

MEMORANDUM

TO : Patricia W. McNeil
Assistant Secretary
Office of Vocational and Adult Education

FROM : John P. Higgins, Jr.
Acting Assistant Inspector General
Analysis and Inspection Services

SUBJECT : Results of the OIG Review of OVAE's Internal Controls Over the
Procurement of Goods and Services

INTRODUCTION

This memorandum transmits the results of our review of OVAE's internal controls over the procurement of goods and services. This review is part of OIG's Department-wide review of this area. The Department's management is responsible for establishing and maintaining internal controls. We will transmit the Department-wide results to the Deputy Secretary with copies to the Assistant Secretaries when we complete our review. On April 11, 2000, OIG staff discussed the results of this review with you and your Acting Deputy Assistant Secretary, Robert Muller.

RESULTS

Based on our review, we identified certain deficiencies that prevent OVAE from fully satisfying GAO's *Standards for Internal Control in the Federal Government*. For your information and corrective action, those deficiencies are listed in the attached chart (Attachment A). In the future, we anticipate conducting a follow-up review to assess the actions you have taken to correct the deficiencies identified in Attachment A.

In addition, we want to advise you and OVAE managers of inherent vulnerabilities we identified in several Department procurement systems.

- ✓ Purchase Cards – For efficiency reasons, the Department designed a purchase card system where cardholders can order, receive and approve payments for goods and services. Consequently, as a control, the Department established approving officials to review the use of purchase cards. Therefore, it is important that approving officials properly review all cardholder statements before forwarding them to OCFO for payment.

- ✓ Third Party Draft System (TPDS) – An individual with signature authority can issue TPDS checks without the involvement of anyone else. Therefore, it is important that the supervisor of the individual with signature authority conduct periodic reviews of sample TPDS disbursements.
- ✓ Telecommunications – Currently, many principal offices, including OVAE, have cellular phone bills paid by OCIO. Principal offices need to receive and review their own cellular phone bills to ensure the accuracy and appropriateness of all charges.

OBJECTIVE

Our review objective was to assess the internal controls over compliance with laws and regulations for the procurement of goods and services other than studies or evaluations.

SCOPE

We limited our work to procurements by the Third Party Draft System (TPDS) and Purchase Cards. OVAE has 23 open contracts. Your staff informed us that none of those contracts involved the purchase of goods or services within the scope of our work. Therefore, we did not review internal controls over contracts in OVAE. We also did not conduct testing on the use of the “Corporate” Government Travel Account.

METHODOLOGY

To achieve our objectives, we conducted interviews with OVAE staff who were involved with the procurement process and reviewed relevant documents. As part of our work, we reviewed a sample of 47 TPDS checks and 48 charges to purchase cards. We based our conclusions about OVAE's internal controls on the information gathered during our interviews and transaction testing. We conducted our interviews and transaction testing between February 24, 2000 and March 30, 2000.

We assessed OVAE's internal controls based on GAO's *Standards for Internal Control in the Federal Government* issued November 1999. Attachment B to this letter contains a summary of the GAO Standards. We conducted our work in accordance with the President's Council on Integrity and Efficiency (PCIE) *Quality Standards for Inspection* dated March 1993.

We appreciate the cooperation shown by your staff during our review. If you have any questions regarding the results of this review, please call me at 205-5439.

Attachments

cc: Deputy Secretary

Components of Internal Control

- **Control Environment** – Management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal controls and conscientious management.

Factors:

- ✓ Management and staff maintain and demonstrate integrity and ethical values.
 - ✓ Management maintains an active commitment to competence.
 - ✓ Management’s philosophy and operating style exerts a positive influence on the organization (especially toward information systems, accounting, personnel functions, monitoring and audits).
 - ✓ Organizational structure is appropriately centralized or decentralized, and facilitates the flow of information across all activities.
 - ✓ Agency delegates authority and responsibility and establishes related policies throughout the organization in a manner that provides for accountability and control.
 - ✓ Agency establishes human resource policies and practices that enable it to recruit and retain competent people to achieve its goals.
- **Risk Assessment** – Internal controls should provide for an assessment of the risks the agency faces from both external and internal sources.

Precondition: establishment of clear and consistent agency objectives.

Risk assessment: the comprehensive identification and analysis of relevant risks associated with achieving agency objectives, like those defined in strategic and GPRA annual performance plans, and forming a basis for determining how the agency should manage risks.

Risk identification: methods may include qualitative and quantitative ranking activities, management conferences, forecasting and strategic planning, and consideration of findings from audits and other assessments.

Risk analysis: generally includes estimating the risk’s significance, assessing the likelihood of its occurrence, and deciding how the agency should manage its risk.

- **Control Activities** – Internal control activities help ensure that employees carry out management directives. The control activities should effectively and efficiently accomplish agency control objectives.
 - ✓ The control activities are the policies, procedures, techniques, and mechanisms that enforce management’s directives. They help ensure that employees take actions to address risks.
 - ✓ Control activities occur at all levels and functions of the entity, and include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and creation and maintenance of related records that document the execution of these activities.
- **Information and communications** – Employees should record and communicate information to management and others within the entity who need it in a form and within a time frame that enables them to carry out their internal control (and other) responsibilities effectively and efficiently.
 - ✓ An organization must have relevant, reliable, and timely communications relating to internal as well as external events. Information is needed throughout the agency to achieve all its operational and financial objectives.
 - ✓ Effective communications should occur in a broad sense with information flowing down, across, and up the organization.
 - ✓ Management should ensure there are adequate means of communicating with, and obtaining information from, external stakeholders that may have a significant impact on the agency achieving its goals.
- **Monitoring** – Internal control monitoring should assess the quality of performance over time and ensure that audit and other review findings are promptly resolved.
 - ✓ Includes regular management and supervisory activities, comparisons, reconciliations, and other actions employees take in performing their duties.
 - ✓ Should include policies and procedures for ensuring that audit and other review findings are promptly resolved.

Internal Control Evaluation Form for the Office of Vocational and Adult Education

Attachment A

Control Component	Deficiencies
Control Environment	<ul style="list-style-type: none"> • Organizational Structure – The monthly purchase card statement for one cardholder was approved by a supervisor who was not the OVAE approving official. We have been informed that OVAE is taking steps to address this issue. • Assignment of Authority – Two purchase cardholders did not have the required warrants based on their approved spending levels. • Training – At the time purchase cards were issued, cardholders took the required training. However, procurement staff have not received any recent or refresher training. In addition, to effectively use the purchase card, one cardholder requires additional training on EDCAPS.
Risk Assessment	<ul style="list-style-type: none"> • Identification of Risks – We were advised that OVAE’s Federal Managers’ Financial Integrity Act (FMFIA) reporting process was ineffective and OVAE has no other formal procedures for risk assessment in the procurement area. • Identification of Risks – One procurement staff member has been assigned a moderate risk level when the employee’s responsibilities suggest that a high risk level is more appropriate.
Control Activities	<ul style="list-style-type: none"> • Policies and Procedures – Although required by the Department’s directive on <i>Commercial Credit Card Service</i> (C:FIM:6-102 dated 3/12/90), OVAE has no written policies and procedures on the purchase card process. One purchase cardholder experienced difficulty in determining the correct process for terminating the card and the OVAE executive office was not aware that the purchase card was no longer active. • Segregation of Duties – One purchase cardholder is the alternate approving official for OVAE. Alternate approving officials should not have the responsibility of approving their own monthly statements.

	<ul style="list-style-type: none"> • Recordkeeping – We were advised that one purchase cardholder does not record purchases in EDCAPS at the time an order is placed on the card. Our testing of charges to purchase cards revealed 17 purchases that had not been recorded in EDCAPS within a 48-hour window of the purchase. • Recordkeeping – We identified seven TPDS checks that have been outstanding for more than 90 days. These checks should have been voided in the system to de-obligate the funds. In an April 1999 memorandum, OCFO noted that OVAE was not voiding checks that were outstanding for more than 90 days. • Recordkeeping – OVAE did not have a log to track the TPDS checks assigned to the office. Such a log would allow OVAE to identify any missing checks. We have been informed that OVAE is taking steps to address this issue.
Information & Communications	<ul style="list-style-type: none"> • Communication of Key Information – OVAE procurement staff were unaware of the Department’s directive on <i>Commercial Credit Card Service</i> (C:FIM:6-102 dated 3/12/90). • Communication of Key Information – One purchase cardholder misunderstood the meaning of vendors being listed in EDCAPS. The cardholder believed that the vendors in EDCAPS were “safe” or approved by the Department. OCFO informed us that the Department has not reviewed or approved the vendors in EDCAPS.
Monitoring	<ul style="list-style-type: none"> • On-going Monitoring – The supervisor of the individual with signature authority for TPDS checks does not perform periodic reviews of the EDCAPS reports on the checks issued by OVAE. We have been informed that OVAE is taking steps to address this issue. • On-going Monitoring – The OVAE approving official does not perform periodic spot checks of the invoices related to purchase card transactions.