

U.S. DEPARTMENT OF COMMERCE
Office of Inspector General



**PUBLIC
RELEASE**

*NATIONAL INSTITUTE OF
STANDARDS AND TECHNOLOGY*

*Internal Controls Over Bankcard
Program Need Improvement*

Final Audit Report No. DEN-11787/March 2001

Office of Audits, Denver Regional Office



March 29, 2001



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

MEMORANDUM FOR: Dr. Karen H. Brown
Acting Director
National Institute of Standards and Technology

FROM: Johnnie E. Frazier

A handwritten signature in black ink that reads "Johnnie E. Frazier".

SUBJECT: *Internal Controls Over NIST's*
Bankcard Program Need Improvement
Final Audit Report No. DEN-11787

This is the final report on our audit of bankcard program implementation and usage by NIST laboratories in Boulder, Colorado. The audit concludes that the bankcard program has several weaknesses. We are making a number of recommendations aimed at improving cardholder performance, better controlling property purchased with bankcards, and strengthening procedures related to approving officials and bankcard payments. The executive summary is contained on page i, and our findings and recommendations appear on pages 3 through 16, and a complete list of our recommendations is attached as Appendix A. In a related matter on October 27, 2000, we provided a separate management memorandum to the Department's Chief Financial Officer and Assistant Secretary for Administration regarding the use of the bankcard program to purchase firearms.

NIST generally agreed with our findings and, except in two instances, has agreed to implement our recommendations. NIST's response is summarized in the body of the report, and we have attached the complete response as Appendix C to the report.

Please provide your audit action plan addressing the report recommendations within 60 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 please give me a call at (202) 482-4661 or call William R. Suhre, Regional Inspector General for Audits, Denver Regional Office, at (303) 312-7650. We appreciate the cooperation and courtesies extended by NIST staff during our audit.

Attachments

cc: K. David Holmes, Jr., Acting Chief Financial Officer and
Assistant Secretary for Administration
Marilyn S. Kahn, NIST Audit Liaison

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EXECUTIVE SUMMARY

An Office of Inspector General audit of bankcard program implementation and usage by National Institute of Standards and Technology laboratories in Boulder, Colorado noted no misuse of NIST funds. However, we did identify internal controls weaknesses in the areas of (1) cardholder performance, (2) recording of accountable property, (3) approving official procedures, and (4) payment procedures. These weaknesses resulted in instances of noncompliance with the *Federal Acquisition Regulation (FAR)*, Part 13, "Simplified Acquisition Procedures"; *Commerce Acquisition Manual, Part 13*, Chapter 1, as amended July 1, 1996, "Commerce Purchase Card Procedures"; and the Department's *Personal Property Management Manual*.

Specifically, the following actions need to be taken to strengthen the bankcard program:

NIST needs to improve cardholder performance. Cardholders should be required to use competitive procurement procedures; utilize the required purchase order log; prevent purchases of prohibited items and obtain required approvals; prevent the use of bankcards by non-cardholders; develop procedures for management pre-approval of purchases of significant and sensitive items; avoid splitting purchase transactions; and obtain required training (see pages 3-9).

NIST needs to better control property purchased with bankcards. Property recording procedures should be improved, and accountable property built with parts bought with bankcards should be recorded (see page 9-11).

NIST needs to improve approving official procedures. Approving officials should be required to obtain cardholders' records upon termination of their employment; document alternate approving officials; maintain bankcard reports to review individual cardholder accounts at least every six months; certify of bankcard statements before payment; and improve separation of duties when controlling transactions (see pages 11-15).

NIST bankcard payment practices contradict CAM requirements. NIST should require the original certified and approved bankcard statement packages to be submitted to the servicing NIST finance office before payment (see pages 15 and 16).

Our recommendations for each finding, as well as NIST's response and our comments, can be found throughout the report, and the complete list of recommendations is attached as Appendix A. NIST generally agreed with the findings in the report. With the exception of NIST's proposed actions regarding (1) pre-approval of sensitive items and (2) paying bankcard

statement without sending all original documents to NIST's Servicing Finance Office in Gaithersburg, we concur with NIST's proposed actions to address our recommendations. We note that NIST's proposed actions will require the concurrence of the Bankcard Head Contracting Officer, a National Oceanic and Atmospheric Administration official of the Mountain Administrative Support Center in Boulder.

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 (GSA). 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 General Accounting Office 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.”¹

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

OBJECTIVES, SCOPE AND METHODOLOGY

We conducted the audit to determine whether NIST Boulder laboratories are utilizing bankcards in accordance with *FAR*, Part 13, “Simplified Acquisition Procedures”; *CAM*, Part 13, Chapter 1; and the Department of Commerce *Personal Property Management Manual*. We used the current Commerce Acquisition Manual, dated April 5, 2000, entitled *Department of Commerce*

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

Purchase Card Procedures, to evaluate ongoing procedural issues, such as pre-approval of transactions.

We reviewed a sample of bankcard transactions of the four NIST laboratories in Boulder for fiscal year 1998. Additionally, we reviewed applicable regulations, policies, and procedures; examined documentation, management reports, and records; and interviewed NIST officials. We completed our audit fieldwork and conducted an exit briefing in September 1999. After receiving additional documentation from NIST in October 1999 based on discussions during the exit briefing, we provided the HCO with an exit briefing in November 1999.

We reviewed administrative and accounting internal controls at NIST relating to its 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 stratified judgmental sampling techniques for selecting transactions for review (see Appendix B). We found that NIST needs to improve internal control practices as discussed beginning on page 3 of this report. As part of our audit, we interviewed a sample of cardholders and approving officials and examined their bankcard records for selected transactions.

In conducting our audit, we relied on computer-processed data and tested its accuracy by tracing it 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.

We also evaluated NIST's compliance with laws and regulations applicable to the use of government bankcards. We found instances where NIST did not comply with certain requirements of *FAR*, *CAM*, and *the Department's Personal Property Management Manual*, as detailed in the section beginning on page 3. 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.

FINDINGS AND RECOMMENDATIONS

Our audit noted weaknesses in NIST's implementation of the bankcard program in the areas of cardholder performance, recording of property, approving official procedures, and payment procedures. These weaknesses result in inadequate internal controls and instances of noncompliance with *FAR*, Part 13; *CAM*, Part 13, Chapter 1; and the Department's *Personal Property Management Manual*.

I. NIST Needs to Improve Cardholder Performance

NIST needs to improve cardholder performance by requiring cardholders to improve competitive procurement procedures, utilize the required purchase order log, prevent the purchase of prohibited items and obtain required approvals, prevent use of bankcards by non-cardholders, improve procedures for management pre-approval of purchases of significant and sensitive items, avoid splitting purchase transactions, and obtain required training.

A. Competitive procurement procedures should be improved

NIST cardholders with \$25,000 purchase limits did not adequately document competitive bidding as required by *CAM*, Part 13, Section 8c(11), which requires cardholders to document that the price of purchases over \$2,500 is fair and reasonable. Of the 65 transactions over \$2,500 that we reviewed, 31 had no documentation to show that the price paid was reasonable, 24 did not have a statement explaining the absence of competition, and 19 had no quotes on file. These transactions lacking procurement documentation conflict with *CAM* procurement requirements to pay a fair and reasonable price.

Recommendation

We recommend that the NIST Acting Director require cardholders purchasing items greater than \$2,500 to document that a price is fair using quotes, previous purchases, catalogs, current price lists, advertisements, similar items in a related industry, or value analysis. If the cardholder solicits only one source or vendors do not provide quotes, the cardholder should provide an additional notation justifying the absence of competition.

NIST Response

NIST concurred with the finding and agreed to provide guidance to obtain adequate documentation supporting bankcard acquisitions in excess of \$2,500.

OIG Comments

We concur with NIST's planned action, subject to review and approval of the HCO.

B. Required purchase order log should be used

Thirteen of 29 cardholders did not maintain the required purchase order log for bankcard transactions. The log (provided in Attachment B of *CAM, Part 13*) is the cardholder's record of account and designed to provide financial, administrative, and shipping data for each bankcard transaction. Without recording all bankcard transactions in the log, cardholders cannot adequately document, control, and reconcile purchase activity with the bankcard statement, and approving officials cannot adequately determine whether the transactions are appropriate and properly categorized, or reconcile purchase activity with the summary report. As a result, NIST is at risk for unauthorized and improper procurements.

Recommendation

We recommend the NIST Acting Director direct cardholders to use the log as stated in *CAM* to record all transactions, provide support for transactions when necessary, and reconcile bankcard statements.

NIST Response

NIST agreed that a purchase log is needed to document and reconcile bankcard transactions. The Director for Administration claims NIST's Quick Procurement System can be used in place of the paper log required by the CAM.

OIG Comments

We concur with the Director's planned action; however, such a deviation from CAM requirements will require HCO approval.

C. Purchases of prohibited items should be prevented and required approval should be obtained

Of the 125 transactions we reviewed, 11 were for purchases of prohibited items, items requiring special approvals, or purchases beyond authorized purchase limits. Specifically, our review revealed two instances of cardholders purchasing fuel products without required approval from

the HCO, five instances of printing costs for scientific publications charged to the bankcards without the required waiver from the Government Printing Office or approval from the appropriate printing officer, three instances of cardholders exceeding their purchase limits without evidence of approval from the HCO, and one instance of a cardholder contracting with a cleaning service, a prohibited transaction.

The following criteria are pertinent to our findings. *CAM, Part 13, Section 7.a.(2)*, requires HCO approval of any changes of the cardholder's purchase limits; *CAM, Part 13, Section 10*, prohibits cardholders from purchasing certain items; and *CAM, Part 13, Section 11*, requires special authorization and/or approval from the HCO, other departmental offices, or outside agencies before the purchase of certain items.

Recommendation

We recommend that the NIST Acting Director direct NIST cardholders not to purchase prohibited items and to obtain special authorization or approval to purchase specific items when required by *CAM*.

NIST Response

NIST generally agreed with this finding, except for the reprinting of NIST publications in non-NIST publications, which is allowed by the NIST Administrative Manual. NIST has agreed to request that the HCO (1) notify NIST bankcard holders of prohibited transactions and transactions requiring pre-approval, and (2) regularly audit bankcard transactions for such transactions.

OIG Comments

We concur with the planned action, subject to review and approval by the HCO.

D. Use of bankcards by non-cardholders should be prevented

Two of 29 cardholders interviewed stated that they allowed unauthorized personnel to process transactions on the bankcard because of the individual's expertise or to save time. One cardholder stated that non-cardholders were allowed to process bankcard transactions to purchase training classes since they had knowledge of the institution, course requirement, cost, etc. However, *CAM, Part 13, Section 8.c.(1)*, prohibits the use of the bankcard by any person other than the cardholder.

Recommendation

We recommend that the NIST Acting Director direct cardholders not to allow non-cardholders to use or process bankcard transactions.

NIST Response

NIST concurred with this finding and agreed to request the MASC HCO to provide cardholders with notification, training, and information to prevent the use of bankcards by non-cardholders.

OIG Comments

We concur with the planned action, subject to review and approval by the HCO.

E. Procedures for pre-approval of purchases of significant and sensitive items should be improved

To improve management controls over bankcard purchases of significant and sensitive items, NIST needs to develop consistent procedures for pre-approval of such transactions. Our interviews of 29 cardholders found that procedures to obtain preapproval employed by cardholders ranged from no pre-approval of any transaction to pre-approval of every transaction. Significant purchases include purchases of personal property over \$2,500 and purchases of sensitive items (which, according to the Department's *Personal Property Management Manual*, include personal property that can be converted to personal use and therefore be subjected to potential theft) under \$2,500. Current procedures in the latest version of CAM, dated April 5, 2000, neither require NIST to obtain management pre-approval of these types of bankcard transactions nor preclude NIST from adding its own pre-approval requirements. Because NIST is in the process of revising its Administrative Manual, we believe that this is an opportune time for NIST to address the pre-approval issue.

Recommendation

We recommend that the NIST Acting Director develop procedures for management pre-approval of transactions for individual purchases over \$2,500 or for purchases that result in the acquisition of sensitive items.

NIST Response

NIST noted that pre-approval is not a requirement of CAM, but agreed that internal control over bankcard transactions would be improved by developing pre-approval for purchases of personal property over \$2,500 and sensitive items under \$5,000. The procedure will be provided to the MASC HCO for notification to cardholders and approving officials. Also, NIST will review the feasibility of including the approval on the Quick Procurement System.

OIG Comments

While we generally concur with the proposed action, we are concerned that the under \$5,000 limit for purchase of sensitive items (such as weapons) may be too high to prevent misuse. NIST should reconsider the potential risk for purchase and misuse of sensitive items before setting a dollar limitation regarding pre-approval of sensitive items.

F. Splitting purchase transactions should be avoided

The lack of NIST controls for purchasing items beyond the cardholder's \$25,000 limit resulted in bankcard purchases being split. For example, one cardholder purchased a security radio system from one vendor costing \$26,962. The cardholder purchased the system using seven transactions for the various radios and accessories of the system over a two-month period. The cardholder split the purchase by dividing what should have been a single purchase into separate purchases on multiple occasions, resulting in avoiding purchase card limitations.

Also, in April 1997, NIST planned to establish a facility entrance, exit key pad system, and photo identification system at a total estimated cost of \$36,300. NIST purchased the above equipment from a single vendor. However, instead of purchasing the equipment with a single purchase order, NIST, over a 10-month period, used seven cardholders and three CD-435 procurement requests to procure the required equipment. The procurement, which finally totaled over \$83,000, resulted in the use of the bankcard program to split a large purchase into smaller transactions.

CAM, Part 13, Chapter 1, Paragraph 8.c.(4), prohibits purchases when the cardholder intentionally divides what should be a single purchase into two or more separate purchases on one or more occasions to avoid purchase limitations.

Recommendation

We recommend that the NIST Acting Director direct cardholders, before making a purchase, to determine the total cost of equipment or system to be purchased. If the total cost exceeds one cardholder's limit, the cardholder should notify the requestor that the bankcard system cannot be used and that the Department's procurement request form (CD-435) should be used for the purchase.

NIST Response

NIST did not concur that the transactions reported in the audit report were clearly split procurements. However, NIST indicated that it will request that the MASC HCO (1) remind cardholders and approving officials that the total cost of equipment and systems be considered before making bankcard transactions, and (2) during bankcard training, inform cardholders that splitting purchase requirements to use the bankcard system in place of a traditional purchase order is inappropriate and that they should not use the bankcard to purchase similar items from the same vendor over a short period of time.

OIG Comments

We concur with the planned action, subject to review and approval by the HCO.

G. Required training should be obtained

Eleven of 29 cardholders we interviewed had not viewed the required training video within the previous 24-month period. At the time of our review, all cardholders were required to complete training on basic purchasing concepts. *CAM, Part 13* states that this training could be a standard course or one customized to address the unique needs or characteristics of the purchasing organization. Additionally, *CAM* required that all cardholders and approving officials review the policies and procedures set forth in *CAM* and view a training video every 24 months. Although the requirements in the revised *CAM* are slightly different, it is still important that NIST managers ensure that cardholders receive proper training in the use of the bankcard.

Recommendation

We recommend that the NIST Acting Director require cardholders to work with the HCO to ensure that cardholders receive appropriate training.

NIST Response

NIST stated that video training is currently out of date. The NIST Director for Administration will coordinate with the MASC HCO updates to be posted on the Boulder website regarding cardholder training and bankcard program changes.

OIG Comments

We concur with the planned action, subject to review and approval by the HCO.

II. NIST Needs to Better Control Accountable Property Purchased with Bankcards

NIST needs to better control purchases of accountable property made with bankcards by improving property recording procedures and by recording accountable property bought or built with parts bought with bankcards.

A. Property recording procedures should be improved

On at least two occasions, NIST cardholders did not provide the property book officer, who is responsible for recording accountable property, with reports upon receipt of accountable property, as required in *CAM, Part 13*, Section 16. This section states that cardholders must forward a form CD-509, or property receipt, to their servicing property office.

For example, a cardholder who purchased firearms misclassified the purchase as supplies, and the firearms were recorded only because the property book officer informally learned of the receipt of weapons. In another example, a security radio system bought in fiscal year 1998 was not recorded until the time of our review because the cardholder did not report its receipt to the property book officer.

Recommendation

We recommend that the NIST Acting Director direct cardholders to track and verify the receipt of accountable property purchased with bankcards and report the receipt to the property book officer as required by *CAM*.

NIST Response

NIST agreed that the property recording procedures need to be improved, primarily through cardholders using accurate object codes when recording bankcard transactions. The NIST Director for Administration indicated that misclassification of bankcard purchase was the true cause of failing to record purchased accountable property. NIST will request that the MASC HCO (1) issue a written notice stressing the importance of cardholders using the appropriate object codes to record transactions (which are available on the Quick Purchase System menu) when recording bankcard transactions, (2) distribute and post on the MASC bankcard web site, a detailed list of frequently purchased accountable and sensitive items (to be prepared by NIST-Headquarters) to all cardholders and approving officials, and (3) provide training on appropriate classification of accountable property and sensitive item purchases to cardholders and approving officials.

OIG Comments

We concur with the planned action, subject to review and approval by the HCO.

B. Accountable property built with parts bought with bankcards should be recorded

NIST employees built accountable assets with parts purchased with the bankcard, but these assets were not recorded on the property books. For example, one cardholder told us that the frequency measurement and analysis systems that NIST leases to specialized users are not recorded as accountable property because the system parts purchased with the bankcard did not meet the criteria for accountable property. However, because the completed system is valued at approximately \$6,000, it needs to be recorded as accountable property on NIST's property books.

In another example, a NIST employee built lasers with parts purchased with bankcards, funded under contract with another agency, to produce a scientific report for public use. The cardholder told us that the agency, that funded the construction did not require that the assets be transferred to it upon completion of the project. As a result, NIST retained title to the lasers. However, the lasers have not been recorded on NIST's property books since there is no established requirement for the cardholder to report the purchased components to the property book officer.

Recommendation

We recommend that the NIST Acting Director direct NIST units constructing accountable property with “non-accountable” components, either for NIST or under NIST agreements, report the completed property to the property book officer.

NIST Response

NIST stated that when accountable property is built with non-accountable components, a NIST-409 form entitled “Notice of Completed Manufactured Equipment” is supposed to be used to notify the Financial Policy Division when the accountable equipment is completed. NIST will request that the MASC HCO notify NIST Boulder bankcard officials that equipment constructed from non-accountable components (however acquired) must be tagged, with a NIST-409 form provided to the NIST Financial Policy Division to record accountable property.

OIG Comments

We concur with the planned action, subject to review and approval by the HCO.

III. NIST Needs to Improve Approving Official Procedures

NIST needs to improve its procedures by having approving officials obtain cardholder records upon termination of employment, documenting alternate approving officials, requiring approving officials to maintain bankcard reports to review individual cardholders’ accounts at least every six months, requiring certification of bankcard statements before payment, and improving separation of duties over transactions.

A. Bankcard records of cardholders who terminate employment should be obtained

Two approving officials did not properly close cardholder accounts when cardholders terminated their employment with NIST. Specifically, the approving official required the terminating employees to turn in their cards, but did not collect all of their files. *CAM*, Part 13, Section 8.b.(8), states that the approving official must ensure that accounts are properly closed, especially when cardholders leave the Department, and *CAM*, Part 13, Section 19, requires that all bankcard records be retained for 24 months after the end of the fiscal year in which the transaction occurred. This includes accounts for cardholders who resign, retire, or are terminated.

In addition, approving officials must coordinate finalizing these accounts with the servicing finance office.

Recommendation

We recommend that the NIST Acting Director require approving officials to review and collect terminating cardholders' files step during the employees' out-processing.

NIST Response

While noting the small occurrence of improperly terminated accounts, NIST agreed that approving officials must review terminating cardholders' files during out-processing. The NIST Director for Administration has agreed to develop an internal clearance checklist for departing bankcard holders. NIST will request that the HCO provide written notification to NIST Boulder approving officials to properly close accounts of departing employees.

OIG Comments

We concur with the planned action, subject to review and approval by the HCO.

B. Alternate approving officials should be documented

Our review found 25 bankcard statements using alternate approving officials that did not have the required documentation attached designating the alternate approving official. *CAM, Part 13, 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 memorandum to the statement of account. Without this documentation, the finance office cannot verify that all purchases have been approved by an authorized official.

Recommendation

We recommend that the NIST Acting Director require approving officials to arrange for the appointment of alternate approving officials and notify the finance and accounting office when alternate approving officials are used.

NIST Response

NIST agreed that approving officials must notify the Finance Operations Division whenever there is need for an alternate approving official. NIST will request that the HCO inform NIST Boulder approving officials of the need to provide written notification to the Finance Operations Division of alternates and attach the authorization to the statement of account.

OIG Comments

We concur with the planned action, subject to review and approval by the HCO.

C. Review of cardholder activity should be strengthened

Approving officials need to increase their reviews of cardholders' accounts to ensure they are adequately maintained on a long-term basis. Five of six approving officials interviewed were reviewing individual bankcard "Statements of Account" for authorized purchases, as required by *CAM, Part 13*, Section 8.b.(6), but were not reviewing the cardholders' accounts on an ongoing basis to ensure proper maintenance of bankcard transactions, resulting in increased risk of potential unauthorized and improper transactions, such as split transactions. *CAM, Part 13*, Section 8.b.(7), requires the approving official to review the printout of cardholders every six months, or as often as necessary, to identify accounts requiring maintenance.

Recommendation

We recommend that the NIST Acting Director require approving officials to review individual cardholders' accounts to disclose any long-term pattern of inappropriate transactions.

NIST Response

NIST agreed that bankcard holder's accounts need to be monitored on an ongoing basis. The Director for Administration has requested that this function be delegated to the MASC Purchase Card Assistant (a subordinate of the HCO).

OIG Comments

We concur with the planned action, subject to review and approval by the HCO.

D. Bankcard statements should be certified before payment

Our review revealed that two bankcard statements were not certified (signed) by the approving official or alternate approving official, and one statement was certified by a person other than the authorized cardholder designated on the statement. *CAM Part 13*, Sections 17.b.(7) and 17.c.(3), require both the cardholder and the approving official to certify the bankcard statement before submitting it to the servicing finance office for payment. Only the designated cardholder can be held responsible for the transactions on the bankcard statement because *CAM* does not allow for unauthorized personnel to certify the bankcard statement, and it makes no provisions for alternate cardholders.

Recommendation

We recommend that the NIST Acting Director require approving officials to certify all bank statements after review and require the authorized cardholders to certify the statements.

NIST Response

NIST agreed that bankcard statements need to be certified by bankcard holders unless the approving official certifies and attaches a statement of the reason for the absence of the cardholder signature. NIST will request that the HCO provide a written reminder to NIST Boulder approving officials of the necessity of proper certification of bankcard statements.

OIG Comments

We concur with the planned action, subject to review and approval by the HCO.

E. Separation of duties over transactions should be improved

Our review of 125 sampled transactions revealed that on at least two occasions, one NIST official was the requestor and approving official for transactions made by a cardholder while also being the cardholder's first line supervisor. Consequently, the responsibilities to determine that a good or service was needed, that sufficient funds were available, and that all procurement requirements were adequate were controlled by a single official, which is a weakness in internal controls over the bankcard process.

Recommendation

We recommend that the NIST Acting Director require approving officials to ensure adequate separation of duties for entire purchase transactions.

NIST Response

NIST agreed that a very small number of transactions needed better separation of duties. NIST agreed to develop guidance regarding this type of situation and provide alternate solutions when the requestor is the approving official and the first line supervisor of the cardholder. This guidance will be distributed by the MASC HCO.

OIG Comments

We concur with the planned action, subject to review and approval by the HCO.

IV. Bankcard Statement Packages Should Be Submitted to Finance Office Before Payment

Our review of the approving officials' reconciliation of cardholder accounts revealed that the officials do not send the approved bankcard statement package to the servicing finance office as required by CAM. The approving officials are only providing copies of the bankcard statement attached to the Quick Payment System report to the payment office for payment. As a result, the servicing finance office does not have all required documents to approve disbursement.

CAM, Part 13, Section 17.c.(6), requires the approving official to send the original, certified, and approved statement package to the servicing finance office. It also states that for additional guidance, cardholders should see Appendix A of the *DOC Cash Management Policies and Procedures Handbook*. Appendix A, Section 3, Paragraph .02, requires approving officials to forward all cardholder statements, associated receipts, and any copies of "Statements of Questioned Items" or acquisition logs to the payment office. When approving officials maintain the original documents, more potential exists for manipulation of transactions.

Recommendation

We recommend that the NIST Acting Director direct approving officials to send original certified and approved bankcard statement packages to the NIST finance office that makes the disbursements.

NIST Response

NIST agreed that the monthly statement, the QPS log sheet, and applicable dispute forms should be submitted, but stated that in 1997 the NIST Office of Comptroller discontinued the requirement that copies of receipts be furnished with monthly statements. NIST stated that the cardholder is responsible for safeguarding vendor receipts.

OIG Comments

We concur with NIST's response except for the guidance on how receipts are handled. We believe that NIST guidance is inconsistent with the CAMS guidance, noted above. In addition, failure to provide the CAM-required documents weakens internal controls over bankcard transactions and payments.

APPENDIX A

Complete List of OIG Recommendations

We recommend that the NIST Acting Director take the following actions:

1. Require cardholders purchasing items greater than \$2,500 to document that a price is fair using quotes, previous purchases, catalogs, current price lists, advertisements, similar items in a related industry, or value analysis. If the cardholder solicits only one source or vendors do not provide quotes, the cardholder should provide an additional notation justifying the absence of competition.
2. Direct cardholders to use the log as stated in *CAM* to record all transactions, provide support for transactions when necessary, and reconcile bankcard statements.
3. Direct NIST cardholders not to purchase prohibited items and to obtain special authorization or approval to purchase specific items when required by *CAM*.
4. Direct cardholders not to allow non-cardholders to use or process bankcard transactions.
5. Develop procedures for management pre-approval of transactions for individual purchases over \$2,500 or for purchases that result in the acquisition of sensitive items.
6. Direct cardholders, before making a purchase, to determine the total cost of equipment or system to be purchased. If the total cost exceeds one cardholder's limit, the cardholder should notify the requestor that the bankcard system cannot be used and that the Department's procurement request form (CD-435) should be used for the purchase.
7. Require cardholders to work with the HCO to ensure that cardholders receive appropriate training.
8. Direct cardholders to track and verify the receipt of accountable property purchased with bankcards and report the receipt to the property book officer as required by *CAM*.
9. Direct NIST units constructing accountable property with "non-accountable" components, either for NIST or under NIST agreements, report the completed property to the property book officer.

APPENDIX A

Complete List of Recommendations (continued)

10. Require approving officials to review and collect terminating cardholders' files step during the employees' out-processing.
11. Require approving officials to arrange for the appointment of alternate approving officials and notify the finance and accounting office when alternate approving officials are used.
12. Require approving officials to review individual cardholders' accounts to disclose any long-term pattern of inappropriate transactions.
13. Require approving officials to certify all bank statements after review and require the authorized cardholders to certify the statements.
14. Require approving officials to ensure adequate separation of duties for entire purchase transactions.
15. Direct approving officials to send original certified and approved bankcard statement packages to the NIST finance office that makes the disbursements.

APPENDIX B

**National Institute of Standards and Technology
Bankcard Transaction FY 1998**

Summary of Audit Sample

Transactions	Amount of Transactions				
	Over \$5,000 (a)	\$2,501 to \$5,000 (b)	\$1,500 to \$2,500 (c)	Under \$1,500 (d)	Total
Total Number	34	62	302	5,888	6,286
Number Reviewed	34	31	30	30	125
Percent Reviewed	100%	50%	9.93%	.51%	1.99%
Total Amount	\$300,170	\$213,745	\$598,795	\$1,182,466	\$2,295,176
Amount Reviewed	\$300,170	\$106,375	\$59,097	\$4,504	\$470,146
Percent Reviewed	100%	49.77%	9.87%	.38%	20.48%

Notes:

- (a) All of the transactions were selected for review. All cardholders in this category were selected for interviews, and all accountable property was physically verified.
- (b) One of every two transactions were selected for review. All cardholders responsible for the transactions in this category were selected for interviews, and all accountable property purchased by an interviewed cardholder was physically verified.
- (c) One in every 10 transactions were selected for review. All cardholders responsible for the transactions in this category were selected for interviews, and all accountable property purchased by an interviewed cardholder was physically verified.
- (d) One in every 196 transactions were selected for review. All cardholders responsible for the transactions in this category were selected for interviews, and all accountable property purchased by an interviewed cardholder was physically verified.



UNITED STATES DEPARTMENT OF COMMERCE
National Institute of Standards and Technology
Gaithersburg, Maryland 20899-

OCT 27 2000

MEMORANDUM FOR Edward Blansitt
Deputy Inspector General

From: Anita Cooke Wells *Anita Cooke Wells*
Director for Administration
and Acting Chief Financial Officer

Subject: Internal Controls Over NIST's Bankcard Program Need Improvement
Draft Audit Report No. DEN-11787-0-XXXX

This is in response to your memo regarding the draft audit report on Internal Controls Over NIST's Bankcard Program. The National Institute of Standards and Technology (NIST) has reviewed Draft Audit Report No. DEN-11787-0-XXXX, and the response is provided in the attached document.

NIST appreciates the time and effort of the Office of Inspector General in the conduct of the audit. The report's recommendations will strengthen a program that is operating effectively and efficiently. NIST took special notice of portions of the report that alluded to the positive elements of the Bankcard Program in Boulder, Colorado. For example, page 2 of the report noted no evidence of misuse of funds; Appendix I states that all accountable property was physically verified when transactions were reviewed; and the report did not cite any instance where accountable property was missing.

NIST takes seriously its responsibilities in the use and management of the Bankcard Program, and will continue to strengthen the controls over the program.

If you have any questions concerning the response to the draft audit report, please contact Norman Osinski at (301)975-6348.

Attachment

cc: J. McGuffin
D. Turner
D. Barr
B. Camp
L. Shariati

NIST

Response to the Office of Inspector General Draft Audit Report No. DEN-11787-0-XXXX/August 2000 entitled, "Internal Controls over NIST's Bankcard Program Need Improvement".

Section I. NIST Needs to Improve Cardholder Performance

Recommendation 1 – We recommend that the Acting Director, NIST Office of Administration, improve bankcard internal controls by requiring cardholders to document that the price for items costing more than \$2500 is fair by using quotes, previous purchases, catalogs, current price lists, advertisements, similar items in a related industry, or value analysis. If the cardholder solicits only one source or vendors do not provide quotes, the cardholder should provide an additional notation justifying the absence of competition.

NIST Response:

NIST agrees that there is a need to strengthen internal controls regarding the required documentation for purchases in excess of \$2500.

Corrective Action Item:

- NIST Gaithersburg will develop guidance on the documentation of acquisitions in excess of \$2500. The guidance will address: (1) the requirement for competition; (2) documenting the absence of competition; and (3) documenting price reasonableness. NIST Gaithersburg will provide the guidance to the Mountain Administrative Support Center (MASC) Head of Contracting Office (HCO) to disseminate to applicable cardholders and approving officials to remind them of the documentation requirements for bankcard purchases over \$2500.

Recommendation 2 – We recommend that the Acting Director, NIST Office of Administration, improve bankcard internal controls by requiring cardholders to use the log as stated in CAM to record all transactions, provide support for transactions when necessary, and reconcile bankcard statements.

NIST Response:

NIST agrees that there is a need to use a log to support internal BankCard transactions. Currently, NIST cardholders are required to use the Quik Procurement System (QPS) to enter information on all bankcard purchases. QPS is an automated system used to manage bankcard transactions. Information entered into QPS is downloaded into NIST's accounting and property systems. QPS provides NIST cardholders with an electronic version of the purchase order log that meets the requirements in the CAM. The data entered into this system is used to document, control, and reconcile purchase activity with the bankcard statements. NIST believes requiring cardholders to use a paper version of a log is redundant.

Corrective Action Item:

- NIST believes consistent procedures should be followed. NIST Gaithersburg will establish a policy that QPS log sheets be mandatory and request that the MASC HCO direct NIST Boulder cardholders to use the QPS log features.

Recommendation 3 – We recommend that the Acting Director, NIST Office of Administration, improve bankcard internal controls by requiring cardholders to not purchase prohibited items and to obtain special authorization or approval to purchase specific items when required by CAM.

NIST Response:

NIST agrees that HCO approval should be obtained prior to the purchase of fuel products and prior to cardholders exceeding their purchase limits. NIST also agrees that the bankcard should not be used for janitorial services.

In the five instances of printing charges, NIST takes exception to the recommendation. NIST acknowledges that the CAM requires approval from the Operating Unit Printing Coordinator for publication of scientific/research articles in professional journals. NIST requirements are outlined in NIST Administrative Manual, Subchapter 4.09. Appendix G of Subchapter 4.09 reads, "NIST is authorized by law to pay page charges and to purchase reprints of NIST papers printed in non-NIST publications." Appendix G also reads, "Page charges/reprints can be paid for either by purchase order issued by the Purchasing Office (AAD) after the request is initiated on Form CD-435, Procurement Request, or by Bankcard." In these instances approval from the Government Printing Office or approval from the appropriate printing officer does not apply. The cost is not for printing or binding. The page charges and reprint charges are associated with the publication of articles in scientific journals.

Corrective Action Item:

- NIST will request the MASC HCO issue written notification to NIST Boulder cardholders and approving officials listing prohibited items and those that require special authorization/approval. Random samples of cardholders' statements will be regularly subjected to internal audit by MASC to look for instances of improper purchases.

Recommendation 4 – We recommend that the Acting Director, NIST Office of Administration, improve bankcard internal controls by requiring cardholders to not allow non-cardholders to use or process bankcard transactions.

NIST Response:

NIST agrees that only the individual named on the bankcard should be placing orders.

Corrective Action Items:

- NIST Gaithersburg will request the MASC HCO:
 1. Issue written notification to NIST Boulder cardholders and approving officials reminding them that it is improper to allow anyone to use the purchase card other than the individual named on the card;
 2. Emphasize as part of the training of new cardholders that cardholders cannot allow other individuals to place orders using their card; and,
 3. Post information on the MASC web site that alerts cardholders that only the cardholder can place an order with their card.

Recommendation 5 – We recommend that the Acting Director, NIST Office of Administration, improve bankcard internal controls by requiring cardholders to develop procedures for management pre-approval of transactions for individual purchases over \$2500 or for purchases that result in the acquisition of sensitive items.

NIST Response:

There is no requirement in the present or previous CAM that pre-approvals be obtained for these types of transactions. In fact, Department of Commerce (DoC) Procurement Memorandum 99-10 dated 9/29/99 reads:

"This requirement for prior approval was revised in an e-mail dated 8/25/95 from the Director of APP to HCOs and then eliminated altogether in the subsequent version of the CAM dated 7/1/96. The purpose of this PM is to confirm that the prior supervisory or approving officials requirement for all purchases in PM 95-23 was officially eliminated with the release of the above CAM chapter

dated 7/96. Apparently, there has been some confusion on this point during review of the purchase program.”

However, NIST agrees that bankcard internal controls would be improved by requiring cardholders to obtain pre-approval for transactions over \$2500 or for purchases that result in the acquisition of sensitive items.

Corrective Action Item:

- NIST Gaithersburg will develop a procedure for pre-approval of transactions for purchases of personal property over \$2500 and sensitive items under \$5000. The procedure will be provided to the MASC HCO for distribution to Boulder cardholders and approving officials. NIST Gaithersburg will research the feasibility of modifying the QPS to query the cardholders for approval information.

Recommendation 6 – We recommend that the Acting Director, NIST Office of Administration, improve bankcard internal controls by requiring cardholders, before making a purchase, to determine the total cost of equipment or system to be purchased. If the total cost exceeds one cardholder's limit, the cardholder should notify the requester that the bankcard system cannot be used and that the Department's procurement request (CD-435) should be used for the purchase.

NIST Response:

Although it was not clear from the IG supporting documentation provided to NIST that the instances cited constitute a split requirement, NIST agrees that the total cost of equipment or systems being purchased should be considered prior to making a bankcard transaction.

Corrective Action Items:

- NIST Gaithersburg will request that the MASC HCO issue written notification to cardholders and approving officials reminding them that the total cost of equipment or systems should be considered prior to making a bankcard transaction. The notification will include the principles of what constitutes a split requirement.
- NIST Gaithersburg will request that the MASC HCO, during the bankcard training, explain that split requirements are improper. Cardholders will be trained that the bankcard is not the correct contracting mechanism if they require similar items from the same vendor over a short period of time.

Recommendation 7 – We recommend that the Acting Director, NIST Office of Administration, work with the HCO to ensure that cardholders receive appropriate training.

NIST Response:

It is NIST policy that cardholders and approving officials are required to receive appropriate training. There are procedures that address initial basic training for cardholders and refresher training. Prior to the usage of the bankcard, all new cardholders and approving officials attend a training class. The MASC training course addresses the requirements in the CAM as well as requirements specifically for NIST Boulder cardholders. Cardholders and approving officials are also provided a training manual developed by NIST Gaithersburg entitled, “Everything You Wanted to Know about the Purchase Card Program.” The manual includes a copy of the CAM.

Regarding the issue of refresher training, the mentioned video has been outdated for years. It should be noted that the new CAM deleted the refresher video requirement for purchases under \$2500 and recommended using material based on technology of the web to satisfy refresher information. Accordingly, NIST Gaithersburg maintains a web site that keeps cardholders and approving officials informed of changes such as periodic CAM changes, training requirements, frequently asked questions, how the program is managed, guidelines on how to use the BankCard, and how to place an order.

Corrective Action Item:

- NIST Gaithersburg will coordinate with the MASC HCO regarding the changes to be made and posted on the Boulder web site with regard to training and program changes.

Section II. NIST Needs to Better Control Accountable Property

Recommendation 1 – We recommend that the Director, NIST Office of Administration, direct cardholders to track and verify the receipt of accountable property purchased with bankcards and report the receipt to the property book officer as required by CAM. We further recommend that the directors of NIST units constructing accountable property with “non-accountable” components, either for NIST or under NIST agreements, report the completed property to the property book officer.

NIST Response:

NIST agrees that property-recording procedures need to be improved. Through the QPS system, NIST has the capability to automatically record purchases of accountable personal property and sensitive item purchases. Whenever the QPS system is used properly, a written notification, the CD-509, is not needed. The system automatically provides the information to the property system. If NIST procedures included the requirement for a cardholder to forward a CD-509 for accountable property, the weapon and security system referenced in this part would still not have been identified as accountable property. The cardholder did not recognize the items as accountable property – the decision that initiates preparation of a CD-509 or assigning a 31-object class.

Further, in those instances, such as the lasers cited in the report, where accountable equipment is constructed through use of non-accountable components, the NIST-409 form should be completed by the program area and provided to the NIST Financial Policy Division. The Financial Policy Division would then notify the appropriate NIST Property Office (i.e., Boulder or Gaithersburg) to tag the asset. Please note that NIST does not use the CD-509 form. The NIST-409, “Notice of Completed Manufactured Equipment”, is used instead to notify the Financial Policy Division when equipment results from research and development efforts or when construction in process is completed. The CD-509 is not used in these circumstances because it does not capture the necessary financial information required.

Corrective Action Items:

- NIST Gaithersburg will request that the MASC HCO issue written notification to stress the importance of utilizing appropriate object classes in QPS in order to ensure that accountable property is accurately recorded. Object classes are provided as a scroll down menu. The menu provides a general description for the frequently used object classes.
- NIST Gaithersburg will develop a detailed list of frequently purchased accountable and sensitive items that require a “31” object class for proper accountability. NIST Gaithersburg will request the MASC HCO distribute the list to all cardholders and approving officials as well as post the list on the MASC bankcard web site.
- NIST will request that the MASC HCO emphasize in training the requirement to select the appropriate object class for accountable property and sensitive item purchases.
- NIST will request that the MASC HCO issue written notification to NIST Boulder Bankcard officials to emphasize that what eventually becomes an accountable piece of equipment constructed through use of non-accountable components (regardless of how they are acquired) must be tagged and that a NIST-409 form must be prepared and submitted to the NIST Financial Policy Division to document the item as accountable.

Section III. NIST Needs to Improve Approving Official Procedures

Recommendation 1 – We recommend that the Acting Director, NIST Office of Administration, improve bankcard internal controls by requiring approving officials to review and collect terminating cardholder files during the employees' out-processing.

NIST Response:

NIST agrees that approving officials must review and collect terminating cardholders' files during the employees' out-processing. Although NIST recognizes the approving officials were not in total compliance with the recommendation, it should be noted the sampling indicated that two accounts were not properly terminated; therefore, over 97 percent of the cardholders were in compliance with the requirement. MASC already has a clearance process in place where administrative officers electronically send notification to the agency program coordinator of the out-processing.

Corrective Action Items:

- NIST Gaithersburg will develop an internal clearance checklist for the MASC Purchase Card Agency Coordinator. NIST Gaithersburg will request that MASC complete the checklist for each NIST Boulder cardholder leaving NIST. The checklist would ensure the account is properly closed and cleared before the cardholder departs the agency.
- NIST Gaithersburg will request that the MASC HCO issue written notification to NIST Boulder approving officials reminding them to properly close out accounts of departing employees.

Recommendation 2 – We recommend that the Acting Director, NIST Office of Administration, improve bankcard internal controls by requiring approving officials to arrange for the appointment of alternate approving officials and notify the finance and accounting office when alternate approving officials are used.

NIST Response:

NIST agrees that the approving official must notify the Finance Operations Division whenever there is a need for an alternate approving official. The NIST Finance Operations Division currently allows approving officials to designate alternates prior to the submission of the statement of account. The notification can be in the form of an email. Additionally, a copy of the notification should be attached to the statement of account when submitted to Finance Operations Division.

Corrective Action Item:

- NIST Gaithersburg will request that the MASC HCO submit written notification to NIST Boulder approving officials reminding them to submit written notification to the Finance Operations Division and attach a copy of the approval authority to the statement of account appointing an alternate authorized to act in their absence.

Recommendation 3 – We recommend that the Acting Director, NIST Office of Administration, improve bankcard internal controls by requiring approving officials to perform ongoing review of bankcard reports to monitor individual cardholders' accounts to disclose any long-term pattern of inappropriate transactions.

NIST Response:

NIST agrees that cardholders' accounts need to be monitored on an ongoing basis.

Corrective Action Item:

- NIST Gaithersburg will request that the MASC HCO issue written notification to NIST Boulder approving officials reminding them to review statements and reports for inappropriate transactions. The MASC Purchase Card Assistant will review reports for evidence of patterns of inappropriate transactions. Random samples of NIST Boulder cardholders' statements will be regularly subjected to internal audit by the MASC Purchase Card Assistant to look for instances of improper purchases.

Recommendation 4 – We recommend that the Acting Director, NIST Office of Administration, improve bankcard internal controls by requiring approving officials to certify all bank statements after review and require the authorized cardholder to certify the statement.

NIST response:

NIST agrees that only the designated cardholder should be certifying the bank statement and that statement of accounts requires the signature of the cardholder and the approving official. There could be situations when an authorizing official must approve a statement absent the cardholder's approval (i.e., a cardholder is no longer employed at NIST.) In these situations, the authorizing official should approve the transactions and attach to the statement the reason for the absence of the cardholder's signature.

Corrective Action Item:

- NIST Gaithersburg will request that the MASC HCO issue written notification to NIST Boulder cardholders and approving officials reminding them that statements must be properly certified.

Recommendation 5: We recommend that the Acting Director, NIST Office of Administration, improve bankcard internal controls by requiring approving officials to ensure adequate separation of duties for entire purchase transactions.

NIST Response:

NIST agrees that strong internal controls dictate the need for adequate separation of duties. This situation occurred in fewer than two percent of the items reviewed – two occasions in a review of 125 transactions.

Corrective Action Item:

- NIST Gaithersburg will develop guidance regarding this type of situation. The guidance will provide alternate solutions for situations where the approving official is the requester and the first line supervisor of the cardholder. The guidance will be distributed to NIST cardholders and approving officials by the MASC HCO.

Section IV. NIST Bankcard Payment Practices Contradict CAM Requirements

Recommendation 1 – We recommend that the Acting Director, NIST Office of Administration, direct approving officials to send original certified and approved bankcard statement packages to the NIST finance office that makes the disbursements.

NIST Response:

NIST agrees that a complete package should be forwarded to the Finance Operations Division to include: a) Monthly Statement of Account; b) QPS log sheet; and c) Dispute Form (if applicable). In reference to receipts, a September 9, 1996 memorandum from DoC notified the NIST Office of the Comptroller that

QPS log sheets supporting purchases are acceptable in lieu of receipts. In July 1997, the Office of the Comptroller notified all concerned that copies of receipts are no longer required to be furnished with monthly statements. Nonetheless, the approving official must review the cardholder's original monthly Statement of Account, including vendor receipts, and QPS log sheets in order to certify the individual Bankcard Statement of Account before sending reconciled statements to the NIST Finance Operations Division for payment. The cardholder is responsible for maintaining and safeguarding the vendor receipts.