

Final Audit Report

Subject:

**INTERNAL CONTROLS OVER
THE OFFICE OF PERSONNEL MANAGEMENT'S
PURCHASE CARD PROGRAM**

Prepared By:

OFFICE OF AUDITS

Report No. 4A-CA-00-02-018

Date: June 20, 2002

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OFFICE OF
THE INSPECTOR GENERAL

UNITED STATES
OFFICE OF PERSONNEL MANAGEMENT
WASHINGTON, DC 20415-1100

AUDIT REPORT

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Date: June 20, 2002

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EXECUTIVE SUMMARY

INTERNAL CONTROLS OVER THE OFFICE OF PERSONNEL MANAGEMENT'S PURCHASE CARD PROGRAM

Report No. 4A-CA-00-02-018

Date: June 20, 2002

The Office of the Inspector General has completed a performance audit of internal controls over the Office of Personnel Management's (OPM) Purchase Card Program.

Our audit focused on understanding and analyzing the controls that prevent and detect potential misuse of the purchase card program. We also performed tests of controls and transaction details for a sample of fiscal year (FY) 2001 purchase card and convenience check transactions.

OPM has internal control strengths that safeguard against potential cardholder fraud, waste and abuse. These strengths include:

- 1) Purchase Card Program policies and procedures that are consistent with the *Federal Acquisition Regulation – Government-wide Commercial Purchase Card (Part 13.301)*, and easily available to cardholders in hardcopy format and on the OPM THEO Intranet;
- 2) OPM's Office of Contracting and Administrative Services, Contracting Division (OCAS) has developed purchase card program cardholder training materials and provides in-house initial and refresher cardholder training;
- 3) OPM has committed to implementing a new on-line purchase card module in July 2002. This module should improve the overall Purchase Card Program control environment, particularly in the area of documentation to support approving official activities.

We found no evidence that cardholders were abusing their government purchase card privileges for personal or inappropriate use. OPM has internal control weaknesses that need to be addressed. In summary, these areas are:

- 1) Improvement is needed for purchase cardholder account cancellations.
- 2) Management control is needed to prevent post-employment purchase card transactions.
- 3) Periodic review and reauthorization activities are needed for cardholders who did not use their purchase card in FY 2001.
- 4) Improvement is needed over purchase card transaction controls in the areas of:
 - ⇒ Transaction documentation retention,
 - ⇒ Cardholder training currency and documentation,
 - ⇒ Approving official training requirement,
 - ⇒ Approving official transaction oversight monitoring responsibilities,
 - ⇒ Merchant Category Code vendor specific blocking,
 - ⇒ The use of transaction logs,
 - ⇒ Split transactions, and
 - ⇒ Payment of sales tax.
- 5) Improvement is needed over convenience check transaction controls in the area of:
 - ⇒ Unidentified convenience check payee names,
 - ⇒ Legibility and consistency in the use of a vendor payee company or company employee name, and
 - ⇒ Reporting Form 1099MISC data to the Internal Revenue Service.
- 6) Improvement is needed over convenience check transaction controls to prevent checks payable to Government employees.

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I. INTRODUCTION AND BACKGROUND

Introduction

This final report details findings, conclusions and recommendations from our performance audit of internal controls over the Office of Personnel Management's (OPM) Purchase Card Program.

Our audit focused on understanding and analyzing the controls that prevent and detect potential misuse of the purchase card program. We also performed tests of controls and transaction details for a sample of fiscal year 2001 purchase card and convenience check transactions. Our audit was conducted at OPM located in Washington, D.C. The fieldwork was conducted from August 2001 through March 2002.

This performance audit was performed by OPM's Office of the Inspector General, as established by the Inspector General Act of 1978, as amended.

Background

The United States General Services Administration (GSA) administers the government-wide purchase card program, with agencies establishing their own program policies and procedures. Since 1998, GSA awarded contracts to five banks to provide Federal agencies a way to pay for commercial, travel and fleet expenses. These banks were Citibank, Bank One, Mellon Bank, Bank of America, and U.S. Bank. The GSA contracts began November 30, 1998 and will continue until November 29, 2003 with five one-year options to renew through fiscal year 2008. Bank of America is currently under contract to provide VISA purchase card services to OPM.

Responsibility for OPM's Purchase Card Program resides with the Office of Contracting and Administrative Services, Contracting Division (OCAS). An OCAS employee is OPM's Agency Program Coordinator (APC) and is responsible for administering and managing the Purchase Card Program at OPM. The APC serves as the primary liaison between OPM and the Bank of America.

The Purchase Card Program was established at OPM under the goals to 1) improve program office mission support, 2) streamline and standardize simplified acquisitions, 3) reduce administrative costs, and 4) delegate purchasing authority to program offices. OCAS established OPM-wide purchase card policies and procedures, making this information available in hardcopy format as well as on OPM's THEO web-based Intranet.

The Chief, OCAS Contracting Division issues delegations of authority that authorize individuals to use the purchase card to purchase supplies and services, within specific spending limits, for official government use. Convenience checks are used to pay vendors when a vendor does not accept the VISA purchase card. OPM is held liable for all

transactions and convenience check fees incurred under the Purchase Card Program, and all purchase card purchases must conform to applicable Federal Acquisition Regulations (FAR).

This is our first audit of OPM's Purchase Card Program. The initial results of our audit were reported in a draft report issued on March 29, 2002 to OCAS. Their response to the draft report was considered for this final report and is included as Appendix I to this report.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives:

Our audit objectives were to:

- Review and assess whether OPM has designed and implemented adequate internal controls for the administration and monitoring of its purchase card and convenience check usage;
- Assess whether prescribed controls are followed; and
- Determine if the controls safeguard against potential cardholder fraud, waste and abuse.

As a result of our audit we identified control weaknesses of OPM's Purchase Card Program, and present our findings and recommendations in Section III of this audit report.

Scope and Methodology:

Our performance audit focused on understanding and analyzing the controls that prevent and detect potential misuse of the Purchase Card Program. We also performed tests of controls and transaction details for a select sample of fiscal year (FY) 2001 purchase card and convenience check transactions.

As of October 31, 2001, there were 238 active OPM purchase cardholders. During FY 2001, OPM paid a total of \$16,895,444 on 42,136 purchase card transactions. This amount included \$3,795,361 on 2,862 convenience checks and \$72,078 in associated convenience check fees.

Summary of FY 2001 Purchase Card Transactions

	Transaction Amount	Percent Transaction Amount	No. Transactions	Percent No. Transactions	Average Transaction Amount
All Other Transactions	\$12,906,496	76.39%	19,222	45.62%	\$671
Federal Express	\$121,509	0.72%	17,192	40.80%	\$7
Convenience Checks	\$3,795,361	22.46%	2,862	6.79%	\$1,326
Convenience Check Fees	\$72,078	0.43%	2,860	6.79%	\$25
Total (net)	\$16,895,444	100.00%	42,136	100.00%	\$401

A combination of random and judgmental selection techniques was used for transaction sampling. Federal Express transactions were not included in our sampling population due to the low risk associated with the small percentage of total and average purchase card transaction dollars. Convenience check fee transactions were not included in our

sampling population because the fee transaction is associated with a convenience check transaction, and thus the fee would be reviewed as part of our examination of the convenience check transactions.

We randomly selected a sample size of 77 purchase card transactions, representing \$23,239, based on The Institute of Internal Auditors, *Sampling for Internal Auditors, 2nd Edition*, statistical sample sizes (large population) for test of controls. In addition, we judgmentally selected a sample size of 46 purchase card transactions, representing \$267,249, that were considered unusual. For convenience check transactions, we selected a judgmental sample size of 20 convenience checks and randomly selected these transactions. In addition, we judgmentally selected 15 convenience check transactions that were considered unusual. Our total convenience check transaction sample size of 35 represented \$66,943 in transactions.

To accomplish the objectives noted above, we performed the audit procedures listed below at OPM in Washington, D.C.:

- We interviewed representatives of the OCAS Contracting Division program office.
- We reviewed and assessed the OPM Purchase Card Program policies and procedures and applicable sections in the OCAS THEO Intranet web site with GSA guidance, the *Federal Acquisition Regulations* (FAR), other agency purchase card program policies and procedures, and other agency Inspectors General purchase card program reports.
- We reviewed, attended and assessed the OCAS purchase card program training course and manual.
- We obtained access to the Bank of America Electronic Account Government Ledger System (BOA/EAGLS) web-based system showing purchase card program transactions and payments made by cardholders. Our test work included, but was not limited to, generating BOA/EAGLS reports to:
 - Test for active BOA/EAGLS cardholders, as of October 31, 2001, that have separated from OPM during FY 2000 and FY 2001;
 - Test for FY 2001 Purchase Card Program transactions occurring after a cardholder had separated employment with OPM;
 - Test for duplication of active cardholders;
 - Test for active cardholder FY 2001 transaction activity;
 - Test for convenience check transactions paid to OPM employees during FY 2001; and,
 - Test for adequacy of Purchase Card Program internal controls through our review of a sample of purchase card and convenience check transactions made during FY 2001. Our audit included tests for whether:
 - > Initial and refresher cardholder training was current,
 - > Hardcopy transaction support documentation was available and accurate,
 - > Transactions were used for travel tickets, hotel lodging, or rental car while an employee was in travel status,
 - > Transactions were used for personal items, cash advances, gasoline, rental or lease of land or buildings,
 - > Transactions related to an appropriate work-related purchase,
 - > Transactions were supported by an entry on a log,

- > Transactions, when appropriate, were supported by evidence that mandatory sources of supply (according to FAR Part 8) were considered,
- > Transactions, when appropriate, were supported by evidence that appropriate justification or waiver from the mandatory source was present,
- > Transaction dollar amounts exceeded the cardholder's single or monthly purchase limit,
- > Transactions excluded a purchase card fee or sales tax,
- > Transactions were recorded as a split purchase,
- > Transactions were duplicated, and if so determined whether the duplicate transactions were correctly adjusted,
- > Evidence was available to support that the approving official reviewed the individual cardholder transaction,
- > Evidence was available to support that the approving official routinely checked to be sure that the cardholder was regularly allocating the transaction default Master Accounting Codes in BOA/EAGLS,
- > Transactions were allocated in BOA/EAGLS,
- > Evidence was available to support convenience check transactions that the vendor did not accept the BOA VISA purchase card, and
- > Evidence was available to support convenience check transactions that were subject to Internal Revenue Service Form 1099MISC reporting (Calendar Year 2001) were accurately and timely reported.

There have been no previous audits of OPM's controls over the Purchase Card Program. In planning and performing our audit we did not rely on OPM's internal control structure to determine the nature and extent of our audit procedures. We did not evaluate the effectiveness of the general and application controls over computer processed data. This audit was performed in accordance with Generally Accepted Government Auditing Standards, issued by the Comptroller General of the United States. The audit was performed at our office in Washington, D.C. from August 2001 through March 2002.

III. AUDIT FINDINGS AND RECOMMENDATIONS

1) IMPROVEMENT NEEDED FOR PURCHASE CARDHOLDER CANCELLATIONS

There were three terminated field office employees identified as active purchase cardholders with Bank of America (BOA). Terminated employee purchase cardholder accounts that remain active after the official employee termination date provides an increased risk for abuse or misuse of the agency purchase card, and subsequently agency resources. The purchase card policies and procedures provide general purchase card account cancellation procedures when a purchase cardholder terminates from OPM. However, the policies and procedures do not provide guidance for periodic verification and validation of terminated employees to active BOA cardholder accounts.

The General Accounting Office's (GAO) *Standards for Internal Control in the Federal Government (GAO/AIMD-00-21.3.1)*, issued November 1999, states:

- "Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records."
- "Periodic comparison of resources with the recorded accountability should be made to help reduce the risk of errors, fraud, misuse, or unauthorized alteration."
- "Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination."

OCAS has already implemented our recommendation to obtain listings of separated employees for use in verifying and validating cardholders who terminate employment with OPM. Additionally, OCAS has cancelled terminated employee cardholder accounts that we identified as having remained active after the official employee termination date.

Recommendation 1:

We recommend that the OCAS perform verification and validation activities of separated employees and cardholders, such as de-activating BOA purchase card accounts assigned to terminated employees.

Recommendation 2:

We recommend that the OCAS revise the OPM's purchase card policies and procedures to include more specific cancellation steps for field office employees leaving OPM.

OPM's Response to Recommendations 1 and 2

Agree.

2) MANAGEMENT CONTROL NEEDED TO PREVENT POST-EMPLOYMENT PURCHASE CARD TRANSACTIONS

Eight cardholder accounts had transactions that occurred after the cardholder account was identified by the Agency Program Coordinator (APC) as an inactive account or where the cardholder had terminated employment with OPM. There were 61 transactions that totaled \$1,860. Terminated employee purchase cardholder accounts that remain active after the official employee termination date provide an increased risk for abuse or misuse of the agency purchase card, and subsequently agency resources.

The purchase card policies and procedures do not address the cancellation of pre-approved or telemarketing transactions when a purchase card is cancelled. Vendors, who are authorized to process recurring transactions, should be notified by the program office of the active cardholder account that assumes responsibility for these types of transactions.

GAO's *Standards for Internal Control in the Federal Government (GAO/AIMD-00-21.3.1)*, issued November 1999, states:

- "An agency must establish physical control to secure and safeguard vulnerable assets...Such assets should be periodically counted and compared to control records."
- In addition, see GAO reference in finding 1.

Recommendation 3:

We recommend that program offices transfer specific transactions, such as pre-approved Internet charges, from a terminated employee to an active cardholder account by informing the vendor of the new account number against which charges can be made. OCAS should revise OPM's purchase card policies and procedures to include guidance on transferring specific transactions from a terminated employee to an active cardholder account.

OPM's Response to Recommendation 3

Agree.

3) PERIODIC REVIEW AND REAUTHORIZATION ACTIVITIES NEEDED FOR CARDHOLDERS WHO DID NOT USE THEIR PURCHASE CARD IN FY 2001

There were 21 (8.8 percent) of 238 active cardholders that did not use their purchase card during FY 2001. Cardholders, who have card privileges but do not use the purchase card, may not have a need for card privileges, thus providing an opportunity for misuse and unauthorized purchase card transactions. Of the 21 cardholders identified as having no FY 2001 purchase card transactions, 8 purchase cardholder accounts were inactivated between August 31, 2001 and October 31, 2001, and 1 purchase cardholder account was

only activated in July 2001. Eight other accounts were cancelled or deactivated based on our recommendation and four accounts remain open as a backup account.

The purchase card policies and procedures do not provide guidance for periodic verification and validation of active purchase cardholders and their respective need to maintain an active purchase card account. We understand that some backup cardholders may not have any activity; however, for other cardholders with no activity the necessity of an active purchase card account should be assessed.

GAO's *Standards for Internal Control in the Federal Government (GAO/AIMD-00-21.3.1)*, issued November 1999, states:

- "Access to resources and records should be limited to authorized individuals, and accountability for their custody and use should be assigned and maintained. Periodic comparison of resources with the recorded accountability should be made to help reduce the risk of errors, fraud, misuse, or unauthorized alteration."

Recommendation 4:

We recommend that the program offices determine, at least annually, whether active cardholders that have not used their purchase card need to continue their purchase card privileges. OCAS should revise OPM's purchase card policies and procedures to include steps for program offices to periodically (e.g., quarterly or annually) determine the necessity of purchase cardholder privileges.

OPM's Response to Recommendation 4

Agree.

4) IMPROVEMENT NEEDED OVER PURCHASE CARD CONTROLS

Controls over OPM's purchase card transactions, such as documentation and evidence of approval, need improvement to reduce the risk of error and misuse (See finding 5 for convenience check controls). While controls over OPM's purchase card transactions need improvement, we found no evidence that cardholders were abusing their government purchase card privileges for personal or inappropriate use.

A) A random sample of 77 purchase card transactions, representing \$23,239, was selected for internal control review. Of these, two (2.60 percent) transactions, representing \$188, had no documentation provided for review. The following are control weaknesses from the remaining random sample of 75 purchase card transactions:

Table 1		<u>Instances</u>	<u>Transactions Reviewed</u>
<u>Internal Control Weaknesses</u>			
<i>Appropriate documentation of transactions and internal controls were not available for review:</i>			
1	No evidence that cardholders had proper training.	15	20.00%
2	Transaction amount, transaction date and vendor name did not agree with information listed in BOA/EAGLS.	8	10.67%
3	Transactions were not supported by an entry on a purchase card log (or no purchase card log was provided).	17	22.67%
4	No evidence that mandatory sources of supply were considered.	23	30.67%
5	No evidence that appropriate justification or waiver from the mandatory source was present.	10	13.33%
6	No evidence that the Approving Official reviewed the individual cardholder purchase card transaction.	48	64.00%
7	No evidence to support that the Approving Official routinely checked that the cardholder regularly allocated transactions from the default Master Accounting Codes in BOA/EAGLS.	69	92.00%
<i>Transactions and events were not recorded timely:</i>			
8	Transactions were not allocated in BOA/EAGLS.	2	2.67%
<i>Accountability for resources were weak:</i>			
9	Transactions included sales tax. (Representing \$20 in sales tax for purchase card transactions totaling \$690.)	4	5.33%

B) A judgmental sample of 46 unusual purchase card transactions, representing \$267,249, was selected for internal control review. Of these, two (4.35 percent) transactions, representing \$723, had no documentation provided for review. The following are control weaknesses from the remaining judgmental sample of 44 purchase card transactions:

Table 2		<u>Instances</u>	<u>Transactions Reviewed</u>
<i>Appropriate documentation of transactions and internal controls were not available for review:</i>			
1	No evidence that cardholders had proper training.	11	25.00%
2	Transaction amount, transaction date and vendor name did not agree with information listed in BOA/EAGLS.	7	15.91%
3	Transactions were not supported by an entry on a purchase card log (or no purchase card log was provided).	18	40.91%
4	No evidence that mandatory sources of supply were considered.	14	31.82%
5	No evidence that appropriate justification or waiver from the mandatory source was present.	9	20.45%
6	No evidence that the Approving Official reviewed the individual cardholder purchase card transaction.	31	70.45%
7	No evidence to support that the Approving Official routinely checked that the cardholder regularly allocated transactions from the default Master Accounting Codes in BOA/EAGLS.	42	95.45%
<i>Proper execution of transactions and events did not take place:</i>			
8	Transactions were recorded as split purchases. (Representing \$32,874 in purchase card transactions reviewed, applicable to transactions totaling \$82,765.)	4	9.09%
<i>Transactions and events were not recorded timely:</i>			
9	Transactions were not allocated in BOA/EAGLS.	3	6.82%
<i>Accountability for resources were weak:</i>			
10	Transactions were used for travel related expenses. (Representing \$430.)	2	4.55%
11	Transactions included sales tax. (Representing \$6 in sales tax for purchase card transactions totaling \$130.)	2	4.55%

The roles and responsibilities of the approving official provides oversight and monitoring of agency resources, as well as a segregation of transaction and review duties. The segregation of duties was jeopardized in one program’s field office; however, agency officials are taking action to correct this deficiency.

Some program offices were able to describe procedures where the approving official routinely reviews and verifies purchase card transactions and allocations. However, for instances cited in the tables above we did not see any evidence (e.g., approving official’s signature or initials and date) of a review by the approving official.

OPM purchase card policies and procedures states:

- “All records and documentation pertaining to a completed purchase transaction must be maintained for a period of 3 years after final payment.”
- [The cardholder] “must maintain training currency every two years.”
- “...the purchase cardholder’s transaction records are used to document their compliance with internal and regulatory requirements associated with using the purchase card.”
- “A crucial step in a successful purchase card program is maintaining effective files and records. You must document your decisions to make purchases, to purchase from specific vendors, and to allocate them in EAGLS.”
- “All applicable procurement regulations apply to your purchase card transactions. Whether purchases are made by telephone or over-the-counter, you must: ...Record purchase information in a purchase card transaction log to keep track of the orders...”
- “...purchase card cannot be used to purchase certain classes of items such as travel tickets, hotel lodging rooms and car rentals when ...on travel status.”
- [Transactions are] “exempt from sales taxes.”
- “Split Purchase – A single purchase that a cardholder intentionally divides into two or more separate purchases to avoid exceeding the single purchase limit or to avoid obtaining competition.”
- “The Approving Official (A/O) verifies your purchase card transactions by reviewing [transaction documentation]...”
- “The A/O also checks to be sure that you are regularly allocating default Master Accounting Codes to reflect proper coding in EAGLS.”
- A transaction must be allocated within two weeks after it appears in EAGLS.”

GAO’s Standards for Internal Control in the Federal Government (GAO/AIMD-00-21.3.1), issued November 1999, states:

- “Transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority. This is the principal means of assuring that only valid transactions to exchange, transfer, use, or commit resources and other events are initiated or entered into.”
- Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud.”
- In addition, see GAO reference in finding 1.

The above control weaknesses may be caused by one or more of the following:

Inadequate cardholder and approving official training. Cardholders may not be adequately trained and may not receive timely refresher training to ensure compliance with established policies and procedures. Approving officials are not required to attend purchase card training. Approving officials may not be monitoring purchase card use and may not be enforcing policies and procedures. Oversight provided by approving officials could be improved through a requirement that they attend purchase card training similar to that for cardholders.

An inconsistent statement in the policies and procedures. OPM’s purchase card program policies and procedures could be clarified. For example, in one instance of the purchase card policies and procedures, page 6 states that cardholders “must” record purchase information in a purchase card transaction log; however, transaction logs or a similar format of a log did not support all sampled transactions. Page 15 of the purchase card policies and procedures states that “This log is highly recommended...”, consequently, cardholders are receiving conflicting guidance as to the requirement to use transaction logs. Additionally, documentation to support some transactions (e.g. services) indicated that cardholders did not consider mandatory sources of supply and/or obtain appropriate justification or waiver from the mandatory source.

Lack of review and monitoring of transactions. The transaction audit trail does not provide sufficient information relating to who and when a transaction and the allocation was reviewed and verified. Since these controls are not done electronically, we rarely found evidence of the verification of a transaction and transaction allocation. We understand that OPM is implementing a new component of the financial system that will allow approving officials to electronically review and verify approved purchase card transactions.

Recommendation 5:

We recommend that the program offices maintain documentation supporting transactions for at least three years in accordance with the purchase card policies and procedures and update cardholder training every two years.

Recommendation 6:

We recommend that the OCAS review and confirm that required cardholder training currency, every two years in accordance with the purchase card policies and procedures, has been completed and documented for all current cardholders. For OCAS sponsored purchase card training, OCAS should maintain attendance sheets. OCAS should deactivate all purchase card accounts for those cardholders that do not meet the current training requirements in the next six months.

Recommendation 7:

We recommend that the OCAS develop and implement training requirements for the purchase card program approving officials.

Recommendation 8:

We recommend that the OCAS and approving officials improve their oversight monitoring responsibilities to ensure that purchase card transactions are appropriate, transaction documentation agrees with BOA/EAGLS, and that agency resources are

used for immediately available goods and services. An example of a control may include requiring approving officials to review transactions on a monthly basis.

Recommendation 9:

We recommend that the OCAS review the Merchant Category Code (MCC) listing and block unnecessary vendor specific codes. For example, National Car Rental (MCC=3393) related to travel activity should be blocked.

OPM's Response to Recommendations 5 through 9

Agree. (OCAS had indicated that they have requested BOA to block rental car MCC's.)

Recommendation 10:

We recommend that the new financial system include sufficient audit trails to identify the approving official and date of review and verification of a transaction, including the Master Accounting Code allocation made by the cardholders. Until the new component of the financial system is in place allowing electronic review of transactions, the approving officials should show evidence of their transaction verification review by initialing and dating the BOA statement, purchase card log or individual invoices. The approving officials should show evidence of their review of allocated transactions by initialing and dating screen prints of the BOA/EAGLS allocation screens or other reports that identify the allocation code from the BOA/EAGLS or OPM's financial system.

OPM's Response to Recommendation 10

Agree but recommend this process be implemented with the new AMS Procurement Desktop Purchase Card module scheduled for this July.

OPM-OIG's Reply to Response to Recommendation 10

We acknowledge OPM's concurrence with the recommendation. Until a component is in place that allows electronic review of transactions, we maintain our recommendation that the approving official use an alternate or manual process to review their respective program office transactions, in accordance with OPM policies and procedures.

Recommendation 11:

We recommend that the OCAS clarify the requirement to use transaction logs, and require cardholders to maintain a transaction log similar to the logs in the Purchase Card Policies and Procedures, Appendices 2 and 3. The logs used by the cardholders

should include consideration of the mandatory sources of supply (according to FAR, Part 8) and justification or waiver from the mandatory source.

Recommendation 12:

We recommend that the OCAS and approving officials address split transactions by developing and implementing controls that effectively monitor, identify, and resolve questionable transactions or unusual transaction patterns before payment allocation. An example of a control may include monthly or more frequent monitoring by the approving official of BOA/EAGLS, BOA statement or purchase card logs for multiple transactions that occur on the same day, with the same vendor and on the same cardholder account.

OPM's Response to Recommendations 11 and 12

Agree.

Recommendation 13:

We recommend that the OCAS develop and implement controls that deter cardholders from allowing fees and sales tax from being paid and detect transactions that include sales taxes. An example of a detection control may include updating the transaction log's column to remind cardholders that transactions are tax exempt.

OPM's Response to Recommendation 13

There are no controls possible that can "prevent" fees and sales tax from being paid. We can reduce the chances but not prevent.

OPM-OIG's Reply to Response to Recommendation 13

We agree with OPM's response that they can reduce the chances of fees and sales tax from being paid by implementing manual controls. OPM could also work with GSA and/or BOA to explore alternative options where BOA's system prevents sales tax.

Recommendation 14:

We recommend that the OCAS incorporate any relevant changes in policies and procedures made as a result of recommendations in this report and provide adequate update training to cardholders and approving officials. OCAS should also include deterrent controls (e.g., guidance for program offices on corrective action plans, disciplinary action or deactivation) encouraging cardholders to follow proper procedures.

OPM’s Response to Recommendation 14

Agree.

5) IMPROVEMENT NEEDED OVER CONVENIENCE CHECK CONTROLS

Controls over OPM’s purchase card program convenience check transactions need improvement to reduce the risk of error and misuse. While controls over OPM’s convenience check transactions need improvement, we found no evidence that cardholders were abusing their government purchase card privileges for personal or inappropriate use.

A) A judgmental sample of 35 convenience check transactions, representing \$66,943, was selected for internal control review. Of these, one (2.86 percent) transaction, representing \$1,525, had no documentation provided for review. The following are control weaknesses from the remaining sample of 34 convenience check transactions:

Table 3		<u>Instances</u>	<u>Transactions Reviewed</u>
<u>Internal Control Weaknesses</u>			
<i>Appropriate documentation of transactions and internal controls were not available for review:</i>			
1	Transaction amount, transaction date and vendor name did not agree with information listed in BOA/EAGLS.	8	23.53%
2	Transactions were not supported by an entry on a convenience check log (or no log was provided).	4	11.76%
3	No evidence that mandatory sources of supply were considered.	4	11.76%
4	No evidence that the Approving Official reviewed the individual cardholder convenience check transaction.	5	14.71%
5	No evidence to support that the Approving Official routinely checked that the cardholder regularly allocated convenience check transactions from the default Master Accounting Codes in BOA/EAGLS.	34	100.00%
<i>Proper execution of transactions and events did not take place:</i>			
6	No evidence that the vendor did not accept the VISA purchase card. (Representing \$82 paid in convenience check fees for transactions totaling \$4,334.)	6	17.65%
7	No evidence to support calendar year 2001 Internal Revenue Service Form 1099MISC reporting. (Representing \$6,475.)	4	11.76%
8	Vendor payment inconsistency (Representing \$6,927.)	3	8.82%
<i>Transactions and events were not recorded timely:</i>			
9	Convenience check transactions were not allocated in BOA/EAGLS.	1	2.94%
<i>Accountability for resources were weak:</i>			
10	Convenience check transactions included sales tax. (Representing \$22 in sales tax for convenience check transactions totaling \$316.)	2	5.88%

Specific to convenience check transactions, the *OPM purchase card policies and procedures* states:

- “The [convenience] checks are to be used only in unusual circumstances...”
- “... payments by convenience checks are subject to Internal Revenue Service reporting on form 1099MISC.”
- “Convenience checks should be used as payment only in cases when the vendor does not have the ability to accept purchase cards or will not accept a purchase order.”
- In addition, see OPM purchase card policies and procedures reference in finding 4.

See GAO’s *Standards for Internal Control in the Federal Government* referenced in findings 1, 2, 3 and 4.

Recommendation 15:

We recommend that the OCAS improve the convenience check audit trail by communicating with BOA to resolve and minimize the processing of unidentifiable convenience check payee names that has resulted in checks being identified on BOA statements as simply “Convenience Check”.

Recommendation 16:

We recommend that the OCAS use its purchase card training sessions to facilitate legibility and consistency in the use of a vendor payee company or company employee name when convenience checks are used as payment for products and services, as stated in the OPM purchase card policies and procedures.

OPM’s Response to Recommendations 15 and 16

Agree.

Recommendation 17:

We recommend that until the new financial system is in place that OCAS improve controls that prevent and detect insufficient reporting of Internal Revenue Service (IRS) Form 1099MISC data. An example of a control may include a review by the approving official of the quarterly IRS Form 1099MISC data sent from the program offices to OCAS.

OPM’s Response to Recommendation 17

Because we are so close to implementing the new system, we recommend that no interim process be implemented.

OPM-OIG's Reply to Response to Recommendation 17

We do not agree that no interim process be implemented. For example, there is a possibility that the new component of the financial system is not implemented as planned. We maintain that controls be in place for sufficient reporting of IRS Form 1099MISC data. Additionally, OCAS should continue to prepare and verify IRS Form 1099MISC report data for FY 2002 up until the new component is on-line.

Recommendation 18:

We recommend that the OCAS review the 2001 calendar year IRS Form 1099MISC data file for accuracy, and adjust reporting errors as necessary.

OPM's Response to Recommendation 18

Agree.

See also above Recommendation's 6, 9, 11, 12, 13, 14, and 15 as they relate to convenience checks.

6) IMPROVEMENT NEEDED OVER CONVENIENCE CHECK CONTROLS TO PREVENT CHECKS PAYABLE TO EMPLOYEES

Controls over OPM's purchase card program convenience check transactions do not prevent OPM employees from being paid via a convenience check. In FY 2001, OPM paid ten employees a total of 10 convenience checks in the amount of \$2,657. For these payments, the agency incurred 1.9 percent, or \$50, in convenience check fees, resulting in convenience checks and fees totaling \$2,707.

In 10 instances identified, cardholders are not following OPM's purchase card program policies and procedures. Cardholders may not be adequately trained and may not receive timely and adequate refresher training to ensure compliance with established policies and procedures. Approving officials may not be monitoring purchase card use and not enforcing policies and procedures.

Specific to convenience check transactions, the *OPM purchase card policies and procedures* states:

- "Under no circumstances is the convenience check to be used to reimburse Government employees."
- In addition, see OPM purchase card policies and procedures reference in finding 5.

Recommendation 19:

We recommend that the OCAS develop and implement effective controls that prevent and detect issuance of convenience checks to Government employees.

OPM's Response to Recommendation 19

Perhaps the thrust here is to reduce the likelihood, not prevent this from occurring.

OPM-OIG's Reply to Response to Recommendation 19

We partially agree with OPM's response that they reduce the chances of employees being issued convenience checks and reiterate the policy and procedures, "Under no circumstances is the convenience check to be used to reimburse Government employees for whatever reason."

Recommendation 20:

We recommend that the OCAS review the 10 transactions identified as having been paid to an OPM employee, determine appropriateness (e.g., government related expense) and assist program offices to take any disciplinary action for those that are non-government related.

OPM's Response to Recommendation 20

OCAS can revoke the use of the purchase card but cannot take disciplinary action. That would need to be taken by the cardholder's office.

OPM-OIG's Reply to Response to Recommendation 20

We concur with OPM's reply to the recommendation. The recommendation has been changed to reflect assistance with program offices on cardholder disciplinary action as needed. Under unusual circumstances, OCAS may need to work with the Office of Human Resources and EEO or the OIG.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

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Michael Farley, Evaluator

Stacy Howard, Auditor

From: Esser, Michael
Sent: Friday, May 10, 2002 1:37 PM
To: Farley, Michael
Subject: FW: Comments on Purchase Card Audit Draft Report Recommendations
fyi

-----Original Message-----

From: Chatterton, Fred
Sent: Friday, May 10, 2002 1:05 PM
To: Esser, Michael; McMahonill, Ken; Seubert, Carol R.
Subject: FW: Comments on Purchase Card Audit Draft Report Recommendations

-----Original Message-----

From: Chatterton, Fred
Sent: Wednesday, May 01, 2002 3:14 PM
To: Seubert, Carol R.
Cc: McMahonill, Ken
Subject: Comments on Purchase Card Audit Draft Report Recommendations

Recommendation #1: Agree
Recommendation#2: Agree
Recommendation#3: Agree
Recommendation#4: Agree
Recommendation#5: Agree
Recommendation#6: Agree
Recommendation#7: Agree
Recommendation#8: Agree
Recommendation#9: Agree
Recommendation#10: Agree but recommend this process be implemented with the new AMS Procurement Desktop Purchase Card module scheduled for this July.
Recommendation#11: Agree
Recommendation#12: Agree
Recommendation#13: There are no controls possible that can "prevent" fees and sales tax from being paid. We can reduce the chances but not prevent.
Recommendation#14: Agree
Recommendation#15 and16: Agree
Recommendation#17: Because we are so close to implementing the new system, we recommend that no interim process be implmented.
Recommendation#18: Agree
Recommendation#19: Perhaps the thrust here is to reduce the liklihood, not prevent, this from occurring.
Recommendation#20: OCAS can revoke the use of the purchase card but cannot take disiplinary action. That would need to be taken by the cardholder's office.