



U.S. Department of Education  
Office of Inspector General

# Review and Analysis of the Department's Purchase Card Transactions

March 2, 2018  
ED-OIG/S19R0004



## NOTICE

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. The appropriate Department of Education officials will determine what corrective actions should be taken.

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UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

Audit Services

March 2, 2018

TO: Douglas Webster  
Chief Financial Officer

FROM: Patrick J. Howard /s/  
Assistant Inspector General for Audit

SUBJECT: Final Report, "Review and Analysis of the Department's Purchase Card Transactions,"  
Control Number ED-OIG/S19R0004

Attached is the subject final report that consolidates the results of our review and analysis of the Department's purchase card transactions. We have provided an electronic copy to your audit liaison officer. We received your comments concurring with the finding and recommendations in our draft report.

U.S. Department of Education policy requires that you develop a final corrective action plan within 30 days of the issuance of this report. The corrective action plan should set forth the specific action items and targeted completion dates necessary to implement final corrective actions on the findings and recommendations contained in this final report. Corrective actions that your office proposes and implements will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System.

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 reports that remain unresolved after 6 months from the date of issuance.

We appreciate your cooperation during this review. If you have any questions, please contact Michele Weaver-Dugan at (202) 245-6941 or Michele.Weaver-Dugan@ed.gov.

Attachment

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## Results in Brief

### What We Did

The objective of our review was to determine whether the Department of Education (Department) made purchase card transactions that were potentially illegal, improper, or erroneous. We performed this review in conjunction with a government-wide project initiated by the Council of the Inspectors General on Integrity and Efficiency (CIGIE), Information Technology (IT) Committee, to determine risks associated with government purchase card transactions.

### What We Found

We found no instances of purchase card transactions that appeared to be illegal, improper, or erroneous for the transactions included in our review. However, we did identify areas where the Department could improve its internal controls over purchase card use. Specifically, we found instances where purchase cardholders did not always follow Department policy, to include obtaining or maintaining adequate documentation to support purchases. As a result, there is greater likelihood that cardholders may make inappropriate purchases, potentially resulting in an increased risk of fraud and misuse of funds.

### What We Recommend

We made several recommendations to the Chief Financial Officer to strengthen controls over purchase card use, to include ensuring that the web-based training program includes an emphasis on documentation requirements and that the exam given as part of the training also emphasizes these requirements.

We provided a draft of this report to the Office of the Chief Financial Officer (OCFO) for comment. OCFO concurred with the finding and recommendations and provided responsive corrective actions.

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## Introduction

### Background

In October 2016, the CIGIE IT Committee initiated a government-wide project to analyze and review government purchase card data to determine risks associated with purchase card transactions. Each participating Inspector General (IG) was to independently conduct a review of their respective agency's transactions, the results of which are to be compiled by the U.S. Department of Agriculture Office of Inspector General (OIG) and published in a consolidated report for the CIGIE IT Committee. The scope of the review was defined as October 1, 2016 through March 31, 2017.

The Government Charge Card Abuse Prevention Act of 2012 (Charge Card Act), Public Law 112-194, requires all executive branch agencies to establish and maintain safeguards and internal controls for purchase cards, travel cards, integrated cards, and centrally billed accounts. Under the Charge Card Act, IGs are required to conduct periodic risk assessments of their agency's purchase card or convenience check<sup>1</sup> programs to identify and analyze the risks of illegal, improper, or erroneous purchases and payments. IGs are also to perform analyses or audits, as necessary, of purchase card transactions designed in part to identify potentially illegal, improper, or erroneous uses of purchase cards.

OCFO Contracts and Acquisitions Management (CAM) oversees the purchase card program within the Department. Purchase card spending totaled \$3,202,581 in fiscal year (FY) 2016 and \$956,157 was spent in the first two quarters of FY 2017. As of the second quarter of FY 2017, there were 87 active purchase card accounts.

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<sup>1</sup> The Department does not use convenience checks.

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## Finding. The Department Should Strengthen Controls Over Purchase Card Use

We found no instances of purchase card transactions that appeared to be illegal, improper, or erroneous for the transactions included in our review. However, we did identify areas where the Department could strengthen its internal controls over purchase card use. Specifically, we reviewed 46 purchases totaling \$75,450 made by 15 cardholders from 8 Principal Offices (PO).<sup>2</sup> For each of the transactions in our sample, the applicable PO provided us with all available supporting documentation, which we reviewed to determine the appropriateness of the purchases. Based on this review, we determined that none of the purchases appeared to be illegal, improper, or erroneous; however, we did find that cardholders did not always comply with Department policy in 22 of the 46 transactions reviewed (48 percent), as follows:<sup>3</sup>

- 13 purchases (28 percent) had missing or inadequate documentation to show the requirement was received.
- 6 purchases (13 percent) consisted of orders for services that were placed by staff other than the cardholder. Once services were rendered, an invoice was submitted to the cardholder and payment was made with the purchase card.
- 2 purchases out of 18 transactions to which the requirement applied<sup>4</sup> (11 percent) were missing sufficient justification on the purchase request as to why the requirement was needed.
- 2 purchases (4 percent) were missing sales documentation.
- 1 purchase (2 percent) was authorized after the order had already been placed.
- 1 purchase (2 percent) was with a vendor with a blocked Merchant Category Code (MCC)<sup>5</sup> and there was no correspondence with the Agency/Organization Program Coordinator (A/OPC).<sup>6</sup>

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<sup>2</sup> See Appendix B for a summary of the selected transactions.

<sup>3</sup> Some transactions had more than one issue noted.

<sup>4</sup> The Department revised Directive OCFO: 3-104, "Government-wide Commercial Purchase Card Program," and published it on the Department's intranet January 11, 2017. The revised Directive established the requirement that purchase requests include sufficient justification as to why the requirement is needed. For the purposes of our review, only purchase requests submitted after the date the revised Directive was published were held to this additional requirement.

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- 1 purchase (2 percent) was charged sales tax and the cardholder had not attempted to recover the tax.

We also noted that adequate documentation was not maintained for 6 additional purchases as required by Department policy. For these purchases, the respective POs subsequently provided the documentation. As a result, these purchases are excluded from the exceptions noted above.

Lastly, we found one instance where the Approving Official (AO) requested and authorized a requirement that appears to have been for official government use, but was specifically for him. While this transaction complies with the Department's established procedures and otherwise appears to be appropriate, it nevertheless highlights an area where the Department could strengthen its controls regarding segregation of duties to reduce the risks of illegal or improper purchases.

Office of Management and Budget (OMB) Circular A-123 notes that

Management has a fundamental responsibility to develop and maintain effective internal control. The proper stewardship of Federal resources is an essential responsibility of agency managers and staff. Federal employees must ensure that Federal programs operate and Federal resources are used efficiently and effectively to achieve desired objectives. Programs must operate and resources must be used consistent with agency missions, in compliance with laws and regulations, and with minimal potential for waste, fraud, and mismanagement.

The Circular goes on to state that the agency head must establish controls that reasonably ensure that funds are safeguarded against waste, loss, unauthorized use or misappropriation.

Departmental Directive (Directive) OCFO: 3-104, "Government-wide Commercial Purchase Card Program," dated May 5, 2008,<sup>7</sup> Section VII.B.7, states the Cardholder

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<sup>5</sup> MCCs are established by credit card companies to identify a merchant's line of business. The Department has restricted purchases in certain merchant categories that are generally not used by the Department for official business.

<sup>6</sup> The individual who oversees the daily activities of the purchase card program and serves as the primary point of contact. This position resides within CAM.

<sup>7</sup> Two Directives were in effect during the scope of our audit. The 2008 version was superseded by a revision that was published on the Department's intranet on January 11, 2017. Unless otherwise stated, the criteria cited in the Directives did not materially differ.



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should secure a written request from the appropriate Department employee requesting the Cardholder to procure goods or services. The revised Directive, Section VII.F.1.b.1, requires the purchase request to include sufficient justification as to why the requirement is needed. Section VII.F.1.b.2 of the revised Directive also added a requirement for the cardholder's AO, Alternate Approving Official (AAO), or Executive Officer (EXO) to authorize purchases in advance.

OCFO Procedure CO-97, Section 10.c, requires cardholders to document written purchase requests along with records of purchases being made by including sales documentation, including but not limited to receipts, invoices, shipping documents, internet print screen, or vendor correspondences. Section 9.e instructs cardholders to contact CAM when purchasing from vendors in MCCs that the Department has restricted and to retain such correspondence in the purchase card transaction file.

OCFO Procedure CO-97, Section 9.a, notes that cardholders should place the orders themselves and be involved with the purchase from start to finish. It is not an appropriate use of the purchase card to be requested to pay for a purchase that was authorized by someone else.

OCFO Procedure CO-97, Section 9.f, states that cardholders should ensure the vendor knows that the purchase is tax exempt and, in the event sales tax is charged, instructs cardholders to pay for the charge and then work with the vendor to obtain a credit for the sales tax.

We found that cardholders and AOs were not always familiar with or did not consistently follow policies and procedures established by the Department. Also, as previously noted, the Directive was revised during the period of our review and some cardholders and AOs may not have been familiar with the revised policies. For some of the transactions that were placed by staff other than the cardholder, it was explained that this occurred due to a lack of knowledge and experience by the employee placing the order or by a new cardholder. With regard to the purchase with the blocked MCC, the Department noted that while the MCC was on its blocked MCC listing at the time the purchase was made, it was not included on the charge card contractor's blocked MCC listing, which allowed the transaction to go through. We were informed that the MCC is now also included on the charge card contractor's blocked MCC listing. However, since the MCC was on the Department's listing at the time the purchase was made, the cardholder should have been aware of this and included the required correspondence with the A/OPC. We also noted that the Department does not have a policy to reflect adequate separation of duties when an AO is requesting the purchase of an item specifically for him or herself.

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Lack of adequate supporting documentation reduces assurance that purchases were appropriate and were made in accordance with Department policy and procedures. Failure to document receipt could result in payment for goods and services that were not received.

When staff other than the cardholder place orders for goods or services, this results in purchases made by individuals without appropriate procurement training and authority to obligate funds on behalf of the Department. In addition, these staff may be obligating funds that may not be available. Prior to making a purchase, cardholders determine whether purchases require special reviews or clearances and whether the requirement(s) are available from priority or mandatory sources, among other things. Employees that have not received the same training as purchase cardholders are less likely to follow the procedures required by the Department's policies and procedures in arranging a purchase, increasing the odds of the purchase being illegal or improper.

Allowing AOs to request and authorize items for purchase specifically for themselves increases the risk of illegal or improper purchases, especially since there is no one else involved in the purchase review and approval process. Since AOs are required to be at a supervisory level and not subordinate to a cardholder, cardholders may be hesitant or unwilling to question these purchase requests.

## Recommendations

We recommend that the Chief Financial Officer:

- 1.1 Ensure that the web-based training program includes an emphasis on documentation requirements as well as updates to policy made in the revised Directive and that the exam given as part of the training also emphasizes these areas.
- 1.2 Ensure that staff are aware that purchases should only be made by cardholders and individuals with procurement authority.
- 1.3 Ensure the charge card vendor is aware of all MCCs included on the Department's blocked MCC listing.
- 1.4 Strengthen internal controls over the purchase card program so that AOs cannot authorize purchases of items specifically for their own use. Authorizations for these purchases could come from AAOs or EXOs and apply to purchases that are over a specified dollar amount.

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## **OCFO Comments**

We provided a draft of this report to OCFO for comment. OCFO concurred with the finding and recommendations. For recommendation 1.1, OCFO noted that it will review the web-based training to ensure adequate emphasis is placed on file documentation requirements. It will also revise the training and exam questions to emphasize any information not already communicated to purchase card program participants about the revised Directive. To address recommendation 1.2, the web-based training will also be revised to highlight procurement authority as it relates to being a cardholder to ensure that staff are aware of this responsibility.

For recommendation 1.3, OCFO stated that the MCC listing will be reviewed by the A/OPC on an annual basis and updated through the charge card vendor when necessary. For recommendation 1.4, OCFO noted that in an effort to strengthen internal controls over the purchase card program, it will revise the Directive to ensure that in instances when an AO makes a purchase request, the AAO for the Cardholder will approve the request. If an AAO is subordinate to the AO, then the Cardholder's EXO will approve the request.

## **OIG Response**

OCFO's comments were responsive to the recommendations. We did not make any changes to the finding or recommendations as a result of OCFO's comments.

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## Appendix A. Scope and Methodology

Our review was conducted in accordance with the verification and validation procedures developed by the CIGIE IT Committee. These procedures were developed to provide uniformity for processing and reporting the results across the government. The scope of the review included purchases made during the period October 1, 2016 through March 31, 2017.

To accomplish our objective, we gained an understanding of the internal controls over the Department's purchase card program to prevent potentially illegal, improper, or erroneous transactions from occurring. Specifically, we reviewed the Department's written policies and procedures describing the internal controls over the purchase card program. We also reviewed the Department's most recent OMB-123 Appendix B *Purchase Card Assessment*, dated September 27, 2016, to identify key internal controls over the purchase card program, and the Department's process for monitoring and testing of these controls. We also reviewed prior OIG and Government Accountability Office reports with relevance to the objective.

We reviewed a statistical random sample of purchase card transactions from eight POs to determine whether the Department made any purchases that were potentially illegal, improper, or erroneous. We evaluated whether key internal controls over these purchases were operating as intended and assessed the appropriateness of the purchases by reviewing the supporting documentation in the transaction files. The review included determining whether the transaction file included: 1) a written purchase request, including that the purchase was for official agency use, 2) approval from the AO, AAO, or EXO, 3) sales documentation, such as receipts, invoices, and shipping documents, and 4) signed and dated receiving documentation. We conducted interviews with Department officials to discuss controls over the program, the results of the purchase card transaction file reviews, and to identify potential reasons for why key controls did not operate as intended where noted and possible corrective actions.

### Sampling Methodology

The CIGIE IT Committee developed algorithms for data analysis and statistical tools for all of the participating OIGs to follow, including the criteria for high-risk transactions, sampling sizes, and random numbers used to generate a sample for each of the first two quarters of FY 2017. From October 1, 2016, through March 31, 2017, Department cardholders made 2,216 purchases totaling \$959,456. We applied the algorithms, by quarter, to identify the Department's high-risk transactions. The algorithms identified transactions meeting any of the following attributes:

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- prohibited MCC purchases;
- questionable MCC purchases;
- purchases exceeding a cardholder's single purchase limit;
- purchases that included sales tax;
- weekend and holiday purchases;
- purchases through third-party vendors;<sup>8</sup>
- purchases indicative of split transactions;<sup>9</sup>
- purchases from closed accounts.

We identified 432 transactions totaling \$266,779 that met at least one of the eight algorithms. We then calculated the top 25 percent high-risk transactions,<sup>10</sup> resulting in 109 transactions totaling \$150,761. We selected a statistical random sample of 46 purchase card transactions,<sup>11</sup> 23 from each quarter, totaling \$75,450. These transactions were made by cardholders in eight different POs. Because our sampled transactions were selected from a judgmentally targeted population, the sample was not representative of the universe.

## Use of Computer-Processed Data

We relied on computer-processed data initially obtained from JP Morgan Chase, the Department's charge card contractor. We traced our randomly selected transactions to invoices, receipts, and other source documents related to the transactions. We determined that the data was sufficiently reliable for the purpose of this review.

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<sup>8</sup> CIGIE defined vendors such as PayPal and Amazon as third party vendors.

<sup>9</sup> This included transactions made by the same cardholder, from the same vendor, the transaction dates are within three posting days, and the total amount exceeded the purchase threshold.

<sup>10</sup> The level of risk was determined by the number of algorithms that a transaction met and by the dollar amount. Transactions that met more than one algorithm weighed more. We sorted these transactions by weight from high to low and then by dollar amount from high to low and selected the top 25 percent as the high risk transactions.

<sup>11</sup> The sample size is based on a 95 percent confidence interval and an expected error rate below 10 percent.

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We conducted fieldwork at Department offices in Washington, D.C., during the period April 2017 through November 2017. We conducted this inspection in accordance with the CIGIE *Quality Standards for Inspection and Evaluation*.

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## Appendix B. Transactions Reviewed by Principal Office

Principal Office	Transactions Reviewed	Cardholders	Value of Transactions Reviewed
Federal Student Aid	4	2	\$5,545.37
OCFO	5	1	\$3,400.00
Office for Civil Rights	7	4	\$11,141.06
OIG	8	1	\$12,703.59
Office of Management	6	3	\$8,457.60
Office of Postsecondary Education	1	1	\$885.00
Office of the Secretary	12	1	\$25,131.28
Office of Special Education and Rehabilitative Services	3	2	\$8,186.00
<b>Totals</b>	46	15	\$75,449.90

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## Appendix C. Acronyms and Abbreviations

AAO	Alternate Approving Official
AO	Approving Official
A/OPC	Agency/Organization Program Coordinator
CAM	Contracts and Acquisition Management
Charge Card Act	The Government Charge Card Abuse Prevention Act of 2012
CIGIE	Council of the Inspectors General on Integrity and Efficiency
Department	U.S. Department of Education
EXO	Executive Officer
FY	Fiscal Year
IG	Inspector General
IT	Information Technology
MCC	Merchant Category Code
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
PO	Principal Office



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## Appendix D. OCFO Comments

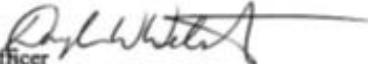


UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF THE CHIEF FINANCIAL OFFICER

### MEMORANDUM

**DATE:** February 20, 2018

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

**FROM:** Douglas Webster   
Chief Financial Officer  
Office of the Chief Financial Officer

**SUBJECT:** Response to: Draft Report, "Review and Analysis of the Department's Purchase Card Transactions," Control Number ED-OIG/S19R0004

Thank you for providing the subject draft report dated January 24, 2018. The Office of the Chief Financial Officer (OCFO) concurs with the findings and each recommendation.

Detailed below are OCFO's responses, as well as corrective actions, with associated target dates for completion.

#### Response to Recommendations

- 1.1 Ensure that the web-based training program includes an emphasis on documentation requirements as well as updates to policy made in the revised Directive and that the exam given as part of the training also emphasizes these areas.

**Response:** All Purchase Card (P-card) program participants are required to complete initial web-based P-card training and refresher training on an annual basis. File documentation requirements are included in the training module; however, Contracts and Acquisitions Management (CAM) will review the language specifically to ensure adequate emphasis is placed on this topic.

CAM informed all Cardholders, Approving Officials (AOs), and Executive Officers (EXOs) of the revised P-card Directive. Upon issuance of the revised Directive in February 2017, CAM highlighted the major revisions that would impact all Cardholders and AOs. A table of changes was also provided which compared the current and previous versions of the Directive. The web-based training will be revised to emphasize any information not already communicated to P-card program participants about the revised Directive.

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In addition, the exam given as part of the training will be revised to include questions that also emphasize these areas.

Target Completion Date: 4<sup>th</sup> Quarter 2018 (due to the Department's transition to the FedTalent system).

- 1.2 Ensure that staff are aware that purchases should only be made by cardholders and individuals with procurement authority.

**Response:** All Cardholders are issued a *Delegation of Authority Government Purchase Card* memorandum by the Head of the Contracting Activity (HCA) upon receiving their P-card. Cardholders are made aware that purchases should only be made by the owner of the card. The memorandum explicitly states the following:

*The purchase card is only to be used for official government purchases, and you are the only person authorized to make purchases with your card. You must safeguard the plastic card and account number at all times.*

To ensure that staff are aware of this responsibility, the web-based training will be revised to highlight procurement authority as it relates to being a Cardholder.

Target Completion Date: 4<sup>th</sup> Quarter 2018 (due to the Department's transition to the FedTalent system).

- 1.3 Ensure the charge card vendor is aware of all MCCs included on the Department's blocked MCC listing.

**Response:** The Department's list of blocked MCCs is managed by CAM. The Agency/Organization Program Coordinator (A/OPC) for the Department is the only individual authorized to initiate a change through JP Morgan Chase (JPMC) to the blocked MCC list. The purchase made through a vendor with a blocked MCC and having no correspondence with the A/OPC was documented correctly. At the time the transaction was processed, MCC 5814 was not blocked for the Department; therefore, merchant override correspondence with the A/OPC was not needed in the file.

Understanding that MCC 5814 should have been blocked at the Department level, CAM took action and reviewed the Department's list of MCCs in August of 2017. The A/OPC immediately contacted JPMC and had the MCC added to the list of blocked merchants. Any future transactions made using the 5814 MCC will require A/OPC override approval and coordination with JPMC.

Target Completion Date: The MCC noted has been blocked at the Department level. The Department's MCC listing will be reviewed by the A/OPC on an annual basis and updated through JPMC when necessary. No further action is needed for this recommendation.

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- 1.4 Strengthen internal controls over the purchase card program so that AOs cannot authorize purchases of items specifically for their own use. Authorizations for these purchases could come from AAOs or EXOs and apply to purchases that are over a specified dollar amount.

**Response:** The P-card Directive does not prohibit an AO from requesting and authorizing a purchase. However, in an effort to strengthen internal controls over the purchase card program, CAM will revise the Directive to ensure that in instances when an AO makes a purchase request, the AAO for the Cardholder will approve the request. If an AAO is subordinate to the AO, then the Cardholder's EXO will approve the request. The same rule will apply to AAOs that make a purchase request. This segregation of duties will reduce the risks of illegal or improper purchases.

**Target Completion Date:** CAM will submit a revised Directive to the Office of Management in 4<sup>th</sup> Quarter 2018. The revised Directive will go through a Department-wide review; therefore, an estimated completion date cannot be determined at this time.

The Office of the Chief Financial Officer appreciates this review and the opportunity to improve the areas noted above. Please contact James Hairfield with any questions pertaining to this response.