U.S. DEPARTMENT OF COMMERCE
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OFFICE OF THE SECRETARY

Office of the Secretary's Oversight of Its Purchase Card Program Needs Heightened Monitoring and Enforcement

Final Audit Report No. BTD-14971/March 2003

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UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

MAR 28 2003

MEMORANDUM FOR: Otto J. Wolff
Chief Financial Officer and
Assistant Secretary for Administration

FROM: Johnnie E. Frazier

SUBJECT: *Office of the Secretary's Oversight of Its Purchase Card Program Needs Heightened Monitoring and Enforcement*
Final Audit Report No. BTD-14971-3-0001

As follow-up to our draft report, dated September 4, 2002, this is our final report on our audit of the Office of the Secretary's (O/S) purchase card program.

O/S believes that the purchase card program has reduced the administrative burden and costs associated with small purchases, thus enhancing its ability to fulfill its mission. We found no instance of fraud or misuse in the O/S purchase card program but noted weaknesses in internal controls and instances of noncompliance with applicable Federal Acquisition Regulations and the *Commerce Acquisition Manual.* Our findings and recommendations appear on pages 3 through 10.

In responding to our draft report, the Office of the Secretary generally agreed with our recommendations and described actions planned or taken to implement them. This response constitutes an acceptable Audit Action Plan as required by Department Administrative Order 213-5, *Audit Resolution and Follow-up* and, hence, a separate plan is not necessary. O/S also recommended several revisions to the report, which we have made, where appropriate. Most notably, O/S pointed out that references in our draft report to the Director for Acquisition Management and Procurement Executive as the official directly responsible for the purchase card program should be modified to identify the Director, Commerce Acquisition Solutions Division, who is the Head of the Contracting Office (HCO), as the responsible official. We have modified our recommendations accordingly. The Office of the Secretary's response is included in its entirety as Attachment II to the report.

INTRODUCTION

The Commerce Department's purchase card program was established more than 15 years ago. It began in 1986 as a multiagency pilot effort and became a government-wide program in 1989 through a contract administered by the General Services Administration. The purchase card program has two primary objectives:

1. To reduce procurement administrative costs and improve management by expediting and simplifying small purchases.

2. To improve internal controls to eliminate the fraud and abuse present in other small-purchase methods.

Purchase card use was facilitated by the Federal Acquisition Streamlining Act of 1994, which established the "micro-purchase" threshold of $2,500 or less, eliminated some requirements for these purchases, and encouraged agencies to shift the authority for making these purchases from procurement offices to program offices. Executive Order 12931, Federal Procurement Reform, encouraged expansion of micro-purchase authority.

In an August 1996 report by the General Accounting Office it was noted that ". . . using the purchase card has helped government agencies achieve administrative savings and efficiencies, absorb some of the impact of staffing cuts, and improve their abilities to fulfill their missions."[1] More important, the use of purchase cards at the Commerce Department has increased to the extent that for FY 2001, 91.1 percent of Commerce's 364,345 purchases, or 331,876 transactions, involved the use of purchase cards.

In fall 1998, the Department selected Citibank as its card issuer and VISA as the card brand. Citibank was awarded a 5-year base contract with five 1-year renewal options. The Department's Office of Acquisition Management is responsible for overseeing administration of the purchase card program within Commerce and, in turn, has delegated that authority to each Commerce unit's Head of the Contracting Office (HCO). The Commerce Bankcard Center, in Kansas City, Missouri, is responsible for maintaining purchase card data for all Commerce units, reporting on Department-wide purchase program activity and administering other purchase card program oversight and support functions. HCOs, the Commerce Bankcard Center, approving officials, and cardholders all share responsibility for ensuring that purchase card usage complies with the Federal Acquisition Regulation (FAR) and *Commerce Acquisition Manual* requirements.

OBJECTIVES, SCOPE, AND METHODOLOGY

We conducted our audit from January 2002 through August 2002 to determine whether the Office of the Secretary (O/S) was managing its purchase card program in accordance with FAR, Part 13, "Simplified Acquisition Procedures"; *Commerce Acquisition Manual*, Part 13, Chapter 1313.301 "Department of Commerce Purchase Card Procedures"; and the Department of Commerce *Personal Property Management Manual* dated March 1995, amended March 2001. We used the April 5, 2000, version of *Commerce Acquisition Manual*, applicable during our period of review, to evaluate compliance with policies and procedures.

We reviewed a sample of purchase card transactions made by O/S cardholders during fiscal year 2001: the office's 132 purchase cardholders made 10,350 purchases for a total

[1] *Acquisition Reform*, GAO/NSIAD-96-138, August 1996.

cost of $6.2 million. We stratified the total number of transactions by dollar amount and selected a random sample of 176 transactions for detailed review, representing 33 cardholders. (See Attachment I.) No O/S cardholder has convenience check privileges with his/her purchase card.

We also judgmentally sampled a separate subset of the 10,350 transactions, identified as a "restrictive code" list, which contained 789 entries, totaling $471,291. The list encompassed purchases made over a 15-month period covering FY 2001 plus the following 3 months, through December 31, 2001. "Restrictive code" purchases represented charges screened by the Commerce Bankcard Center against merchant category codes it uses to identify potentially questionable transactions. These purchases include airline tickets, hotel accommodations, car rentals, bar tabs, and bills from antique shops, pawnshops, clothing stores, and so forth. We selected certain items for further analysis based on the vendor and description of the purchase and conducted a detailed review of 42 of the 789 restrictive code transactions recorded during the 15-month period. Our detailed review revealed that these charges were appropriate purchases for the mission of the O/S. Thus, we performed no additional review of this "restricted code" list.

In addition, we reviewed applicable regulations, policies, and procedures; examined documentation, reports, and records; and interviewed O/S officials and the 33 cardholders. We completed our audit fieldwork and conducted an exit briefing in September 2002.

In conducting our audit, we relied on computer-processed data from Citibank and tested its accuracy by tracing recorded transactions to source documents and comparing transactions and documents with data in other documents. Based on our tests, we concluded that the data was sufficiently reliable for use in meeting our audit objectives.

We reviewed administrative and accounting controls in the O/S relating to purchase card use, including controls over the physical security and authorized use of purchase cards. We also reviewed available documentation of approval, ordering, and receipt of purchased items.

In addition, we evaluated the Department's compliance with laws and regulations applicable to the use of government bankcards. We found instances in which O/S officials did not comply with certain requirements of FAR, *Commerce Acquisition Manual,* and the Department's *Personal Property Management Manual.*

Our audit was conducted in accordance with generally accepted government auditing standards and was performed under the authority of the Inspector General Act of 1978, as amended, and Department Organization Order 10-13, dated May 22, 1980, as amended.

FINDINGS AND RECOMMENDATIONS

During our review and testing of specific purchase card transactions, we noted no evidence of misuse of funds by cardholders. However, our audit did reveal several areas

of weakness in the Office of the Secretary's implementation of the purchase card program: (1) individual cardholders compliance with *Commerce Acquisition Manual* provisions and procedures should be improved, (2) approving officials need to be more vigilant in their oversight and review of individual cardholder transactions, (3) O/S's Head of the Contracting Office should improve oversight of the purchase card program, and (4) purchases for entertainment should be reviewed by the O/S to ensure they are properly accounted for in the Department's accounting system. These weaknesses reflect inadequate internal controls and instances of noncompliance with FAR, Part 13; *Commerce Acquisition Manual,* Part 1313.301; and/or the Department's *Personal Property Management Manual.* These weaknesses increase the vulnerability of the O/S purchase card program to improper or questionable transactions.

A. Improvement in Cardholders' Compliance with *Commerce Acquisition Manual* is Needed

1. Competitive Procurement Procedures Were Insufficiently Documented

Commerce Acquisition Manual, Part 1313.301, Section 3.2 requires cardholders to promote competition to the maximum extent possible and document that the price of purchases exceeding $2,500 is fair and reasonable. The cardholder can offer bid quotes, previous purchases, catalogs, current price lists, advertisements, similar items in a related industry, or value analysis as evidence for making this determination. Of the 60 transactions in excess of $2,500 that we reviewed, 2 had no documentation to indicate that the price paid was the most competitive or even reasonable and no statement explaining the absence of required documentation or sole-source justification. If the cardholder solicits only one source or vendors do not provide quotes, this should be noted as part of the competitive pricing documentation.

2. Required Purchase Card Ordering Log Not Always Maintained

Six of the 33 cardholders in the sample did not comply with *Commerce Acquisition Manual* requirements for preparation and/or maintenance of a purchase card ordering log. One, a cardholder since May 1998, has never prepared the required log; the five others either sporadically prepared logs or did not enter all purchases in the log.

The log (a sample of which is available as an attachment in the *Commerce Acquisition Manual*) is the cardholder's record of account. It is designed to report financial, administrative, and shipping data for each transaction. If all purchase card transactions are not recorded in the log, cardholders cannot adequately document, control, or reconcile purchase activity with the purchase card statement, and approving officials cannot adequately determine whether the transactions are appropriate and properly categorized and also cannot reconcile purchase activity with the summary report. As a result, the Office of the Secretary is at increased risk for unauthorized and improper procurements.

3. Required Refresher Training Should Be Obtained

All purchase cardholders and approving officials are responsible for reading, understanding, and following the Department's purchase card policies and procedures outlined in *Commerce Acquisition Manual,* Part 1313.301. Section 2.1 of that part requires cardholders and approving officials with single-purchase limits of more than $2,500 to also take refresher training every 5 years. Six of the 33 cardholders in the sample had not completed refresher training within a 5-year period as required. Refresher training consists of a minimum of 24 hours of a commercially available course on simplified acquisitions.

All cardholders are required to complete a minimum level of training as assurance that they understand basic purchasing concepts and the proper use of the card. Completion of training, whether it be basic or refresher, is critical to ensuring that cardholders are knowledgeable about current regulations, policies, and procedures. In addition, given the weaknesses and noncompliance issues our office has noted in O/S, consideration should be given to requiring more frequent refresher training.

4. Purchase Cards Should Be Better Secured

Of the 33 cardholders interviewed, eight kept their cards interspersed with personal credit cards in their wallets or handbags. *Commerce Acquisition Manual*, Section 2.2 notes that proper use and safeguarding of the purchase cards is the responsibility of each cardholder and that cardholders should take appropriate precaution and care to secure the cards. Since purchase cards are to be used only for official business, there is typically no need for cardholders to have their government purchase card with them at all times. When the card is not being used, it should be kept in a secure place, such as a locked drawer or file cabinet.

5. Requirements to Purchase from Mandatory Sources of Supply in Priority Order Is Not Always Followed

Two of the 33 cardholders interviewed were not familiar with the *Commerce Acquisition Manual* requirement that cardholders follow the established order of priority in selecting from the mandatory sources of supply. *Commerce Acquisition Manual* Part 1313.301, Section 3.1, explains that agencies are required by FAR to obtain supplies from certain sources. Commerce inventory is mandated as the first place to look. The non-Commerce supply sources mandated by federal regulations, in preferential order, are

1. Federal Prison Industries, Inc. (UNICOR),
2. Suppliers who are blind or severely disabled,
3. Wholesale supply sources, such as the General Services Administration,
4. Mandatory federal supply schedules,
5. Optional-use federal supply schedules, and
6. Commercial sources.

When mandatory sources of supply are not evaluated to determine whether they can provide the requested item or service, the cardholder is not complying with FAR and *Commerce Acquisition Manual* requirements and undermines the special arrangements pre-negotiated by the government with these vendors.

6. Property Transaction Forms Need to Be Completed

Two cardholders did not complete the required Property Transaction form (CD-509) for purchases of accountable property (items more than $5,000 in value, or sensitive items, regardless of cost, such as computer equipment, facsimile machines, laser printers, and televisions). One of the transactions in question concerned the purchase of several personal computers that totaled over $20,000. Since the cardholders completed neither the required Property Transaction Report nor a property receipt and, consequently, did not forward these documents to the property office, there is no assurance that the purchases were included in the inventory system as accountable property.

The *Commerce Acquisition Manual* requires cardholders to forward form CD-509 or a property receipt to their servicing property office for all purchases costing more than $5,000 or those of a sensitive nature. This form is necessary to ensure that accountable property is included in the inventory system

Recommendations

We recommend that the Director for Acquisition Management and Procurement Executive require the Director, Commerce Acquisition Solutions Division, to take the action necessary to:

(1) ensure that cardholders purchasing items costing $2,500 or more follow the *Commerce Acquisition Manual* and document that the purchase price is fair and reasonable;

(2) ensure that all cardholders prepare an ordering log, as required by the *Commerce Acquisition Manual* and fully record all transactions, provide adequate information for all transactions, and reconcile the log with purchase card statements;

(3) require that the O/S HCO establish a tracking system or database to monitor whether cardholders receive adequate and appropriate training;

(4) ensure that proper precautions are taken to secure purchase cards when they are not being used by the cardholder, such as maintaining the cards in a locked file cabinets or desk drawer;

(5) reemphasize to cardholders the importance of compliance with FAR and CAM requirements pertaining to mandatory sources of supply; and

(6) ensure that required Property Transaction Reports (CD-509) are completed and forwarded to the property office.

O/S Comments

O/S concurred with our six recommendations and will provide mandatory refresher training for all purchase cardholders and approving officials to ensure they understand the various documentation requirements of CAM. Furthermore, to ensure compliance, a random sample of cardholder accounts will be reviewed on a quarterly basis, and findings of noncompliance reported to the office director of both the cardholder and the approving official. O/S also agreed to establish a tracking system to ensure that cardholders receive the required basic and refresher training.

OIG Response

In light of O/S actions taken or planned, we consider these recommendations resolved and, hence, a separate audit action plan is not required. We commend the O/S for its timely action.

B. Approving Official Oversight Needs Improvement

A properly trained and diligent approving official is critical to successful implementation and oversight of the purchase card program. Approving officials are the first line of defense in detecting problems and limiting loss to no more than one billing cycle. Commerce's acquisition manual requires approving officials to oversee and monitor cardholders' compliance with established regulations and procedures, review monthly purchase card statements, and ensure the validity and allowability of transactions.

Although approving officials interviewed said they reviewed cardholders accounts on an on-going basis, the issues described above, many of which were previously reported in OIG audits of other offices in the Department, indicates that improved oversight is needed to ensure that administrative indifference does not compromise the program.

Recommendations

We recommend that the Director for Acquisition Management and Procurement Executive (1) revise the O/S HCO's performance plan to increase the HCO's accountability for ensuring proper oversight and (2) coordinate with O/S operating units to include accountability for compliance with CAM as part of one element of approving officials' performance plans.

O/S Comments

O/S indicated that the HCO's current performance plan clarifies the HCO's responsibility and accountability for overseeing the purchase card program. In addition, the recent reorganization of Office of Acquisition Management occurred, in part, to improve

oversight and accountability of O/S' procurement operations. O/S anticipates significant improvements in this area as the impact of the reorganization is realized during the next fiscal year.

Further, O/S indicated that the Department of Commerce's purchase card action plan submitted to OMB appropriately addresses our recommendation for O/S approving officials to have a separate element included in their performance plans to ensure accountability for compliance with CAM.

OIG Response

In light of O/S actions taken or planned, we consider this recommendation resolved, hence eliminating the need for a separate audit action plan. We commend O/S for its timely action.

C. Oversight by the O/S Head of the Contracting Office Should Be Strengthened

1. Annual Review of Purchase Card Activity Not Performed

Commerce Acquisition Manual, Part 1313.301, Section 1.4, requires that each Commerce bureau's HCO review the operation of the purchase card program at least once a year to ensure that cardholders and approving officials adhere to internal controls and follow proper procedures. This review is an important internal control technique in detecting and preventing problems such as those identified in this report. The last annual review of the purchase card program in the O/S was conducted for FY 2000.

During the summer of 2001, the Department's HCOs and the Office of Acquisition Management informally agreed that the required review would not be performed for FY 2001. This agreement was not formalized nor was a CAM amendment issued to reflect and clarify this change. We believe that some of the weaknesses and noncompliance we found in the program could have been discovered, and corrected, as a result of a thorough annual internal review.

2. Alternate Agreements (in Lieu of Purchase Card Transactions) Should Be Used

During our review we noted that a cardholder with one of the highest numbers of annual transactions during FY 2001 completed most of those transactions—official photographic purchase—with the same vendor. These transactions represent a sizable amount of money, well in excess of $2,500 per year. Consequently, to ensure that these transactions are properly competed, we believe that another procurement vehicle, such as a blanket purchase agreement, would have been more appropriate.

3. Number of Cardholders Should Be Reevaluated

During FY 2001 there were 132 active cardholders in O/S; 103 were still active at fiscal year end, September 30, 2001. An analysis of purchases made by the cardholders during the course of the year revealed that more than 25 percent averaged one or less

transactions per monthly billing period; another 10 percent averaged two or less transactions per billing period. Two or fewer transactions per billing period suggests the cardholder does not have a demonstrated need to be a purchase cardholder. Reassigning so few transactions to other cardholders would permit more efficient use and better control of the program.

4. A Compromised Purchase Card Was Not Properly Reported

During our discussions with a cardholder and an approving official, we learned that the cardholder's purchase card was compromised by an unknown third party on several occasions. The unknown third party made purchases over the Internet and also used the card to pay a monthly gas bill in Georgia, possibly for a personal residence.

The cardholder followed the required procedure, disputing the transactions with Citibank on review of the monthly card statement, and was issued a new card. However, neither the approving official nor the cardholder reported these transactions to the Office of Inspector General, as required by DAO 207-10. DAO 207-10, Section 1.03 requires Department employees to promptly report violations of law, waste, or mismanagement.

Recommendations

We recommend that the Director for Acquisition Management and Procurement Executive require the Director, Commerce Acquisition Solutions Division, to take the actions necessary to:

(1) ensure that an annual review of the program is performed for FY 2002 and subsequently,

(2) examine transactions that represent a large number of repetitive purchases from the same vendors to determine whether another procurement vehicle, such as a blanket purchase agreement, would be more appropriate,

(3) perform a needs analysis of the purchase cards and determine if the number of cards currently held should be reduced, and

(4) ensure that approving officials and cardholders are reminded of their responsibility to report compromised cards and unauthorized transactions promptly to the Office of Inspector General.

O/S Comments

O/S will comply with revised requirements for annual reviews included in the Department's action plan for improving management of the purchase card program submitted to OMB. O/S is restructuring the requirements for annual reviews to maximize their usefulness and ensure they are consistent with a risk management approach to oversight. The Commerce Acquisition Solution Division (CAS) will be

responsible for performing and reporting on these reviews. O/S expects the review of fiscal year 2002 transactions to be completed by May 2003.

O/S agreed to continue its evaluations to determine whether repetitive transactions with the same vendor may be carried out more effectively through alternate procurement vehicles. In addition, O/S agreed to review the number of cardholders, their spending limits, and card usage as well as the number of approving officials and their approval authority. O/S also will provide mandatory refresher training to cardholders regarding their responsibility for reporting instances of unauthorized use of their purchase cards.

OIG Response

In light of O/S actions taken or planned, we consider these recommendations resolved. Hence, a separate audit action plan is not required. We commend O/S for its timely action.

D. Entertainment Expenditures Charged Without Prior Written Approval

During our review we found that one cardholder, responsible for purchases relating to the Secretary of Commerce's business entertainment expenses, used a purchase card to pay those expenses. While these expenses can be appropriately charged to a purchase card, DAO 203-10, *Official Entertainment and Representation Authorizations*, states that expenditures for business entertainment require prior written approval from an authorized official. We found that prior written approval was not always obtained. Consequently, some of these expenditures should not have been incurred.

Even when the cardholder received the required written approval, these entertainment expenses were charged to the same purchase card the cardholder used to buy standard business goods and services for the office. When the monthly bill was received and reconciled, a special accounting code was inserted next to the transaction to designate that the purchase should be charged to the Gift and Bequest Fund, but only if the cardholder had received the prior written approval. If such approval was not provided, the expenses were paid with appropriated funds. The unapproved entertainment expenses totaled only several hundred dollars. Regardless, DAO 203-10 requires that no business entertainment expenses be paid unless prior written approval for the spending was obtained.

The cardholder stated that the paperwork was prepared to have these purchases charged to the Gift and Bequest Fund but the documents were never approved and, therefore, her only alternative was to pay for these purchases with appropriated funds.

Recommendation

We recommend that the Director for Acquisition Management and Procurement Executive require the Director, Commerce Acquisition Solutions Division, to review this cardholder's charges for at least the past two years to identify all entertainment costs

incurred for and by the Secretary of Commerce and determine whether they were properly accounted for. If significant problems are identified, then further review might be needed.

In coordination with Office of the Secretary officials, the Director, Commerce Acquisition Solutions Division should develop and adopt procedures to ensure that purchases made for entertainment purposes receive prior written approval. Further, for better accounting visibility, consideration should be given to designating one purchase card to be used exclusively to charge the entertainment expenses of the Commerce Secretary.

O/S Comments

O/S agreed to implement our recommendations. However, it requested we consider the following in finalizing our report: that (1) it is not inappropriate for O/S to pay for entertainment expenses with appropriated funds, as we suggested in the report, since the Department has a specific appropriation for this purpose; and (2) it is not inappropriate for a purchase cardholder to pay for legitimate and authorized entertainment expenses with the unit's purchase card. In fact, this is the preferred method of payment in most instances. The key point, of course, is that the entertainment expenses be legitimate and authorized in advance as defined in DAO 203-10.

Additionally, O/S noted that the Executive Secretariat has established a new administrative management position to improve planning, management, and oversight of funding, personnel, and purchase activities within O/S, and thereby enhance overall fund control and compliance with administrative directives.

OIG Response

Given O/S' described actions taken or planned, we consider these recommendations resolved. Hence, a separate audit action plan is not required. We also considered the information O/S provided in its response to our draft report and, where appropriate, revised our report accordingly. (See Attachment II for the full text of O/S' response.)

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If you would like to discuss the contents of this report, please call me at (202) 482-4661, or Michael Sears, Assistant Inspector General for Auditing, at (202) 482-1934.

We appreciate the cooperation and courtesies your staff extended to us during our review.

cc: Michael Sade, Director for Acquisition Management and Procurement Executive
Tiffany Hixson, Director for Commerce Acquisition Solutions
Trudi Anne Gallic, O/S Audit Liaison
Janette Labbee, Director, Commerce Bankcard Center

ATTACHMENT I

Office of the Secretary
Purchase Card Transactions for FY 2001

Summary of Audit Sample

Transactions	More than $20,000	$5,001 to $20,000	$2,501 to $5,000	$1,501 to $2,500	$501 to $1,500	Less than $500	Total
Total Number	26	193	249	480	1,541	7,885	10,350
Number Reviewed	26	14	18	11	11	96	176
Percent Reviewed	100%	7.2%	7.2%	2.3%	.7%	1.2%	1.7%
Total Amount	$.67M	$1.5M	$.89M	$.96M	$1.3M	$.83M	$6.2M

Note: Audit sample covered 176 transactions made by 33 of the 132 purchase cardholders in the Office of the Secretary.