

## **MEMORANDUM**

TO : Frank S. Holleman, III  
Deputy Secretary  
Office of the Deputy Secretary

Scott S. Fleming  
Assistant Secretary  
Office of Legislation and Congressional Affairs

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

SUBJECT : Results of the OIG Review of OS/ODS/OLCA's Internal Controls  
Over the Procurement of Goods and Services (A&I 2000-010)

## **INTRODUCTION**

This memorandum transmits the results of our review of OS/ODS/OLCA's internal controls over the procurement of goods and services. We reviewed these three offices together because the offices share an Executive Office and Executive Officer. 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 you and the other Assistant Secretaries and senior staff when we complete our review. On August 11, 2000, OIG staff met with Diane Rogers, Chief of Staff to the Deputy Secretary, Steve Moore, Senior Management Advisor, and JoAnn Ryan, Executive Officer, to discuss the results of this review.

## **RESULTS**

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

- ✓ The FAR requires the solicitation of quotes or offers from a reasonable number of sources or sole-source justification for any purchase of more than \$2,500. When using GSA schedules, the purchaser must review at least three schedules and then select the best value. Purchases cannot be split to fall below the \$2,500 threshold to

avoid these procedures. We identified seven transactions by purchase card that appear to have been split to fall below the threshold or below a cardholder's single purchase limit. We also noted that there was no documentation of oral bids or sole-source justification for a \$2,755 purchase of furniture.

- ✓ We identified five invoices that appear not to have been paid (one by purchase card and four by TPDS checks) in accordance with the Prompt Payment Act.
- ✓ We were informed that purchase cards were shared among employees with management's knowledge. During our review, we identified seven transactions where the receipt or invoice was either issued to or signed by someone other than the 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."

We identified certain deficiencies, in addition to the instances of noncompliance identified above, that prevent OS/ODS/OLCA from satisfying GAO's *Standards for Internal Control in the Federal Government*. For your information and corrective action, we have listed those deficiencies 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 OS/ODS/OLCA 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 one staff member assigned a purchase card is below the grade level (GS-9) required to receive annual ethics training. Because of the employee's procurement responsibilities, we believe that ethics training would be beneficial to this staff member. Management should require all procurement staff 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). We limited testing of accounting records to procurements using purchase cards and the Third Party Draft System (TPDS). We did not conduct testing on OS/ODS/OLCA's use of "Corporate" Government Travel Accounts.

## **METHODOLOGY**

To achieve our objectives, we conducted interviews with OS/ODS/OLCA staff 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). We judgmentally selected a sample of monthly purchase card statements dated between October 16, 1998 and May 16, 2000. Then we selected 50 transactions to review. We also reviewed OS/ODS/OLCA's monthly purchase card statements in OCFO's Financial Management Policy and Administrative Programs Group files for the months of September 1999 and March 2000.

We based our conclusions about OS/ODS/OLCA's internal controls on the information gathered during our interviews and transaction testing. We conducted our interviews and transaction testing between May 8, 2000 and July 11, 2000. We assessed OS/ODS/OLCA'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 contact me at 205-5439.

Attachments

**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 the Secretary, Office of the Deputy Secretary and the Office of Legislation and Congressional Affairs**

Control Component	Deficiencies
Control Environment	<ul style="list-style-type: none"> <li>• Noncompliance – As mentioned in the cover memorandum and described below, we identified instances of noncompliance with the FAR, Prompt Payment Act and current Department policies.</li> </ul>
Risk Assessment	<ul style="list-style-type: none"> <li>• Identification of Risks – The Executive Office has no formal procedures for risk assessment in the procurement area.</li> <li>• Identification of Risks – One procurement staff member has been assigned a moderate risk level when the employee’s responsibilities suggest that a high risk level is more appropriate. Another procurement staff member has been assigned a low risk level when the employee’s responsibilities suggest that a moderate risk level is more appropriate.</li> </ul>
Control Activities	<ul style="list-style-type: none"> <li>• 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, the Executive Office has no written policies and procedures on the purchase card process.</li> <li>• Purchase Cards – We reviewed the September 1999 and the March 2000 statements from OCFO files. Our purpose was to verify that the Executive Office had submitted all its monthly card statements with activity to OCFO and that the approving official had signed the card statements. We also judgmentally selected and reviewed 50 purchase card transactions.               <ul style="list-style-type: none"> <li>◆ Approval – We noticed that most transactions did not have evidence of preapproval.</li> <li>◆ Review of Monthly Statements:                   <ul style="list-style-type: none"> <li>• For September 1999, there were six cards with activity. One statement was missing from OCFO’s files and the other five were not signed by the approving official.</li> <li>• For March 2000, there were six cards with activity. All statements were signed by the approving official.</li> </ul> </li> <li>◆ Documentation – Invoices were missing for two charges of \$249.90 and \$9,683.91.</li> </ul> </li> </ul>

Control Component	Deficiencies
	<ul style="list-style-type: none"> <li>◆ Documentation – Our sample included three charges from a commercial printer. <ul style="list-style-type: none"> <li>• A charge for \$1,090 was supported by a receipt and the copy of an e-mail message indicating Executive Officer approval of the transaction. There was no documentation explaining the use of a commercial printer.</li> <li>• A charge for \$20.33 was supported by a credit card receipt. There was no documentation of approval or explanation for the use of a commercial printer.</li> <li>• There was no receipt for the third charge of \$69.89. There also was no documentation of approval or explanation for the use of a commercial printer.</li> </ul> </li> <li>◆ Card Sharing – As mentioned in the cover memorandum, we were informed that purchase cards were routinely shared among office staff with management’s knowledge. During our review, we identified seven transactions where the receipt or invoice was either issued to or signed by someone other than the cardholder.</li> <li>◆ Compliance/Split Procurements – As mentioned in the cover memorandum, we noted seven transactions that appear to have been split to either fall below the \$2,500 micro-purchase threshold or the cardholder’s single purchase limit. For example: <ul style="list-style-type: none"> <li>• Three sequentially numbered invoices (\$755, \$2,054 and \$1,995) for related products from the same vendor were charged on the same day and assigned sequential EDCAPS transaction numbers. There was no documentation of oral bids or justification for a sole-source purchase.</li> <li>• One invoice for \$10,894 was charged to a cardholder with a single purchase limit of \$10,000 in two amounts of \$5,000 and \$5,894 on the same day. There was no documentation of oral bids or justification for a sole-source purchase.</li> </ul> </li> <li>◆ Compliance/Prompt Payment – As mentioned in the cover memorandum, one invoice appears to not have been paid in accordance with the Prompt Payment Act. On February 25, 2000, a purchase card was used to pay a \$6,000 invoice that was due October 1, 1999. No interest was paid at that time.</li> <li>◆ Recording in EDCAPS – We were unable to trace 10 charges to the purchase card expenditures on an EDCAPS report using the EDCAPS transaction numbers listed on the monthly statement.</li> <li>◆ Payment of Tax – Six invoices were paid that included a charge for tax.</li> <li>• TPDS Checks – We randomly selected 50 TPDS checks to review. During our review, no documentation was provided for two checks. On July 26, 2000, subsequent to our review, the</li> </ul>

Control Component	Deficiencies
	<p>documentation for those two checks was provided.</p> <ul style="list-style-type: none"> <li>◆ Approval – Of the 48 checks we were able to review, five Form 1164s (employee reimbursement) were not signed by the approving official. Supporting documents for four other transactions did not include evidence of approval.</li> <li>◆ Documentation – Of the 48 checks we were able to review, we noted documentation problems with eight checks. For example: <ul style="list-style-type: none"> <li>• Payment of \$1,288 to an ED employee supported by a January rent receipt for \$730 and a hand written note, but no claim signature by the employee.</li> <li>• Payment of \$69 to an ED employee supported by a Form 1164 that totaled only \$43.</li> <li>• Payment of \$1,144 for housing and per diem to an individual on an Intergovernment Personnel Assignment supported by an August rent receipt of \$825, an e-mail regarding travel in August, hand written calculations and pages from an Intergovernment Personnel Assignment Agreement. The numbers in the hand written calculations were not labeled. There was no claim signature by the individual receiving the payment.</li> <li>• A payment to Federal Express for \$144.18 supported by an invoice for \$257.99. The same invoice number was also referenced to an additional check for \$144.18 issued the day before.</li> </ul> </li> <li>◆ Date Stamping – None of the invoices were date stamped upon receipt.</li> <li>◆ Compliance/Prompt Payment – As mentioned in the cover memorandum, four invoices appear to not have been paid in accordance with the Prompt Payment Act.</li> <li>◆ Compliance/Bids – Only one of the checks was subject to multiple bids. As mentioned in the cover memorandum, there was no documentation of multiple bids or sole-source justification for the purchase of furniture for \$2,755. In addition, there was no invoice.</li> </ul>
Information & Communications	<ul style="list-style-type: none"> <li>• Communication of Key Information – Only one member of the procurement staff we interviewed was familiar with the Department’s Directive on <i>Commercial Credit Card Service</i>.</li> </ul>
Monitoring	<ul style="list-style-type: none"> <li>• 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 the Executive Office.</li> </ul>