

MEMORANDUM

TO : Judith A. Winston
General Counsel
Office of the General Counsel

FROM : Mary Mitchelson
Assistant Inspector General
Analysis and Inspection Services

SUBJECT : Results of the OIG Review of OGC's Internal Controls Over the Procurement of Goods and Services (A&I 2000-012)

INTRODUCTION

This is our report of our review of the Office of the General Counsel's (OGC) internal controls over the procurement of goods and services. This review is part of our 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 September 12, 2000, Office of Inspector General (OIG) staff met with you and your Executive Officer, Carolyn Adams, to discuss the results of this review.

RESULTS

During our review in OGC, we identified instances of noncompliance with the Federal Acquisition Regulation (FAR) and current Department policies and procedures:

- ✓ Possible split procurements – We identified two acquisitions that appear to have been split. One appears to have been split to avoid the cardholder's single purchase limit and the other to avoid the micro-purchase threshold. The FAR prohibits the division of an acquisition to "avoid any requirement that applies to purchases exceeding the micro-purchase threshold."
- ✓ Use of purchase cards by a non-cardholder – We were informed that purchase cards were used by the Approving Official/Executive Officer, who is not a cardholder. The Department's Directive on *Commercial Credit Card Service* states: "Each card has the cardholder's name embossed on it and may be used only by that person. No one

else is authorized to use the card.” The Directive also states: “An approving official may not be a cardholder.” These restrictions are to ensure the proper use of purchase cards.

We identified certain deficiencies, in addition to the instances of non-compliance identified above, that prevent OGC from satisfying the General Accounting Office’s (GAO) *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 OGC managers of inherent vulnerabilities we identified in two Department procurement systems.

- ✓ Purchase Cards – For efficiency, 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 the Office of the Chief Financial Officer for payment.
- ✓ Third Party Drafts (TPDs) – An individual with signature authority can issue TPDs 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 drafts issued.

OBJECTIVE

Our review objective was to assess the internal controls to ensure 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) using TPDs and purchase cards. We did not conduct testing on OGC’s use of “Corporate” Government Travel Accounts. We conducted a cash count of OGC’s Imprest fund. We did not review individual transactions of the Imprest fund.

METHODOLOGY

To achieve our objectives, we conducted interviews with OGC staff involved with the procurement process, and we reviewed relevant documents. As part of our work, we reviewed samples of TPDs and purchase card transactions. For our review of TPDs, we selected a random sample of 20 TPDs issued between October 1998 through September 1999 (FY 1999) and October 1999 through February 2000 (FY 2000). OGC has two cardholders. We judgmentally selected a sample of monthly purchase card statements

dated between January 1999 and May 2000. Then we selected 25 transactions to review. We also reviewed OGC's 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 OGC's internal controls on information gathered during our interviews and transaction testing. We conducted our interviews and transaction testing between May 11, 2000 and August 25, 2000. We assessed OGC'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 *Quality Standards for Inspections* 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 260-3556.

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 exert 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 the General Counsel

Attachment A

| Control Component | Deficiencies |
|---------------------|---|
| Control Environment | <ul style="list-style-type: none"> • Training – Cardholders are not inputting their own transactions into EDCAPS because they have not had sufficient training on EDCAPS. |
| Risk Assessment | <ul style="list-style-type: none"> • Identification of Risks – OGC procurement staff were not aware of any formal risk assessment procedures in the procurement area. In addition, the Executive Officer has not been significantly involved with the Federal Managers’ Financial Integrity Act (FMFIA) reporting process. • Assignment of Risk Levels – The Executive Officer has been assigned a moderate risk level. Most Executive Officers in the Department have been assigned a high risk level. |
| 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, OGC has no written policies and procedures on the purchase card process. • Non-Compliance – As mentioned in the cover memorandum, we were informed that purchase cards were used by the Executive Officer. • Separation of Duties – In addition to periodically using the purchase cards, the Executive Officer inputs the purchase card transactions into EDCAPS. No one reviews that input. • Purchase Cards – We reviewed the September 1999 and the March 2000 statements from OCFO files. Our purpose was to verify that OGC had submitted all its monthly card statements with activity to OCFO and that the approving official had signed the card statements to support OCFO’s Department-wide payments. We also reviewed 25 judgmentally selected purchase card transactions. <ul style="list-style-type: none"> ◆ Approval of monthly purchase card statements: <ul style="list-style-type: none"> • For September 1999, one card had activity. The statement for that card was in OCFO’s files and was signed by the approving official. • For March 2000, both cards had activity. Statements for both cards were in OCFO files and were signed by the approving official. However, neither card was signed by the cardholder. • Of the 25 statements in OGC’s files dated between January 1999 and May 2000, all were signed by the approving official but only four were signed by the cardholders. |

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|------------------------------|---|
| | <ul style="list-style-type: none"> ◆ Split Procurements – As mentioned in the cover memorandum, we identified two acquisitions that appear to have been split. <ul style="list-style-type: none"> • One card statement had two charges of equal amounts on the same day to the same vendor for the same product. The total of the two charges would have exceeded the cardholder’s single purchase limit. Both charges had the same EDCAPS transaction number. • Another card statement had three charges of equal amounts on the same day to the same vendor. The three charges totaled \$5080 which exceeds the micro-purchase threshold. All three charges had the same EDCAPS transaction number. ◆ Recordkeeping – The amount recorded in EDCAPS for both of the acquisitions that appear to have been split were in error. The amounts recorded in EDCAPS exceed the charges by \$599 and \$470, respectfully. • Third Party Drafts (TPDs) – We reviewed 20 randomly selected TPDs. <ul style="list-style-type: none"> ◆ Date Stamping – None of the invoices were dated stamped upon receipt. The date of receipt is necessary to determine the payment due date under the Prompt Payment Act. ◆ Prompt Payment – Based on the due date noted on the invoice, one invoice was paid five days late. ◆ Overpayment – Payment to one vendor was miscalculated resulting in a \$249.25 overpayment. While we were conducting our review, OGC requested a refund of the overpayment. ◆ Prepayment – OGC prepaid one vendor \$350.35. ◆ Documentation – One invoice for \$54 was missing. • Imprest Fund: <ul style="list-style-type: none"> ◆ The cash on hand was \$127.05 and \$5 in metro fare cards. The balance listed in the records of the fund was \$113.73. We were unable to reconcile the difference. ◆ OGC had no written policies and procedures regarding the Imprest fund. |
| Information & Communications | <ul style="list-style-type: none"> • Communication of Key Information – One of the cardholders had heard of the Department’s <i>Directive on Commercial Credit Card Service</i>; the other had not. |
| Monitoring | <p>On-going Monitoring – The supervisor of the individual with signature authority for TPDs does not perform periodic reviews of the drafts issued by OGC.</p> |