

## **MEMORANDUM**

**Special Review Report No. R-02-02**

DATE: May 20, 2002

TO: Eileen B. Mason, Acting Chairman

THRU: Daniel L. Shaw, Inspector General

FROM: Anthony S. Premici, Assistant Inspector General

SUBJECT: Review of NEA's Internal Controls for Purchase and Travel Card Expenditures

As a result of recent reports by the General Accounting Office and Inspectors General, the Office of Management and Budget (OMB) issued a memorandum (M-02-05, dated April 18, 2002) requesting that each agency review the adequacy of internal controls for purchase and travel card expenditures. This report presents the results of our review of the National Endowment for the Arts (NEA) internal controls for purchase and travel card expenditures.

### **BACKGROUND**

The purchase card is used to pay for the acquisition of goods and services. It is intended to streamline procurement and payment procedures and reduce the administrative burden associated with traditional and emergency purchasing of products and services under the commercial and simplified acquisition procedures. The purchase card should be the "primary purchasing method" when vendors accept credit cards for commercial and simplified purchases, unless otherwise prohibited. As of April 30, 2002, NEA had 12 active purchase cards which were issued through Mellon Bank.

The travel card is used to pay for official Government travel expenses. The Travel and Transportation Reform Act of 1998 (Public Law 105-264) requires mandatory use of the travel charge card for all payments of expenses of official Government travel. Exemptions to this requirement may be granted by the Administrator of General Services or by the head of a Federal Agency who shall notify the Administrator of the reasons for such exemptions. As of April 30, 2002, NEA had 45 active travel cards which were issued through Citibank.

## OBJECTIVE AND SCOPE

The objective of the review was to determine the adequacy of NEA's internal controls for purchase and travel card expenditures. This included a review of NEA's purchase and travel card policies and procedures, interviews with responsible agency officials, and tests on the effectiveness of applicable internal controls. The review was performed during May 2002 and included a review of transactions during fiscal year 2002.

## RESULTS OF REVIEW

Our review determined that NEA's internal controls for purchase and travel card expenditures were adequate. Details are presented in the following narrative.

### Purchase Cards

NEA has established adequate internal controls for its purchase cards. NEA has established written procedures for use of the purchase card which states that the card "may be used to pay for authorized supplies or services within the limitations of delegations of authority made to the individual Cardholder." The agency has issued 12 purchase cards with monthly limits ranging from \$1,000 to \$75,000 as follows:

Number of Employees	Single Purchase Limit	Monthly Limit
1	\$10,000	\$75,000
1	25,000	25,000
1	2,500	25,000
4	2,500	10,000
1	2,500	5,000
1	2,500	2,500
1	1,500	5,000
1	1,000	2,500
1	1,000	1,000

NEA had "Delegation of Authority" forms on file for each of the above employees. Each employee was assigned a designated official responsible for the review and approval of all expenditures made with the purchase card.

The purchase card procedures also require that "each Cardholder prepare a unique obligating document, as soon as practical after the purchase takes place but no later than the next to the last business day of the month." This document must include information related to the vendor, a description of the purchase, whether the purchase is for services (reportable to the IRS), whether the purchase is from a federal agency (reportable to Treasury), the accounting code, and the total cost.

As a billing statement is received, the cardholder must reconcile the statement and fill in appropriate document number/coding for each transaction. If there are no discrepancies, the individual signs the statement and forwards it to the approving official with obligating documents and original receipts attached. The approving official then examines and approves the statement and forwards it to the NEA Finance Office. The NEA Finance Office then reviews the statement with the attachments and proper signatures, matches the purchase to the obligating document, and proceeds with the payment process if there are no discrepancies.

The Accounting Officer receives a monthly statement listing each purchase by cardholder. The Accounting Officer, as well as the NEA Accountant, reviews this statement to determine whether there are any unusual transactions. In addition, the NEA Contracting Officer receives a separately mailed statement of monthly transactions and also reviews the statement for any unusual transactions.

We reviewed purchase card summary and individual statement information for a seven-month period. We concluded that (1) there were no unusual or split transactions, (2) purchases were properly authorized, and (3) adequate supporting documentation was maintained by the Finance Office.

## **Travel Cards**

NEA has established adequate internal control procedures for its travel cards. Each employee is required to sign a certification noting that they (1) received the card and that it is to be used only for official Government travel expenses; (2) read the terms and conditions of the credit card program and agree to abide by them; (3) understand that misuse of the credit card could result in its revocation; (4) understand that since the credit card is considered “government property,” its unauthorized use could lead to disciplinary action; and (5) understand that they are responsible for promptly vouchering travel expenses so that reimbursement can be made before the bill is due, and that they are still responsible for directly paying the bill and any finance charges they may incur. We reviewed and noted that all 45 active cardholders had such a signed certification on file.

As noted in the Background section to this report, the Travel and Transportation Reform Act of 1998 (Public Law 105-264) requires mandatory use of the travel charge card for all payments of expenses of official Government travel unless an exemption is granted by the Administrator of General Services or by the head of a Federal Agency who shall notify the Administrator of the reasons for such exemptions. Such an exemption was granted by the-then NEA Chairman and submitted to the Administrator of General Services in a letter dated August 23, 2001. Specifically, the exemption states:

Any NEA employee who travels infrequently (less than four times per fiscal year) is exempt from the requirements of the mandatory travel card for official expenses.

NEA's reasons for this exemption are:

1. The airfare/train fare portion of all travel is already on the agency's central travel charge card.
2. There are only about 40 of our 160 employees that do 95% of the travel and they already have and use the government travel card.
3. The burden of maintaining the other 120 employees on charge cards when they rarely, or never travel, exceeds the benefit of a few more dollars credited to the charge program.

Our review of travel card statements for individual cardholders during a five-month period noted no unusual or unallowable transactions. We interviewed the Accounting Officer who stated that she reviews the monthly statements for any unusual transactions and that the NEA Accountant also performs this process. The Accounting Officer noted that occasionally there are minor instances when the travel card is mistakenly used in place of the individual's own credit card and that these matters are quickly resolved.

Our review noted that delinquencies are addressed in a timely fashion. The Finance Office promptly notifies individuals who are delinquent. If an individual had made a payment to satisfy the delinquency, the payment date is noted on the delinquency listing. Our review found only two instances where delinquencies extended beyond 60 days and these were resolved prior to the next billing cycle.

We also reviewed controls for charges to NEA's central travel charge card. These charges are primarily airline and train fare expenditures. The Finance Office receives an itemized monthly statement of expenditures from the credit card company and compares this statement to a "reconciliation statement" received from the travel management company. This reconciliation statement includes the name of the traveler, the travel authorization number, and the amount of the ticket purchase or travel agent fee. Our review found that this internal control process is adequate.

## **CONCLUSION**

Our review found that NEA's internal controls for purchase card and travel card expenditures were adequate. Since this report does not contain any recommendations, a response is not required. An exit conference was held with the Accounting Officer on May 15, 2002, to discuss the results of the review.

cc: Larry Baden, Deputy Chairman for Management and Budget  
Sandy Steuckler, Accounting Officer  
Karen Elias, Deputy General Counsel