

MEMORANDUM

TO : C. Kent McGuire
Assistant Secretary
Office of Educational Research and Improvement

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

SUBJECT : Results of the OIG Review of OERI's Internal Controls Over the
Procurement of Goods and Services (A&I 2000-009)

INTRODUCTION

This memorandum transmits the results of our review of OERI'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 and other senior staff when we complete our review. On August 17, 2000, OIG staff met with you and members of your procurement staff to discuss the results of this review.

RESULTS

We identified certain deficiencies that prevent OERI 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 OERI 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 TPDS disbursements.

During our review, we noted that some OERI staff 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 be beneficial to these employees. Management should require them to attend annual ethics training.

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 OERI's use of "Corporate" Government Travel Accounts.

METHODOLOGY

To achieve our objectives, we conducted interviews with OERI staff who were involved with the procurement process, and we reviewed relevant documents. As part of our work, we reviewed samples of TPDS checks and purchase card transactions. For the TPDS, we selected a random sample of 50 TPDS checks issued between October 1998 through September 1999 (FY 1999) and October 1999 through February 2000 (FY 2000). We judgmentally selected a sample of monthly purchase card statements dated between October 16, 1999 and June 16, 2000. Then we selected 50 transactions to review. We also reviewed OERI monthly purchase card statements that were in the Financial Management Policies and Administrative Programs Group files for the months of September 1999 and March 2000.

We based our conclusions about OERI's internal controls on the information gathered during our interviews and transaction testing. We conducted our interviews and transaction testing between May 1, 2000 and July 24, 2000. We assessed OERI'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.

Attachment A

Internal Control Evaluation Form for the Office of Educational Research and Improvement

Control Component	Deficiencies
Control Environment	<ul style="list-style-type: none"> • Assignment of Authority/Training – According to records maintained by OCFO as of May 8, 2000, four cardholders with single purchase limits exceeding \$2,500 did not have the required warrants. Three of those have no record of taking small purchase training, which is required to obtain a warrant. • Training – Staff have not received recent or refresher procurement training. • Training – On May 11, 2000, the Executive Officer requested approval from OCFO that supervisors of cardholders be given the responsibility of being approving officials. These individuals will need training prior to taking on this responsibility.
Risk Assessment	<ul style="list-style-type: none"> • Identification of Risks – OERI has no formal procedures for risk assessment in the procurement area. In addition, the Executive Officer has not been involved with the Federal Managers’ Financial Integrity Act (FMFIA) reporting process. • Identification of Risks – Two procurement staff members have been assigned a low risk level when the employees’ responsibilities suggest that a moderate risk level is more appropriate.
Control Activities	<ul style="list-style-type: none"> • 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, OERI has no written policies and procedures on the purchase card process. • Purchase Cards – We reviewed the September 1999 and the March 2000 statements from OCFO files. Our purpose was to verify that OERI had submitted all its monthly card statements with activity to OCFO and that the approving official had signed the card statements. We also reviewed 50 judgmentally selected purchase card transactions. <ul style="list-style-type: none"> ◆ Approval of Monthly Purchase Card Statements – The approving official informed us that he stopped signing the statements because there was no longer a line on the monthly card statement for his signature.

Control Component	Deficiencies
	<ul style="list-style-type: none"> • For September 1999, 17 cards had activity. One statement was missing from OCFO files. The approving official signed only one statement. • For March 2000, 11 cards had activity. One statement was missing from OCFO files. The approving official signed none of the statements. ◆ Approval of Purchases – Thirty-five purchases had no documentation of preapproval. ◆ Recordkeeping – We were unable to trace 22 purchase card charges to purchase card expenditures listed on an EDCAPS report using the EDCAPS transaction numbers listed on the monthly card statements. ◆ Documentation – Six purchases were missing receipts. • TPDS Checks – We reviewed 50 randomly selected TPDS checks. <ul style="list-style-type: none"> ◆ Documentation – One file for the requested TPDS checks was not available for review. The check was for \$3,000. ◆ Approval – Two of the 49 checks with files available for review had no documentation of preapproval.
Information & Communications	<ul style="list-style-type: none"> • 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>.
Monitoring	<ul style="list-style-type: none"> • 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 OERI.