and transaction testing. We conducted our interviews and transaction testing between March 20, 2000 and May 2, 2000. We assessed OM'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

**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 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 Management**

**Attachment A**

<b>Control Component</b>	<b>Deficiencies</b>
Control Environment	<ul style="list-style-type: none"> <li>• Assignment of Authority – One purchase cardholder has an approved single purchase limit of \$80,000 but only has a warrant for \$25,000.</li> <li>• Assignment of Authority – One cardholder stated that she had never used her purchase card and was unable to locate the card.</li> <li>• Training – While the cardholders we interviewed had taken the required purchase card training, and some of these cardholders and the Executive Officer had also taken simplified acquisitions training, the staff had not received recent or refresher training.</li> <li>• Training – As noted below, a significant number of purchase card statements were not signed by approving officials. One of the three approving officials we interviewed could not remember taking purchase card training and another stated that additional training would be useful.</li> </ul>
Risk Assessment	<ul style="list-style-type: none"> <li>• Identification of Risks – OM has no formal procedures for risk assessment in the procurement area. The Executive Officer also informed us that he was not involved in the Federal Managers’ Financial Integrity Act (FMFIA) process.</li> <li>• Identification of Risks – Two procurement staff members have been assigned a moderate risk level when the employees’ 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.</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, OM has no written policies and procedures on the purchase card process.</li> <li>• Management review – The three approving officials we interviewed told us they reviewed the card statements and signed them. We selected and reviewed 21 card statements of various cardholders from OM files and noted that only 11 were signed by approving officials. We also reviewed the September</li> </ul>

	<p>1999 and March 2000 card statements for OM from files in OCFO.</p> <ul style="list-style-type: none"> <li>✓ Eleven statements had balances in September 1999. One of those statements was missing from the OCFO files. Of the ten statements available for review, five were not signed by an approving official.</li> <li>✓ Seventeen statements had balances in March 2000. All seventeen statements were in the OCFO files. Four of the 17 were not signed by an approving official and one was not signed by the cardholder.</li> </ul> <ul style="list-style-type: none"> <li>• Approval – We reviewed 49 TPDS checks. The supporting document for one \$909 check was a contract modification. That contract modification was not signed by the Executive Officer.</li> <li>• Documentation – We reviewed 49 TPDS checks. Documentation for one \$830 TPDS check was not available. We reviewed 49 charges to purchase cards. Documentation was not available for two charges (\$225 and \$17) to purchase cards. Both charges were on the same cardholder’s account.</li> <li>• Recordkeeping – OM did not have a log to track the TPDS checks assigned to the office. Such a log would allow OM to identify any missing checks.</li> </ul>
<p>Information &amp; Communications</p>	<ul style="list-style-type: none"> <li>• Communication of Key Information – The procurement staff that we interviewed were not familiar with the Department’s Directive on <i>Commercial Credit Card Service</i>.</li> <li>• Communication of Key Information – The Department’s Directive on <i>Commercial Credit Card Service</i> has not been republished since 1990.</li> </ul>
<p>Monitoring</p>	<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 OM.</li> <li>• On-going Monitoring – Two of the three approving officials we interviewed indicated that they did not review the supporting documents for the card statements.</li> </ul>