



# OFFICE OF THE SECRETARY

## Internal Controls for Purchase Card Transactions Need to Be Strengthened

FINAL REPORT NO. OIG-13-025-A  
MAY 2, 2013

U.S. Department of Commerce  
Office of Inspector General  
Office of Audit and Evaluation

**FOR PUBLIC RELEASE**





May 2, 2013

**MEMORANDUM FOR:** Ellen Herbst  
Senior Adviser to the Deputy Secretary

**FROM:** Andrew Katsaros  
Assistant Inspector General for Audit

**SUBJECT:** *Internal Controls for Purchase Card Transactions Need to Be Strengthened*  
Final Report No. OIG-13-025-A

Attached is our final report on the Department of Commerce's controls over purchase card transactions.

We found that the Department needs to strengthen transaction-level controls over the creation and maintenance of transaction documentation, ensure that cardholders and approving officials obtain annual refresher training, and ensure that state and local sales tax is not paid. We also discovered improper or questionable transactions, as well as procedural issues.

Most of the control deficiencies that we found can be corrected through improved documentation by cardholders and improved monitoring by approving officials. Moreover, enhancing cardholders' and approving officials' knowledge and understanding of applicable laws and regulations through improved, recurring training should further strengthen internal controls.

Our audit was conducted on a sample of transactions recorded October 1, 2010, through September 30, 2011. The Department has represented and informed us in discussions that since this time, it has improved its internal controls related to training and purchase card use. However, because these corrective actions were implemented after our audit fieldwork, our report does not address these changes. The Summary of Agency Response and OIG Comments section of the report describes the corrective actions claimed by the Department.

In accordance with Department Administrative Order 213-5, please provide us with your action plan within 60 days of the date of this memorandum. We appreciate the assistance and courtesies extended to us by the Department and its bureaus. If you have any questions about this report, please contact me at (202) 482-7859 or David Sheppard, Regional Inspector General for Audit, at (206) 220-7970.

Attachment



# Report In Brief

MAY 2, 2013

## Background

In fiscal year (FY) 2011, Department of Commerce staff used 4,515 purchase cards for 265,423 transactions, spending \$118,628,549.

In September 2011, we began this audit on transactions initiated during FY 2011. We selected approximately 850 transactions for testing through a stratified random sample, ensuring that transactions from all bureaus were included and that results could be projected to the entire Department. We also projected bureau-specific results for the Census Bureau, National Oceanic and Atmospheric Administration, and National Institute of Standards and Technology, because those bureaus represented the largest users of purchase cards.

## Why We Did This Review

We performed this audit to determine whether the Department had adequate transaction-level internal controls over the use of purchase cards.

We initiated the audit as we believe purchase cards are an inherently risky method for purchasing, due to the highly decentralized nature of the transactions, the number of cardholders, and the amount of activity. We also observed an increase in congressional interest in the use of purchase card by federal agencies, as seen by the passing of the Government Charge Card Abuse Prevention Act of 2012 on October 5, 2012. Additionally, three other recent reviews on purchase card activity within the Department identified issues such as internal control deficiencies, questionable transactions, split transactions, receipt discrepancies, and ordering violations.

## OFFICE OF THE SECRETARY

### Internal Controls for Purchase Card Transactions Need to Be Strengthened

OIG-13-025-A

#### WHAT WE FOUND

*Transaction documentation was incomplete.* Missing documentation included evidence of the availability of funds and of legitimate government need, proper vendor invoices or payment receipts, and evidence of receipt and acceptance.

*Procedural issues exist.* Cardholders inappropriately paid state and local sales tax, did not pay invoices within 30 days, and faxed purchase card information.

*Transactions were improper or questionable.* We identified transactions that were split, transactions that exceeded cardholders' single-purchase limit, and purchases made by employees other than the cardholder.

*Cardholders and approving officials did not obtain annual refresher training.* A significant number of cardholders did not obtain annual refresher training.

#### WHAT WE RECOMMEND

We make the following recommendations to the Chief Financial Officer and Assistant Secretary for Administration:

1. Direct cardholders to document purchase requests and approvals, budget approvals, and bona fide government needs for purchase card transactions.
2. Strengthen the monthly purchase card reconciliation process.
3. Ensure that purchases are equitably distributed among qualified vendors and that agencies determine the most efficient and effective method of obtaining services (i.e., insourcing versus outsourcing, purchase cards versus other procurement tool).
4. Develop policies and procedures to ensure that purchase card files are retained when cardholders or approving officials end employment with the Department or otherwise discontinue their functions as cardholders or approving officials.
5. Improve training — as well as its tracking and monitoring — for cardholders and approving officials on regulations over the use of purchase cards.
6. Ensure the Department's Electronic Transmission of Personally Identifiable Information policy is consistent with the Commerce Acquisition Manual (CAM).
7. Ensure the CAM's record retention requirements expressly state the National Archives and Records Administration requirements.

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*COVER: Detail of fisheries pediment,  
U.S. Department of Commerce headquarters,  
by sculptor James Earle Fraser, 1934*

## Introduction

We performed a department-wide review of purchase card transactions to determine if the Department has adequate transaction-level internal controls. Table I contains the Department's purchase card activity for fiscal years (FYs) 2009–2011.<sup>1</sup>

Table I. Purchase Card Activity for FYs 2009–2011

	FY 2009	FY 2010	FY 2011
Number of purchase cards	5,181	4,905	4,515
Total transactions	301,791	338,615	265,423
Total spending	\$146,394,819	\$167,776,743	\$118,628,549

Source: U.S. General Services Administration SmartPay statistics (<https://smartpay.gsa.gov>)

There have been three other recent reviews on purchase card activity within the Department: (1) a 2010 OIG audit of purchase card activity related to the Census Partner Support Program,<sup>2</sup> (2) a 2011 Ernst & Young performance audit of entity-level purchase card controls,<sup>3</sup> and (3) a 2011 audit of the Census Bureau's purchase card program by external auditors.<sup>4</sup>

As part of the decennial census work, OIG reviewed purchase card activity related to the Partner Support Program. The final report identified internal control deficiencies and questionable transactions and recommended improvements in several areas, such as reconciliation and tracking processes, management oversight for the identification of noncompliance with policies and procedures, and cardholder training.

The Ernst & Young audit performed minimal transaction testing and focused primarily on high-level controls for the entire purchase card program. The report's recommendations included updates to the Commerce Acquisition Manual (CAM) and Charge Card Management Plan and development of an in-house training program.

The Census Bureau's review concentrated on internal controls in place during the decennial census and identified issues such as split transactions, receipt discrepancies, and ordering violations.

In September 2011, we began this audit on transactions initiated during FY 2011. We selected approximately 850 transactions for testing through a stratified random sample, ensuring that

<sup>1</sup> Reported activity also includes convenience checks, which are part of the purchase card program and are issued to authorized cardholders. The checks are written against the cardholder's purchase card account. They can be used in instances where a merchant does not accept purchase cards.

<sup>2</sup> U.S. Department of Commerce Office of Inspector General, November 18, 2010. *2010 Census: The Partner Support Program Lacked Adequate Controls for Monitoring Purchases and Ensuring Compliance*, OIG-11-013-A. Washington, D.C.: Department of Commerce OIG.

<sup>3</sup> Ernst & Young, *OMB Circular A-123 Support, Task Order 0002–Internal Control Review for Department-wide Purchase Card*. Confidential.

<sup>4</sup> Erimax, Inc., memorandum for L. Andrecs and C. Munno, February 23, 2011.

transactions from all bureaus were included in the sample and that results could be projected to the entire Department. We also projected bureau-specific results for the Census Bureau, National Oceanic and Atmospheric Administration (NOAA), and National Institute of Standards and Technology (NIST), because those bureaus represented the largest users of purchase cards. See appendix A for details regarding our audit objective, scope, and methodology.

Our audit was conducted on a sample of transactions recorded October 1, 2010, through September 30, 2011. The Department has represented and informed us in discussions that since this time, it has improved its internal controls related to training and purchase card use. However, because these corrective actions were implemented after our audit fieldwork, our report does not address these changes. The Summary of Agency Response and OIG Comments section of this report describes the corrective actions claimed by the Department.

# Findings and Recommendations

In general, the Department needs to strengthen transaction-level controls over the creation and maintenance of transaction documentation, ensure that cardholders and approving officials obtain annual refresher training, and ensure that state and local sales tax is not paid. We also discovered improper or questionable transactions, as well as procedural issues. Most of the controls we found that need to be strengthened can be corrected through improved documentation by cardholders and improved monitoring by approving officials. However, enhancing cardholders' and approving officials' knowledge and understanding of applicable laws and regulations through improved, recurring training should further correct the deficiencies we found.

## I. Transaction Documentation Was Incomplete

Documentation that is required before a transaction can be made, such as evidence that funds are available and that a legitimate government need exists, was missing from transaction files. The files were also missing proper vendor receipts and invoices and evidence that purchased goods and services had been received and accepted. In addition, several cardholders' files had been lost or destroyed in violation of records retention requirements.

The Department does not have prescribed or standardized forms that must be used by cardholders or bureaus, though the CAM describes the types of documentation required for all transaction files. While this allowed each bureau and office throughout the Department the autonomy to create documentation specific to their circumstances, improved guidance should be provided to ensure all cardholders are maintaining all required transaction documentation.

### A. *Evidence of the availability of funds prior to purchase was not included*

A significant number of transactions did not include documentation that the availability of funds had been verified beforehand (see table 2). This occurred primarily because personnel were unaware of this requirement or because many cardholders and approving officials believed that signatures by the approving official indicated that the availability of funds had been verified. However, based on the documentation available, this had never been explicitly stated.

Cardholders should ensure that there is sufficient funding available before making a purchase and should document the availability of funds.<sup>5</sup> Purchases could be considered unallowable if there is insufficient funding. Furthermore, appropriations may be exceeded if purchases are not carefully tracked, resulting in violations of the Antideficiency Act.<sup>6</sup>

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<sup>5</sup> OMB Circular A-123, appendix B, section 4.8. CAM 1313.301, section 3.1 (Jan. 2010). CAM 1313.301, section 3.11.2 (May 2012).

<sup>6</sup> Antideficiency Act, 31 U.S.C. § 1341.

However, this issue may be largely resolved through improved pretransaction documentation.

**Table 2. Purchases That Occurred Without Prior Evidence of Funds Availability**

	Estimated Percentage of Transactions with Errors				Estimated Value of Transactions with Errors			
	Commerce	Census	NIST	NOAA	Commerce	Census	NIST	NOAA
Estimated errors	80.23	98.01	69.60	84.93	\$95,179,192	\$7,253,217	\$20,937,120	\$52,419,829

*Note:* The Commerce column contains the estimated results for all bureaus within the Department, including Census, NIST, and NOAA. The range of estimated transactions with errors is based on a 95 percent confidence level and a margin of error of 3.55 percent (\$4,207,996) for Commerce, 1.91 percent (\$141,671) for Census, 6.27 percent (\$1,887,514) for NIST, and 4.76 percent (\$2,939,577) for NOAA. Therefore, while we have estimated an expected error rate for all transactions, we are 95 percent confident that the true error rate falls within the margin of error from the estimate.

**B. Evidence of legitimate government need prior to purchase was not included**

For a significant number of transactions, there was no documentation that a legitimate government need existed before the transaction took place (see table 3). This documentation can be a request from agency personnel to a cardholder, notes from the cardholder regarding the requestor’s information and order content, or approval from an approving official.<sup>7</sup>

The primary reasons that no documentation existed were that approving officials were not requiring that it be included with cardholder files and a number of approving officials had provided blanket preapprovals to their cardholders to make any purchases under a specific dollar value throughout the year in lieu of documenting the need for each purchase. Although this may appear to increase the efficiency of the transaction process, we believe it is contrary to the review and oversight process envisioned by the CAM and OMB Circular A-123, appendix B.

**Table 3. Purchases That Occurred Without Prior Evidence of Legitimate Need**

	Estimated Percentage of Transactions with Errors				Estimated Value of Transactions with Errors			
	Commerce	Census	NIST	NOAA	Commerce	Census	NIST	NOAA
Estimated errors	47.02	50.30	7.77	62.25	\$55,785,310	\$3,722,661	\$2,336,317	\$38,420,401

*Note:* The Commerce column contains the estimated results for all bureaus within the Department, including Census, NIST, and NOAA. The range of estimated transactions with errors is based on a 95 percent confidence level and a margin of error of 4.34 percent (\$5,149,889) for Commerce, 6.76 percent (\$500,318) for Census, 3.62 percent (\$1,087,621) for NIST, and 6.45 percent (\$3,980,284) for NOAA. Therefore, while we have estimated an expected error rate for all transactions, we are 95 percent confident that the true error rate falls within the margin of error from the estimate.

<sup>7</sup> OMB Circular A-123, appendix B, section 4.8. CAM 1313.301, sections 3.12.2 and 3.14.2 (Jan. 2010). CAM 1313.301, sections 3.11.2 and 3.13.2 (May 2012).

*C. Proper vendor invoices or payment receipts were not included*

Many transactions were not supported by a proper vendor invoice or payment receipt, as required by the Department (see table 4).<sup>8</sup> This occurred because monitoring controls over monthly credit card reconciliations are weak. Cardholders should maintain a file for each purchase card transaction, which includes a copy of an online transaction, cash register receipt, itemized receipt, or faxed verification of order.<sup>9</sup> Although cardholders were, in some instances, able to identify alternative sources of documentation to support transactions, this resulted in some transactions being judged to be questionable (see subfinding III.D).

During the review of the monthly reconciliation of cardholders’ accounts, approving officials are required to ensure that all transactions were necessary government purchases and complied with all applicable laws, regulations, and policies and guidance.<sup>10</sup> Without proper vendor invoices and receipts, approving officials are not able to adequately determine what was purchased, review a breakdown of costs, or determine whether all applicable requirements were met.

**Table 4. Transactions That Were Not Supported by a Vendor Invoice or Receipt**

	Estimated Percentage of Transactions with Errors				Estimated Value of Transactions with Errors			
	Commerce	Census	NIST	NOAA	Commerce	Census	NIST	NOAA
Estimated errors	8.52	28.07	3.31	7.09	\$10,104,158	\$2,077,416	\$994,473	\$4,376,541

*Note:* The Commerce column contains the estimated results for all bureaus within the Department, including Census, NIST, and NOAA. The range of estimated transactions with errors is based on a 95 percent confidence level and a margin of error of 2.62 percent (\$3,110,286) for Commerce, 6.09 percent (\$450,983) for Census, 2.35 percent (\$706,128) for NIST, and 3.41 percent (\$2,105,584) for NOAA. Therefore, while we have estimated an expected error rate for all transactions, we are 95 percent confident that the true error rate falls within the margin of error from the estimate.

*D. No evidence of receipt or acceptance was maintained*

We found transactions that did not have evidence of receipt or acceptance for the purchased good(s) or service(s) (see table 5). Similar to the maintenance of proper vendor support, this occurred because monitoring controls over monthly credit card reconciliations are weak. Cardholders should maintain delivery receipts and immediately inspect supplies to ensure that orders are complete and items are in acceptable

<sup>8</sup> CAM 1313.301, section 3.12.2 (Jan. 2010) and section 3.11.2 (May 2012), requires a “copy of online transaction, cash register receipt, itemized receipt, or faxed verification of order” to be included in transaction file documentation. “Merchants are required to provide a transaction record (receipt) that details the items purchased, the dollar amount of each item and the total amount of the transaction for each charge placed on the card. Phone, fax and Internet orders should provide the receipt with the order shipment.” J.P.Morgan, *Cardholder User Guide*.

<sup>9</sup> CAM 1313.301, section 3.12.2 (Jan. 2010). CAM 1313.301, section 3.11.2 (May 2012).

<sup>10</sup> CAM 1313.301, section 3.14.2 (Jan. 2010). CAM 1313.301, section 3.13.2 (May 2012).

condition.<sup>11</sup> If delivery or receipt cannot be confirmed, there is no proof the item or service was received, increasing the potential risk that it was not received or was an improper purchase.

**Table 5. Purchases That Occurred Without Documented Evidence of Receipt or Acceptance**

	Estimated Percentage of Transactions with Errors				Estimated Value of Transactions with Errors			
	Commerce	Census	NIST	NOAA	Commerce	Census	NIST	NOAA
Estimated errors	27.64	33.91	13.92	35.68	\$32,791,830	\$2,509,264	\$4,187,116	\$22,020,973
<i>Note:</i> The Commerce column contains the estimated results for all bureaus within the Department, including Census, NIST, and NOAA. The range of estimated transactions with errors is based on a 95 percent confidence level and a margin of error of 4.17 percent (\$4,951,900) for Commerce, 6.42 percent (\$475,403) for Census, 4.75 percent (\$1,430,141) for NIST, and 6.38 percent (\$3,937,663) for NOAA. Therefore, while we have estimated an expected error rate for all transactions, we are 95 percent confident that the true error rate falls within the margin of error from the estimate.								

#### *E. Purchase card files were lost or missing*

All original supporting documents were missing for seven transactions tested from seven different cardholders. However, two of the cardholders (from NOAA) were able to reproduce documentation for their respective transactions during the audit. Due to the lack of documentation, we could not complete testing for the remaining transactions and considered the transactions noncompliant for most testing attributes. As we did not attempt to identify missing documentation for all cardholders, we cannot make estimates for the total missing documentation throughout the Department. Three of the cardholders (two from NOAA and one from NIST) were missing a combined 6 months' worth of purchase card documentation, representing transactions totaling approximately \$7,881. NOAA agency officials could not find another cardholder's files for FY 2011 after the cardholder's employment ended, although the agency was working to reconstruct the file. The cardholder had made 55 transactions, totaling approximately \$17,164 during FY 2011. Another cardholder's records had been destroyed, according to bureau officials, after the cardholder's employment with the Census Bureau ended. This cardholder had made 17 transactions, totaling approximately \$4,130, during FY 2011.

The National Archives and Records Administration's (NARA) General Records Schedule requires documentation for all transactions at or below the simplified acquisition threshold to be maintained for 3 years after final payment and documentation for all transactions exceeding the simplified acquisition threshold to be maintained for 6 years and 3 months after final payment.<sup>12</sup> Although the CAM requires approving officials to retain cardholder files for 3 years after final payment and cardholders to adhere to all applicable requirements for purchases above the micro-purchase limit, the CAM does not specifically mention the possibility that some records

<sup>11</sup> Where possible, purchased supplies and services should be received and accepted by someone independent of the purchase. CAM 1313.301, section 3.10 (Jan. 2010). CAM 1313.301, section 3.9 (May 2012).

<sup>12</sup> National Archives and Records Administration, April 2010. *General Records Schedule 3: Procurement, Supply, and Grant Records*, 3.a.(1). <http://www.archives.gov/records-mgmt/grs/grs03.html>.

may need to be retained for more than 3 years. The CAM should expressly state the NARA requirement for records retention.<sup>13</sup>

## II. Procedural Issues Exist

Cardholders inappropriately paid state and local sales tax, did not pay invoices within 30 days, and faxed purchase card information. In other instances, purchases of accountable property were not referred to an accountable property custodian, and purchases were not distributed equitably among qualified vendors.

### A. *Cardholders inappropriately paid state and local sales tax*

In FY 2011, Commerce bureaus paid an estimated \$292,619 in state or local sales taxes, which were not refunded by vendors (see table 6). Some cardholders recovered taxes; however, others either were not aware that they had paid taxes or did not attempt to recover taxes even though they were aware of the rule.

The federal government is not required to pay state or local sales taxes.<sup>14</sup> Cardholders are allowed to pay the taxes if they are subsequently refunded by the vendor. All instances of paid sales tax should have been identified and corrected either by the cardholder or the approving official during the review and reconciliation process.

The Department previously identified this as an issue and released a memorandum in January 2011, reminding all purchase card program participants of the federal government's sales tax exemption.<sup>15</sup> However, a majority of the transactions where sales tax had been paid occurred after the memorandum's release.

In addition, although the Department obtains transaction data from J.P.Morgan's PaymentNet system, we found the data to be inconsistent with the supporting documentation that we reviewed regarding paid sales tax. Most transactions were correctly shown in PaymentNet as not paying sales tax, although our review of the documentation showed that sales tax had been paid in some cases. Conversely, PaymentNet identified some transactions as including sales tax, although our review showed that they did not include sales tax. We were therefore unable to rely on these data in our audit. Instead, we based our estimate on the results of audit testing, extrapolated to the untested population of transactions. If the Department is also not able to rely on these data, increased reliance is placed on the review by approving officials to identify sales tax that has been inappropriately paid.

<sup>13</sup> CAM 1313.301, section 3.14.2 (Jan. 2010). CAM 1313.301, section 3.13.2 (May 2012). CAM 1313.301, section 3.2 (Jan. 2010 and May 2012).

<sup>14</sup> OMB Circular A-123, appendix B, section 11.1.

<sup>15</sup> U.S. Department of Commerce, Assistant Secretary for Administration, memorandum to Purchase, Travel, and Fleet Charge Card Program participants, *Sales Tax Exemption*, January 14, 2011.

Table 6. Estimated Sales Tax That Was Inappropriately Paid

	Commerce	Census	NIST	NOAA
Estimated sales tax paid	\$292,619	\$5,515	\$50,789	\$208,872
<p><i>Note:</i> The Commerce column contains the estimated results for all bureaus within the Department, including Census, NIST and NOAA. Estimates were based on sales taxes identified as paid in the transaction documentation. The range of estimated sales taxes paid is based on a 95 percent confidence level and a margin of error of \$5,990 for Commerce, \$58 for Census, \$1,336 for NIST, and \$4,996 for NOAA. Therefore, while we have calculated an estimated amount of sales taxes paid, we are 95 percent confident that the actual sales taxes paid falls within the margin of error from the estimate.</p>				

*B. Invoices were not paid within 30 days*

Some invoices for purchase card transactions were not paid within the required 30-day payment period (see table 7). In addition, almost 60 percent of the late payments were made more than 60 days after the invoice date, and several were paid more than 1 year after the invoice date. Delayed payments could have been caused by vendors (late invoicing) or bureaus (late payment processing). However, management could not distinguish between these two causes because cardholders were not regularly documenting the date when invoices were received. This documentation could be used as support to extend the 30-day payment period, if delayed by vendors, and save taxpayers' money. Payments were also late because cardholders were unaware that payment was required within 30 days.

The Prompt Payment Act requires purchase card payments to be made within 30 days after a proper invoice has been received for the amount due.<sup>16</sup> Whenever an agency fails to annotate the invoice with the date of receipt, an invoice is considered to be received on the date of the invoice.<sup>17</sup> If payments are not made within 30 days, the Department is liable for interest on the unpaid balance. Interest will accrue on an unpaid balance starting the day after the due date through the payment date and shall be paid without regard to whether the vendor has requested payment for the penalty. A notice should accompany the payment, stating the amount of interest penalty, number of days late, and the rate used to calculate interest owed.<sup>18</sup>

<sup>16</sup> 5 CFR § 1315.4(g)(iv).

<sup>17</sup> 5 CFR § 1315.4(b)(2).

<sup>18</sup> 5 CFR § 1315.10.

Table 7. Transactions Not Paid Within 30 Days

	Estimated Percentage of Transactions with Errors				Estimated Value of Transactions with Errors <sup>a</sup>			
	Commerce	Census	NIST	NOAA	Commerce	Census	NIST	NOAA
Estimated errors	4.49	3.25	2.66	3.50	\$5,322,766	\$240,243	\$799,208	\$2,163,071

Note: The Commerce column contains the estimated results for all bureaus within the Department, including Census, NIST, and NOAA. The range of estimated transactions with errors is based on a 95 percent confidence level and a margin of error of 2.00 percent (\$2,375,529) for Commerce, 2.37 percent (\$175,153) for Census, 2.16 percent (\$648,680) for NIST, and 2.38 percent (\$1,468,223) for NOAA. Therefore, while we have estimated an expected error rate for all transactions, we are 95 percent confident that the true error rate falls within the margin of error from the estimate.

<sup>a</sup> Values do not include interest or penalties.

*C. Purchases of accountable property were not reported to property custodians or documented in transaction files*

In six transactions tested, the purchase of accountable property was not reported to the property custodian (see table 8). In eight transactions tested, purchased accountable property was reported to the property custodian, but documentation was not maintained with the transaction files, as required.

Accountable personal property totaling \$5,000 or items considered sensitive, regardless of cost, should be reported to a property custodian for tracking.<sup>19</sup> If accountable property is not submitted to the property officer for inventory purposes, there is an increased risk for inaccurate property inventory listings and possible theft. During the monthly account reconciliation, approving officials are required to ensure that cardholders have completed and submitted the proper accountable property documentation to the accountable property office. When documentation has not been maintained in the transaction file, approving officials cannot ensure the property office has been informed, as required.

<sup>19</sup> CAM 1313.301, section 3.11 (Jan. 2010). CAM 1313.301, section 3.10 (May 2012).

Table 8. Reporting of Accountable Property Purchases

	Number of Transactions				Value of Transactions (Rounded)			
	Commerce	NIST	NOAA	OSEC	Commerce	NIST	NOAA	OSEC
Total purchases of accountable property	22	9	12	1	\$34,640	\$12,390	\$16,731	\$5,519
Property purchased and not reported to accountable property custodian	6	1	4	1	9,133	331	3,284	5,519
Property purchases reported, but no transaction file documentation	8	4	4	0	11,832	4,820	7,012	0

Note: The Commerce column contains the total results for all bureaus within the Department, including NIST, NOAA, and OSEC. Due to the small number of transactions in the sample that included the purchase of accountable property, we were not able to extrapolate the results of testing to the entire population without an unreasonably high margin of error, which would make the results statistically unreliable. Therefore, we are only reporting actual results of testing.

#### D. Purchase card information was faxed

Nineteen cardholders faxed their purchase card account number information, which is specifically prohibited, for 21 separate transactions (see table 9).<sup>20</sup> Transmitting such sensitive information in this manner leads to an increased risk of fraud, waste, or abuse due to associated security issues. We observed, however, that the Department's Electronic Transmission of Personally Identifiable Information (PII) Policy allows purchase card information to be faxed in some circumstances.<sup>21</sup> This policy should be updated to be consistent with the CAM.

<sup>20</sup> CAM 1313.301, section 2.9 (Jan. 2010 and May 2012).

<sup>21</sup> U.S. Department of Commerce, Office of the Chief Information Officer, Electronic Transmission of Personally Identifiable Information Policy, July 30, 2009.

Table 9. Faxed Purchase Card Information

Bureau	Number of Cardholders	Number of Transactions
Census	7	9
ITA	1	1
NIST	11	11
Total	19	21

Note: Compliance with this requirement was not part of our standard testing for all transactions. Therefore, we were not able to project an estimated error rate to the untested population of transactions.

#### E. Purchases were not distributed equitably among qualified vendors

Several NIST cardholders primarily used a single vendor for moving and related services instead of distributing purchases equally among qualified suppliers. The cardholders made 434 payments, totaling \$315,379, to one vendor during FY 2011. NIST officials had identified two competitors for the vendor but made only 71 payments, totaling \$16,921, to one competitor and no payments to the other during FY 2011. Cardholders are required to distribute purchases equitably among qualified suppliers.<sup>22</sup> Furthermore, the excessive use of one vendor, and lack of consideration for alternative methods of procurement or insourcing, denied NIST the benefits of competition for these services. The cardholders explained that the vendor was selected based on the bureau's past experience with the vendor.

Additionally, according to one NIST employee, the decision to outsource the services was based on an OMB Circular A-76 study performed by NIST in 1989. NIST should determine whether the continued outsourcing of these services to a vendor without a contract is still the most efficient and effective method of obtaining the services required.

### III. Transactions Were Improper or Questionable

We identified transactions that were split, transactions that exceeded cardholders' single-purchase limit, purchases made by employees other than the cardholder, and a few questionable transactions.

#### A. Cardholders split purchases to avoid exceeding limits

Some transactions for goods and services were split into multiple orders without justification. When we questioned the cardholders and approving officials, they could not give adequate reasons for the multiple orders. We believe that, at least in some instances, this was done to avoid exceeding authorized limits on individual purchase card transactions (see table 10). Cardholders are not permitted to split a purchase into multiple purchases to avoid exceeding their single-purchase limit, the micro-purchase

<sup>22</sup> CAM 1313.301, section 3.1 (Jan. 2010 and May 2012).

threshold, or any other purchase card limit.<sup>23</sup> Because the noted error rate was not significant, we found controls in this area to be generally effective and make no recommendation.<sup>24</sup>

**Table 10. Split Purchases**

	Estimated Percentage of Transactions with Errors				Estimated Value of Transactions with Errors			
	Commerce	Census	NIST	NOAA	Commerce	Census	NIST	NOAA
Estimated errors	0.74	0.38	0.21	1.10	\$883,472	\$27,811	\$62,443	\$681,297

Notes: The Commerce column contains the estimated results for all bureaus within the Department, including Census, NIST and NOAA. The range of estimated transactions with errors is based on a 95 percent confidence level and a margin of error of 0.79 percent (\$939,783) for Commerce, 0.39 percent (\$29,017) for Census, 0.17 percent (\$50,361) for NIST, and 1.29 percent (\$795,336) for NOAA. Therefore, while we have estimated an expected error rate for all transactions, we are 95 percent confident that the true error rate falls within the margin of error from the estimate.

**B. Transactions exceeded cardholders’ single-purchase limit**

We found transactions that were above cardholders’ single-purchase limit when the cardholders did not meet the special provisions required to increase their limit (see table 11). This occurred because agency program coordinators temporarily gave the cardholders increases in their single-purchase limits and then lowered the limits after the purchase was made. These purchases should have been made by a cardholder with a higher authorized single-purchase limit or through a different purchasing method.

The single-purchase limit for cardholders who are not in an acquisition position is generally the micro-purchase threshold (\$3,000) unless the cardholder has met certain requirements.<sup>25</sup> In addition to the training an individual must complete to become a cardholder, cardholders requesting a single-purchase limit above the micro-purchase threshold must also complete the Federal Acquisition Certification in Contracting training and document completion in various areas of education, experience, and training.<sup>26</sup>

Purchase cards may be used to make micro-purchases, place a task or delivery order, or make payments on other contractual instruments when agreed on by the contractor.<sup>27</sup> For purchases that exceed the micro-purchase limit or are outside these categories, cardholders should consider other methods of procurement such as purchase orders or blanket purchase agreements.<sup>28</sup>

<sup>23</sup> CAM 1313.301, section 3.1 (Jan. 2010 and May 2012).

<sup>24</sup> Assessment of significance is based on auditor judgment in relation to the tested control.

<sup>25</sup> Federal Acquisition Regulation (FAR) subpart 13.201(b) and CAM 1313.301, section 2.1.1 (Jan. 2010 and May 2012).

<sup>26</sup> CAM 1313.301, section 2.1.1.2 (Jan. 2010 and May 2012).

<sup>27</sup> FAR subpart 13.301(c).

<sup>28</sup> See FAR subpart 13.302-307.

Existing controls prevent purchase card transactions that exceed a cardholder's single-purchase limit from going through. Only through direct intervention of these controls can such transactions even be executed. Because the noted error rate was not significant, we found controls in this area to be generally effective and make no recommendation.<sup>29</sup>

**Table II Purchases Exceeding Cardholder Single-Purchase Limits**

	Estimated Percentage of Transactions with Errors				Estimated Value of Transactions with Errors			
	Commerce	Census	NIST	NOAA	Commerce	Census	NIST	NOAA
Estimated errors	0.04	0.00	0.00	0.00	\$46,669	\$0	\$0	\$0

Note: The Commerce column contains the estimated results for all bureaus within the Department, including Census, NIST, and NOAA. The range of estimated transactions with errors is based on a 95 percent confidence level and a margin of error of 0.03 percent (\$33,501) for Commerce, 0.00 percent (\$0) for Census, 0.00 percent (\$0) for NIST, and 0.00 percent (\$0) for NOAA. Therefore, while we have estimated an expected error rate for all transactions, we are 95 percent confident that the true error rate falls within the margin of error from the estimate.

*C. Cardholders allowed other employees to make purchases with their purchase cards*

We found four separate transactions with evidence that cardholders had allowed other employees to make purchases using their purchase card: two at NOAA, one at Census, and one at NIST. Only assigned cardholders are allowed to make purchases with their purchase cards.<sup>30</sup> Although cardholders are required to certify that they have read and understand the policies and procedures outlined in the CAM, which prohibits sharing purchase cards with others, the cardholders stated they were not aware of this restriction. For the four cardholders' remaining transactions, we were not able to determine which transactions were made by the cardholders or by other individuals, and therefore how pervasive the problem was, without reviewing all transactions by each of the cardholders. As this issue was not included in our standard testing for each transaction, we were unable to project these issues to the untested population of transactions. Nonetheless, the Department should review transactions associated with these cards further to confirm the integrity of related purchases.

*D. Questionable transactions*

We found transactions we considered to be questionable (see table 12). Most of these transactions occurred because adequate documentation was not maintained to support the allowability of the purchase. We also found transactions for unallowable goods or services, such as the purchase of bottled water,<sup>31</sup> and transactions that were improperly executed with a purchase card or convenience check.<sup>32</sup> This occurred primarily because

<sup>29</sup> Assessment of significance is based on auditor judgment in relation to the tested control.

<sup>30</sup> CAM 1313.301, sections 2.9 and 3.1 (Jan. 2010 and May 2012).

<sup>31</sup> CAM 1313.301, section 3.8.3 (Jan. 2010), and CAM 1313.301, section 3.7.3 (May 2012), state that bottled water is considered a personal expense.

<sup>32</sup> CAM 1313.301, section 4.2 (Jan. 2010 and May 2012), states that convenience checks shall not be used for an honorarium fee to a non-U.S. citizen not authorized to receive the payment in accordance with the terms and

adequate documentation was not maintained to support the allowability of purchases and purchases were not sufficiently monitored. Cardholders should ensure that purchases are for an allowable purpose.<sup>33</sup> Transactions were also considered to be questionable if there was not sufficient documentation available to support their allowability (see subfindings I.C and I.E). Because the noted error rate was not significant, we found controls in this area to be generally effective and make no recommendation.<sup>34</sup>

**Table 12. Questionable Purchase Card Transactions**

	Estimated Percentage of Transactions with Errors				Estimated Value of Transactions with Errors			
	Commerce	Census	NIST	NOAA	Commerce	Census	NIST	NOAA
Estimated errors	2.78	1.48	0.99	3.30	\$3,302,808	\$109,714	\$298,188	\$2,039,872

Note: The Commerce column contains the estimated results for all bureaus within the Department, including Census, NIST, and NOAA. The range of estimated transactions with errors is based on a 95 percent confidence level and a margin of error of 1.73 percent (\$2,046,790) for Commerce, 1.65 percent (\$122,383) for Census, 1.36 percent (\$410,355) for NIST, and 2.38 percent (\$1,467,278) for NOAA. Therefore, while we have estimated an expected error rate for all transactions, we are 95 percent confident that the true error rate falls within the margin of error from the estimate.

#### IV. Cardholders and Approving Officials Did Not Obtain Annual Refresher Training

For each transaction tested, we reviewed whether the cardholder and their approving official had received refresher training during FY 2011. A significant number of cardholders and/or approving officials did not meet the annual training requirements.<sup>35</sup> Lack of training can lead to misuse of the purchase card and failure to comply with requirements of the purchase card program. Furthermore, failure to complete required refresher training should have led to suspension of cardholder and approving official purchase card accounts until training was successfully completed, although we did not observe this.<sup>36</sup> The Department did not have sufficient internal controls to monitor or identify whether cardholders and approving officials were obtaining refresher training as required.

During the course of this audit, the Department made some progress in ensuring that cardholders and approving officials obtain required training. The Department released an updated CAM in May 2012, which requires that all cardholders and approving officials obtain 6 hours of purchase card training each fiscal year no later than July 30. The Department has also worked with an external vendor to develop a more comprehensive purchase card training class. However, we found that many cardholders and approving officials were not

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conditions of their visa. We found that NIST paid an honorarium to a non-U.S. citizen without verifying that the payment was authorized by their visa.

<sup>33</sup> CAM 1313.301, sections 3.1 and 3.8 (Jan. 2010). CAM 1313.301, sections 3.1 and 3.7 (May 2012).

<sup>34</sup> Assessment of significance is based on auditor judgment in relation to the tested control.

<sup>35</sup> CAM 1313.301, section 2.1.3 (Jan. 2010 and May 2012).

<sup>36</sup> CAM 1313.301, section 2.1.3 (Jan. 2010 and May 2012).

aware of the new requirements or the requirements from the previous CAM, released in January 2010.

**Table 13. Transactions by Personnel Who Did Not Meet Training Requirements During FY 2011**

	Estimated Percentage of Transactions by Personnel Who Did Not Meet Training Requirements				Estimated Value of Transactions by Personnel Who Did Not Meet Training Requirements			
	Commerce	Census	NIST	NOAA	Commerce	Census	NIST	NOAA
Estimated cardholders	39.65	24.61	13.85	51.21	\$47,031,581	\$1,821,532	\$4,166,138	\$31,606,088
Estimated approving officials	40.29	57.58	9.00	48.20	\$47,797,044	\$4,261,435	\$2,707,669	\$29,748,942

Note: The Commerce column contains the estimated results for all bureaus within the Department, including Census, NIST, and NOAA. The range of estimated transactions made by cardholders who did not obtain training is based on a 95 percent confidence level and a margin of error of 4.55 percent (\$5,393,692) for Commerce, 5.75 percent (\$425,269) for Census, 4.73 percent (\$1,423,531) for NIST, and 6.63 percent (\$4,094,898) for NOAA. The range of estimated transactions approved by approving officials who did not obtain training is based on a 95 percent confidence level and a margin of error of 4.55 percent (\$5,399,508) for Commerce, 6.59 percent (\$488,017) for Census, 3.91 percent (\$1,174,781) for NIST, and 6.62 percent (\$4,083,579) for NOAA. Therefore, while we have estimated an expected error rate for all transactions, we are 95 percent confident that the true error rate falls within the margin of error from the estimate.

### Recommendations

We make the following recommendations to the Chief Financial Officer and Assistant Secretary for Administration:

1. Direct cardholders to document purchase requests and approvals, budget approvals, and bona fide government needs for all purchase card transactions.
2. Strengthen the monthly purchase card reconciliation process by requiring approving officials to ensure all transactions have proper receipt or invoice support, evidence of receipt and acceptance for goods and services received, and evidence that accountable property purchases were forwarded to property custodians, when applicable. The reconciliation should also identify and initiate corrective action when sales taxes have been paid or invoices have not been paid within the 30-day payment period.
3. Ensure that purchases are equitably distributed among all qualified vendors and that agencies determine the most efficient and effective method of obtaining services (i.e. insourcing versus outsourcing, purchase cards versus other procurement tool).
4. Develop policies and procedures to ensure that purchase card files are retained when cardholders and/or approving officials end employment with the Department or otherwise discontinue their functions as cardholders and approving officials.
5. Improve training for cardholders and approving officials to ensure that all purchase card program participants have an adequate understanding of all applicable laws and

- regulations over the use of purchase cards, including the proper security of purchase cards.
6. Improve the tracking and monitoring of training to ensure that all cardholders and approving officials receive the required annual refresher training and that accounts are suspended when they do not.
  7. Ensure the Department's Electronic Transmission of PII Policy is consistent with the CAM regarding the faxing of purchase card information.
  8. Ensure the CAM's record retention requirements expressly state the NARA requirements.

# Summary of Agency Response and OIG Comments

On April 17, 2013, OIG received the Department's comments on the draft report, which we include as appendix B of this report. We consider the Department's reply to be nonresponsive because it did not state concurrence or nonconcurrence with the recommendations. According to Department Administrative Order 213-3, when responding to an audit, Department officials must state concurrence or reasons for nonconcurrence with the recommendations.<sup>37</sup>

The Department stated that it has already implemented a series of corrective actions based on other reviews of its purchase card program. The Department represented that it has improved tracking of cardholders and approving officials who have not obtained refresher training and will suspend accounts that fail to complete refresher training. The Department stated it has also developed and implemented enhanced in-class training and is completing development of an enhanced online training class, which cardholders, approving officials, and agency program coordinators will be required to complete each fiscal year, before July 30. As these corrective actions occurred subsequent to completion of our fieldwork, they are not covered in our audit.

The Department explained that it has also improved oversight and enforcement to ensure accounts and transactions are reconciled timely. While making those improvements is commendable, this audit did not take issue with reconciliations not being performed. Our audit determined that the quality of the review of account reconciliations and supporting documentation by approving officials was not adequate. Many of the findings in this audit, including incomplete documentation, procedural issues, and questionable or improper transactions, could have been discovered and corrected during a proper review of transaction files by approving officials.

The Department stated it will ensure that its PII policy is consistent with the CAM but disagreed with our assessment that the CAM's guidance for records retention was not consistent with NARA guidance. The Department believes that a blanket statement within the CAM requiring that cardholders with authority to use the purchase card above the micro-purchase threshold comply with all requirements of federal and departmental acquisition laws, regulations, policies, and guidance is sufficient. As indicated in the report, the CAM lists approving officials as being responsible for ensuring that cardholder files are retained for 3 years from final payment, without distinguishing between transactions above or below any threshold. We believe the guidance within the CAM should expressly state the NARA guidance, as noted in our recommendation.

The Census Bureau also provided feedback regarding specific transactions included in our findings. We reviewed the transactions and updated our findings as appropriate.

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<sup>37</sup> Department Administrative Order 213-3, section 5.06(b)(1); *see also* Department Administrative Order 213-5, section 5.01(d)(2)–(3).

We look forward to receiving the Department's action plan, addressing our report recommendations.

# Appendix A: Objective, Scope, and Methodology

The objective of this review was to determine if the Department has adequate transaction-level internal controls over purchase card transactions. The audit scope included all transactions from all bureaus, except for the Office of Inspector General, occurring during FY 2011 (October 1, 2010, through September 30, 2011). We conducted fieldwork from March 2012 through September 2012 at various bureau locations throughout the country.

To accomplish our audit objective, we did the following:

- Obtained data from J.P.Morgan's PaymentNet system for all purchase card transactions created from October 1, 2010, through September 30, 2011. We analyzed the data for evidence of potential risk factors using SAS and classified transactions as potentially higher or lower risk based on the results.
- Developed a random statistical sample by stratifying transactions by bureau and by potentially higher or lower risk transactions. Transactions were selected for testing in each strata based on random number generation and availability of staff within various locations.
- Reviewed previous reports of audits and reviews of the Department's purchase card program and applicable criteria, including Federal Acquisition Regulation subpart 13, Commerce Acquisition Manual 1313.301, and OMB Circular A-123, appendix B, and Executive Order 12931 (Federal Procurement Reforms).
- Reviewed documentation supporting purchase card transactions and followed up on issues identified. Issues found in the tested transactions were projected to the universe of untested transactions.

We reviewed internal controls significant within the context of the audit objective by interviewing Department officials, examining policies and procedures, reviewing written assertions of Department officials, and reviewing transaction documentation for evidence of internal controls. We found that the Department needs to improve several aspects of its internal controls. These issues are discussed in the findings of this report.

To assess the reliability of computer-processed data obtained from J.P.Morgan's PaymentNet system, we (1) looked for obvious errors in accuracy and completeness, (2) interviewed Commerce and J.P.Morgan officials who were knowledgeable about the data, and (3) directly tested against supporting documentation. We determined that the data were sufficiently reliable for the purpose of this report. While we found J.P.Morgan's sales tax transaction data to be unreliable, we did not rely upon the data for the findings or conclusions in this report.

The review was conducted under the authority of the Inspector General Act of 1978, as amended, and the Department Organization Order 10-13, dated August 31, 2006. We

conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

# Appendix B: Agency Response



UNITED STATES DEPARTMENT OF COMMERCE  
 Chief Financial Officer and  
 Assistant Secretary for Administration  
 Washington, D.C. 20230

APR 17 2013

MEMORANDUM FOR: Andrew Katsaros  
 Assistant Inspector General for Audit

FROM: Barry E. Berkowitz   
 Senior Procurement Executive  
 and Director for Acquisition Management

SUBJECT: Response to *Internal Controls for Purchase Card Transactions Need to Be Strengthened* Draft Report

The Office of Acquisition Management appreciates the opportunity to comment on the Office of Inspector General's (OIG) draft report on the Department of Commerce's (DOC) controls over purchase card transactions. The draft report provides preliminary conclusions and suggested recommendations for strengthening internal controls for the purchase card program based on FY11 data. The draft report was not particularly helpful since many of the findings included within the report were previously identified during the Department's Fiscal Year 2010 A-123 Internal Controls Review and OAM has implemented corrective actions to address those findings and other corrective actions are currently underway. As the impact of those tightened controls was not assessed, we feel that the report may not be relevant.

**Recommendations:**

The Department has developed and implemented various corrective actions to enhance its purchase card program. The recommendations presented by the OIG, in summary, request the Department to provide enhanced training and guidance to cardholders; strengthening monthly reconciliation processes; and improve tracking of training.

- 1. Provide direction to cardholders and approving officials to document pre-purchase approvals; ensure purchases are equitably distributed among all qualified vendors; Develop policies and procedures to enhance training; improve tracking of refresher training requirement**

The Department updated its purchase card policy, Commerce Acquisition Manual 1313.301 - Revised May 2012, which was issued to all cardholders, approving

officials, the acquisition community and finance communities. The policy is available to all members of DOC via the Department's purchase card webpage. The policy provides guidance to all members of the purchase card community regarding Departmental requirements to obtain and maintain a purchase card; it also includes templates to assist Department members with the daily administration of the program (i.e., delegation memoranda; pre-purchase checklist; cardholder retention standards, documentation in transaction files; required market research).

Additionally, the Department developed and implemented a customized in-class training curriculum for cardholders, approving officials and agency program coordinators to reiterate the Department's policy and enhance knowledge of requirements, administration, and card maintenance. The Department is currently in the final stages of developing an online purchase card refresher training which cardholders, approving officials, and agency program coordinators will be required to take every fiscal year by July 30<sup>th</sup>. Failure to complete refresher training will result in account suspension. The online refresher training will be housed within the Department's Commerce Learning Center (CLC) and reports will be available to indicate which cardholders have not met the requirement.

**2. Strengthen Monthly Purchase Card Reconciliation Processes**

Beginning in FY 2013, the Department enhanced oversight and enforcement of cardholder reconciliation – requiring monthly reports to determine which cardholders and approving officials are not conducting timely reconciliation. APCs conduct monthly reviews and contact cardholders and approving officials who have not reconciled transactions. Accounts are suspended for repeat offenders who have more than three months of un-reconciled transactions. Prior to account reinstatement, corrective actions must be submitted to the Head of Contracting Office through the agency program coordinator for approval.

**3. Ensure PII policy is consistent with the CAM regarding faxing of purchase card information**

The Department's purchase card policy states that cardholders are not permitted to fax cardholder information. The Department's PII policy is housed within the Department's Office of Privacy and Open Government (OPOG), and does not fall under the purchase card program. OAM will work with OPOG to ensure that language is consistent with CAM Chapter 1313.301.

**4. Ensure the CAM's record retention requirements are explicitly consisted with NARA requirements**

The Department's Purchase Card Policy requires cardholder transaction files to be maintained, at a minimum for three years and directs cardholders with delegated authority to use the purchase card above the micro-purchase threshold to comply with *all* requirements of Federal and Departmental acquisition laws, regulations, policies and guidance with respect to any purchase that exceeds the micro-purchase threshold. This includes the requirement for record retention; therefore the Department believes its policy is in alignment with NARA requirements.

If you have any questions regarding this response, please contact Virna Winters at [vwinters@doc.gov](mailto:vwinters@doc.gov) or 202-482-3483.

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