

NATIONAL SCIENCE FOUNDATION
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SEP 30 2002



MEMORANDUM FOR: Ms. Mary Lou Higgs
Director
Division of Administrative Services

FROM: *Deborah H. Cureton*
Deborah H. Cureton
Associate Inspector General for Audit

SUBJECT: *Purchase Card Program Controls Need Strengthening.*
Audit Report No. 02-2-014

Attached for your review is our final report on our audit of purchase card use throughout NSF. As you know, our report recommends that NSF take specific actions to strengthen internal controls over the use of purchase cards to better prevent the occurrence of fraudulent or abusive transactions. Your response to our draft report, in which you generally agreed with our recommendations, is included in the appendix.

In accordance with Office of Management and Budget Circular A-50, we request that the agency submit a written corrective action plan to our office within 60 days of the date of his letter. This corrective action plan should detail specific actions and milestone dates for addressing each recommendation. As always, we are available to work with you during the next 60 days should you need our assistance in formulating your plan.

We thank you and your staff for the cooperation and courtesy extended to us during our review.

Cc: Dr. Nathaniel G. Pitts
Mr. Tom Cooley

**PURCHASE CARD PROGRAM CONTROLS NEED
STRENGTHENING**

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INTRODUCTION

Background

In 1989, a commercial purchase bankcard was made available to all federal agencies through a contract administered by the General Services Administration (GSA). The government-wide bankcard is authorized for use in making and/or paying for small purchases of supplies, services, or construction. The objective of the bankcard program is to 1) reduce procurement administrative costs while improving management, by expediting and simplifying small purchases, and 2) improve internal controls to minimize potential for fraud, waste and abuse present in other small purchase methods such as imprest funds.

The use of bankcards within government was promoted by the National Performance Review in 1993 which recommended that agencies increase their use of purchase cards by program staff to help alleviate the burden placed on contracting offices and allow them to focus on high-value procurements. The Federal Acquisition Streamlining Act of 1994 and related Executive Order 12931 facilitated the use of purchase cards for “micro-purchases” (i.e., purchases under \$2500). Since 1994, the use of bankcards for government procurements has grown from approximately \$1 billion per year to \$13.8 billion in FY 2001.

Use of government purchase cards are subject to *Federal Acquisition Regulation* (FAR) Part 13, Simplified Acquisition Procedures, and the *Treasury Financial Manual* (TFM), Part 4, Chapter 4500. While the FAR and TFM give broad guidance about the proper use of government purchase cards, Section 4525 of the TFM requires each agency to develop its own internal procedures for card use. Payments for items bought with purchase cards are also subject to The Prompt Payment Rule which require agencies to pay commercial obligations within certain time periods.

At the National Science Foundation (NSF), the Purchase Card Program is administered by the Division of Administrative Services (DAS) in conjunction with the card-issuing bank, Bank of America. The primary participants in the program are cardholders and approving officials (AOs) designated by their organizational unit. A cardholder is the employee appointed to use the purchase card to pay for purchases for the organization. The cardholder must comply with NSF’s internal operating procedures contained in the newly revised *Visa Purchase Card Program Handbook and Training Manual*. AOs approve purchase card use, monitor the purchase card account activity of assigned cardholders, and certify the monthly card statement for payment. During FY 2001, 135 NSF staff held cards, making 8,301 credit card transactions totaling \$2.87 million.

In September 2000, the OIG reviewed and reported on purchase card use in NSF’s Biology (BIO) directorate¹. We made several recommendations to both BIO and DAS to strengthen its

¹ *Internal Controls Over Purchase Card Use in BIO Need Improvement* (Report No. 00-2008).

documentation procedures and other controls over credit card use. BIO and DAS agreed with and implemented all recommendations.

Purpose and Scope

The purpose of our review was to determine if controls over purchase card transactions provide reasonable assurance that purchases were made in accordance with prescribed federal procurement regulations. To accomplish our objective we reviewed a sample of 136 transactions drawn from all of NSF's directorates and offices (except BIO which was reviewed previously) including 94 transactions for amounts of less than \$1,000 and 42 of over \$1,000. The sample represented 1.7% out of a total number of 7,953 transactions and \$114,083 or about 4% of \$2.6 million in FY 2000 charges. The transaction paperwork was reviewed for compliance with significant purchase card procedures including documentation and certification requirements, and for evidence of fraudulent and other types of abusive transactions. In addition, we surveyed 78 NSF cardholders about their usage of the card and their views of the program and received 35 responses. We also examined documentation, management reports, and records, and interviewed program officials as deemed necessary. Our audit was conducted in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller of the United States.

FINDINGS AND RECOMMENDATIONS

Our audit found that DAS has taken several actions to improve the purchase card program in response to recommendations contained in our 2000 audit report, including the resumption of annual training for cardholders. Comments about the training from those cardholders we surveyed were favorable. Also, during our audit NSF revised the Purchase Card Manual to emphasize many of the issues we raised during this and our previous audit.

However, DAS can further strengthen certain internal controls over the use of purchase cards to better prevent fraud, waste and abuse from occurring and assure that purchases are properly administered. Our audit found that approving officials are not always certifying the monthly statement of account, and in other cases have approved a few potentially abusive transactions. Since effective supervision of cardholders by the AOs is critical to the integrity of the program, DAS should initiate an annual oversight review of the purchase card program as required by the Treasury Financial Manual to ensure that AOs and cardholders are held accountable for effectively carrying out their responsibilities. We also found that:

- Cardholder documentation supporting purchases is not always maintained and is sometimes inadequate;
- Instances of irregular transactions, including potential split purchases, the payment of taxes, and the purchase of prohibited items such as travel expenses, appeared in our sample transactions.
- Security over purchase cards is lax with 31% of respondents to our questionnaire reporting that they keep their card in their wallet rather than under lock and key as required. In

addition, we found two instances of people other than the authorized cardholder making purchases.

- Sources of supplies and services that cardholders are obligated to consider before making purchases are rarely being utilized.
- Property Office staff report that cardholders are not always reporting purchases of accountable property for entry into the agency inventory system.

As a result of our findings, this report offers seven recommendations to strengthen internal controls over NSF's purchase card program. The Division of Administrative Services has substantially agreed with all recommendations. Their response to each individual recommendation is noted throughout the report. The entire response is presented in Appendix 1.

Review of Monthly Statements Can Improve

Some Approving Officials did not certify monthly statements, as required by NSF's Purchase Card Manual. In particular, for 23 of the 136 transactions tested (17%), AOs did not certify the monthly bank statement on which the transaction appeared. Similarly, 26% of the cardholders responding to our questionnaire stated that their AOs did not always approve their monthly billing statement. Also, AOs sometimes signed off on monthly statements that included prohibited or undocumented transactions (see section below: Irregular Transactions).

Approving Officials have primary supervisory responsibility over bankcard transactions conducted by the cardholders assigned to them, and their independent review of the monthly billing statement constitutes a key control over purchases made with the card. In recent testimony before Congress about the government purchase card program, the Commerce Department Inspector General noted that a diligent, knowledgeable approving official is the "main line of defense for guarding against fraud, waste and abuse." The Purchase Card Manual states that the Approving Official is "responsible for reviewing and approving the cardholder's monthly statement to ensure that the statement and supporting documentation are complete, accurate, and reflect only authorized purchases." Failure by the Approving Official to review the monthly billing statements increases the risk that a cardholder could make unauthorized charges without being detected.

A weakness of both the new and prior version of the Purchase Card Manual is that neither adequately describes how the AO should conduct their review of the monthly statement. Since the AOs are responsible for ensuring that transactions are authorized, legitimate, and comply with all federal and agency regulations, they should receive more guidance in how to conduct an effective review. For example, the AO should be prompted to spot check the statement for unfamiliar transactions, purchases from unusual vendors, and transactions that are prohibited such as "split" purchases. The AO should also check that accountable property items have been properly reported to the Property and Records Section of the Division of Administrative Services. The importance of the monthly review by AOs should be emphasized in the purchase card manual and reinforced during training.

Recommendation 1

The Acting Director of DAS should take steps to include guidance in the Purchase Card Manual and to provide related training to the AOs on their supervisory responsibilities and the methodology for reviewing and approving the monthly statement. The guidance, or checklist, should enable the AO to conscientiously certify that the transactions they approve are for official government business and comply with all significant regulations and agency procedures.

NSF Response: DAS concurs with this recommendation. The Purchase Card Manual will be amended to provide explicit guidance and instructions to Approving Officials (AOs) as to how to review, approve, and document monthly statements. A mandatory training course is being developed by the Agency Purchase Card Program Coordinator (APC) specifically for AOs and will be made available in FY 2003.

OIG Comment: The agency's proposed actions will satisfy this recommendation.

Annual Oversight Review Needed

DAS does not conduct annual oversight reviews of the purchase card program to ensure that agency procedures are followed. Volume 1, Section 4525 of the Treasury Financial Manual requires each agency to designate an office to manage its purchase card program and requires this office to carry out annual oversight reviews. At NSF, the Division of Administrative Services (DAS) has this responsibility.

An annual oversight review would provide additional assurance that bankcard transactions are properly administered and protected from fraud, waste and abuse. GAO's Standards for Internal Controls states that responsibilities for authorizing, processing, and reviewing transactions should be kept separate to reduce the risk of error or fraud. Currently, if the designated AOs fail to do their job of monitoring and approving purchase card activity, there is no additional level of review to ensure cardholders are making only authorized purchases.

The revised Purchase Card Manual provides for occasional audits, stating that "cardholder statements will be selected for audit on a random basis to ensure that purchases are made for official government business, that the proper accounting data was charged, and required sources of supplies and services were utilized". We believe that an oversight review should have a broader scope than what is indicated in the manual, and particular attention should be focused on key internal controls such as the documentation of transactions, the certification of the monthly statement, the reporting of accountable property to the DAS Property and Records Section, and the detection of potentially abusive transactions.

Recommendation 2

The Acting Director of DAS should initiate action to broaden its Purchase Card Manual to include requirements for an annual oversight review of approving officials and cardholders to test compliance with the required documentation standards, and to assure that transactions are incurred only for authorized government purposes and are not abusive. Particular attention

should be focused on key internal controls such as the proper documentation of transactions, the certification of the monthly statement, and the reporting of accountable property to the DAS Property and Records Section.

NSF Response: DAS concurs with this recommendation and notes that an oversight review of all cardholders is already being performed through the monthly transaction analysis performed by the APC. Every transaction is reviewed by the alternate APC for evidence of splitting transactions; improper or questionable purchases; or failure to use required sources. Transactions that appear to fall within these categories are queried via email and the cardholder is required to respond with a full explanation. If the issue cannot be quickly resolved the cardholder is asked to provide all documentation associated with the transaction to the APC for a full analysis. The results of the monthly transaction oversight review are documented via email.

In addition the APC will include specific guidance in the Purchase Card Manual for an annual oversight review of approving officials and cardholders in a sample population to test compliance with the requirements of the program in FY 2003. Approving officials will be advised that they are responsible for ensuring that accountable property is reported to the DAS Property and Records Section through email notices and FY 2003 training. Also, a semi-annual oversight review of all AOs will be performed via an email questionnaire from the APC asking AOs to report on types of purchases made throughout the year and whether new property has been reported to the DAS Property and Records Section.

OIG Comment: The agency's proposed actions will satisfy this recommendation.

Inconsistencies in Documentation

We found that, contrary to NSF procedures, documentation necessary to support bankcard transactions was inconsistent and sometimes inadequate to establish the validity of individual transactions. Our testing indicated that there was no invoice in the files to evidence proof of purchase for 15 of the 136 transactions we tested (11%). Also, among the 42 transactions we tested that were over \$1,000, there was no purchase requisition or other justification to support the official business nature of 11 items (26%)². Even among cardholders that maintained detailed purchase logs or spreadsheets, information on individual transactions was sometimes missing, and supporting documentation was not always attached.

At the time of our audit, the Purchase Card Program Manual required that "a requisition or other form of documentation must be prepared as evidence of the cardholder's request and maintained with the cardholder's copy of the charge slip or invoice as proof of purchase; at a minimum, documentation must include order date, vendor name, item description, and purchase price". An invoice is necessary to check the accuracy of the billing statement, while a purchase requisition (or other record of the request) assists the Approving Official to determine whether the purchase was made for legitimate government business purposes.

² 37% of respondents to our questionnaire said that they do not use purchase requisitions.

The new Purchase Card Manual strengthens the documentation of transactions, and facilitates their reconciliation with the monthly statement by requiring the cardholder to prepare a Purchase Card Ordering Log (POL) that summarizes the following information for each purchase: business, vendor, property official approval, complete description of item, cost, and budget code. However, the new Manual no longer requires the use of purchase requisitions, which may make it more difficult for the AO to determine whether a transaction was properly authorized. We believe that the Manual should require cardholders to provide some form of written justification or explanation with the POL for unusual and high-value purchases to avoid subsequent questions from reviewers.

Recommendation 3

The Acting Director of DAS should ensure that the Purchase Card Manual includes a requirement for obtaining purchase requisitions or equivalent written justification to, at a minimum, support unusual and high-dollar purchases.

NSF Response: DAS concurs with the intent of the recommendation, but does not plan to mandate the use of purchase requisitions or formal written justifications for credit card purchases. In accordance with the principles of the Federal Acquisition Streamlining Act (FASA), the goal of allowing agencies to use purchase cards is to make the purchasing process less cumbersome and less expensive.

To address the OIG's concerns in this regard, DAS has reviewed Chapter 6 of the Purchase Card Manual and is in the process of providing specific guidance on when transactions should routinely include additional documentation and/or approval from an Approving Official. (For example, a purchase at a jewelry store, grocery store, drugstore, etc., should be accompanied by an explanation of why that source was used.) This language will be made part of the September 2002 new cardholder training immediately, and will be added to the manual in the first quarter of FY 2003

OIG Comment: We agree that requisitions or justifications are not needed for every transaction. The recommendation suggests that more justification would be helpful for unusual transactions, particularly to preclude questions that might be raised by a third party reviewer. Therefore the willingness by DAS to provide new guidance on this subject to help improve the record for these types of transactions is responsive to our recommendation.

Irregular Transactions

Our testing of transactions revealed a number of purchases that are prohibited by federal regulations. We believe that these transactions occurred because AOs and cardholders do not pay sufficient attention to reviewing their purchases for compliance with government policies:

Split Purchases. The NSF Purchase Card Manual prohibits splitting the purchase of one item into two transactions in order to circumvent the \$2500 limit for micro-purchases. During our testing, we found that in five instances, cardholders potentially divided a purchase into two sections to avoid the limit on individual transactions of \$2500. In these cases, the paperwork

indicates sequential invoices totaling more than \$2500 were incurred with the same vendor on the same day.

Travel. Although the payment of travel expenses is prohibited by the NSF Purchase Card Manual, several payments for out of town travel expenses such as lodging, meals and other incidentals were noted during our audit.

Payment of Taxes. The NSF Purchase Card Manual requires cardholders to inform the merchant that the U.S. government is tax exempt and does not pay taxes. However, we found four instances where sales tax was paid on supplies and services purchased with the government bankcard. The unnecessary payment of sales tax increases procurement costs to the government.

Other. In three instances, cardholders used the government bankcard to purchase space heaters and plants, although Comptroller General decisions stated that personal furnishings are not authorized to be purchased with appropriated funds if for the personal convenience or comfort of the employee. The prohibition concerning personal furnishings may not have been widely known by cardholders and AOs at the time of our fieldwork because the heaters were not specifically listed among prohibited items in the old Purchase Card Manual. However the new manual contains an expanded section on prohibited purchases that clarifies what is allowable.

In addition, we noted transactions indicating that the purchase card was used to purchase bottled water, and rent water coolers. Purchases of drinks are expressly prohibited by the Purchase Card Manual. DAS should reiterate the agency's policies regarding prohibited transactions.

Recommendation 4

The Acting Director of DAS should take steps to re-emphasize to cardholders and AOs the importance of carefully reviewing purchase card transactions for compliance with government policies. Specifically, cardholders should be informed that: 1) transactions made with the purchase card are not to exceed the \$2,500 limit; 2) purchases of items or services for personal convenience, or related to travel, are prohibited; and 3) the government should not be billed for taxes.

NSF Response: DAS concurs with the recommendation and has already implemented a program of re-educating its cardholders and AOs. This is being done through training, monthly transaction follow-up, and supporting information in the Purchase Card Manual. Additional emphasis to the issues noted above will be provided throughout the coming fiscal year via email notices to cardholders.

OIG Comment: The agency's proposed actions will satisfy this recommendation.

Security over Purchase Cards

Thirty one percent of the respondents to our questionnaire keep their NSF purchase cards in their wallet rather than in a secure location such as a locked drawer or cabinet. This is contrary to Treasury Financial Manual 4535.30 which states that "credit cards are to be safeguarded by

organizations when possible to help minimize overall procurement costs to the government, and assist them in determining whether required sources are capable of satisfying their need.

Recommendation 6

The Acting Director of DAS should take steps to ensure that cardholders purchase from required sources listed in the NSF Purchase Card Manual, when they are capable of providing the supplies or services needed.

NSF Response: DAS concurs with this recommendation. The APC will be developing additional guidance and training for cardholders on those situations in which the preferred source is not used, due to emergency of the requirement (time), or non-availability. Please refer to the Management Response to Recommendation 3 for additional comments.

OIG Comment: The agency's proposed actions will satisfy this recommendation.

Accountable Property

We found that each item of accountable property³ included in our sample was accounted for in NSF's property management system. However the DAS Property and Records Section staff stated that items received directly by the cardholder or end-user, are not always reported to them⁴. In such cases, the agency is unaware of the property and it is not accounted for as inventory since DAS receives no advance acquisition documentation for these purchases.

The Purchase Card Manual states that "it is the responsibility of the purchase cardholder to report accountable property purchases to the DAS Property Office". Once reported, the Property and Records Section assigns it a barcode and it is entered into the inventory system. As a check on cardholders, we believe that DAS should also make Approving Officials responsible for ensuring that accountable property is reported to the Property Office before the monthly statement of account is signed.

Recommendation 7

The Acting Director of DAS should direct staff to formally assign responsibility to the AOs for ensuring that cardholders report accountable property to the DAS Property Office as part of certifying the monthly statement of account.

NSF Response: DAS concurs with this recommendation. The APC will be developing additional guidance and training for cardholders on those situations in which the preferred source is not used, due to emergency of the requirement (time), or non-

³ The criteria for determining whether property is accountable depends on its value and other factors that are discussed in the NSF Administrative Manual Chapter IV, Subchapter 300.


⁴ Some cardholders arrange for accountable property to be shipped through the Property and Records Section, which assures that each item is properly recorded in the system.


availability. Please refer to the Management Response to Recommendation 3 for additional comments.

OIG Comment: The agency's proposed actions will satisfy this recommendation.

SEP 20 2002

MEMORANDUM TO: Deborah H. Cureton
Associate Inspector General for Audits

FROM: Mary Lou Higgs 
Director, Division of Administrative Services

THRU: Julie Speers 
Agency Purchase Card Program Coordinator (APC)

SUBJECT: *Purchase Card Program Controls Need
Strengthening.*
DAS Response to the Draft Audit Report
of August 20, 2002

Thank you for the opportunity to review and respond to this draft audit report. The Division of Administrative Services concurs with the recommendations set forth in the report. We note that the observations in this report are consistent with the passing grade given to NSF by the FY 2002 OMB/OFFP review of NSF's Purchase and Travel Card Program Plan. We are pleased that this review of the NSF Purchase Card program by the OIG found no evidence of fraud or misuse rising to the level of abuse among the cardholders. We appreciate these recommendations and do intend to further tighten internal controls of the purchase card program and improve training for all Approving Officials and cardholders throughout FY 2003.

Recommendation 1

The Acting Director of DAS should take steps to include guidance in the Purchase Card Manual and to provide related training to the AOs on their supervisory responsibilities and the methodology for reviewing and approving the monthly statement. The guidance, or checklist, should enable the AO to conscientiously certify that the transactions they approve are for official government business and comply with all significant regulations and agency procedures.

Management Response

DAS concurs with this recommendation. The Purchase Card Manual will be amended to provide explicit guidance and instructions to Approving Officials (AOs) as to how to review, approve, and document monthly statements. A mandatory training course is being developed by the Agency Purchase Card Program Coordinator (APC) specifically for AOs and will be made available in FY 2003.

Recommendation 2

The Acting Director of DAS should initiate action to broaden its Purchase Card Manual to include requirements for an annual oversight review of approving officials and cardholders to test compliance with the required documentation standards, to assure that transactions are incurred only for authorized government purposes and are not abusive. Particular attention should be focused on key internal controls such as the proper documentation of transactions, the certification of the monthly statement, and the reporting of accountable property to the DAS Property and Records Section.

Management Response

DAS concurs with this recommendation and notes that an oversight review of all cardholders is already being performed through the monthly transaction analysis performed by the APC. Every transaction is reviewed by the alternate APC for evidence of splitting transactions; improper or questionable purchases; or failure to use required sources. Transactions that appear to fall within these categories are queried via email and the cardholder is required to respond with a full explanation. If the issue cannot be quickly resolved the cardholder is asked to provide all documentation associated with the transaction to the APC for a full analysis. The results of the monthly transaction oversight review are documented via email.

In addition to what we are already doing, the APC will include specific guidance in the Purchase Card Manual for an annual oversight review of approving officials and cardholders in a sample population to test compliance with the requirements of the program in FY 2003. Approving officials will be advised that they are responsible for ensuring that accountable property is reported to the DAS Property and Records Section through email notices and FY 2003 training. Also, a semi-annual oversight review of all AOs will be performed via an email questionnaire from the APC asking AOs to report on types of purchases made throughout the year and whether new property has been reported to the DAS Property and Records Section.

Recommendation 3

The Acting Director of DAS should ensure that the Purchase Card Manual includes a requirement for obtaining purchase requisitions or equivalent written justification to, at a minimum, support unusual and high-end purchases.

Management Response

DAS concurs with the intent of the recommendation, but does not plan to mandate the use of purchase requisitions or formal written justifications for credit card purchases. In accordance with the principles of the Federal Acquisition Streamlining Act (FASA), the goal of allowing agencies to use purchase cards is to make the purchasing process less cumbersome and less expensive.

To address the OIG's concerns in this regard, DAS has reviewed Chapter 6 of the Purchase Card Manual and is in the process of providing specific guidance on when transactions should routinely include additional documentation and/or approval from an Approving Official. (For example, a purchase at a jewelry store, grocery store, drugstore, etc., should be accompanied by an explanation of why that source was used.) This language will be made part of the September 2002 new cardholder training immediately, and will be added to the manual in the first quarter of FY 2003.

Recommendation 4

The Acting Director of DAS should take steps to re-emphasize to cardholders and AOs the importance of carefully reviewing purchase card transactions for compliance with government policies. Specifically, cardholders should be informed that: (1) transactions made with the purchase card are not to exceed the \$2,500 limit; (2) purchases of items or services for personal convenience, or related to travel, are prohibited; and (3) the government should not be billed for taxes.

Management Response

DAS concurs with the recommendation and has already implemented a program of re-educating its cardholders and AOs. This is being done through training, monthly transaction follow-up, and supporting information in the Purchase Card Manual. Additional emphasis to the issues noted above will be provided throughout the coming fiscal year via email notices to cardholders.

Recommendation 5

The Acting Director of DAS should communicate to AOs and cardholders that cards must be maintained in a secure location such as a locked box or drawer and not carried in a wallet or handbag, and that the use of the government bankcard other than by the assigned cardholder is strictly prohibited.

Management Response

DAS concurs with this recommendation, and has already partially implemented it. The training course held in August 2002 for prospective new cardholders strengthened the language in the NSF Purchase Card Manual to state specifically that purchase cards are to be kept in locked locations, not in a cardholder's wallet or purse. In addition to being incorporated in the Purchase Card Manual, this point will be emphasized throughout the year during audits and via reminder email notices from the APC.

Recommendation 6

The Acting Director of DAS should take steps to ensure that cardholders purchase from required sources listed in the NSF Purchase Card Manual, when they are capable of providing the supplies or services needed.

Management Response

DAS concurs with this recommendation. The APC will be developing additional guidance and training for cardholders on those situations in which the preferred source is not used, due to emergency of the requirement (time), or non-availability. Please refer to the Management Response to Recommendation 3 for additional comments.

Recommendation 7

The Acting Director of DAS should direct staff to formally assign responsibility to the AOs for ensuring that cardholders report accountable property to the DAS Property Office as part of certifying the monthly statement of account.

Management Response

DAS concurs with this recommendation. The APC will implement this recommendation during Fiscal Year 2003 through emails, updates to the Purchase Card Manual, during AO audits, and as part of the AO training currently being developed. Please refer also to the Management Response to Recommendation 2 for additional actions to be taken.