



*U.S. DEPARTMENT OF COMMERCE*  
*Office of Inspector General*

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RELEASE**

***BUREAU OF THE CENSUS***

*Internal Controls Over Denver  
Bankcard Purchases Need Improving*

*Audit Report No. DEN-11030-9-0001 / February 1999*

*Office of Audits, Denver Regional Office*



**UNITED STATES DEPARTMENT OF COMMERCE**  
**Office of Inspector General**  
Washington, D.C. 20230

February 1, 1999

**MEMORANDUM FOR:**

Michael S. McKay  
Acting Associate Director for Administration  
Bureau of the Census

**FROM:**

George E. Ross  
Assistant Inspector General for Auditing

**SUBJECT:**

Internal Controls Over Denver Bankcard  
Purchases Need Improving  
Final Audit Report No. DEN-11030-9-0001

This is our final report on our audit of bankcard usage at the Census Bureau's Denver Regional Office. The audit concluded that the Census Bureau's Denver Regional Office needs to improve internal control practices to assure the physical security and appropriate use of its bankcards in order to minimize the risk of unauthorized and improper procurements.

Our complete findings and recommendations appear on pages 3 through 6. We believe that by implementing our recommendations, Census will improve the Denver Regional Office's management and oversight of bankcard usage and ensure that regulations are followed, thereby minimizing the risk of misuse.

As required by DAO 213-5, please provide us with an audit action plan within 60 days. Since the Department's Office of Acquisition Management has responsibility to ensure proper procurements, the audit action plan should be coordinated with the Director of that Office and should provide for the Director to monitor implementation of the corrective actions.

Any inquiry regarding this report should be directed to me at 202-482-4661, or William R. Suhre, Regional Inspector General for Audits, in our Denver Regional Office, at 303-312-7650.

All correspondence should refer to the audit report number given above. We appreciate the cooperation and courtesies extended by Census regional office staff during our audit.

## Introduction

In 1986, several agencies, including the Department of Commerce, conducted a pilot project to evaluate the usage of bankcards. The pilot project was successful in identifying opportunities for reducing administrative procurement costs. In 1989, the bankcard was made available governmentwide through a contract administered by the General Services Administration. The objectives of the bankcard program are to (1) reduce procurement administrative costs and improve management by expediting and simplifying small purchases, and (2) improve internal controls to eliminate the fraud and abuse present in other small purchase methods.

Bankcard use was facilitated by the Federal Acquisition Streamlining Act of 1994, and Executive Order 12931, which eliminated some requirements for purchases of \$2,500 or less, known as “micro-purchases,” and encouraged agencies to move the authority to make simple purchases from procurement offices to program offices. The General Accounting Office<sup>1</sup> found that the use of bankcards has skyrocketed, and “... 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.” In fiscal year 1996, bankcards were used governmentwide to make about 4 million purchases totaling more than \$1.6 billion.

While use of the bankcard has been encouraged by the Federal Acquisition Streamlining Act, Census Bureau officials must ensure that bankcard usage complies with *Federal Acquisition Regulation (FAR)*, and *Commerce Acquisition Manual* requirements. The Department’s Office of Acquisition Management is responsible for overseeing management of the bankcard program within Commerce, and in turn, has delegated that authority to the Heads of Contracting Offices (HCOs). The Census Bureau HCO further delegated purchasing authority to local approving officials and individual cardholders. HCOs, approving officials, and cardholders all have responsibilities to ensure that the bankcard program is properly administered.

## Purpose and Scope of Audit

We conducted the audit to determine whether the Census Bureau’s Denver Regional Office was utilizing its bankcards in accordance with *FAR*, Part 13, “Simplified Acquisition Procedures,” and the *Commerce Acquisition Manual*, Part 13, “Commerce Purchase Card Procedures.”

Our audit covered fiscal year 1997 during which time four regional office cardholders using the bankcard purchased 166 items totaling \$20,772. There were no single transactions over \$2,500, and only two transactions over \$1,000. We reviewed the two transactions over \$1,000, and a sample of transactions from each fiscal year 1997 cardholder. This sample methodology resulted in testing a selection of 31 of the 166 transactions, or 19 percent. We reviewed applicable regulations, policies, and procedures, examined documentation, management reports, and records, and interviewed six of the seven current cardholders, and other officials as deemed

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<sup>1</sup>GAO report number GAO/NSIAD-96-138, *Acquisition Reform*, August 1996.

necessary. We also reviewed the monthly management reports on bankcard usage prepared by the Commerce BankCard Center. We conducted our audit fieldwork in June 1998, and performed additional fieldwork in July 1998 subsequent to our exit conference on June 11, 1998.

We reviewed administrative and accounting internal controls relating to the Denver Regional Office's use of the bankcard, including controls over the physical security and authorized use of the bankcards, and the approval, ordering, and receipt of purchased items. We found that the regional office needs to improve internal control practices as discussed in the "Results of Audit" section of this report. As a result, we could not rely on the regional office's controls in developing our audit approach. Consequently, we conducted additional testing to achieve our audit objective of determining whether the office complied with the applicable regulations.

In conducting our audit, we relied on computer-processed data. We tested the accuracy of the data by tracing it to original source documents and by comparing it to data in other documents. Based on our tests, we concluded that the data was sufficiently reliable for use in meeting our objectives.

We also evaluated the regional office's compliance with laws and regulations applicable to the use of government bankcards. We identified *FAR*, Part 13, and the *Commerce Acquisition Manual*, Part 13, as the applicable regulations. We found that the regional office was not in compliance with certain requirements. The noncompliance was deemed material and is detailed in the "Results of Audit" section of this report.

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.

## **Results of Audit**

The Denver Regional Office did not have an annual review of bankcard activity by an HCO in fiscal year 1997, bankcards were not secured, and purchases were made by unauthorized bankcard users. We also found failure to complete mandatory training, purchases of a prohibited item, lack of required preapproval before purchases, cardholder accounts not properly closed, and inadequate retention of records. As a result, the regional office is at risk for procurements that are unauthorized and improper.

### Annual Review of Bankcard Activity by HCO Not Performed

*Commerce Acquisition Manual*, Part 13, Chapter 1, Item 6 c.(1) and (4), charges HCOs with the responsibility of "... managing the Purchase Card Program within their service areas," and "... reviewing the Purchase Card Program at least once a year to ensure that cardholders and cardholder approving officials use internal controls and follow proper procedures." Although the Census Acquisition and Security Division, Purchase Card Coordinator, performed an annual review of its 254 cardholders for fiscal year 1997, bankcard activity at the Denver Regional Office was not specifically reviewed by an HCO for fiscal year 1997. The HCO and the Denver

Regional Director were both new to their positions in 1998, and neither knew when the regional office was last reviewed by an HCO. The HCO review is an important internal control technique in the detection and prevention of problems such as those discussed in the following subsections.

#### Bankcards Not Maintained in Secure Location

We made an unannounced visit to the Denver Regional Office and found that six of the seven bankcards were not maintained in a secure location, and only one bankcard was locked up on site. According to the *Manual*, Part 13, Chapter 1, Item 8 c.(10), cardholders must “Keep the Purchase Card in a secure place.” A lack of proper security measures places the regional office at risk for unauthorized use and improper purchases.

#### Unauthorized Card Use Identified

A regional office cardholder violated Commerce regulations by allowing two unauthorized employees to use a bankcard on at least four occasions. The *Manual*, Part 13, Chapter 1, Item 8 c.(1), states that “Cards may not be used by any person other than the person designated on the card.” Furthermore, the two unauthorized persons who purchased goods were also responsible for the receipt of goods, which violates internal control practices.

#### Required Training Not Completed

One bank cardholder had not viewed the mandatory training videotape, and another cardholder who has had a bankcard for three years, viewed the training videotape only once since receiving his card. This training is essential to educate cardholders as to the proper use of the bankcard and is required by the *Manual*, Part 13, Chapter 1, Item 7 b.(4), which states that “HCOs shall ensure cardholders and cardholder approving officials review these procedures and view the training video once every two years.” Also, Item 7 b.(1) of the *Manual* states, “HCOs should provide cardholders and cardholder approving officials with information and basic instructions on how to use the purchase card. HCOs may require cardholders and cardholder approving officials to take additional training.”

#### Purchases of Prohibited Item Noted

We reviewed a sample of purchase transactions for fiscal year 1997, and found that most purchases were for allowable items and had adequate supporting documentation. However, prohibited telecommunication services for each month of fiscal year 1997 were charged to a bankcard. The cardholder was unaware that telecommunication services are prohibited by the *Manual*, Item 10 c., except in instances of short-term or occasional use. Long-term telecommunication services should be acquired using standard acquisition methods.

### Purchases Not Preapproved

The regional office cardholders did not obtain the required approval before orders were placed for the 31 purchase transactions we examined. The Regional Director stated that cardholders are not required to seek preapproval for routine, everyday purchases, and she verbally preapproves only purchases of an unusual nature. Procurement Memorandum 95-23, issued by the Department's Chief Financial Officer on August 9, 1995, states "Cardholders are now required to obtain prior approval from their supervisor or cardholder approving official before making any purchase." The required approval need not be administratively burdensome, and an electronic e-mail message or other informal written approval is adequate.

### Cardholder Accounts Not Properly Closed

The regional office did not ensure that cardholder accounts were properly closed when cardholders left the office. According to the *Manual*, Part 13, Chapter 1, Item 8 b.(8), "... approving officials must ensure that accounts are properly closed, especially when cardholders leave the Department. This includes accounts for cardholders who resign, retire, or who are terminated and leave the Department before the billing cycle has ended. In addition, cardholder approving officials must coordinate finalizing these accounts with the servicing finance office."

### Records Not Properly Retained

Most of the bankcard purchase records for fiscal year 1997 were readily available for our review; however, several records for one bank cardholder who made purchases in fiscal year 1997 and later left the regional office, could not be located. According to the *Manual*, Part 13, Chapter 1, Item 19, "Purchase card records must be retained for 24 months after the end of the fiscal year in which the transaction occurred."

### Recommendations

We recommend that the Census Bureau's HCO ensure that effective internal control procedures are implemented and followed by the Denver Regional Office. The HCO should monitor the effectiveness of the internal control procedures by:

- (1) Completing timely reviews of the office's procurements;
- (2) Performing a review of the Regional office's bankcard activity as part of its annual review of the Purchase Card Program. The review should be completed between 6 and 18 months from the date of this report, and the OIG should be provided the results of the review; and

(3) Ensuring that:

- ! bankcards are physically secure,
- ! bankcards are used only by authorized employees,
- ! cardholders complete required training,
- ! bankcards are used only for purchasing allowable items,
- ! all purchases have documented prior approvals,
- ! bankcard accounts are properly closed, and
- ! purchase transaction records are properly retained.

### **Census Response**

The Census Bureau partially agreed with the draft audit report recommendations. The Bureau stated that it will provide instructions to cardholders on the physical security of bankcards, authorized usage, training requirements, purchase of allowable items, documentation of prior approvals, and proper retention of records. In addition, approving officials will be instructed on proper closing of cardholder accounts. The Bureau also stated that bankcard activity is reviewed and monitored through the Bankcard Information System (BCIS). BCIS provides the ability to view any or all transactions as deemed necessary. Usage of BCIS is mandatory for all cardholders, and provides the administrative ability to monitor bankcard activity in a cost effective manner to ensure that the Bureau's overall bankcard program is managed properly. A review of the bankcard program is performed on an annual basis for transactions across the Bureau. The Bureau stated that it will conduct a random sampling of transactions for Headquarters as well as each regional office. A copy of the Census Bureau's response is included as Appendix I.

### **OIG Comments**

We appreciate the Census Bureau's positive response to provide instructions to its cardholders and approving officials to ensure that effective internal control procedures are implemented and followed by the Denver Regional Office. However, in addition to the Bureau's planned instruction to its cardholders and approving officials, a follow-up review is necessary to ensure that the Denver Regional Office has implemented the appropriate procedures. Therefore, we reaffirm our recommendation that the Bureau's HCO perform the required annual review of the Denver Regional Office's bankcard activity. In addition, we have modified the draft report recommendation to provide for specific time frames for the review and to request that the OIG be provided the results of the review.

cc: Susan A. Lavin, Denver Regional Director, Bureau of the Census  
Wesley Dias, Audit Liaison Officer, Bureau of the Census



**UNITED STATES DEPARTMENT OF COMMERCE**

**Bureau of the Census**

Washington, DC 20233-0001

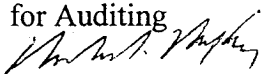
OFFICE OF THE DIRECTOR

December 9, 1998

MEMORANDUM FOR

George E. Ross  
Assistant Inspector General  
for Auditing

From:

  
Michael S. McKay  
Associate Director  
for Finance and Administration

Subject:

Internal Controls Over Denver Bankcard Purchases  
Need Improving, Draft Report No. DEN-11030-9-XXXX

Thank you for the opportunity to comment on the subject draft report on improving internal control practices at the Denver Regional Office to assure the physical security and appropriate use of its bankcards. We have attached the Census Bureau's response to the recommendations. If you have any questions, please contact me at 301-457-3115.

Attachment



**Draft OIG Report**  
**Internal Controls Over Denver Bankcard Purchases Need Improving**  
**Report No. DEN-11030-9-XXXX**

Recommendation:

**We recommend that the Census Bureau's HCO ensure that effective internal control procedures are implemented and followed by the Denver Regional Office by performing the required annual review of bankcard activity.**

Bureau Response: The bankcard activity is reviewed and monitored through the Bankcard Information System (BCIS). The BCIS provides the ability to view any or all transactions as deemed necessary. It is a mandatory system which provides the administrative ability to monitor bankcard activity in a cost effective manner to ensure that the overall bankcard program within the Bureau of the Census is managed properly. A review of the bankcard program is performed on an annual basis for transactions across the Bureau. In the future, the Bureau will conduct a random sampling of transactions for Headquarters as well as each Regional Office.

Recommendation:

The Bureau must ensure that:

- **Bankcards are physically secure:**

Purchase cardholders are instructed in their training that the bankcard must be kept in a secure location. Purchase cardholders will be instructed that they must comply with this requirement and keep their bankcards in a secure location which is accessible only by authorized cardholders.

- **Bankcards are used only by authorized employees:**

Purchase cardholders are instructed that they are the only authorized users of their bankcard. Purchase cardholders will be instructed that they are the only authorized users of their bankcard and that use by any other person is an unauthorized use of the card and an unauthorized acquisition.

- **Cardholders complete required training:**

Cardholders are required to view the mandatory videotape provided by the Commerce Bankcard Center. Cardholders will be instructed of the requirement to view the videotape upon issuance of the card and to review the videotape on a bi-yearly basis. In addition, cardholders will be provided a quick "Do's and Don't's" reference pamphlet as a guide for proper use of the bankcard.

- **Bankcards are used only for purchasing allowable items:**

Cardholders will be instructed of the items which are prohibited from being purchased with the bankcard. Specifically, the cardholders will be instructed that long term purchases for telecommunications services must be acquired through standard procurement practices.

- **All purchases have documented prior approvals:**

Cardholders will be instructed that documentation must be included in the file which shows that purchases were pre-approved. This documentation may be in the form of a written memorandum or electronically. If verbal approval is provided, the cardholder will be instructed to note such verbal authorization in the file.

- **Bankcard accounts are properly closed:**

The approving official will be instructed as to the requirements to close cardholder accounts for employees that are no longer cardholders or have left the office.

- **Purchase transaction records are properly retained:**

Purchase card records must be maintained for 24 months. Cardholders will be instructed that they are required to maintain records for purchase card transactions for the required 24 month period and that the cardholder should have them centrally located so they can be readily referenced.