UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

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ED-OIG/A19F0015

Raymond Simon
Deputy Secretary
Office of the Deputy Secretary
U.S. Department of Education
Federal Building No. 6, Room 7W310
400 Maryland Avenue, SW
Washington, DC 20202

Dear Mr. Simon:

This **Final Audit Report** (Control Number ED-OIG/A19F0015) presents the results of our audit of *Controls Over Purchase Card Use in the Office of the Secretary, Office of the Deputy Secretary, and Office of the Under Secretary.* The objectives of our audit were to assess the current effectiveness of internal control over the purchase card program and the appropriateness of current purchase card use in the Office of the Secretary, the Office of the Deputy Secretary, and the Office of the Under Secretary (OS/ODS/OUS).

BACKGROUND

The Government purchase card is a less costly and more efficient way for offices and organizations to purchase needed goods and services directly from vendors. The purchase card eliminates the need to process purchase requests through procurement offices and avoids the administrative and documentation requirements of traditional contracting processes. The Department of Education (Department) selected Bank of America to provide purchase card support and services.

The Office of the Chief Financial Officer (OCFO), Contracts and Acquisitions Management (CAM), coordinates the purchase card program within the Department and acts as the liaison with Bank of America. The Executive Officer is responsible for administering the purchase card

program in OS/ODS/OUS. Approving Officials (AOs) and alternate approving officials (AAOs) are appointed by the Executive Officer and are the primary officials responsible for authorizing cardholder purchases and ensuring timely reconciliation of cardholder statements.

On August 31, 2000, the Office of Inspector General (OIG) issued a report entitled "Results of the OIG Review of OS/ODS/[Office of Congressional and Legislative Affairs] OLCA's Internal Controls Over the Procurement of Goods and Services," (Control Number A&I 2000-010). OIG reported a number of deficiencies in OS/ODS/OLCA's internal controls over the purchase card program including lack of familiarity with Department policies and procedures, lack of written OS/ODS/OLCA policies and procedures, no evidence of preapprovals, inadequate and/or missing documentation to support purchase card transactions, purchase card sharing among office staff, split purchases, lack of documentation or oral quotations, lack of sole source justifications, and payment of sales tax.[1]

On September 19, 2000, the OIG issued a report entitled "Results of the OIG Review of OUS's Internal Controls Over the Procurement of Goods and Services," (Control Number A&I 2000-011). Issues noted in this review included lack of appropriate warrants for all cardholders, lack of written OUS policies and procedures, lack of familiarity with Department policies and procedures, missing supporting documentation for purchase card transactions, and split purchase transactions.

This audit is part of a review of the purchase card program being performed Department- wide. A random sample of transactions across the Department, as well as all transactions over $2,500, charges to blocked merchant category codes, and potential split purchases are being reviewed. This report represents the results of the portion of the random sample and other transaction categories reviewed in OS/ODS/OUS. A summary report will be provided to the Department's Chief Financial Officer upon completion of the audits in individual offices.

AUDIT RESULTS

While improvements were noted from the prior OIG reviews, OS/ODS/OUS needs to further improve internal control over purchase card use. We found that OS/ODS/OUS cardholders did not always obtain or maintain adequate documentation to support purchases, and OS/ODS/OUS had not established a central filing location for purchase card statements and supporting documentation as required by Department policy. We also noted that one purchase was split to avoid exceeding the $2,500 micropurchase limit, and arrangements for six purchases were made by a person other than the cardholder for services that were subsequently paid with the purchase card.

These issues occurred because cardholders did not consistently apply Department requirements, and the AOs did not always ensure that cardholders submitted complete supporting

[1] OLCA was part of OS until August 2003. Since OLCA is now a separate principal office, it was reviewed separately under this audit and is not included in this report. OS, ODS, and OUS were combined into one review for this audit as these offices share an Executive Office and the Executive Officer is responsible for the purchase card program in all three organizations.

documentation prior to approving statements for payment. The Executive Officer stated, in some cases, purchases had to be completed quickly to fill an immediate need, so pre-approvals were not always obtained. We also noted in some cases, purchases were arranged by other OS/ODS/OUS staff who were not aware that only the cardholders should arrange the purchases.

Lack of adequate supporting documentation reduces assurance that purchases were appropriate and were made in accordance with Federal regulations, Department policy and procedures, and OS/ODS/OUS guidelines. Failure to document receipt could result in payment for goods and services that were not received. Approving purchases without reviewing adequate supporting documentation increases the Department's vulnerability to potential misuse or waste of government resources.

Splitting purchases to stay within the micropurchase limit decreases competition and hampers government initiatives to set aside purchases for small businesses. The practice of allowing purchases to be arranged by staff other than the cardholder results in purchases made by individuals without appropriate procurement training and authority to obligate funds on behalf of the Department. In addition, funds may not be available for the purchases made.

Decentralized filing of purchase card documentation does not ensure that records are being appropriately maintained and may result in loss of information required to support Department purchases.

The issues noted above regarding lack of adequate supporting documentation for purchases, lack of prior approval, and split purchases were also reported in the prior OIG reviews of purchase card activity in OS/ODS/OUS.

In his response to the Draft Audit Report, the Deputy Secretary concurred with our finding and provided corrective actions to address each of the recommendations included in our report. The complete text of the Deputy Secretary's response is included as Attachment 1 to this report.

Finding 1 OS/ODS/OUS Needs To Further Improve Internal Control Over Purchase Card Use

While improvements were noted from the prior OIG review, OS/ODS/OUS needs to further improve internal control over purchase card use. We reviewed 46 purchases totaling $41,310 made by 7 OS/ODS/OUS Headquarters cardholders. We found that OS/ODS/OUS cardholders did not always obtain or maintain adequate documentation to support purchases as required by Department policy and procedures and OS/ODS/OUS guidelines. Overall, we found that 34 of the 46 purchases reviewed (74 percent) did not include one or more required elements. Specifically, we found:[2]

- Seven purchases were not supported by a written request prior to purchase.
- Three purchases did not include a record of purchase.

[2] Some purchases included exceptions in more than one category.

- 29 purchases were not supported by a record of receipt for the good/service.
- 12 purchases did not include evidence of prior approval as required by OS/ODS/OUS guidelines.

We also reviewed 19 potential split purchases (e.g. purchases to the same vendor on the same day or within a few days). Of these 19 purchases, we found one instance where the cardholder inappropriately split one purchase into two transactions to avoid exceeding the $2,500 micropurchase limit. The purchase card files did not include any evidence that bids were obtained or documentation of justification for sole source purchase. We also noted that six additional purchases represented arrangements made by a person other than the cardholder for services that were subsequently paid with the purchase card. This represents an inappropriate practice, as the individuals who made the arrangements did not have procurement authority. The cardholder was not aware of the purchases until invoices were received at a later date.

During our review, we also noted that OS/ODS/OUS had not established a central filing location for purchase card statements and supporting documentation as required by Department policy. Instead, some cardholders maintained their purchase card files for the current fiscal year, and centrally filed the documentation after the close of each fiscal year.

Departmental Directive OCFO: 3-104, "Government-wide Commercial Purchase Card Program," Section VI, dated January 23, 2002, defines cardholder and AO responsibilities. The Directive states,

> H. The Cardholder is responsible for . . . 2. Purchasing goods or services in accordance with established Department policy, procurement regulations, and individual internal office procedures . . . 6. Providing documentation to support purchases for AO approval and official record keeping. This documentation includes receipts, invoices, logs, etc.
>
> F. An Approving Official (AO) is responsible for . . . 6. Reviewing, validating, and approving for payment the Cardholder's reconciled bank statement each billing cycle . . . 14. Reviewing all management reports of Cardholder activity under his or her authority . . . 15. Reviewing appropriateness of purchases. This includes determining individual purchases are appropriate, that the goods or services were properly received and accepted, and that the payment was proper . . . .

Section VII.A.7 of the Directive further states, "The Cardholder should secure a written request (email or requisition) from the appropriate Department employee requesting the Cardholder to procure goods or services."

Section VII.B.4.e of the Directive includes additional AO requirements that state,

> Upon approval of the bank statement, forward documentation to a central filing location for retention.

OCFO Procedure CO-097, "Procedure for Buying, Using a Government Commercial Purchase Card," revised March 2003, Section 10.d, states,

> Retain data supporting the purchases (including records of oral quotations). Keep your files neat, up-to-date, and easily retrievable. Documentation will be retained in a central filing location established by your Principal Office. The record should be kept for 3 years after final payment. The records must be kept secure and be easily retrievable upon request. Documentation includes:
>
> - Request for purchase (a written request from the requisitioner).
> - Record of purchase (i.e. written notes, printout of CPSS Quick Purchase screen, invoice, internet printout, etc.).
> - Record of receipt and acceptance (i.e. packing slip, training certificate) . . . .

In July 2002, OS established additional guidelines for purchase card use within its offices. These procedures state, "Requests for purchases must be approved in advance. E-mail from the employee requesting the purchase, to a cardholder, and then on to the Executive Officer for approval will suffice, as will a written request."

In addition to the OS procedures, OUS established separate internal procedures for its cardholders that were in effect during our scope period. These procedures state, "All requests for purchases using the government purchase card must be approved in advance, through the use of a purchase request form. This form is to be signed by all designated parties prior to proceeding with a purchase."

The Federal Acquisition Regulation (FAR) prohibits splitting a transaction into more than one segment to avoid the requirement to obtain competitive bids for purchases over the $2,500 micropurchase threshold, or to avoid other established limits. Specifically, FAR Section 13.003(c)(2) states,

> Do not break down requirements aggregating more than the simplified acquisition threshold (or for commercial items, the threshold in Subpart 13.5) or the micro-purchase threshold into several purchases that are less than the applicable threshold merely to- (i) Permit use of simplified acquisition procedures; or (ii) Avoid any requirement that applies to purchases exceeding the micro-purchase threshold.

Section VII.A.3 of the Directive also refers to this section of the FAR, stating, "Purchases are not to be split to stay within the single purchase limit or to avoid following procedures for Simplified Acquisitions, in accordance with FAR 13.003(c)."

We found that implementation of controls over purchase card use was not always effective because:

- The cardholders and the AOs did not consistently follow policies and procedures established by the Department.

- The AOs did not ensure that the cardholders submitted complete supporting documentation prior to approving the statements for payment.
- In some cases, purchases had to be completed quickly to fill an immediate need.
- Other OS/ODS/OUS staff initiated transactions with vendors and were not aware that purchases should only be initiated by the cardholders.

Lack of adequate supporting documentation reduces assurance that purchases were appropriate and were made in accordance with Federal regulations, Department policy and procedures, and OS/ODS/OUS guidelines. Failure to document receipt could result in payment for goods and services that were not received. Approving purchases without reviewing adequate supporting documentation increases the Department's vulnerability to potential misuse or waste of government resources.

Splitting purchases to stay within the micropurchase limit decreases competition and hampers government initiatives to set aside purchases for small businesses. The practice of allowing purchases to be arranged by staff other than the cardholder results in purchases made by individuals without appropriate procurement training and authority to obligate funds on behalf of the Department. In addition, funds may not be available for the purchases made.

Decentralized filing of purchase card documentation does not ensure that records are being appropriately maintained and may result in loss of information required to support Department purchases.

Subsequent to our review, OS/ODS/OUS began to take corrective actions to ensure that cardholders maintain appropriate supporting documentation. Specifically, OS/ODS/OUS developed a checklist to ensure that all purchases have the required supporting documentation, as well as a certification form to ensure goods and services are received. The Executive Officer also revised the internal purchase card procedures, and reported that, effective July 2005, all purchase card files are being centrally located.

The Executive Officer also stated that she has implemented an additional level of review in the purchase card reconciliation process to ensure that all necessary documentation is obtained prior to approval for payment.

Recommendations:

We recommend that the Deputy Secretary hold the Executive Officer, AOs, and cardholders accountable for their responsibilities in the purchase card program by establishing a process to:

1.1 Ensure OS/ODS/OUS cardholders and AOs are familiar with the Department's policies and requirements for obtaining and maintaining supporting documentation, and prohibitions against splitting purchases.

1.2 Ensure cardholders consistently obtain and maintain written purchase requests and approvals, records of purchase, and records of receipt for purchases as required by Department policy and procedures and OS/ODS/OUS guidelines.

1.3 Require AOs to thoroughly review reconciliation packages provided by cardholders to ensure that adequate supporting documentation is maintained and purchases are not split.

1.4 Revise and implement internal purchase card guidelines to ensure that purchase card statements and supporting documentation are maintained in a central file consistent with Department policy.

1.5 Ensure all OS/ODS/OUS staff are aware that purchases should only be arranged by cardholders.

Deputy Secretary Response:

In response to our Draft Audit Report, the Deputy Secretary concurred with our finding and provided corrective actions to address each recommendation. The Deputy Secretary stated he is directing cardholders to attend training to reinforce the Department's policies, and AOs will certify to the Deputy Secretary that each cardholder has completed the training and is fully aware of policies governing the use of purchase cards. The Deputy Secretary stated the Executive Officer will issue a memorandum to cardholders advising them that their adherence to Department policy and other internal guidance will be included as part of their annual performance appraisal.

The Deputy Secretary also stated a separate review is now conducted of each transaction to ensure all supporting documentation is included, all purchase card files are now centrally located, and internal purchase card procedures have been updated. Finally, the Deputy Secretary stated he is directing the Executive Officer to issue a memorandum to all staff advising them that only those with designated authority may be involved in the purchase process. He further stated any individual who executes a contractual obligation without the authority to do so is personally responsible for the expense.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to assess the current effectiveness of internal control over the purchase card program and the appropriateness of current purchase card use in OS/ODS/OUS. To accomplish our objectives, we performed a review of internal control applicable to OS/ODS/OUS' administration and management of its purchase cards. We evaluated the prior OIG reviews of the purchase card program in OS/ODS/OUS to determine issues previously reported. We reviewed requirements related to the purchase card program in the Treasury Financial Manual, FAR, Office of Management and Budget memoranda, and Bank of America's

contract and task order. We also reviewed Departmental Directives, OCFO procedures, and internal OS/ODS/OUS guidance applicable to the purchase card program.

We conducted interviews with OCFO and OS/ODS/OUS officials to obtain information and an understanding of the purchase card program. We also reviewed training records for staff participating in the program. To test controls and evaluate the appropriateness of purchase card use, we reviewed supporting documentation provided by OS/ODS/OUS staff for purchases made during the scope period noted below.

The scope of our review included purchases made by Washington, DC, (Headquarters) cardholders during the period July 1, 2003, through June 30, 2004. We used sampling and data mining to select purchases for review. From the universe of purchases made by Department Headquarters cardholders, we randomly selected purchases of $50 or more for review. The random sample was chosen to provide a representative review of purchases across the Department. We also identified high-risk categories of potentially inappropriate purchases and reviewed all transactions in those categories – purchases over $2,500, charges to blocked merchant category codes, and potential split purchases. In OS/ODS/OUS, the random sample included 36 purchases. High-risk purchases for OS/ODS/OUS included 10 blocked merchant category code purchases and 19 potentially split purchases. No purchases over $2,500 were identified for OS/ODS/OUS. Two transactions were included in both the blocked merchant category code and potentially split purchase samples. Overall, 63 purchases totaling $64,401 made by 7 cardholders were included in our review.

In total, OS/ODS/OUS Headquarters cardholders made 1,110 purchases totaling $450,882 during the scope period. The purchases we reviewed represented 6 percent of the total number and 14 percent of the total amount of purchases made during the period. Since the random sample was selected based on the universe of all purchases of $50 or more made by Headquarters cardholders in the Department, the results of this review cannot be projected to the universe of OS/ODS/OUS purchases.

We relied on computer-processed data initially obtained from Bank of America's Electronic Account Government Ledger System to select cardholder purchases made during the scope period. This data was also recorded in the Department's Contracts and Purchasing Support System and reconciled by OS/ODS/OUS and OCFO staff through Education's Central Automated Processing System. We verified the completeness and accuracy of the data by reviewing cardholder statements, invoices, receipts, and other supporting documentation to validate purchase amounts recorded in these systems. Based on our testing, we concluded that the computer-processed data were sufficiently reliable for the purpose of our audit.

We also reviewed reports prepared by OCFO staff that reported purchase card transactions that were overdue for reconciliation. These reports were part of the "Fast Facts" reports distributed monthly to all Department staff through the Department's Intranet. We did not validate the accuracy of these reports, as we used them for informational purposes only, as an indicator of reconciliation timeliness.

We conducted fieldwork at Department offices in Washington, DC, during the period May 12, 2005 through September 12, 2005. We held an exit conference with OS/ODS/OUS staff on September 22, 2005. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

ADMINISTRATIVE MATTERS

Corrective actions proposed (resolution phase) and implemented (closure phase) by your office will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System. Department policy requires that you develop a final corrective action plan (CAP) for our review in the automated system within 30 days of the issuance of this report. The CAP should set forth the specific action items, and targeted completion dates, necessary to implement final corrective actions on the finding and recommendations contained in this final audit report.

In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General is required to report to Congress twice a year on the audits that remain unresolved after six months from the date of issuance.

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report represent the opinions of the Office of Inspector General. Determinations 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. § 522), reports issued by the Office of Inspector General are available 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 provided to us during this review. Should you have any questions concerning this report, please call Michele Weaver-Dugan at (202) 245-6941. Please refer to the control number in all correspondence related to the report.

Sincerely,

Helen Lew /s/
Assistant Inspector General for Audit Services

cc: JoAnn Ryan, OS/ODS/OUS Executive Officer

Attachment 1

UNITED STATES DEPARTMENT OF EDUCATION

THE DEPUTY SECRETARY

October 26, 2005

Ms. Michele Weaver-Dugan
Director, Operations Internal Audit Team
U.S. Department of Education
Office of Inspector General
400 Maryland Avenue, SW
Washington, DC 20202

Dear Ms. Weaver-Dugan:

Thank you for the Draft Audit Report on the results of your review of purchase card use in the Office of the Secretary, Office of the Deputy Secretary, and Office of the Under Secretary (ED-OIG/A19F0015). Several offices from ODS and OUS that were included in your review are now part of the Office of Planning, Evaluation, and Policy Development (OPEPD). OPEPD is serviced by the OS Executive Office.

I have reviewed the report and concur with your finding and recommendations. I am initiating the following actions in response to your review:

Recommendation

1.1 Ensure OS/ODS/OUS cardholders and AOs are familiar with the Department's policies and requirements for obtaining and maintaining supporting documentation, and prohibitions against splitting purchases.

Response

I am directing OS/ODS/OUS/OPEPD cardholders to attend training to reinforce the Department's policies. The Approving Official will certify to me that each cardholder has completed a refresher training course and is fully aware of the policies governing the use of purchase cards.

Recommendation

1.2 Ensure cardholders consistently obtain and maintain written purchase requests and approvals, records of purchase, and records of receipt for purchases as required by Department policy and procedures for OS/ODS/OUS guidelines.

Response

In addition to the training that will reinforce the Department's policies, I am directing the OS/ODS/OUS/OPEPD Executive Officer to issue a memorandum to cardholders advising them that their adherence to Department policy and other internal guidance will be included as part of their annual performance appraisal.

Recommendation

1.3 Require AOs to thoroughly review reconciliation packages provided by cardholders to ensure that adequate supporting documentation is maintained and purchases are not split.

Response

As noted in your Draft Audit Report, the OS/ODS/OUS/OPEPD Executive Officer has already initiated changes to address this issue. A separate review is now conducted of each transaction to ensure all supporting documentation is included. The review provides consistency in each transaction and each file is certified prior to the Approving Official's release for payment.

Recommendation

1.4 Revise and implement internal purchase card guidelines to ensure that purchase card statements and supporting documentation are maintained in a central file consistent with Department policy.

Response

As of July 25, all purchase card files within the purview of your report are centrally located and the internal purchase card procedures have been updated. Most of the staff members for whom Brenda Long serves as reviewing official are in the process of relocating to the central OS Executive Office. Their files, which currently are centrally located, will be combined with the purchase card files of the other cardholders in the Executive Office, so the files for OS, ODS, OUS, and OPEPD are in one location.

Recommendation

1.5 Ensure all OS/ODS/OUS staff are aware that purchases should only be arranged by cardholders.

Response

I am directing the OS/ODS/OUS/OPEPD Executive Officer to issue a memorandum to all staff advising them that only those with the designated authority may be involved in the purchase process. Any individual who executes a contractual obligation without the authority to do so is personally responsible for the expense.

I assure you that we are committed to complying fully with the Department's policies and procedures on the use of purchase cards.

Thank you for the opportunity to review and respond to this report.

Sincerely,

Raymond Simon

cc: JoAnn Ryan