



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

**INSPECTION MEMORANDUM**

**SEP 28 2001**

**TO:** Mark Carney  
Deputy Chief Financial Officer  
Office of the Chief Financial Officer

**FROM:** Mary Mitchelson  
Assistant Inspector General  
Analysis and Inspection Services

**SUBJECT:** Follow-up Review of Internal Control Over Purchase Cards  
(ED-OIG/A&I 2001-04)

This is a follow-up to our memorandum, *Results of the OIG Review of Internal Controls Over the Use of Purchase Cards and Third Party Drafts (A&I 2000-15)*, dated October 13, 2000. The purpose of our review was to determine if the Department completed certain corrective actions in response to recommendations contained in our memorandum.

The review focused on two recommendations for key control activities in the purchase card program:

- Require that all approving officials review and sign monthly purchase card statements, and
- Reconcile the monthly Department-wide purchase card statement to the monthly statements from the principal offices and to the Department's accounting system, EDCAPS.

On April 26, 2001, we began our inspection by reviewing the Department's monthly purchase card statements for the period ending February 16, 2001. On July 24, 2001, we also reviewed the Department's monthly purchase card statements for the period ending June 16, 2001.

We found that for the period ending February 16, six of 184 statements lacked required signatures, and 68 statements were not submitted timely. Additionally, three statements were still unsigned or missing when the bill was paid, 38 days after the due date.

When we reviewed the statements for the period ending June 16, we found four of 185 statements lacked required signatures, 124 statements were not submitted timely and one statement was missing. OCFO informed us that the four unsigned statements were returned to the approving officials for signature, but the one missing statement was still unsigned when the bill was paid, four days after the due date.

During the time of our review, staff in Financial Management Policies and Administrative Programs (FMPAP) used the Department's Impac Card Reconciliation System (ICRS) to reconcile the monthly Department-wide purchase card statement to the monthly statements from the principal offices and to the Department's accounting system, EDCAPS. Although we found some inaccuracies in the ICRS summary of cardholder activity, the balance of the statements did not appear to be affected.

For the period ending July 16, 2001, the Office of the Chief Financial Officer (OCFO) began the transfer of some purchase card responsibilities from FMPAP to Contracts and Purchasing Operations (CPO). As part of the new system, cardholders will be responsible for reconciling their monthly statements from the vendor to the purchases they recorded in the Department's accounting system.

#### **Approving Official Review: February 2001**

Cardholders typically receive their statements between the twentieth of the month and the end of the month. At the time of our review, FMPAP staff stated that its policy was for principal offices to submit all cardholder statements, signed by the approving official, by the fifth to the seventh working day of the following month.

On April 26, 2001, we reviewed February 2001 purchase card statements for 184 cardholders and found four statements, or two percent, totaling \$20,729, that were not signed by the approving official. We found two statements, or one percent, totaling \$5,360, that were not signed by the cardholder. Additionally, two statements, totaling \$13,750, were missing. Subsequently, one of the missing statements was signed by the approving official on May 15, the other on May 16, 2001. At the time of our initial review, FMPAP was not aware that six statements were missing the required signatures or that two statements had not been submitted.

Because FMPAP does not date-stamp the statements, we could not determine when that office received them. Based on the date the approving officials signed the statements, however, 68 statements, or 37 percent, were not timely submitted by the eighth working day of the following month, March 12.

FMPAP paid the bill – due March 18 – on April 25, 2001.<sup>1</sup> FMPAP officials stated that late fees have not been assessed because the vendor has had problems meeting its

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<sup>1</sup> When the February bill was paid, three statements had not been signed by the approving official. In addition to the two missing statements signed in May 2001, one other statement was signed on April 27, 2001.

requirements under the contract. FMPAP staff stated that discussions with the vendor have been ongoing to address a variety of concerns.

### **Approving Official Review: June 2001**

On July 24, 2001, we reviewed June 2001 purchase card statements for 185 cardholders and found four statements, or two percent, totaling \$14,061, that were not signed by the required approving official. Of these four statements, one also was not signed by the cardholder. In addition, we found 124 statements, or 67 percent, were not submitted timely. One statement was missing at the time of our review.

OCFO responded that FMPAP staff returned the four unsigned statements to the approving officials for signatures and paid the bill before they were returned because the staff had discussed the statements with the officials.

On the seventh working day of July, FMPAP sent out 124 late notices to twelve offices, a notification procedure that was initiated with the April statement. No further late notices were sent, but a FMPAP staff member stated phone calls and personal visits were made to obtain all the statements.

The bill, due on July 16, was paid on July 20, 2001. No late fee was assessed. All statements were signed by the required approving official before the bill was paid except for the missing statement, totaling \$3,508, that was located but not signed until August 27, 2001.

### **Reconciliation of Statements**

The Department's purchase card vendor provides FMPAP with an electronic file containing the activity detail for each cardholder. During the period of our review, to reconcile the vendor's file to a cardholder's activity recorded in EDCAPS, an FMPAP staff member entered the last digits of the card number into the ICRS. The system scrolled to find the cardholder's activity in EDCAPS and matched the activity against the vendor's electronic file.

For the February 2001 purchase card statement, we found that four cardholders were not listed on the ICRS summary of cardholder activity. The four purchase cards, however, were found in ICRS under the correct card number but under a different cardholder's name. This did not appear to have an impact on the balance of the affected statements, but it does demonstrate a lack of accuracy in the ICRS summary.

Additionally, the ICRS summary does not have updated information on the cardholders' approving officials. FMPAP officials stated that it is not possible to update that information in the ICRS.

For the June 2001 purchase card statement, we found 16 statements were not listed in the ICRS summary. FMPAP officials stated that the ICRS, developed in 1996 to manage a small volume of data, is a cumbersome and inefficient system. Because of the

incomplete information in the ICRS summary, FMPAP used the vendor's individual cardholder activity summary to perform the reconciliation with EDCAPS for June.

### **Department-wide purchase card statement: July 2001**

FMPAP officials informed us that beginning with the Department-wide purchase card statement for July 2001, cardholders are responsible for reconciling their monthly purchases. In that process, the vendor's electronic file is loaded into EDCAPS where cardholders are able to retrieve their purchase card statements as well as the data they input into EDCAPS at the time of purchase. After reviewing their statements and reconciling with the purchases recorded in EDCAPS, cardholders forward their file electronically to their approving official. The cardholders also give all supporting documents for their purchases to their approving official.

To facilitate the transfer of purchase card responsibilities within OCFO, CPO is requiring training in the electronic reconciliation payment approval process for cardholders, approving officials, and alternate approving officials. CPO is also continuing policy and procedural training for cardholders, approving officials, alternate approving officials and supervisors.

FMPAP's role in the process is to send out late notices to the approving officials, reconcile the Department-wide monthly statement against the approved cardholder statements and pay the vendor.

Policies and procedures for the cardholder program are documented in a draft Directive, which OCFO indicates is in the final review process.

### **Conclusion**

Although improvements are being made in the purchase card program, more work needs to be done. The review of the June 2001 statements, for example, indicates that approving officials are not responding timely. This could lead to the assessment of penalty interest. In addition, it is important to complete the Directive so that all participants will have guidance in understanding the purchase card program requirements.

### **OCFO's Reply**

On September 26, 2001, OCFO provided the following response to our draft memorandum:

Our CPO office is currently seeking concurrence on the revised Purchase Card Directive from two Principal offices and have asked they complete their reviews / address concerns with us by September 28. All other offices have concurred with the directive. Upon final approval the Directive will be distributed to Principal offices including

all cardholders, approving officials and supervisors. In addition, the Directive will be accessible on the Department's intranet.

Our FMO Office indicates that they did not have the original signed documentation for four statements. They had returned the originals to the authorities to have them sign. However, while waiting for the signed copies, they chose to pay the statements on time, as they had been in touch with the certifying officials.

### **OIG's Response**

We have modified our memorandum to reflect OCFO's comments.

### **Scope and Methodology**

In our initial review, conducted from April 25, 2001 to May 18, 2001, we reviewed all February 2001 cardholder statements and matched them to the ICRS summary of cardholder activity. We also interviewed FMPAP staff to gain an understanding of the systems used to reconcile and pay the Department-wide purchase card statement. We continued our review by examining all June 2001 cardholder statements from July 24, 2001 to August 13, 2001. We did limited testing of the effectiveness of the reconciliation process. We did not test the reliability of the data in the ICRS or EDCAPS.

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 to us during our review. If you have any questions regarding the results of this review, please call me at 260-3556 or Brent Weston at 205-9833.

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