
Audit of Purchase Cards
at the U.S. Department of Education



FINAL AUDIT REPORT
ED-OIG/A17-C0002
April 2002

Our mission is to promote the efficiency,
effectiveness, and integrity of the Department's
programs and operations.



U.S. Department of Education
Office of Inspector General
Washington, DC

NOTICE

Statements that management practices need improvement, as well as other conclusions and recommendations in this report, represent the opinions of the Office of the Inspector General. Determination of corrective action to be taken will be made by the appropriate Department of Education officials.

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

APR 9 2002

MEMORANDUM

TO: Jack Martin
Chief Financial Officer
Office of the Chief Financial Officer

FROM: 
Thomas A. Carter
Assistant Inspector General for Audit Services

SUBJECT: FINAL AUDIT REPORT
Audit of Purchase Cards at the U.S. Department of Education
Control No. ED-OIG/A17-C0002

Attached is our subject final report that covers the results of our review of Purchase Cards at the U.S. Department of Education. We received your comments concurring with the findings and recommendations in our draft audit report.

Please provide the Supervisor, Post Audit Group, Office of Chief Financial Officer and the Office of Inspector General with quarterly status reports on promised corrective actions until all such actions have been completed or continued follow-up is unnecessary.

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

We appreciate the cooperation given us in the review. Should you have any questions concerning this report, please call Chelton T. Given, Director, Financial Statement Internal Audit Team at (202) 205-7945.

Attachment

cc (electronic copies):

Mark Carney
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Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.

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EXECUTIVE SUMMARY

The objective of our audit was to determine if the U.S. Department of Education (ED or Department) has addressed the internal control weaknesses and related issues identified in a prior Office of Inspector General (OIG) report¹ focusing on the current purchase card systems, implemented before and after January 22, 2002.

Prior OIG review resulted in 22 recommendations. The Department has asserted that corrective actions has been taken for all of the 22 recommendations. Attachment 1 sets forth the OIG recommendations and corrective actions taken by the Department.

ED's Administrative Communications Directive OCFO:3-104, *Government-wide Commercial Purchase Card Program*, issued on January 23, 2002, sets forth policy for the use of purchase cards and the responsibilities for all employees, education boards, commissions and councils who participate in ED's purchase card program for the procurement of and payment for goods and services used by ED. The directive supercedes ED's *Commercial Credit Card Directive*, originally issued on March 12, 1990, and modified by pen and ink changes in March 1992.

ED's Contracts and Purchasing Support System (CPSS) supports the micro-purchases and simplified acquisition purchases, as well as the contract pre- and post-award processes. CPSS interfaces with the Financial Management Systems Software (FMSS) at the detail level for fund control, general ledger, accounts payable, and accounts receivable. Until recently, FMSS provided the functionality for general ledger and funds management for ED. FMSS has been replaced by Oracle Federal Financials (Oracle). With the implementation of Oracle on January 22, 2002, enhancements were made to CPSS. Attachment 2 contains a summary of the system enhancements that affect the purchase card program.

Our audit disclosed that ED has addressed the internal control weaknesses and related issues identified in a prior OIG report over its purchase card program. However, additional internal controls are needed over ED's purchase card program. ED needs to (1) develop on-site² guidelines and conduct on-site internal control reviews, and (2) reassess the number of cardholders assigned to an approving official. In addition, as reported in *Other Matters*, ED needs to address the account information within CPSS.

We did not perform purchase card transaction testing as part of this audit. We plan to test such transactions in the future after ED has had a chance to implement its new directive.

OCFO concurred with our findings and recommendations. We have summarized OCFO's comments in the report and included a copy of the comments as an attachment to the report.

¹ U.S. Department of Education Office of Inspector General, Results of the OIG Review of Internal Controls Over the Use of Purchase Cards and Third Party Drafts, A&I 2000-15, October 13, 2000.

² The term on-site is defined as a review being conducted by Contracts and Purchasing Operations at the locations where the purchase card activity and approval is performed.

AUDIT RESULTS

Our audit disclosed that ED has addressed the internal control weaknesses and related issues identified in a prior OIG report over its purchase card program. However, additional internal controls are needed over ED's purchase card program. ED needs to (1) develop on-site guidelines and conduct on-site internal control reviews, and (2) reassess the number of cardholders assigned to an approving official. In addition, as reported in *Other Matters*, ED needs to address the account information within CPSS. Strengthening internal controls reduces the purchase card program susceptibility to fraud, waste, and abuse.

FINDING NO. 1 – ON-SITE INTERNAL CONTROL REVIEW GUIDELINES NEED TO BE DEVELOPED AND REVIEWS CONDUCTED

Effective July 3, 2001, functional responsibility for ED's purchase card program was transferred from Financial Management Policies and Administrative Programs Group (FMPAP) to Contracts and Purchasing Operations (CPO). CPO serves as ED's purchase card Program Coordinator and acts as the liaison with the Purchase Card Contractor (Bank of America). Recently, under the direction of CPO, ED's Commercial Credit Card Directive was revised. On January 23, 2002, ED issued the Administrative Communications Directive OCFO:3-104, *Government-wide Commercial Purchase Card Program*. This directive sets forth policy for the use of the purchase card and the responsibilities for all employees, education boards, commissions, councils and independent organizations who participate in ED's purchase card program for the procurement of and payment for goods and services.

One of 16 responsibilities to be fulfilled by CPO is to coordinate internal control reviews and quality reviews of sample purchase card transactions on a quarterly basis. To date, no on-site internal control review guidelines have been established or reviews conducted. Currently, CPO is conducting quality reviews of transactions on a sample basis. Quality review transactions are conducted through electronic medium, Electronic Account Government Ledger System (EAGLS), made available to ED by the Bank of America (BoA) and through ED's CPSS.

GAO's *Standards for Internal Control in the Federal Government*, relating to monitoring states that:

Agency internal control monitoring should assess the quality of performance over time This is done by putting procedures in place to monitor internal control on an ongoing basis as a part of the process of carrying out its regular activities. It includes ensuring that managers know their responsibilities for internal control and control monitoring. In addition, separate evaluations of internal control are periodically performed and the deficiencies found are investigated. Procedures are in place to ensure that the findings of all ... reviews are promptly evaluated, decisions are made about the appropriate response, and actions are taken to correct or otherwise resolve the issues promptly.

While CPO is in the process of conducting quality reviews of purchase card transactions, it is important that along with this effort, on-site internal control reviews be conducted to ensure controls are in place and operating as intended within program offices, education boards, commissions, councils and independent agencies.

Recommendation

We recommend that:

1. CPO develop internal review guidelines and conduct on-site internal control reviews using a risk based approach and maintain results of the on-site reviews.

Auditee Comments

OCFO concurred with the recommendation. OCFO has designated the Financial Improvement and Post Audit Group (FIPAO) as the responsible office for developing internal review guidelines in accordance with program policy and to conduct the actual testing of purchase card transactions both on-site and through documentation submission. Testing will include the review of single and monthly purchase limits, split purchases, reconciliation and payment approval process, and internal controls and quality reviews.

OCFO also stated that draft guidelines have been developed and FIPAO and CPO are in the process of coordinating the final test plan.

A full text of the comments is included as Attachment 4.

FINDING NO. 2 – THE NUMBER OF CARDHOLDERS ASSIGNED TO AN APPROVING OFFICIAL NEEDS TO BE REASSESSED

Currently, 15 program offices, 1 council, and 4 independent organizations participate in the Department's Purchase Card Program. In reviewing data provided by CPO, as of December 2001, 3 offices -- Office of Intergovernmental and Interagency Affairs (OIIA), Office of Special Education and Rehabilitative Services (OSERS), and Federal Student Aid (FSA) -- have a large number of cardholders assigned to a small number of approving officials. Attachment 3 lists the number of cardholders assigned to approving officials for each program office, council and independent organization participating in ED's Purchase Card Program.

Specifically, OIIA has a total of 15 cardholders assigned to 2 approving officials. OIIA headquarters has 5 cardholders assigned to 1 approving official. The remaining 10 cardholders are in 9 regional offices located throughout the country assigned to 1 approving official located in 1 regional office.

OSERS has a total of 23 cardholders assigned to 1 approving official located at headquarters. Seven cardholders are located in headquarters and 16 cardholders are in 10 regional offices located throughout the country.

FSA has 71 cardholders assigned to 1 approving official located at headquarters. FSA headquarters has 29 cardholders, and the remaining 42 cardholders are located in the 10 regional offices throughout the country.

ED's *Government-wide Commercial Purchase Card Program* directive, issued January 23, 2002, assigns responsibility to a Principal Officer (Assistant Secretary or equivalent) in charge of a program office to appoint approving officials. Approving officials appointed by the Principal Officer or an Executive Officer when authority is designated, are responsible for designating who will be cardholders with his/her principal office, and reviewing, validating, and approving for payment the cardholder's reconciled bank statement each billing cycle.

GAO's *Standards for Internal Control in the Federal Government*, relating to risk assessment, states that:

Internal control should provide for an assessment of the risk the agency faces from both external and internal sources.

In appointing approving officials and in designating cardholders, the impact of the number of approving officials to cardholders within each program office needs to be reassessed. It is critical that the number of cardholders assigned to one approving official be manageable.

Recommendations

We recommend that:

- 2.1 CPO direct Principal Officers participating in ED's Purchase Card Program to analyze and access the optimal number of cardholders assigned to approving officials. In conducting the assessment, the Principal Officers should take into consideration factors such as the locality of the approving official and cardholders, the volume of transactions normally processed, and any indications that cardholders or approving officials are not complying with the directive.
- 2.2 CPO, based on the results of the Principal Officer's assessment, develop and establish organizational guidelines relating to the number of approving officials to the number of cardholders.
- 2.3 CPO implement the results of the assessment to achieve an appropriate level of approving officials to the number of cardholders.

Auditee Comments

OCFO concurred with recommendation 2.1. OCFO is currently in communication with OIIA,

OSERS, and FSA as well as other offices to either increase the number of approving officials or reduce the number of cardholders.

OCFO concurred with recommendation 2.2. OCFO will continue its work with program offices to realign approving officials and cardholders to a manageable level. Upon completion, OCFO will prepare general guidelines to aid program offices in maintaining proper internal controls over purchases and payments as approving officials are appointed and cardholders are designated.

OCFO concurred with recommendation 2.3. Once the re-assessments of the number of approving officials and cardholders by each program office is performed and the span of control has been determined by OCFO to be at a manageable level for each office, OCFO will ensure that all newly appointed approving officials are properly trained and in receipt of the program policy.

A full text of the comments is included as Attachment 4.

OTHER MATTERS

During our audit we found that within CPSS individual cardholders may access other purchase card participants' card numbers, names and sensitive administrative information, which allows for possible unauthorized purchases to occur. As a result, ED's purchase card program is vulnerable to fraud and abuse. We issued an action memorandum to the Deputy CFO on March 14, 2002, requesting a response to the memorandum indicating what corrective actions would be taken.

On March 28, 2002, the Deputy CFO's response indicated concurrence with the finding that purchase card numbers and administrative information are available to purchase cardholders. In addition, as part of the OCFO's review, they found that approving officials have similar access.

OCFO will develop new reports to limit cardholder and approving official access. In the meantime, OCFO is relying on electronic reconciliations to identify transactions which should be disputed.

Management is responsible for establishing and maintaining internal controls. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that: assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States; and data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information. Because of inherent limitations in any internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

BACKGROUND

Piloted in 1986, the purchase card program began with 24 agencies. The pilot program was so successful, the Office of Management and Budget (OMB) requested that the General Services Administration (GSA) acquire purchase card services on a government-wide basis. The first contract was competitively awarded in 1989, and the second contract was competitively awarded in 1994.

In 1998, GSA initiated the SmartPay Program by awarding five contracts to financial institutions that would run for five years (November 30, 1998 through November 29, 2003), with five additional one-year options, thus providing federal agencies a new way to pay for commercial goods and services. The Bank of America (formerly NationsBank) services ED.

The Department of Treasury/Financial Management Service requires each agency to develop internal procedures for using purchase cards. ED's Administrative Communications Directive OCFO:3-104, *Government-wide Commercial Purchase Card Program* (issued on January 23, 2002) implements Treasury's guidance.

ED's Contracts and Purchasing Support System (CPSS) supports the micro-purchases and simplified acquisition purchases as well as the contract pre- and post-award processes. CPSS interfaces with the Financial Management Systems Software (FMSS) at the detail level for fund control, general ledger, accounts payable, and accounts receivable. Until recently, FMSS provided the functionality for general ledger and funds management for ED. FMSS has been replaced by Oracle.

With the implementation of Oracle on January 22, 2002 enhancements were made to CPSS. Attachment 2 contains a summary of the system enhancements.

OBJECTIVES, SCOPE AND METHODOLOGY

The objective of our audit was to determine if ED has addressed the internal control weaknesses and related issues identified in a prior OIG report focusing on the current purchase card systems, implemented before and after January 22, 2001.

To accomplish our audit objective, we obtained an understanding of the controls in place at ED over the purchase card program. We conducted interviews with:

- CPO managers and staff responsible for coordinating the purchase card program within ED,
- FMPAP managers and staff responsible for insuring that invoices are paid in accordance with Prompt Payment Act deadlines, and
- Financial Systems Operations managers and staff responsible for CPSS and Oracle system operations and development.

We reviewed ED's policies and procedures on the purchase card program, the operating manuals for CPSS, the *Federal Acquisition Regulations* (FAR 48 CFR 1), Part 13; titled "Simplified Acquisition Procedures"; the Department of Treasury/Financial Management Service (TFM 4-4500) guidance to federal agencies for the use and control of purchase cards; the General Services Administration (GSA) SmartPay contract, and the task order between ED and the Bank of America.

In evaluating ED's internal controls, we determined the status of prior OIG recommendations and reviewed documentation provided by OCFO in closing the recommendations. We observed OCFO operations and activities for purchase card program oversight, monthly reconciliations and payments.

We did not perform purchase card transaction testing as part of this audit. We plan to test such transactions, in the future after ED has had a chance to implement its new purchase card directive.

The audit covered the period October 13, 2000, through March 5, 2002. Fieldwork was conducted from November 2001 through March 5, 2002, in OCFO located in Washington, DC. The audit was conducted in accordance with generally accepted government auditing standards applicable to the scope of the audit.

STATEMENT ON MANAGEMENT CONTROLS

As part of our review, we gained an understanding of ED's management control structure over purchase cards, as well as its policies, procedures, and practices applicable to the scope of the audit.

Our purpose was to determine if ED has addressed the internal control weaknesses and related issues identified in a prior OIG report focusing on the purchase card systems implemented before and after January 22, 2002.

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the management controls. However, our assessment identified management control weaknesses that affect ED's purchase card program. These weaknesses included the lack of internal control review guidelines and on-site internal control reviews, and the need to reassess the number of cardholders assigned to an approving official. These weaknesses are fully discussed in the *Audit Results* section of this report.

STATUS OF PRIOR OIG RECOMMENDATIONS
(as of March 4, 2002, except for Recommendation Number 1)

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.

Recommendation: ED needs to strengthen the control environment over the use of purchase cards.

Recommendation	Corrective Action Taken	Effective Date
1. Increase the scope of procurement training to ensure that all cardholders, approving officials, data entry personnel, authorizing officials, supervisors, and senior officials involved with simplified acquisitions have an adequate understanding of procurement requirements and procedures	Contracting and Purchasing Operations (CPO) has established training for all individuals with procurement authority (cardholders, approving officials and supervisors). On 03/04/02, the CPO Director briefed senior officials on the purchase card program.	On 03/04/02, ED requested closure. The recommendation closed on 03/14/02.
2. Establish a requirement for refresher training for all staff with procurement authority.	CPO requires that all cardholders attend refresher training in purchase card usage every two years. CPO determines suspense dates and tracks cardholders to ensure refresher training was attended.	05/29/01
3. Establish a training requirement for Financial Management Policies and Administrative Programs Group (FMPAP) – Office of the Chief Financial Officer (OCFO) personnel, and ensure that FMPAP staff adhere to established policies and procedures.	FMPAP trained staff on existing established policies and procedures.	09/18/2001
4. Require that all staff with procurement authority, regardless of grade level, attend annual ethics training or include an ethics component in the procurement training.	Ethics in procurement is included in CPO’s purchase card program training.	05/29/01

Risk Assessment: Internal controls should provide for an assessment of the risks the agency faces from both external and internal sources.

Recommendation: ED needs to strengthen risk assessment in the use of purchase cards.

Recommendation	Corrective Action Taken	Effective Date
1. Establish formal policies and procedures to identify, analyze and, as appropriate, take steps to mitigate procurement risks at all levels.	CPO issued the <i>Government-wide Commercial Purchase Card Program</i> directive on January 23, 2002.	02/13/2002
2. Require all principal offices to assess the level of security clearance performed on their staff with procurement authority and schedule appropriate updates as necessary.	<p>Policy has been provided in the ED’s <i>Government-wide Commercial Purchase Card Program</i> directive issued on January 23, 2002.</p> <p>Executive Officers are to assess the level of employee security screening required in accordance with ED’s policy and the Personnel Security-Suitability Program Handbook.</p>	02/13/2002

Control Activities: Internal control activities help ensure that employees carry out management directives. The control activities should effectively and efficiently accomplish agency objectives.

Recommendation: ED needs to strengthen control activities over the use of purchase cards.

Recommendation	Corrective Action Taken	Effective Date
1. Update the <i>Commercial Credit Card Directive</i> and communicate it to all cardholders, approving officials and Executive Officers.	CPO issued the <i>Government-wide Commercial Purchase Card Program</i> directive OCFO:3-104 on January 23, 2002.	02/13/2002
2. Enforce Department policy that approving officials must be at a managerial level and may not serve as a cardholder or use a cardholder's account.	CPO conducted a review of cross-referenced list of cardholders and approving officials to ensure separation of duties.	06/15/2001
3. Require that all approving officials review and sign monthly purchase card statements.	Electronic reconciliation process in the Contracts and Purchases Support System (CPSS) has replaced a manual purchase card review.	09/18/2001
4. Reduce spending limits for cardholders until they obtain required warrants from CPO.	CPO issued warrants to the appropriate cardholders.	05/29/2001
5. Reestablish the policy of written delegation from CPO to all cardholders as defined in the Department of Treasury Financial Manual.	At the completion of the purchase card training course, all cardholders receive a memorandum from the Director, CPO delineating their responsibility under the program.	05/15/2001
6. Require that each principal office submit their signed purchase card statements to FMPAP on time.	FMPAP notifies, reminds and electronically transmits late notices to principal offices regarding due dates.	09/18/2001
7. Ensure that each principal office is provided with a sequentially numbered stock of blank third party drafts and that each principal office maintains a log of the stock received and updates the log as each draft is issued.	ED eliminated the Third Party Draft Program as of June 27, 2001.	07/11/2001
8. Require that each principal office have a manager, other than an authorizing official, perform periodic reviews of the Education's Data Control Automated Processing System (EDCAPS) reports on third party draft activity and the log of issued third party drafts.	ED eliminated the Third Party Draft Program as of June 27, 2001.	07/11/2001
9. Ensure that the Department's accounting system (currently EDCAPS/Oracle) correctly records and reports procurement activity.	ED eliminated the Third Party Draft Program as of June 27, 2001. The new payment method requires that the obligations be established in CPSS in order to issue payment for transactions previously made with Third Party Drafts.	07/11/2001

Information and Communication: 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.

Recommendation: ED needs to strengthen information and communication regarding the use of purchase cards.

Recommendation	Corrective Action Taken	Effective Date
<p>1. Maintain and publicize an updated, consolidated, user-friendly Web site on the ED's Intranet to convey procurement requirements and information.</p>	<p>CPO developed a Web site (http://connected1.ed.gov/po/ocfo/cpo/credit/index.html) with current policies, practices, and relevant information for cardholders.</p> <p>There is also a link to CPO's page from OCFO's home page Web site (http://connected1.ed.gov/po/ocfo)</p>	<p>01/04/2002</p>
<p>2. Identify, obtain and distribute management reports necessary for monitoring purchase cards.</p>	<p>FMPAP send monthly detail reports of cardholder's activity to each program office. The reports are generated from Bank of America's (BoA) Electronic Account Government Ledger System (EAGLS).</p>	<p>06/05/2001</p>
<p>3. Continuously update procurement authority records.</p>	<p>CPO maintains records of cardholder's limits and warrant information.</p>	<p>05/29/2001</p>
<p>4. Provide to all staff with procurement activity clear instructions on how to handle and reports suspected abuse of fraud.</p>	<p>Information on handling suspected abuse and fraud is contained in a letter provided to all cardholders by CPO at the end of training.</p>	<p>05/29/2001</p>

Monitoring: Internal controls monitoring should assess the quality of performance over time and ensure that audit and other review findings are promptly resolved.

Recommendation: ED needs to strengthen monitoring over the use of purchase cards.

Recommendation	Corrective Action Taken	Effective Date
1. Reconcile the monthly Department-wide purchase card statement to the monthly statements from the principal offices and to the Department's accounting system.	FMPAP reconciles ED's monthly purchase card statement to the monthly statements from the principal offices and to ED's Central Automated Processing System.	09/18/2001
2. Manage and monitor primary controls such as the approving official signature on monthly purchase card statements.	Electronic reconciliation process in Contracts and Purchasing Support System (CPSS) has replaced manual purchase card reviews.	09/18/2001
3. Monitor information on staff with procurement authority provided by OCFO.	CPO monitors cardholder's transactions using Bank of America's Electronic Account Government Ledger System (EAGLS) and CPSS.	05/29/2001

SYSTEM ENHANCEMENTS

ED’s Contracts and Purchasing Support System (CPSS) supports the micro-purchases and simplified acquisition purchases, including the contract pre- and post-award processes, and interfaces with the Financial Management Systems Software (FMSS) at the detail level for fund control, general ledger, accounts payable and accounts receivable. Until recently, FMSS provided the functionality for general ledger and funds management for ED. FMSS has been replaced by Oracle Federal Financials (Oracle).

With the implementation of Oracle on January 22, 2002 enhancements were made to CPSS. Additional Oracle improvements are anticipated.

The information that follows reflects the purchase card process: before July 2001; improvements after July 2001 and prior to January 22, 2002; and Oracle improvements as of January 22, 2002.

Recording Purchases – The process of recording and obligating a purchase in the Contracts and Purchasing Support System (CPSS) (performed by cardholder).

Process before July 2001	Process Improvements after July 2001 and Prior to January 22, 2002, Oracle Implementation	Oracle Improvements as of January 22, 2002
The cardholder records and obligates the purchase in CPSS, creating a Purchase Card Document (PCD).	No Changes	No Changes

Receiving – The process of inspecting and accepting goods and/or services (performed by cardholder).

Process before July 2001	Process Improvements after July 2001 and Prior to January 22, 2002, Oracle Implementation	Oracle Improvements as of January 22, 2002
The requisitioner receives the supplies and/or services and provides written documentation of receipts to the cardholder. The cardholder marks the item as received in CPSS.	No Changes	No Changes

Matching – The process of reconciling the purchase card transactions against the Bank of America statement in CPSS (performed by cardholder).

Process before July 2001	Process Improvements after July 2001 and Prior to January 22, 2002, Oracle Implementation	Oracle Improvements as of January 22, 2002
<p>The cardholder <u>manually</u> matches transactions on the hard copy BoA statement to the PCDs in CPSS.</p> <p>The cardholder fills out a hardcopy BoA dispute form when necessary and sends to BoA.</p>	<p>The cardholder initiates the reconciliation process by <u>electronically</u> matching BoA statement in CPSS to purchase card documents in CPSS and makes any necessary adjustments.</p> <p>The cardholder electronically generates a BoA dispute form in CPSS when necessary and sends to BoA.</p>	<p>The cardholder groups the items before matching. Grouping assigns the statement transaction and obligated purchase card documents a unique number.</p> <p>Credit balances can be grouped and matched.</p> <p>Transaction information defaults on dispute form. The dispute is made on the transaction not the obligation.</p>

Generating Reports – The process of preparing the documentation on transaction for Approving Official (AO) review (performed by the cardholder).

Process before July 2001	Process Improvements after July 2001 and Prior to January 22, 2002, Oracle Implementation	Oracle Improvements as of January 22, 2002
<p>The cardholder signs the hardcopy BoA statement.</p> <p>The cardholder prepares a package containing the signed statement, activity log, and receipts and forward to the AO.</p>	<p>The cardholder <u>electronically</u> generates the activity log and the BoA statement transaction report in CPSS.</p> <p>These reports are electronically routed in CPSS to the AO.</p> <p>The cardholder manually forwards all hardcopy receipts to the AO.</p>	<p>No Changes</p>

Approving – The process of the AO reviewing the record and determining whether transactions are bona-fide (performed by the AO).

Process before July 2001	Process Improvements after July 2001 and Prior to January 22, 2002, Oracle Implementation	Oracle Improvements as of January 22, 2002
<p>The AO reviews the hardcopy report package for approval or disapproval</p> <p>The AO signs the BoA statement for approval/disapproval.</p>	<p>The AO receives an email alert when the file arrives in his/her CPSS inbox, and reviews the reports in CPSS and receipts.</p> <p>The AO approves or disapproves in CPSS, and the file is routed to the Cardholder.</p> <ul style="list-style-type: none"> • If disapproved, the AO identifies disapproved items to the cardholder for resolution. • Partial payments of transactions may occur. 	<p>No Changes</p>

Reconciling – The process of routing the approval record and supporting documents to OCFO/FMO for payment to Bank of America (performed by the AO).

Process before July 2001	Process Improvements after July 2001 and Prior to January 22, 2002, Oracle Implementation	Oracle Improvements as of January 22, 2002
<p>The AO forwards the approved hard copy package to Office of the Chief Financial Officer (OCFO)/Financial Management Operations (FMO) for payment.</p>	<p>The Approving Official completes the final step in the reconciliation process by, electronically routing approved records to the OCFO/FMO System Administrator in CPSS for payment to Bank of America.</p>	<p>No Changes</p>

NUMBER OF CARDHOLDERS TO APPROVING OFFICIALS
(as of December 2001)

U.S. Department of Education Program Offices³

PO	REGIONS												Total	
	HQ CH AO	I CH AO	II CH AO	III CH AO	IV CH AO	V CH AO	VI CH AO	VII CH AO	VIII CH AO	IX CH AO	X CH AO	CH		
OBEMLA	2 1													2 1
OCFO	6 1													6 1
OCR	5 2	1 1	2 1	1 1	2 1	2 2	1 1	1 1	1 1	1 1	1 1	1 1	1 1	18 13
OERI	16 11													16 11
OESE	4 1													4 1
OGC	2 1													2 1
OIG	5 3	3 1	2 1	4 2	1 1	3 2	3 2	2 1			3 2			26 15
OIIA	5 1	1 1	1	1	1	1	1	2	1	1				15 2
OM	13 6				1 1						1 1			15 8
OPE	12 10													12 10
OS	7 1													7 1
OSERS	7 1	1	1	2	2	2	2	2	2	1	1			23 1
OUS	4 1													4 1
OVAE	4 1													4 1
FSA	29 1	4	5	3	4	5	4	3	3	8	3			71 1

Number of cardholders and approving officials in Program Offices 225 68

HQ= Headquarters
CH = Cardholder
AO= Approving Official
PO= Program Office

³ OBEMLA = Office of Bilingual Education and Minority Languages; OCFO = Office of the Chief Financial Officer; OCR = Office of Civil Rights; OERI = Office of Educational Research and Improvements; OESE = Office of Elementary and Secondary Education; OGC = Office of the General Counsel; OIG = Office of Inspector General; OIIA = Office of Intergovernmental and Interagency Affairs; OM = Office of Management; OPE = Office of Postsecondary Education; OS = Office of the Secretary; OSERS = Office of Special Education and Rehabilitative Service; OUS = Office of the Under Secretary; OVAE = Office of Vocational and Adult Education; FSA = Federal Student Aid

Education Boards, Commissions and Councils⁴

PO	HQ		REGIONS										Total	
	CH	AO	I	II	III	IV	V	VI	VII	VIII	IX	X	CH	AO
AC-FSA	1	1											1	1
Number of cardholders and approving officials in Education Boards, Commissions and Councils													1	1

Independent Organizations Affiliated with the Department of Education⁵

PO	HQ		REGIONS										Total	
	CH	AO	I	II	III	IV	V	VI	VII	VIII	IX	X	CH	AO
NAGB	2	1											2	1
NEGP	1	1											1	1
NCLIS	2	1											2	1
NIL	1	1											1	1
Number of cardholders and approving officials in Independent Organizations													6	4
Total number of cardholders and approving officials in the Department of Education													232	73

HQ= Headquarters
 CH = Cardholder
 AO= Approving Official
 PO= Program Office

⁴ AC-FSA = Advisory Council - Federal Student Aid

⁵ NAGB = National Assessment Governing Board; NEGP = National Education Goals Panel; NCLIS = National Commission on Libraries & Information Science; NIL = National Institute for Literacy



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF THE CHIEF FINANCIAL OFFICER

THE CHIEF FINANCIAL OFFICER

APR | 2002

MEMORANDUM

TO : Thomas A. Carter
Assistant Inspector General for Audit Services

FROM : Jack Martin *[Signature]*
Chief Financial Officer
Office of the Chief Financial Officer

SUBJECT : Draft Audit Report Control No. ED-OIG/A17-C0002,
Audit of Purchase Cards at the U.S. Department of Education

This memorandum provides a written response following our review of an Office of Inspector General (OIG) draft audit on the Department of Education's (Department) use of the purchase cards. The objective of the OIG audit was to determine if the Department has addressed the internal control weaknesses and related issues identified in a prior OIG report focusing on the current purchase card systems implemented before and after January 22, 2002. In your report, you conclude that the Department has addressed the internal control weaknesses and related issues identified from the prior OIG report; however, you found that additional internal controls are needed over the Department's Purchase Card Program (Program). Specifically, you found that the Department should develop on-site guidelines and conduct on-site internal control reviews, and reassess the number of cardholders assigned to an approving official. The Department also needs to address the account information in CPSS.

As a result of your findings, the OIG has made a series of recommendations. We would like to address each recommendation with an OCFO response and corrective action, where appropriate.

Finding No. 1 – On-site Internal Control Review Guidelines Need to be Developed and Reviews Conducted.

The OIG found that to-date, no on-site internal control review guidelines have been established or reviews conducted. Currently, CPO is conducting quality reviews of transactions on a sample basis through electronic medium using Bank of America EAGLS and using EDCAPS/CPSS. The OIG stresses the importance to also conduct on-site internal control reviews to ensure that controls are in place and operating as intended within the Department.

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As a result, the OIG made the following recommendation:

1. *CPO develop internal review guidelines and conduct on-site internal control reviews using a risk based approach and maintain results of the on-site reviews.*

OCFO concurs with this recommendation. OCFO has designated the Financial Improvement and Post Audit Group (FIPAO) as the responsible office for developing internal review guidelines in accordance with Program policy and to conduct the actual testing of purchase card transactions both on-site and through documentation submission. Testing will include the review of:

- single and monthly purchase limits
- split purchases
- reconciliation and payment approval process
- internal controls and quality reviews

Draft guidelines have been developed and FIPAO and CPO are in the process of coordinating the final test plan.

Finding No. 2 – The Number of Cardholders Assigned to an Approving Official needs to be Re-assessed.

The OIG found that 3 program offices—Office of Intergovernmental and Interagency Affairs (OIIA), Office of Special Education and Rehabilitation Services (OSERS), and Federal Student Aid (FSA), have a large number of cardholders assigned to a small number of approving officials. The number of cardholders assigned to an approving official must be manageable in order for the approving official to effectively fulfill his/her responsibilities under the Program.

As a result, the OIG made the following recommendations:

- 2.1 *CPO direct Principal Officers participating in ED's Purchase Card Program to analyze and assess the optimal number of cardholders assigned to approving officials. In conducting the assessment, the Principal Officers should take into consideration factors such as the locality of the approving official and cardholders, the volume of transactions normally processed, and any indications that cardholders or approving officials are not complying with the directive.*

OCFO concurs with this recommendation. OCFO is currently in communication with OIIA, OSERS, and FSA as well as other offices to either: (a) increase the number of approving officials; or, (b) reduce the number of cardholders.

- 2.2 *CPO, based on the results of the Principal Officer's assessment, develop and establish organizational guidelines relating to the number of approving officials to the number of cardholders.*

OCFO concurs with this recommendation. OCFO will continue its work with program offices to realign approving officials and cardholders to a manageable level. Upon completion, OCFO will prepare general guidelines to aid program offices in maintaining proper internal controls over purchases and payments as approving officials are appointed and cardholders are designated.

2.3 *CPO determine whether additional approving officials need to be trained or reduce the number of cardholders to achieve an appropriate level of approving officials and cardholders.*

OCFO concurs with this recommendation. Once the re-assessment of the number of approving officials and cardholders by each program office is performed and the span of control has been determined by OCFO to be at a manageable level for each office, OCFO will ensure that all newly appointed approving officials are properly trained and in receipt of the Program policy.

Thank you for this opportunity to comment. We trust that you will consider this response in the preparation of your final audit report.

cc: Glenn G. Perry, Director
Contracts & Purchasing Operations

Philip Maestri, Director
Financial Improvement and Post Audit Group

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Audit Control No.: ED-OIG/A17-C0002

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