



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

September 14, 2005

CONTROL NUMBER  
ED-OIG/A19F0021

Grover Whitehurst, Director  
Institute of Education Sciences  
U. S. Department of Education  
Capital Place, Room 600D  
555 New Jersey Avenue, NW  
Washington, DC 20208

Dear Mr. Whitehurst:

This **Final Audit Report** (Control Number ED-OIG/A19F0021) presents the results of our audit of *Controls Over Purchase Card Use in the Institute of Education Sciences*. 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 Institute of Education Sciences (IES).

## 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. IES' Executive Officer is responsible for administering the purchase card program in that office. 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 28, 2000, the Office of Inspector General issued a report entitled “Review of OERI’s Internal Controls Over the Procurement of Goods and Services,” (Control Number A&I 2000-009).<sup>1</sup> OIG reported a number of deficiencies in IES’ internal control over the purchase card program including lack of familiarity with Department policies and procedures, training and/or refresher training not completed by staff involved in the program, lack of adequate supporting documentation for purchases, and lack of written internal purchase card procedures.

This audit is part of a review of the purchase card program being performed Departmentwide. 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 IES. 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 review of purchase card activity, we found that IES needs to further improve internal control over purchase card use. We found that IES did not always obtain and maintain adequate documentation to support purchases. These issues occurred because IES cardholders did not consistently follow Department requirements and IES guidelines, and AOs did not always ensure that adequate supporting documentation was obtained prior to approving statements for payment.

Without adequate supporting documentation, IES does not have assurance that purchases were appropriate and were made in accordance with Federal regulations and Department policy and procedures. Approving purchases without adequate supporting documentation could result in payment for goods and services that were not received and increases the Department’s vulnerability to potential misuse or waste of government resources.

Issues noted above regarding lack of supporting documentation for purchases were also reported in the prior OIG review of IES’ purchase card activity.

In its response to the draft audit report, IES concurred with the finding and recommendations and provided corrective actions to address each of the recommendations included in our report. The complete text of IES’ response is included as Attachment 1 to this report.

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<sup>1</sup> The Office of Educational Research and Improvement (OERI) became the Institute of Education Sciences (IES) in 2002.

## **Finding 1 IES Needs to Further Improve Internal Control Over Purchase Card Use**

While improvements were noted from the prior OIG review, IES needs to further improve internal control over purchase card use. We reviewed nine purchases, totaling \$8,913, made by three IES Headquarters cardholders. We found that IES cardholders did not always obtain or maintain adequate documentation to support purchases as required by Department policy and IES guidelines. Overall, we noted seven of the nine purchases reviewed (78 percent) did not include one or more required elements.<sup>2</sup> Specifically we found:

- One purchase was not supported by a written purchase request.
- One purchase did not include a record of purchase.
- Six purchases were not supported by a record of receipt for the good/service.
- One purchase did not include the Purchase Card Approval Form as required by IES internal purchase card guidelines.

Departmental Directive OCFO: 3-104, “Government-wide Commercial Purchase Card Program,” dated January 23, 2002, Section VI, 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.”

OCFO Procedure CO-097, “Procedure for Buying, Using a Government Commercial Purchase Card,” revised March 2003, Section 10.d, states the following regarding documentation,

- Retain data supporting the purchases (including records of oral quotations).  
Keep your files neat, up-to-date, and easily retrievable. Documentation will be

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<sup>2</sup> Some purchases were missing more than one element.

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). . . .

IES established additional guidelines for purchase card use within its office. IES' "Internal Control Procedures for Purchase Cards," in effect since October 2002, states the following regarding documentation,

Cardholders are to complete and submit the Purchase Card Approval Form (Attachment A) to their approving official prior to making a charge. The list may be submitted via email or hardcopy. An approving signature or return email is required and should be retained as part of the official file.

Appropriate supporting documentation was not obtained and maintained because IES cardholders did not consistently follow Department requirements and IES guidelines. We also noted that AOs did not always ensure that adequate supporting documentation was obtained prior to approving statements for payment.

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

### **Recommendations:**

We recommend that the Director, IES, hold the Executive Officer, Approving Officials, and cardholders accountable for their responsibilities in the purchase card program by establishing a process to:

- 1.1 Ensure that cardholders and AOs are familiar with the Department's policy and procedures and IES guidelines for obtaining and maintaining supporting documentation.
- 1.2 Ensure cardholders 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 IES guidelines.

- 1.3 Require AOs to thoroughly review reconciliation packages provided by cardholders to ensure that adequate supporting documentation is maintained.

### **IES Response:**

In its response to the draft audit report, IES concurred with the finding and recommendations and provided corrective actions to address each of the three recommendations included in our report. IES stated a training session was held on August 17, 2005, with all cardholders and approving officials to review the audit findings and to ensure that cardholders and approving officials are thoroughly familiar with the Department's policy and procedures and IES guidelines for obtaining and maintaining supporting documentation. IES indicated additional training sessions would be held annually. IES stated it revised and distributed the Institute's Internal Control Procedures for Purchase Cards to specifically outline the documentation requirements for each purchase card transaction. Finally, IES stated the Executive Officer has been directed to review all the purchase card documentation submitted each month to ensure that cardholders obtain and maintain written purchase requests and approvals, records of purchase, and records of receipt for purchases, and that approving officials thoroughly review reconciliation packages provided by cardholders to ensure that adequate supporting documentation is maintained.

## **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 IES. To accomplish our objectives, we performed a review of internal control applicable to IES' administration and management of its purchase cards. We evaluated the prior OIG review of the purchase card program in IES to determine issues previously reported. We reviewed requirements related to the purchase card program in the Treasury Financial Manual, Federal Acquisition Regulation, Office of Management and Budget memoranda, and Bank of America's contract and task order. We also reviewed Departmental Directives, IES and OCFO procedures and guidance applicable to the purchase card program.

We conducted interviews with OCFO and IES 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 IES 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 IES, the random sample included nine purchases totaling \$8,913 made by three cardholders. No purchases over \$2,500, charges to blocked merchant category codes, or potential split purchases were identified for IES.

In total, IES Headquarters cardholders made 233 purchases totaling \$72,363 during the scope period. The purchases we reviewed represented 4 percent of the total number and 12 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 IES 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 IES 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 June 13, 2005, through July 11, 2005. We held an exit conference with IES staff on July 29, 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 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. §552), 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



UNITED STATES DEPARTMENT OF EDUCATION  
INSTITUTE OF EDUCATION SCIENCES

THE DIRECTOR

August 31, 2005

MEMORANDUM

TO: Michele Weaver-Dugan, Director  
Operations Internal Audit Team  
Office of Inspector General

FROM:  Grover J. Whitehurt

SUBJECT: Draft Audit Report of Controls Over Purchase Card Use in the Institute of Education Sciences (Control Number ED-OIG/A19F0021)

This is in response to your letter of August 12, 2005, concerning the Draft Audit Report of Controls Over Purchase Card Use in the Institute of Education Sciences (Control Number ED-OIG/A19F0021). We appreciate the opportunity to respond to your findings and recommendations.

IES concurs with the auditors' finding that IES cardholders did not always obtain or maintain adequate documentation to support purchases as required by Department policy and IES guidelines. Specifically the auditors found that for the nine purchases reviewed:

- One purchase was not supported by a written purchase request.
- One purchase did not include a record of purchase.
- Six purchases were not supported by a record of receipt for the good/service.
- One purchase did not include the Purchase Card Approval Form as required by IES internal purchase card guidelines.

The audit recommends that the IES Director hold the Executive Officer, Approving Officials, and cardholders accountable for their responsibilities in the purchase card program by establishing a process to:

- 1.1 Ensure that cardholders and AO's are familiar with the Department's policy and procedures and IES guidelines for obtaining and maintaining supporting documentation.
- 1.2 Ensure cardholders 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 IES guidelines.

1.3 Require AO's to thoroughly review reconciliation packages provided by cardholders to ensure that adequate supporting documentation is maintained.

In response to the three recommendations, we have taken a number of steps to correct the problems identified and make improvements in the IES purchase card program:

A training session was held on August 17, 2005, with all cardholders and approving officials to review the audit findings and to ensure that cardholders and approving officials are thoroughly familiar with the Department's policy and procedures and IES guidelines for obtaining and maintaining supporting documentation. Additional training sessions will be held annually.

In addition, we have revised the Institute's Internal Control Procedures for Purchase Cards to specifically outline the documentation requirements for each purchase card transaction:

- Request for purchase (a written request from the requisitioner).
- Signed Purchase Card Approval form (or similar document).
- 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)

Copies of the revised procedures were distributed to all card holders and approving officials at the August 17 training session.

The executive officer has been directed to review all the purchase card documentation submitted each month to ensure that cardholders obtain and maintain written purchase requests and approvals, records of purchase, and records of receipt for purchases and that approving officials thoroughly review reconciliation packages provided by cardholders to ensure that adequate supporting documentation is maintained.

Thank you for the opportunity to respond to this draft. We look forward to the issuance of the final audit report. If you have any questions, please feel free to contact Sue Betka at (202) 219-1385.