

U.S. DEPARTMENT OF COMMERCE
Office of Inspector General



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***NATIONAL OCEANIC AND
ATMOSPHERIC ADMINISTRATION***

*Internal Controls Over MASC's
Bankcard Program Need Improvement*

Audit Report No. DEN-11927-9-0001 / September 1999

Office of Audits, Denver Regional Office



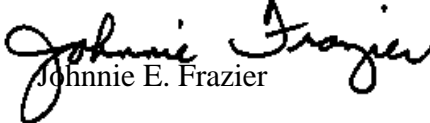


UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

September 30, 1999

MEMORANDUM FOR: Dennis R. Connors, Director
Mountain Administrative Support Center
National Oceanic and Atmospheric Administration

FROM:


Johnnie E. Frazier

SUBJECT: *Internal Controls Over MASC's
Bankcard Program Need Improvement*
Final Audit Report No. DEN-11927-9-0001

As a follow up to our August 5, 1999 briefing with Mountain Administrative Support Center (MASC) officials, this is our final report on our audit of bankcard program implementation and usage at MASC in Boulder, Colorado. The audit concludes that MASC has weaknesses in internal controls and instances of noncompliance with the *Federal Acquisition Regulation*, Part 13, "Simplified Acquisition Procedures;" *Commerce Acquisition Manual*, Part 13, Chapter 1, as amended July 1, 1996, "Commerce Purchase Procedures;" and *MASC Personal Property Handbook*. Our findings and recommendations appear on pages 3 through 7. MASC agreed with all but one finding and recommendation. Based on additional information provided by MASC, we deleted the portion of the finding and recommendation related to the use of Blanket Purchase Agreements. MASC's complete response is included as Attachment 3 to this report.

Please provide your audit action plan addressing the recommendations within 60 calendar days, in accordance with Department Administrative Order 213-5. The plan should be in the format specified in Exhibit 7 of the DAO. Should you have any questions regarding preparation of the audit action plan, please contact William R. Suhre, Regional Inspector General for Audits, at (303) 312-7650. We appreciate the cooperation extended by your staff during our audit.

INTRODUCTION

In 1986, several federal agencies, including the Department of Commerce, conducted a pilot project to evaluate the usage of bankcards. The pilot project was successful in identifying opportunities for reducing administrative procurement costs. In 1989, the bankcard was made available government-wide through a contract administered by the General Services Administration. The objectives of the bankcard program are to (1) reduce procurement administrative costs and improve management by expediting and simplifying small purchases, and (2) improve internal controls to eliminate the fraud and abuse present in other small purchase methods.

Bankcard use was facilitated by the Federal Acquisition Streamlining Act of 1994, and Executive Order 12931, which eliminated some requirements for purchases of \$2,500 or less, known as “micro-purchases,” and encouraged agencies to move the authority for making simple purchases from procurement offices to program offices. Subsequently, a report by the U.S. General Accounting Office¹ found that the use of bankcards has skyrocketed, and “using the purchase card has helped government agencies achieve administrative savings and efficiencies, absorb some of the impact of staffing cuts, and improve their abilities to fulfill their missions.”

While use of the bankcard has been encouraged by the Federal Acquisition Streamlining Act, officials must ensure that bankcard usage complies with *Federal Acquisition Regulation* and *Commerce Acquisition Manual* requirements. The Department’s Office of Acquisition Management is responsible for overseeing the management of the bankcard program within Commerce, and in turn, has delegated that authority to the Heads of Contracting Offices (HCOs). The MASC HCO further delegated purchasing authority to local approving officials and individual cardholders. HCOs, approving officials, and cardholders all have responsibilities to ensure that the bankcard program is properly administered.

PURPOSE AND SCOPE OF AUDIT

We conducted the audit to determine whether MASC was utilizing its bankcards in accordance with *FAR*, Part 13; *CAM*, Part 13, Chapter 1; and *MASC Personal Property Handbook*. Our audit covered the 12-month period ended September 30, 1998. We reviewed 67 transactions based on a stratified sample of all 1,240 transactions (including credit transactions) for fiscal year 1998.

We reviewed applicable regulations, policies and procedures, examined documentation, management reports and records, and interviewed cardholders and officials as deemed necessary. We completed our audit fieldwork in July 1999, and conducted our exit briefing in August 1999.

We reviewed administrative and accounting internal controls at MASC relating to the use of the bankcard, including controls over the physical security and authorized use of the bankcards, and the approval, ordering, and receipt of purchased items. We used judgmental sampling techniques for selecting transactions for review (see Attachment 1). We found that MASC needs to improve internal control practices as discussed in the findings section of this report. As part of our audit, we interviewed 15 of the 41 cardholders and examined their bankcard statements and records for selected transactions (see Attachment 2).

In conducting our audit, we relied on computer-processed data and tested the accuracy of the data by tracing the data to original source documents and by comparing it to data in other documents. Based on our tests, we concluded that the data was sufficiently reliable for use in meeting our audit objectives.

¹GAO report number GAO/NSIAD-96-138, *Acquisition Reform*, August 1996.

We also evaluated MASC's compliance with laws, regulations, and Department of Commerce directives applicable to the use of government bankcards, and found MASC was not in compliance. The instances of noncompliance are detailed in the findings section of this report. We noted no evidence of misuse of funds.

Our audit was conducted in accordance with generally accepted government auditing standards, and was performed under the authority of the Inspector General Act of 1978, as amended, and Department Organization Order 10-13, dated May 22, 1980, as amended.

RESULTS OF AUDIT

Our audit found that MASC's HCO needs to improve internal control procedures over the bankcard program, including training of cardholders and documenting alternate approving officials. In 13 of the 67 tested bankcard transactions (see Attachment 1), we noted instances of noncompliance with *FAR*, Part 13; *CAM*, Part 13, Chapter 1; and *MASC Personal Property Handbook*.

Required Training Not Provided

All cardholders are required to complete training to sufficiently address purchasing concepts. This training is essential to educate cardholders as to the proper use of the bankcard. *CAM*, Part 13, Chapter 1, Section 7(b)(4), requires the HCO to ensure that all cardholders and approving officials review the bankcard policies and procedures and view the training video once every 24 months. Four of the 15 cardholders interviewed were not familiar with the bankcard policies and procedures addressed in *CAM*; 10 had not viewed the training video in the previous 24 months.

CAM, Part 13, Chapter 1, Section 6(c)(9), requires that the HCO ensure that all cardholders possess requisite business acumen to make sound decisions by administering a qualifying examination, ensuring that cardholders have completed required training, and reviewing cardholders' historical performance record before issuing bankcards. The HCO did not perform a qualifying examination or background check for cardholders and, as mentioned above, needs to improve bankcard training for both cardholders and approving officials.

Alternative Approving Officials Not Documented

In our review of the bankcard statement approval process, six of twelve statements using alternate approving officials did not have documentation attached designating the alternate approving official. *CAM*, Part 13, Chapter 1, Section 8(b)(11), requires approving officials to appoint an alternate approving official to act in their absence, and to notify the finance office by attaching a memo to the statement of account. Without this documentation, it is not possible for the finance office to verify that all purchases have been approved.

In addition, two of the signing officials were not qualified to approve bankcard purchases, because they did not have the necessary training to perform the approval function or experience as cardholders or approving officials.

Property Transaction Forms Not Completed

Two cardholders did not complete the required Property Transaction Form (CD 509) for two purchases of accountable property. The two purchases were for an air monitor at \$3,395 and a portable computer at \$4,293. The cardholders did not code the purchases as accountable property on the bankcard statement and did not send the required Property Transaction Request or a property receipt to the property office. As a result, these purchases were not included on the inventory system as accountable property. *CAM*, Part 13, Chapter 1, Section 16, states “When purchasing any personal property at \$2,500 or more, or “sensitive” items ... the cardholder must forward a Form CD 509, “Property Transaction Request,” or the property receipt to their servicing property office.” This form is necessary to ensure that accountable property is included in the inventory system.

Competition Not Promoted for Purchases Over \$2,500

One cardholder made one purchase over \$2,500 without obtaining competitive quotations or preparing a sole source justification. *CAM*, Part 13, Chapter 1, Section 8 (c)(11), states, “The determination that a proposed price is reasonable should be based on competitive quotations.” If only one source is solicited, an additional notation shall be made to explain the absence of competition. Additionally, *FAR*, Part 13.104(b), requires solicitation of at least three sources to promote competition to the maximum extent practicable.

Purchase of Prohibited Item

A cardholder purchased printing supplies and services from a commercial print shop for \$2,243.70. *CAM*, Part 13, Chapter 1, Section 11(c), states, “The only time a cardholder may obtain printing with the purchase card is (1) when the cardholder orders printing directly from the Government Printing Office (GPO), or (2) obtains a waiver from the GPO to buy commercially.” The cardholder did not obtain the required waiver.

Special Authorization Not Received

We found one transaction that required special authorization from the HCO. The cardholder used the bankcard to pay for repairs to a rental vehicle. *CAM*, Part 13, Chapter 1, Section 11, requires cardholders to contact the HCO to obtain a special approval (waiver) or authorization prior to purchasing specific supplies or services, and maintain this approval in the bankcard files. The supplies and services listed in the *CAM* that require special authorization include rental or lease of vehicles for other than travel use, and repair of leased vehicles. Special approval was not obtained from the HCO for the vehicle repairs.

Significant Purchases Not Pre-approved

MASC did not establish a control for documenting pre-approval of bankcard purchases. Our interviews of cardholders indicated various pre-approval practices. Four of the 15 cardholders interviewed stated that they did not obtain pre-approval for purchases; four cardholders stated that they obtained pre-approval for purchases but did not document approvals; and seven cardholders stated that they obtained and documented prior approval.

In order to improve management control over significant bankcard transactions (over \$2,500 and those which result in the purchase of accountable property), MASC needs to establish standard practices for obtaining pre-approval for significant bankcard purchases. The required approval need not be administratively burdensome. An electronic e-mail message or other informal means of documentation should be adequate.

Purchase Order Log Not Maintained

Five of the 15 cardholders did not maintain the required purchase order log for bankcard transactions. The other 10 cardholders kept a log; however, one log did not contain all the required information. The log (provided in Attachment B of *CAM*) is the cardholder's record of account and is designed to provide all financial, administrative, and shipping data for each bankcard transaction. Without utilizing the log to record all bankcard transactions when made, the cardholders cannot adequately document, control, and reconcile purchase activity with the bankcard statement and the approving officials cannot adequately determine whether the transactions are appropriate and properly categorized.

Bankcards Not Maintained in Secure Location

A lack of proper security over bankcards could result in unauthorized use of the bankcard and improper purchases. Five of the 15 cardholders did not keep their bankcards in a secure location. According to *CAM*, Part 13, Chapter 1, Section 8(c)(10), cardholders must keep the bankcard in a secure place. A locked drawer or cabinet is considered an acceptable secure location, whereas a wallet or handbag is not.

Priority Order of Mandatory Sources of Supply Not Followed

For one transaction, the cardholder did not follow the priority order in selecting from the mandatory sources of supply. *CAM*, Part 13, Chapter 1, Section 9, explains that agencies are required by the *FAR* to buy supplies from certain sources of supply. *CAM* lists the mandatory sources in descending order of priority, with Commerce inventories first on the list, GSA stock programs fifth on the list, and commercial sources last on the list. In this case, the cardholder purchased office supplies from commercial sources without first checking higher priority sources such as the MASC storeroom or GSA supply catalog.

Questioned Items Not Reconciled

One cardholder did not reconcile a questioned purchase. The purchase was for commercial printing services mentioned on the previous page. The cardholder disputed the purchase due to unsatisfactory service and submitted the required "Statement of Questioned Item" form along with a memo explaining the disputed purchase to the Commerce Bankcard Center. However, the cardholder did not make any additional effort to follow up on this dispute. *CAM*, Part 13, Chapter 1, Section 18, states, "There is a 60 day time limit on reconciling questioned items, so it is important that the cardholder make every effort to follow up on missing or incorrectly billed items immediately." Every effort should be made by the cardholder to reconcile questionable items.

Recommendations

We recommend that MASC's HCO improve internal control procedures over the bankcard program by ensuring that:

- all cardholders are adequately trained, and new cardholders are administered a qualifying exam and their historical performance record reviewed before being issued a bankcard,
- alternate approving officials are adequately documented and have the training necessary to verify bankcard purchases,
- required Property Transaction Forms (CD 509) are completed and forwarded to the servicing property office,
- cardholders determine and document that purchases are fair and reasonable based on competitive quotations,
- cardholders do not purchase prohibited items,
- cardholders adhere to the *CAM* requirement that they obtain approval from the HCO prior to purchasing those supplies and services listed in the *CAM* as requiring special authorization,
- cardholders obtain prior written approval from management for all purchases over \$2,500 and for those which result in the purchase of accountable property (this approval should be documented with management's initials on the log or a separate e-mail or memo),
- cardholders use the log to record all transactions made, provide support for transactions when necessary, and reconcile the log to the bankcard statement,
- bankcards are kept in a secure location when not being used by the cardholder,
- when practicable, the priority order for mandatory sources of supply is followed for bankcard purchases, and

- cardholders take the necessary steps to reconcile questionable items.

NOAA's Comments

NOAA concurred with all audit findings and recommendations noted in the issued draft audit report with the exception of the use of Blanket Purchase Agreements (BPAs) without competition. NOAA stated that it complied with FAR Part 8.4 when awarding the BPA, which negates the requirements detailed in FAR Part 13 and FAR Part 19 that cardholders receive competitive quotations from small businesses prior to utilizing BPAs. The BPAs were put in place by NOAA with GSA Federal Supply Schedule contractors. GSA confirmed that the up-front process complied with all aspects of FAR Part 8.4, and that since NOAA was dealing strictly with GSA schedules, it was not necessary to advertise in the Commerce Business Daily.

NOAA stated that it will issue a memorandum to MASC cardholders and approving officials instructing them of bankcard policies and procedures concerning cardholder training requirements, alternate approving officials, property transaction forms, purchases of prohibited items, special authorization purchases, pre-approval of purchases, purchase order log maintenance, physical security of bankcards, mandatory sources of supply, and reconciliation of questioned items. Additionally, NOAA agreed to take the following actions to help resolve the audit findings: (1) develop and implement a training course and a qualifying examination for new and existing cardholders, (2) require approving officials to submit a memorandum appointing the alternate approving official to the Financial Management Division, and (3) randomly sample cardholder's statements to look for instances of improper purchases. A copy of NOAA's response is included as Attachment 3.

OIG Comments

We appreciate NOAA's positive response to the draft audit report. The draft audit report stated that the use of BPAs without considering small business set-asides conflicts with the CAM requirement to reserve purchases between \$2,500 and \$100,000 for small businesses. Based on MASC's assertion regarding the process used to negotiate the BPAs, we withdraw the portion of the draft audit finding and recommendation that referred to the use of BPAs.

Attachments

cc (w/att): Dennis R. Connors, Director, Mountain Administrative Support Center
Paul Roberts, Chief Financial Officer/Chief Administrative Officer,
National Oceanic and Atmospheric Administration
Barbara Martin, Chief, Audits and Internal Control Staff Office, NOAA

Attachment 1

**Mountain Administrative Support Center
Bankcard Program
FY 1998**

	Transactions				
	Over \$5,000 (a)	\$2,501 to \$5,000 (b)	\$1,501 to \$2,500 (c)	Under \$1,501 (d)	Total
Bankcard Transactions (Including Credit Transactions)	10	21	54	1,155	1,240
Selected for Review	10	11	14	32	67
Selected for Review (%)	100%	52%	26%	2.8%	5.4%
Noncomplying Transactions	1	3	4	5	13
Noncomplying Transactions (%)	10%	27%	29%	16%	19%
Net Amount of Transactions	\$42,598	\$35,921	\$86,879	\$234,744	\$400,142
Net Amount Reviewed	\$42,598	\$17,339	\$25,507	\$5,851	\$91,295
Net Amount Reviewed (%)	100%	48%	29%	2.5%	23%

Notes:

- (a) There were 10 transactions over \$5,000. All transactions were selected for review.
- (b) There were 21 transactions between \$2,501 and \$5,000. One of every two transactions was selected for review from the MASC transaction detail report (which does not include transactions by the MASC purchasing agents), including the first transaction in the report, for a total of 10 transactions selected for review. Additionally, one transaction was selected for review from the MASC purchasing agents transaction detail report. There were a total of 11 transactions selected for review.
- (c) There were 54 transactions between \$1,501 and \$2,500. One of every four transactions was selected for review, including the first and last transaction in the report, for a total of 14 transactions selected for review.
- (d) There were 1,155 transactions \$1,500 and under. One of every 44 transactions was selected for review from the MASC transaction detail report (which does not include transactions by the MASC purchasing agents), including the last transaction in the report, for a total of 26 transactions selected for review. Additionally, one of every four transactions was selected for review from the MASC purchasing agents transaction detail report, for a total of six transactions selected for review. There were a total of 32 transactions \$1,500 and under selected for review.

Attachment 2

**Cardholder Interviews for
Mountain Administrative Support Center**

- A total of 41 MASC cardholders.
- 15 cardholders interviewed from the 16 cardholders selected for interviews.
- One cardholder was unavailable due to retirement.
- Five of the 15 cardholders interviewed (33%) did not keep their bankcards in a secure location.
- Four of the 15 cardholders interviewed (27%) stated that they had not read and were not familiar with *CAM*.
- Ten of the 15 cardholders interviewed (67%) had not viewed the training video within the previous 24-month period.
- Five of the 15 cardholders interviewed (27%) did not use a log to record all bankcard transactions.
- Four of the 15 cardholders interviewed (27%) stated that they did not obtain prior approval for bankcard purchases from their supervisor.
- Four of the 15 cardholders interviewed (27%) stated that they did obtain prior approval for bankcard purchases. However, there was no documentation to support this statement.
- Seven of the 15 cardholders interviewed (46%) obtained and documented prior approval for bankcard purchases.



UNITED STATES DEPARTMENT OF COMMERCE
National Oceanic and Atmospheric Administration
CHIEF FINANCIAL OFFICER/CHIEF ADMINISTRATIVE OFFICER

September 29, 1999

MEMORANDUM FOR: George E. Ross
Assistant Inspector General for Auditing

FROM: Paul F. Roberts *Barbara Martin (for)*

SUBJECT: NOAA Response to Draft OIG Audit Report
"Internal Controls Over MASC's Bankcard Program
Need Improvement," Report No. DEN-11927-9-XXXX,
dated August 1999

Thank you for the opportunity to review and comment on the subject draft report concerning the internal controls over MASC's Bankcard Program. NOAA generally agrees with the OIG findings, and concurs with ten of the eleven recommendations made by the OIG to improve MASC's Bankcard Program. Our detailed response is attached. It includes our rationale for nonconcurrence for the one recommendation.

If you have any questions concerning our response, or should you require further assistance, please contact Barbara Martin at 301-713-1150.

Attachment



NOAA Response to Draft Audit OIG Report DEN-11927-9-XXXX
"Internal Controls Over MASC's Bankcard Program Need
Improvement," dated August 1999

OIG Recommendations: We recommend that MASC's HCO improve internal control procedures over the bankcard program by ensuring that:

Recommendation 1. All cardholders are adequately trained, and new cardholders are administered a qualifying exam and their historical performance record reviewed before being issued a bankcard.

NOAA Response: Concur. Training courses will be developed for new and existing MASC cardholders. The courses will require that attendees pass a qualifying exam. (NOTE: The training video required by the Commerce Acquisition Manual (CAM) and referred to in the audit report is outdated, and the Commerce Bankcard Center has discontinued its use). A memorandum will be sent to the MASC Approving Officials reminding them that they are to consider the historical performance records of persons nominated to serve as cardholders.

Recommendation 2. Alternate approving officials are adequately documented and have the training necessary to verify bankcard purchases.

NOAA Response: Concur. MASC Approving Officials will be required to submit a memorandum to the MASC Financial Management Division with the statement of account appointing an alternate authorized to act in their absence. Only alternates who have received training will be acceptable.

Recommendation 3. Required Property Transaction Form (CD 509) are completed and forwarded to the servicing property office.

NOAA Response: Concur. A memorandum will be sent to MASC cardholders and approving officials reminding them of the requirement to complete the Property Transaction Request, CD 509.

Recommendation 4: Cardholders determine and document that purchases are fair and reasonable based on competitive quotations from small businesses prior to utilizing Blanket Purchase Agreements (BPAs) (if the small businesses do not provide quotes

or the quotes are not competitive with the BPA offering, then cardholders should utilize the BPAs when they represent the best price available).

NOAA Response. Nonconcur. The referenced BPAs were selected through a competitive process, therefore individual orders placed under these BPAs did not require any further justification. The BPAs were put in place by NOAA with GSA Federal Supply Schedule (FSS) contractors to enable NOAA line and staff offices and other DOC operating units to purchase desktop and laptop PCS, PC servers, and inkjet and laser printers at discounted pricing. GSA confirmed that the up-front process complied with all aspects of FAR 8.4, and that since NOAA was dealing strictly with GSA FSS schedules, it was not necessary to advertise in the CBD.

FAR 8.4 states "...the simplified acquisition procedures of Part 13, the small business set-aside provisions of subpart 19.5...do not apply." It further states that the orders placed under a Multiple Award Schedule using the procedures in FAR 8.4 are issued pursuant to full and open competition. Therefore, ordering offices need not seek further competition, synopsise the requirement or make a separate determination of fair and reasonable.

Recommendation 5: Cardholders do not purchase prohibited items.

NOAA Response: Concur. A memorandum will be sent to MASC cardholders and approving officials listing prohibited items. Random samples of MASC cardholders' statements will be regularly subjected to internal audits to look for instances of improper purchases.

Recommendation 6: Cardholders adhere to the CAM requirement that they obtain approval from the Heads of Contracting Offices (HCOs) prior to authorizing those supplies and services listed in the CAM as requiring special authorization.

NOAA Response: Concur. A memorandum will be sent to MASC cardholders and approving officials reminding them of the categories of items that require HCO approval prior to purchases. Note that warranted purchasing agents are not required to obtain such approval because by their warrant they have the authority to make such purchases.

Recommendation 7: Cardholders obtain prior written approval from management for all purchases over \$2,500 and for those which result in the purchase of accountable property (this approval should be documented with management's initials on the log or separate email or memo).

NOAA Response: Concur. A memorandum will be sent to MASC cardholders and approving officials informing them of the requirement for prior approval of purchases in excess of \$2,500, and for purchases of accountable property.

Recommendation 8: Cardholders use the log to record all transactions made, provide support for transactions when necessary, and reconcile the log to the bankcard statement.

NOAA Response: Concur. A memorandum will be sent to MASC cardholders and approving officials reminding them of the requirement to log transactions, provide support for transactions when necessary, and reconcile the log to the bankcard statement.

Recommendation 9: Bankcards are kept in a secure location when not being used by the cardholder.

NOAA Response: Concur. A memorandum will be sent to MASC cardholders reminding them of the requirement to keep purchase cards in a secure location when the card is not being used.

Recommendation 10: When practical, the priority for mandatory sources of supplies is followed for bankcard purchases.

NOAA Response: Concur. A memorandum will be sent to MASC cardholders and approving officials reminding them that mandatory sources of supply are to be used.

Recommendation 11: Cardholders take necessary steps to reconcile questionable items.

NOAA Response: Concur. A memorandum will be sent to MASC cardholders and approving officials reminding them to follow-up on questioned items, and ensure that the proper action has been taken.

Target Date of Implementation for the 10 recommendations is December 31, 1999.