

UNCLASSIFIED

**United States Department of State
and the Broadcasting Board of Governors
Office of Inspector General**

Office of Audits

Audit of Department of State Purchase Card Domestic Use

Report Number AUD/SI-10-31, September 2010

~~IMPORTANT NOTICE~~

~~This report is intended solely for the official use of the Department of State or the Broadcasting Board of Governors, or any agency or organization receiving a copy directly from the Office of Inspector General. No secondary distribution may be made, in whole or in part, outside the Department of State or the Broadcasting Board of Governors, by them or by other agencies or organizations, without prior authorization by the Inspector General. Public availability of the document will be determined by the Inspector General under the U.S. Code, 5 U.S.C. 552. Improper disclosure of this report may result in criminal, civil, or administrative penalties.~~

UNCLASSIFIED



United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

PREFACE

This report was prepared by the Office of Inspector General (OIG) pursuant to the Inspector General Act of 1978, as amended, and Section 209 of the Foreign Service Act of 1980, as amended. It is one of a series of audit, inspection, investigative, and special reports prepared by OIG periodically as part of its responsibility to promote effective management, accountability and positive change in the Department of State and the Broadcasting Board of Governors.

This report is the result of an assessment of the strengths and weaknesses of the office, post, or function under review. It is based on interviews with employees and officials of relevant agencies and institutions, direct observation, and a review of applicable documents.

The recommendations therein have been developed on the basis of the best knowledge available to OIG and, as appropriate, have been discussed in draft with those responsible for implementation. It is my hope that these recommendations will result in more effective, efficient and/or economical operations.

I express my appreciation to all of those who contributed to the preparation of this report.

A handwritten signature in black ink, appearing to read "H. W. Geisel".

Harold W. Geisel
Deputy Inspector General



United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

SPOTLIGHT:

Audit of Department of State Purchase Card Domestic Use

AUD/SI-10-31 September 2010

WHY OIG CONDUCTED THIS AUDIT

The U.S. Government purchase card program is intended to improve the process of procuring supplies and services while saving administrative costs. Department of State (Department) worldwide purchase card use totaled more than \$80 million in FY 2009, including just over \$40 million spent by 396 domestic cardholders. The Bureau of Administration, Office of the Procurement Executive (A/OPE), is responsible for establishing the program's internal controls; however, A/OPE relies on the individual bureaus' purchase card program participants (bureau program coordinators and approving officials) to monitor the cardholders.

OBJECTIVE

The Office of Inspector General (OIG) conducted this audit to determine whether the Department's purchase card program was in compliance with Office of Management and Budget (OMB) Circular A-123* and with Department purchase card internal control guidance. OIG focused on domestic purchase card transactions made during FY 2009 to determine whether the Department had effective internal controls to detect and prevent improper, unauthorized, or fraudulent use of purchase cards.

*OMB Circular A-123, *Management's Responsibility for Internal Controls*, Dec. 21, 2004, which includes, Appendix B, revised, *Improving the Management of Government Charge Card Programs*, January 2009.

WHAT OIG DETERMINED

OIG sampled 120 domestic purchase card transactions and tested up to 11 control activities each, which totaled 1,179 tests. OIG determined that purchase cardholders were not following the Department's established internal control procedures in that 508 (43 percent) of 1,179 internal control activities tested were noncompliant. Furthermore, none of the 120 purchase card transactions OIG reviewed complied with all applicable internal control activities. In addition, A/OPE last updated the *Worldwide Purchase Card Program Manual* for purchase card program participants in November 2006. The November manual does not address important program requirements, such as use of the mandated procurement system.

These conditions occurred because A/OPE officials, although aware of the need for monitoring cardholders, as required by OMB Circular A-123, stated that they do not have sufficient numbers of personnel to monitor the cardholders. Instead, A/OPE relies on bureau program coordinators and approving officials to conduct all monitoring of cardholders. However, monitoring by approving officials is a potential conflict of interest and an inadequate separation of duties, and it has not ensured cardholder compliance with Department internal control guidance. As a result, cardholders have split purchases, purchased unauthorized items, and disclosed purchase card account numbers to unauthorized individuals. In addition, the Department was deprived of cost savings that would have resulted from having transactions properly entered and completed in the mandated procurement system. Ultimately, the Department's potential for improper, unauthorized, and fraudulent use of purchase cards was increased.

OIG RECOMMENDATIONS AND MANAGEMENT RESPONSE

OIG recommended that the Bureau of Administration develop and implement a plan to continuously monitor cardholder compliance with internal controls that includes adequate staffing and that it issue an updated *Worldwide Purchase Card Program Manual* with current rules for cardholders. In responding to the draft report, the Bureau's Office of the Procurement Executive (A/OPE) stated that it appreciated the efforts of OIG in addressing the need for additional staffing to strengthen the program but the report did not recognize program improvements that have been made in spite of resource limitations. Although A/OPE did not agree with developing a plan for continuous monitoring, it concurred with the need for additional staffing and agreed to issue an updated program manual. A/OPE's comments were addressed and incorporated in the report.

TABLE OF CONTENTS

| | |
|---|----|
| EXECUTIVE SUMMARY | 1 |
| BACKGROUND..... | 3 |
| Department Guidance and Training..... | 4 |
| OBJECTIVE | 7 |
| AUDIT RESULTS..... | 9 |
| Noncompliance With Internal Controls Increased the Department’s Potential for Improper, Unauthorized, and Fraudulent Purchases | 9 |
| LIST OF RECOMMENDATIONS | 23 |
| ABBREVIATIONS..... | 25 |
| APPENDIX A | 27 |
| Scope and Methodology | 27 |
| APPENDIX B | 31 |
| Prior Audit Coverage..... | 31 |
| APPENDIX C | 33 |
| Internal Control Activity Testing Results | 33 |
| APPENDIX D..... | 39 |
| Bureau Testing Results | 39 |
| APPENDIX E | 41 |
| Purchase Card Program Terms and Definitions | 41 |
| APPENDIX F..... | 45 |
| Bureau of Administration Response..... | 45 |

EXECUTIVE SUMMARY

The Office of Inspector General (OIG) determined that selected purchase cardholders at the Department of State (Department) were not following established internal control procedures for the purchase card program. OIG made this determination during its audit of the program, in which it sampled 120 domestic transactions and tested up to 11 control activities for each transaction, which totaled 1,179 internal control activity tests. From this sample, OIG determined that 508 (43 percent) of 1,179 internal control activities tested were noncompliant. Furthermore, none of the 120 purchase card transactions OIG reviewed complied with all applicable internal control activities. In addition, the Bureau of Administration, Office of the Procurement Executive (A/OPE), had last updated the *Worldwide Purchase Card Program Manual* for purchase card program participants in November 2006. The November manual does not address important program requirements, such as use of the mandated procurement system.

These conditions occurred because A/OPE officials, although aware of the need for monitoring cardholders, as required by Office of Management and Budget (OMB) Circular A-123,¹ stated that they do not have sufficient numbers of personnel to monitor the cardholders. Instead, A/OPE relies on bureau program coordinators and approving officials to conduct all monitoring of cardholders. However, monitoring by approving officials is a potential conflict of interest and an inadequate separation of duties, and monitoring has not ensured cardholder compliance with Department internal control guidance. As a result, cardholders have split purchases, purchased unauthorized items, and disclosed purchase card account numbers to unauthorized individuals. In addition, the Department was deprived of cost savings that would have resulted from having transactions properly entered and completed in the mandated procurement system. Ultimately, the Department's potential for improper, unauthorized, and fraudulent use of purchase cards was increased.

OIG recommended that the Bureau of Administration (A) develop and implement a plan to monitor purchase card participants' compliance with internal controls that includes adequate staffing for monitoring the purchase card program and that it issue an updated *Worldwide Purchase Card Program Manual* with current rules for cardholders.

OIG provided the A Bureau a copy of the draft report on July 27, 2010. In the August, 25, 2010, response (see Appendix F) to the draft report, A/OPE stated that it "appreciate[s]

¹ OMB Circular A-123, *Management's Responsibility for Internal Controls*, Dec. 21, 2004, which includes Appendix B, revised, *Improving the Management of Government Charge Card Programs*, Jan. 2009.

the efforts” OIG made in addressing the need for additional staffing to strengthen the program but that the report had not recognized that program improvements had been made and are to be made in spite of resource limitations.

A/OPE partially agreed with the recommendation (No. 1) pertaining to development and implementation of a plan to ensure purchase card program participants’ compliance with purchase card internal controls, and it fully agreed with the recommendation (No. 2) pertaining to updating its purchase card program manual. Based on the response, OIG considers Recommendation 1 unresolved and Recommendation 2 resolved, pending further action. The A Bureau’s response to the recommendations and OIG’s replies are presented after each recommendation.

A/OPE also made additional comments on the report, which OIG has presented, responded to, and incorporated into the report as appropriate.

BACKGROUND

The U.S. Government purchase card program is intended to improve the process of procuring supplies and services while saving administrative costs. However, previous OIG and Government Accountability Office (GAO) audit reports have found that internal control weaknesses were exposing the Government to fraudulent, improper, and abusive purchases, and the reports recommended that controls and monitoring be strengthened. (Prior audit coverage is detailed in Appendix B.)

The Department's worldwide purchase card use has increased from less than \$30 million in FY 1999 to more than \$80 million in FY 2009. Domestically, in FY 2009 there were 401 cardholders and 248 approving officials located in 36 bureaus. The cardholders spent just over \$40.1 million for purchases. A/OPE is responsible for establishing the program's internal controls and monitoring compliance with these controls.

The program's participant structure is designed to ensure proper monitoring and to prevent fraud, waste, and abuse. However, if the roles and responsibilities are not carried out properly, fraud, waste, and abuse in the program may occur. Department and bureau purchase card program roles and responsibilities are described in Tables 1 and 2, respectively.

Table 1. Department Purchase Card Program Roles and Responsibilities

| Administrative Participants | | |
|------------------------------------|--|---|
| Participant | Bureau or Office | Primary Role & Responsibility² |
| Program Manager | Office of the Procurement Executive (A/OPE) | Overall management of the program for the entire Department |
| Operations Manager | Office of Logistics Management, Office of Program Management and Policy (A/LM/PMP) | Day-to-day program administration official |
| Key Program Administrators | Office of Logistics Management, Office of Program Management and Policy (A/LM/PMP) | Specific geographic region administration |

Source: Department of State *Worldwide Purchase Card Program Manual*, Nov. 16, 2006.

² Additional duties are listed in Appendix E.

Table 2. Bureau Purchase Card Program Roles and Responsibilities

| Bureau Participants | | |
|----------------------------------|---|--|
| Participant | Bureau or Office | Primary Role & Responsibility |
| Program Coordinators | Each post or bureau | Responsible for all cardholders and approving officials in the bureau and performs annual reviews |
| Approving Officials | Individual offices | Responsible for cardholder monitoring, approving transactions, and certifying monthly statements |
| Cardholders | Individual offices | Only authorized users of the purchase card and are responsible for reconciling purchases with monthly statements |
| Designated Billing Office | Bureau of Resource Management (RM Charleston) | Makes single payment of domestic monthly invoice from Citibank |

Source: Department of State *Worldwide Purchase Card Program Manual*, Nov. 16, 2006.

Citibank is the contractor that the Department uses to execute the purchase card program. Citibank is contracted on a task order as part of the General Services Administration (GSA) SmartPay2 master contract for U.S. Government-wide card services.

DEPARTMENT GUIDANCE AND TRAINING

To conduct the purchase card program, the Department has specific guidance and training requirements.

Guidance

The *Foreign Affairs Manual* (4 FAM 455)³ provides guidance for the worldwide purchase card program, and it contains the authorities, definitions, roles, and responsibilities of purchase card participants; reconciliation, approval, certification, payment, and disbursement requirements; and dispute resolution and missed financial deadline responsibilities.

In addition to 4 FAM 455, A/OPE issued the *Worldwide Purchase Card Program Manual*, dated November 16, 2006. The manual, which is referenced in 4 FAM 455 as Department

³ 4 FAM 455, “U.S. Government-Wide Purchase Card Usage and Oversight.”

policy, serves as guidance for the bureaus and posts for successful management of their purchase card programs. The manual defines the authorized use of the purchase card and details the seven steps of the purchasing process shown in Figure 1. The steps are designed to ensure that the cardholder follows Department policies and related laws and to help the approving officials provide monitoring of the cardholders.

Figure 1. Seven Buying Steps



Source: *Worldwide Purchase Card Program Manual*.

Training

The program manual requires participants to take training prior to receiving and using a Department purchase card and to take refresher training every 2 years thereafter. Additional acquisition training is required for cardholders who have a recurring need for spending limits above \$3,000 but less than \$25,000 or above \$25,000 but less than \$100,000. The Department also provides training on use of the Integrated Logistics Management System (ILMS). ILMS is the Department’s mandatory procurement system; it is a Web-based system that seeks to improve the Department’s ability to manage its logistics functions, including requisitioning and procurement. Ariba is one of nine modules of ILMS used for procurement of goods and services. The Assistant Secretary of State for Administration mandated the use of ILMS-Ariba for all domestic cardholders in October 2007.

The Department offers training on-line through the Foreign Service Institute. Training participants are required to pass a test and take ethics training to qualify for participation in the purchase card program.

Purchase Card Use

Cardholders are the only authorized users of the purchase cards, which are for official government purposes only—never for personal purchases.

OBJECTIVE

The purpose of this audit was to review the Department's compliance with Office of Management and Budget (OMB) Circular A-123, Appendix B, revised, *Improving the Management of Government Charge Card Programs*, dated January 2009, as it relates to oversight of purchase card use. The audit focused on domestic purchase card transactions that occurred during FY 2009 and on monitoring provided by the Department during that fiscal year. The primary objective of the audit was to determine whether the Department's internal controls were sufficient to detect and prevent the improper, unauthorized, or fraudulent use of purchase cards used domestically. The scope and methodology of the audit are in Appendix A. In addition, an abridged glossary of common purchase card terms and definitions is in Appendix E.

AUDIT RESULTS

NONCOMPLIANCE WITH INTERNAL CONTROLS INCREASED THE DEPARTMENT'S POTENTIAL FOR IMPROPER, UNAUTHORIZED, AND FRAUDULENT PURCHASES

Purchase cardholders did not comply with Department internal control policies and procedures for the use of purchase cards. Specifically, all of the 120 transactions OIG reviewed had at least one internal control failure. This occurred because A/OPE did not adequately monitor, as OMB Circular A-123⁴ requires, cardholders' compliance with internal control policies and procedures. The Purchase Card Program Manager said that she was the *only individual* in A/OPE responsible for monitoring the purchase card program and had delegated all responsibility for monitoring to the bureaus. However, the approving officials and cardholders are in the same bureau, which leads to inadequate separation of duties and potential conflicts of interest and has not ensured cardholder compliance with internal controls. In addition, OIG found that A/OPE had last updated the manual for purchase card program participants in November 2006 and that the manual does not include current required procedures for cardholders, such as use of the mandatory procurement system. Noncompliance with purchase card internal controls has resulted in cardholders' splitting purchases, purchasing unauthorized services, disclosing purchase card account numbers to unauthorized individuals, and not properly using the mandated procurement system. Furthermore, the Department is increasing its potential for improper, unauthorized, and fraudulent purchases and is unable to fully realize cost savings.

INTERNAL CONTROL TESTING

To test the effectiveness of purchase card internal controls, OIG selected samples of FY 2009 domestic transactions and compared the cardholders' documentation with required documentation included in the program manual.

⁴ OMB Circular A-123, Dec. 21, 2004, Appendix B, revised, Jan. 2009.

Sample Selection

OIG selected samples using two criteria to test the effectiveness of internal controls (additional details are in Appendix A). The first criterion for testing was the highest dollar amount a bureau spent on purchase cards for transactions made during FY 2009. OIG originally selected five bureaus to test cardholder documentation; however, after testing in the Bureaus of Diplomatic Security (DS), Administration (A), and Information Resource Management (IRM), OIG determined that sufficient documentation had been obtained to address the objective of the audit. The other two bureaus, the Bureaus of Consular Affairs and Overseas Buildings Operations, represented the third and fifth highest spending bureaus. The selected bureaus (DS, A, and IRM) were, respectively, the first, second, and fourth highest spending bureaus. Although ranked fourth, IRM was selected because the bureau program coordinator is responsible for both IRM and A.

The second criterion for testing was data mining techniques, specifically, evaluating the nature of the purchases for transactions with Internet vendors⁵ and a third-party biller⁶—PayPal. Internet vendors and PayPal were selected because of the perceived increased risk from the vendors. Using the data mining techniques, OIG selected transactions from IRM cardholders again, as well as from the Bureau of Oceans and International Environmental Scientific Affairs, Office of the Secretary, and the Executive Director for the Bureaus of Educational and Cultural Affairs and International Information Programs. OIG reviewed all of the selected cardholders' transactions (not just the Internet and PayPal transactions) for patterns of activity when choosing the sample. The results from testing this sample are grouped together and referred to as "Others" in Table 3 in the report.

Testing Cardholder Transactions

Although purchase cardholders were not following all of the Department's established internal control procedures, all cardholders interviewed provided some purchase card documentation to support transactions OIG reviewed.

OIG sampled 120 domestic transactions from DS, A, IRM, and other bureaus, which totaled \$447,534. For each transaction, a maximum of 11 control activities were tested, for a total of 1,179 assessments of compliance with required internal control activities. (There were 1,179 assessments rather than 1,320—120x11—because all 11 internal control activities did not apply to every transaction.) The samples taken at each bureau and the rates of noncompliance⁷

⁵ OIG searched the Citibank data for vendors with ".com," ".org," or ".net" in their names.

⁶ A third-party biller charges the purchase card for services or products provided by another vendor. The use of third-party billers may disguise the true nature of the purchase.

⁷ The rates of noncompliance correlate only to the number of internal controls tested and not directly to the dollar amounts of the transactions sampled.

with internal controls are shown in Table 3. As indicated, none of the 120 purchase card transactions complied with all applicable internal control activities, and the overall rate of noncompliance was 43 percent (508 of 1,179). Details of each bureau's noncompliance are in Appendix D.

Table 3. Internal Control Activity Testing – Sample

| Bureau | DS | A | IRM | Others | Total |
|--|-----------|-----------|-----------|----------|-----------|
| Transactions Sampled | 42 | 34 | 37 | 7 | 120 |
| Dollar Amount of Sample | \$274,428 | \$110,579 | \$47,697 | \$14,830 | \$447,534 |
| Internal Controls Tested | 411 | 331 | 366 | 71 | 1,179 |
| Noncompliance for Internal Controls Tested | 104 (25%) | 191 (58%) | 160 (44%) | 53 (75%) | 508 (43%) |

Internal Control Activities

OIG used criteria from the Department's seven buying steps and additional recommended controls for purchase card use⁸ (a total of 11 control activities) for testing purchase card internal controls. The internal control activities, the number of activities tested, and noncompliance with internal controls are detailed in Table 4. The seven buying steps from the program manual are paired with the corresponding activities in Table 4. While some of the activities tested did not directly correlate to a buying step from the manual, all activities tested were included in the program manual except ILMS-Ariba Use, which was mandated after the manual had been issued. What OIG evaluated for each internal control activity is in Appendix C.

Table 4. Internal Control Activity – Noncompliance by Activity

| Internal Control Activities | Internal Control Activities Tested | Activities Not in Compliance | Rate of Noncompliance |
|--|------------------------------------|------------------------------|-----------------------|
| ILMS-Ariba Use | 112 | 62 | 55% |
| Department Need (1. Define Requirement)* | 117 | 36 | 31% |
| Unauthorized Item (2. Review Authorized and Unauthorized Purchase List) | 114 | 9 | 8% |

Table continues on next page.

⁸ Audit Guide: *Auditing and Investigating the Internal Control of Government Purchase Card Programs* (GAO-04-87G, Nov. 2003).

Table continued from previous page.

| Internal Control Activities | Internal Control Activities Tested | Activities Not in Compliance | Rate of Noncompliance |
|---|---|-------------------------------------|------------------------------|
| Ensure Available Funding <i>(3. Ensure Available Funding)</i> | 117 | 36 | 31% |
| Required Vendor Screening <i>(4. Review Required and Other Mandatory Sources)</i> | 115 | 52 | 45% |
| Proof of Purchase <i>(5. Make the Buy)</i> | 119 | 21 | 18% |
| Use of Buying Log <i>(6. Record Purchase in Buying Log)</i> | 118 | 50 | 42% |
| Independent Receipt | 114 | 50 | 44% |
| Establish Accountability | 13 | 10 | 77% |
| Cardholder Reconciliation <i>(7. Reconcile Cardholder Monthly Statement of Account)</i> | 120 | 80 | 67% |
| Approving Official Review | 120 | 102 | 85% |
| Total | 1,179 | 508 | 43% |

*The numbered Internal Control Activities correspond to a buying step in the purchase card manual.

MONITORING CARDHOLDER COMPLIANCE WITH POLICIES AND PROCEDURES

OIG found that noncompliance with internal controls by cardholders occurred because A/OPE was not adequately monitoring the purchase card program, as required by OMB Circular A-123. The circular defines management’s responsibility for effective internal controls in Federal agencies. A key aspect of effective internal controls is continuous monitoring by program managers.

A/OPE Monitoring

A/OPE is the office responsible for the Department purchase card program, even though the day-to-day administration of the program—issuing new cards, increasing

spending limits, and performing other operational duties—are conducted from the Office of Logistics Management, Office of Program Management and Policy (A/LM/PMP). Although the operational duties of administering the purchase card program are conducted in A/LM/PMP, the Program Manager in A/OPE is responsible for all aspects of the program, including policy, procedures, monitoring, Web site maintenance, and strategic planning.

The A/OPE Purchase Card Program Manager stated that she was unable to monitor cardholders because there are no resources for staff in A/OPE for the purchase card program and that she is the *only individual* working on the purchase card program in A/OPE. However, the Program Manager recognized the need for increased monitoring from the program office. She also stated that all cardholder monitoring responsibilities had been delegated to the bureaus' program coordinators and approving officials through policies and procedures contained in the program manual. However, the delegation of all monitoring leads to potential inadequate separation of duties and conflicts of interest, because all cardholder monitoring is conducted by those individuals who may benefit from purchase card use. In addition, as discussed in the section "Internal Control Testing," OIG found that this delegation of monitoring responsibilities allowed for 43 percent noncompliance with internal control activities tested, including a noncompliance rate of 85 percent for controls relating directly to approving official review (see Table 4).

Furthermore, A/OPE had not updated the program manual to include new cardholder procedures since November 2006. For example, ILMS-Ariba use was mandated by the Assistant Secretary of State for Administration in October 2007 for domestic purchase cardholders, but the use of ILMS-Ariba had not been included in the program manual. Appendix B of Circular A-123 requires annual updates to guidance provided by the Department to purchase cardholders. At the time of OIG's audit, the Program Manager was updating the program manual but said that because of competing demands and lack of personnel, updating the manual was not a high priority.

MANAGEMENT COMMENTS TO "A/OPE MONITORING" AND OIG RESPONSE

A/OPE stated that Purchase Card program oversight is a "shared responsibility" that would "be an impossibility" for one individual "to fully perform" and that the respective roles of other participants who provide oversight are delineated in documents contained on the A/OPE Web site. A/OPE further stated that it had been improving the site so that information on the Web site and in the Purchase Card Manual is the same.

However, 4 FAM 455.2 states that the program manager has "overall management responsibility for the worldwide purchase card program, including strategic planning,

development and implementation of purchase card policies and procedures, and training.” This guidance does not name the Web site as a controlling authority; however the *Worldwide Purchase Card Program Manual* is listed as an authority. In addition, during the audit, OIG discussed oversight responsibility with the program manager, who agreed that she needs dedicated purchase card staff to perform functions that include oversight.

Bureau Program Coordinator Monitoring

All monitoring of cardholders is delegated to bureau program coordinators and approving officials through the purchase card program manual. The bureau program coordinator is responsible for the entire purchase card program in the bureau. Department purchase card policy requires bureau program coordinators to conduct an “Annual Review” of cardholder activity. The annual review is a process in which cardholder activity is reviewed for a fiscal year, and it should highlight improper use and noncompliance with internal controls. The purchase card policy requires bureau program coordinators to conduct the annual review for their respective bureaus in the first quarter of the new fiscal year. Therefore, the annual reviews for FY 2009 should have been completed between October and December 2009. Although OIG requested annual reviews from bureau program coordinators for the six bureaus included in its audit, OIG received only four reviews; however, three reviews were completed in April 2010—more than 3 months after the due date and only after OIG had requested the reviews. Two bureaus did not provide the FY 2009 reviews to OIG. In that regard, a bureau program coordinator informed OIG that the review for that bureau had not been completed, and the other bureau program coordinator did not respond to OIG’s request.

MANAGEMENT COMMENTS TO “BUREAU PROGRAM COORDINATOR MONITORING” AND OIG RESPONSE

A/OPE stated that it plans to implement the Purchase Card Management and Reporting System (PMARS), which would establish and manage accounts and track compliance activities, such as whether Program Coordinators are performing their annual reviews.

Although OIG received a demonstration of PMARS during its audit, the system had not been fully implemented. Therefore, OIG could not comment on its potential value for the activities A/OPE described.

Approving Official Monitoring

The bureau program coordinators rely on approving officials to provide the primary monitoring of cardholders in the bureaus. Approving officials are responsible for many

tasks, including approving purchases, reviewing and certifying monthly reconciliations, and assisting the bureau program coordinators in conducting annual reviews.

Although the approving officials are aware of the needs of the office and could identify misuse by the cardholders, OIG found, as indicated in Table 4, that 85 percent of “approving official review” internal control activities tested were noncompliant. Many of the non-compliance issues related to improper review of the cardholder monthly reconciliations. However, approving officials were also approving split purchases and prohibited purchases (see the section “Purchase Card Use”). In addition, approving officials permitted unauthorized cardholder practices to occur.

For example, one cardholder had provided the account numbers of the purchase cards to contractors who worked directly for the cardholder. These contractors purchased items that were legitimate needs for the operations of the office; however, this practice is unauthorized. The program manual states that the cardholder is the only authorized user of the purchase card and that the cards and/or account numbers should not be used by any other individual. The approving official knew that the contractors were making the purchases but did not know that this was an unauthorized practice. When OIG brought this issue to the bureau program coordinator’s attention, the bureau program coordinator immediately took away the purchase card privileges from the cardholder and the approving official. Because the approving officials directly benefit from the use of the purchase cards for legitimate office needs, there is a potential conflict of interest and inadequate separation of duties.

Department Compliance

OIG found that the Department had taken positive actions to ensure that cardholders were properly authorized and trained to use the purchase card. Bureau program coordinators are responsible for ensuring that their cardholders have received delegation of authority memorandums and training to use the purchase card. Cardholders receive their responsibilities and authority to use the purchase card through a delegation of authority memorandum from the bureau program coordinator and receive a training certificate of completion for initial and refresher training as required by the program manual. OIG collected the memorandums and training certificates from each cardholder when it reviewed transactions for compliance with internal controls. All of the cardholders provided copies of the delegation memorandum, and all except one cardholder provided copies of training certificates. Further, even though all internal controls were not followed, cardholders provided at least some documentation for all purchase transactions OIG reviewed.

In addition, during the period audited, individual bureau program coordinators independently found instances of improper use and practices by cardholders and corrected these violations. For example, when a cardholder inadvertently used a purchase card for personal

use, one bureau program coordinator had the cardholder reimburse the Department and take refresher purchase card training. In addition, when an internal review of compliance with internal controls found that cardholders were not following proper procedures for reconciling monthly statements, another bureau program coordinator issued a reminder memorandum to cardholders restating the requirements in the program manual for the reconciliation process.

PURCHASE CARD USE

As described in the section “Internal Control Testing,” OIG found that cardholders did not follow Department purchase card policies and procedures. The lack of compliance resulted in split purchases, purchases of unauthorized services, and the disclosure of account numbers to unauthorized personnel. In addition, cardholders were not using or were improperly using the mandated procurement system—ILMS-Ariba. These actions have increased the Department’s potential for improper, unauthorized, and fraudulent use of purchase cards and have limited the Department’s ability to receive discounts on commonly purchased goods and services.

Split Purchases

Of the 120 transactions tested, OIG found 13 (11 percent) split purchases. Cardholders split purchases to avoid exceeding their single purchase spending limits (usually \$3,000—the micro-purchase threshold set by the Federal Acquisition Regulation (FAR)⁹). Split purchases violate purchase card policy and can also cost the Department opportunities for cost savings. For example, OIG observed that four transactions, totaling \$10,858, for toner cartridges were made on the same day with the same vendor. However, the purchase was split into four transactions to stay under the \$3,000 spending limit. These same toner cartridges could have been purchased from GSA Advantage for \$7,213—a potential cost savings of \$3,645. These specific split transactions were approved by the cardholder’s approving official, which OIG believes exemplifies the potential inadequate separation of duties and conflicts of interest affecting the monitoring of cardholders. A different transaction reviewed by OIG showed that the cardholder had instructed the vendor to “charge different days” on a purchase for office furniture for the Principal Deputy Assistant Secretary of the bureau. The two separate transactions were each just under the cardholder’s spending limit but when combined would have exceeded the limit. Unlike the toner cartridges, documentation in this cardholder’s file showed no indications that the approving official had reviewed or approved the transactions.

⁹ FAR sec. 2.101, “Definitions,” defines the micro-purchase threshold as \$3,000 (absent an enumerated exception).

MANAGEMENT COMMENTS TO “SPLIT PURCHASES” AND OIG RESPONSE

A/OPE stated that it has a “standardized and well advertised policy . . . “Tool kits”” for cardholders to request various temporary or permanent changes to their accounts, including changes to single, monthly, or both purchase limits. A/OPE further stated that as part of the annual review process, the Program Coordinator is required to validate purchase card limits to determine whether the limits are appropriate or if higher or lower limits “are required based on mission needs.”

However, during its audit, OIG found, for the two transactions in question and the other transactions reviewed, that no requests for temporary or permanent changes to purchase limits (tool kits) had been made.

Unauthorized Purchases

Cardholders also purchased services that were prohibited in the Department’s program manual.¹⁰ The manual provides a listing for cardholder reference of items and services that are prohibited from being purchased with the purchase card. For example, two transactions OIG reviewed were for consulting services (a prohibited service) and included travel expenses for the consultant (also a prohibited purchase) totaling \$6,316—the consulting services and travel expenses were approved by the two cardholders’ approving officials. Another transaction was for membership fees to a professional group for \$995. The membership was for the cardholder’s approving official, who had approved the transaction. The approving officials who approved these transactions had a clear interest in obtaining the prohibited services the cardholder purchased.

In addition, OIG referred a cardholder to its Office of Investigations for further review of a purchase at the Harry S Truman building (Main State) gift shop totaling \$1,413. The investigation found that the items purchased, such as clothing, coins, and other mementos, were given to employees as morale gifts and not for personal gain of the cardholder; therefore, the Office of Investigations did not pursue any actions against the cardholder. However, the program manual does not list employee morale gifts as being an authorized purchase. This purchase was not identified as prohibited by the approving official.

Disclosure of Purchase Card Account Numbers

As discussed in the section “Approving Official Monitoring,” one cardholder with multiple purchase cards provided purchase card account numbers to contractors who made

¹⁰The corresponding transactions were included in the testing results for the category “Unauthorized Items” in Table 4 and also in Appendices C and D.

legitimate purchases for the office to which they were assigned and also maintained the required documentation. This practice violated Department purchase card manual policy, which states that only the cardholder may use the purchase card and account numbers. Although OIG did not find that the cardholder or contractors had misused the purchase card, practices such as these increase the Department’s potential for improper, unauthorized, or fraudulent use of the purchase card.

Use of ILMS-Ariba

OIG found that only 50 (45 percent) of 112 activities tested (eight transactions were exempt) used ILMS-Ariba properly, as shown in Table 5. The Assistant Secretary of State for Administration mandated the use of ILMS-Ariba for all domestic purchase card users in an October 2007 memorandum; however, this guidance had not been included in the program manual. ILMS-Ariba allows cardholders to submit electronic requests for supplies and services, create a purchase card order, and obtain electronic approvals. The use of ILMS-Ariba eliminates paper routing and approvals and improves internal controls by providing visibility into what cardholders are purchasing. Ultimately, ILMS enables the Department to leverage its buying power by analyzing commonly purchased goods and services to then negotiate discounted prices from vendors on items frequently purchased by the Department.

OIG evaluated each applicable purchase for proper use of ILMS-Ariba, meaning the purchase was entered into the system and was approved before the purchase was made. As shown in Table 5, 33 percent of the transactions tested were entered improperly or untimely by the cardholders, and 22 percent of the transactions were not entered into ILMS-Ariba at all. Not using or improperly using ILMS-Ariba limits the Department’s knowledge of purchases made and therefore the Department’s ability to receive discounts.

Table 5. Cardholder Use of ILMS-Ariba

| Use of ILMS-Ariba | Number of Transactions |
|--------------------------|-------------------------------|
| Proper and Timely Use | 50 (45%) |
| Improper or Untimely Use | 37 (33%) |
| Not Used | 25 (22%) |
| Total | 112 |

Although OIG was not able to quantify the cost of the lost savings opportunities, using ILMS-Ariba properly should result in future savings for the Department through analyses of commonly purchased goods and services to receive discounts.

MANAGEMENT COMMENTS TO “USE OF ILMS-ARIBA” AND OIG RESPONSE

A/OPE “agree[d]” to include language in the Purchase Card Manual, stating that using Ariba is “mandatory,” but it further stated that responsibility for arranging for Ariba training and enforcement was not within the purview of the purchase card program. A/OPE also requested that OIG determine why Department employees may not be using Ariba.

During the audit, OIG did not ask cardholders why they were not using Ariba. However, A/OPE is ultimately responsible for ensuring that its cardholders adhere to policies and procedures that mandate use of Ariba for the purchase card program.

A/OPE also stated that policies and procedures to mitigate fraud and misuse existed but that program coordinators should provide management and oversight at the bureau level to ensure compliance. However, A/OPE needs to provide more effective monitoring over the officials responsible for carrying out the program, as OIG recommended.

CONCLUSION

As a result of cardholders’ not complying with policies and procedures for the use of purchase cards, cardholders have split purchases, purchased unauthorized items, disclosed purchase card account numbers to unauthorized personnel, and have not properly used the mandated procurement system. These actions have increased the Department’s potential for improper, unauthorized, and fraudulent use of purchase cards and have limited the Department’s ability to receive discounts on commonly purchased goods and services. OIG recognizes that bureau program coordinators found instances of improper or unauthorized use. However, the approving officials’ role as primary monitors of cardholder activity results in inadequate separation of duties and can lead to conflicts of interest. To ensure compliance with Department purchase card internal controls, A/OPE needs to monitor the purchase card program participants, including bureau program coordinators, approving officials, and cardholders. To further enhance cardholders’ compliance with internal controls, bureau program coordinators need to increase their monitoring of approving officials.

Recommendation 1: OIG recommends that the Bureau of Administration develop and implement a plan to ensure continuous monitoring of purchase card program participants’ compliance with purchase card internal controls. This plan should include adequate staffing resources in the Office of the Procurement Executive for monitoring the purchase card program.

Management Response: A/OPE “partially agree[d]” with the recommendation, stating that while “defined internal control activities for the program are adequate,” additional resources are needed “to strengthen the program and ensure stricter adherence to ‘operational procedures’ by Program Coordinators and Approving Officials.” A/OPE further stated, “This is especially critical based on the exponential expansion of the program from \$5 million in 1995 to over \$80 million today and the continuing need for ongoing program enhancements.”

A/OPE disagreed with OIG’s statement that cardholders did not comply with Department internal control policies and procedures “because A/OPE did not adequately monitor cardholder compliance.” A/OPE stated that the purchase card program “as established provides clear and consistent delegated responsibilities” to each individual in the program and that even though A/OPE has overall program responsibility, bureau or post program coordinators and approving officials are responsible for “continuous monitoring and oversight” to ensure compliance with the policies and procedures.

A/OPE also stated that it had “delegated primary oversight monitoring” to bureau and post program coordinators and additional monitoring and reconciliation responsibilities to approving officials. A/OPE described the responsibilities and stated that the responsibilities are “discussed across all policy documents including the Purchase Card Manual, Web site guidance and in all online role based purchase card training courses developed in partnership with FSI.” A/OPE further stated that an annual program review performed by the program coordinator “was mandated as the final check and balance on internal controls, which is consistent with” Circular A-123 requirements and that the program coordinator, when conducting the annual review, is required “to sample and validate that steps such as verification of receipt, monthly reconciliation, and maintenance of adequate files and logs are being performed and to document any cases of Cardholder non-compliance.” A/OPE stated that as a “further control,” it “prohibits changes such as increased card limits unless the Program Coordinator can demonstrate that Annual Reviews have been accomplished on a timely basis and any areas of non-compliance rectified.”

A/OPE disagreed that “the delegation of all monitoring leads to potential inadequate separation of duties and conflicts of interest, because all Cardholder monitoring is conducted by those individuals who may benefit from Purchase card use.” A/OPE cited an OIG December 2004 audit report,¹¹ stating that OIG had recommended that A/OPE clarify the roles and responsibilities of approving officials in the day-to-day administration of the Purchase Card program and annual reviews and that OIG had concluded that “[a]dditional overseas purchase card program oversight including the conduct of annual reviews, could be done by the Approving Officials.” A/OPE in turn revised all policy guidance to comply with the OIG recommendation that the approving official should take a greater role in the

¹¹ *Review of the Department of State’s Overseas Purchase Card Program* (AUD/PPA-05-01, Dec. 2004).

day-to-day administration of the program, including participating in the annual review process, and that its “decentralized structure” is also consistent with that of other government agencies that delegate oversight responsibilities across their organizations.

A/OPE agreed that additional staffing for the purchase card program would improve management controls but that, as noted in OIG’s draft report, A/LM/PMP is “thinly staffed” for managing the entire program and that A/OPE has “no capacity for conducting program audits.” A/OPE further stated that “other Department priorities continue to prevent [it] from obtaining the resources needed to solve this problem.”

A/OPE also included its own recommendations “to improve Purchase Card internal control processes.”

OIG Reply: OIG disagrees that program coordinators and approving officials should retain full responsibility for continuously monitoring purchase card program participants based on the results of the audit, which showed that sampled cardholders are not complying with internal controls and program coordinators are not completing required annual reviews. OIG reiterates its position that A/OPE should provide continuous monitoring and oversight of program coordinators and approving officials in conjunction with various program participants. A/OPE needs to ensure that it is provided resources to develop a continuous monitoring capability to ensure that program participants comply with internal control policies and procedures.

Based on the response, OIG considers this recommendation unresolved because A/OPE partially agreed with the recommendation but did not agree to implement a plan to ensure continuous monitoring of purchase card program participants’ compliance with purchase card internal controls.

Recommendation 2: OIG recommends that the Bureau of Administration issue an updated *Worldwide Purchase Card Program Manual* to ensure appropriate use of purchase cards and to prevent fraud, waste, and abuse, as required by Appendix B to Office of Management and Budget Circular A-123. The update should include guidance regarding mandatory domestic cardholder use of the Integrated Logistics Management System.

Management Response: A/OPE concurred with the recommendation, stating that it “anticipates completing an updated manual by the end of the first quarter of FY 11.”

OIG Reply: Based on A/OPE’s response, OIG considers this recommendation resolved, pending receipt of acceptable evidence of implementation.

LIST OF RECOMMENDATIONS

Recommendation 1: OIG recommends that the Bureau of Administration develop and implement a plan to ensure continuous monitoring of purchase card program participants' compliance with purchase card internal controls. This plan should include adequate staffing resources in the Office of the Procurement Executive for monitoring the purchase card program.

Recommendation 2: OIG recommends that the Bureau of Administration issue an updated *Worldwide Purchase Card Program Manual* to ensure appropriate use of purchase cards and to prevent fraud, waste, and abuse, as required by Appendix B to Office of Management and Budget Circular A-123. The update should include guidance regarding mandatory domestic cardholder use of the Integrated Logistics Management System.

ABBREVIATIONS

| | |
|------|---|
| A | Bureau of Administration |
| DS | Bureau of Diplomatic Security |
| FAM | <i>Foreign Affairs Manual</i> |
| GAO | Government Accountability Office |
| ILMS | Integrated Logistics Management System |
| IRM | Bureau of Information Resource Management |
| OIG | Office of Inspector General |
| OMB | Office of Management and Budget |

APPENDIX A

SCOPE AND METHODOLOGY

The U.S. Government purchase card program is intended to improve the process of procuring supplies and services while saving administrative costs. Department of State (Department) worldwide purchase card use totaled more than \$80 million in FY 2009, including just over \$40 million spent by 401 domestic purchase cardholders. The Bureau of Administration, Office of the Procurement Executive (A/OPE), is responsible for establishing the program's internal controls; however, A/OPE relies on the individual bureaus' purchase card program participants (bureau program coordinators and approving officials) to monitor the cardholders.

The Office of Inspector General (OIG) conducted this audit to determine whether the Department's purchase card program was in compliance with Office of Management and Budget (OMB) Circular A-123¹ and with Department purchase card internal control guidance. OIG focused on domestic purchase card transactions made during FY 2009 to determine whether the Department had effective internal controls to detect and prevent improper, unauthorized, or fraudulent use of purchase cards. OIG sampled 120 domestic transactions and tested up to 11 control activities for each transaction, which totaled 1,179 internal control activity tests.

OIG performed this audit from October 2009 through April 2010. Audit fieldwork was conducted in the Washington, DC, area. OIG conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

OIG analyzed Department policies and procedures, as well as other relevant laws, regulations, and standards, including the *Foreign Affairs Manual*, the *Foreign Affairs Handbook*, the Government Accountability Office's *Standards for Internal Control in the Federal Government*, and OMB directives to determine the causes of instances of improper, unauthorized, or fraudulent purchase card use. OIG met with officials responsible for managing and maintaining the

¹ OMB Circular A-123, *Management's Responsibility for Internal Controls*, Dec. 21, 2004, which includes Appendix B, revised, *Improving the Management of Government Charge Card Programs*, Jan. 2009.

Department's purchase card program, including officials from A/OPE and the A Bureau's Office of Logistics Management. In addition, OIG discussed purchase card program payments with the Bureau of Resource Management. Moreover, OIG interviewed purchase cardholders to review their files and obtain their perspectives and understanding of their roles and responsibilities with respect to accounting for their purchase cards.

Selection of Samples

The bureaus were selected for testing using a nonstatistical sampling method known as judgment sampling. Because this method uses discretionary criteria to effect sample selection, OIG was able to use information garnered during its preliminary work to aid in making informed selections. Specifically, two criteria were used in selecting the samples. The first criterion was the dollar amounts spent by cardholders in the bureaus, and the second criterion was based on results of data mining for potential misuse and abuse. The data for transactions sampled was downloaded from Citibank, the Department's purchase card contractor. Using the data provided, OIG developed a database of purchase card transactions for FY 2009 that contained a universe of 41,193 transactions, totaling approximately \$40.1 million.

Using the first criterion, the bureaus selected for testing were among those that had the highest dollar amount spent on their respective purchase cards for transactions made during FY 2009. OIG initially selected five bureaus to test cardholder documentation; however, after testing in the Bureau of Diplomatic Security (DS), the A Bureau, and the Bureau of Information Resource Management (IRM), OIG determined that enough evidence had been gathered to address the objective of the audit. The other two bureaus originally selected were the Bureaus of Consular Affairs and Overseas Buildings Operations, which represented the third and fifth highest spending bureaus. The ultimately sampled bureaus (DS, A, and IRM) were first, second, and fourth, respectively. Although IRM was ranked fourth, it was selected because the bureau program coordinator is responsible for both IRM and A.

The universe of transactions from which the samples were selected for DS, A, and IRM is shown in Table 1. After selecting these bureaus, but prior to selecting the transaction samples, OIG excluded transactions for which Citibank data showed sales tax charges. These transactions were excluded because the Department is exempt from sales tax and cardholders should therefore not pay sales tax. OIG initially concluded that all of the transactions with sales tax charges were violations of Department policy; however, after further interviews with Citibank and VISA representatives, OIG found that the sales tax data was not reliable and conclusions were not drawn from the data. Of the remaining universe, OIG then selected for review the highest spending cardholders in each bureau, which yielded 113 transactions from a universe of 6,784.

Table 1. Bureau Universes and Samples

| Bureau | Diplomatic Security | Administration | Information Resource Management | Total |
|--|---------------------|----------------|---------------------------------|--------|
| Universe of All Transactions | 6,741 | 8,804 | 2,617 | 18,162 |
| Excluded Sales Tax Transactions | 70 | 321 | 120 | 511 |
| Subtotal | 6,671 | 8,483 | 2,497 | 17,651 |
| Selected (Top Spending) Cardholder Transactions Universe | 2,468 | 2,986 | 1,330 | 6,784 |
| Sampled Transactions | 42 | 34 | 37 | 113 |

Per the second criterion, data mining for misuse and abuse, OIG looked for patterns of activity or suspicious vendors or transactions to select the remaining sample of individual transactions to test for compliance with internal controls from the selected cardholders. Specifically, OIG conducted data mining for internet vendors² and a third party biller³—PayPal, selecting these factors because of the perceived increased risk from the vendors. After conducting the data mining and evaluating the nature of the purchases, OIG selected cardholders to review. Cardholders were selected from the Bureau of Oceans and International Environmental Scientific Affairs, Office of the Secretary, the Executive Director for the Bureaus of Educational and Cultural Affairs and International Information Programs, and from IRM. To obtain the seven transactions that were sampled, OIG reviewed all of the selected cardholders’ transactions (not just the Internet and PayPal transactions) for patterns of activity. The results from testing this sample are grouped together and are referred to as “Others” in the report.

Table 2. Data Mining Universe and Sample

| | All Domestic Cardholders |
|---|--------------------------|
| Universe of All Transactions | 41,193 |
| Selected (via Data Mining) Cardholder Transactions Universe | 959 |
| Sampled Transactions | 7 |

² OIG searched the Citibank data for vendors with “.com,” “.org,” or “.net” in their names.

³ A third-party biller charges the purchase card for services or products provided by another vendor. The use of third-party billers may disguise the true nature of the purchase.

Use of Computer-Processed Data

OIG assessed the reliability of computer-generated data by comparing selected data in the Citibank transaction file with documentation in purchase card buying logs, cardholder receipts, and invoices for the transactions reviewed. OIG determined that the Citibank data was reliable for testing the internal controls over the Department's purchase card program.

Review of Internal Controls

To assess whether internal controls were adequate to detect and prevent improper, unauthorized, and potentially fraudulent transactions, OIG reviewed controls over the use of purchase cards in bureaus that spent the most money via purchase cards in FY 2009. Specifically, OIG reviewed internal controls associated with the approval of cardholder transactions, the review and maintenance of receipts and supporting documentation, the reconciliation process, prohibited and restricted purchases, spending authorizations, and adherence to *Foreign Affairs Manual* (4 FAM 455)⁴ requirements. The results of this assessment are in section of the report "Internal Control Testing."

⁴ 4 FAM 455, "U.S. Government-Wide Purchase Card Usage and Oversight."

APPENDIX B

PRIOR AUDIT COVERAGE

The August 2009 Department of Energy Office of Inspector General (OIG) report *Yucca Mountain Project Purchase Card Programs* concluded that internal control weaknesses in the Yucca Mountain Project's purchase card program exposed the Department of Energy to fraud, waste, and abuse and the internal controls were not consistent with applicable policies and procedures. The recommendations included ensuring that (1) approving officials properly implemented blanket letters of approval and that letters and authority met policy requirements, (2) purchase transactions were reviewed and approved by the approving official prior to payment, (3) approving officials completed initial certification and future approving officials were trained timely, (4) policy prohibiting sharing account numbers was enforced, and (5) consideration was given to consolidating recurring utility costs under a contract using an alternate form of payment for monthly services.

The March 2008 Government Accountability Office (GAO) report *Government Wide Purchase Cards – Actions Needed to Strengthen Internal Controls To Reduce Fraudulent, Improper, and Abusive Purchases* concluded that internal control weaknesses in purchase card programs exposed the Federal Government to fraudulent, improper, and abusive purchases and the loss of assets. GAO found that throughout the Government, 41 percent of the purchase card transactions were not properly authorized or there was no evidence that the goods and services were received by an independent party. The report cited examples of purchases from the Department of State, including charges from Old Navy online and Match.com (an online dating service). GAO made 13 recommendations to improve internal controls and strengthen monitoring and oversight of the government purchase card.

In its August 25, 2010, response to this current report, the Bureau of Administration, Office of the Procurement Executive, stated, in regard to the GAO report that the Department of State OIG cited, the following: “[B]oth the Old Navy online and the Match.com charges were fraudulent charges against the Cardholder’s account made by a third unauthorized party (by someone other than the Cardholder). The [GAO] report goes on to state that in both cases, the Cardholder followed the proper dispute procedures and disputed both transactions which were later removed from the Cardholder’s account.”

The Department of State OIG acknowledges that the cardholder acted appropriately to input the actions in a timely manner and cited the GAO report as an example of prior work related to the Department’s purchase card program.

The March 2007 National Aeronautics and Space Agency (NASA) OIG report *Internal Controls To Detect and Prevent Unauthorized and Potentially Fraudulent Purchase Card Transactions at Four NASA Centers Needed Improvement* concluded that internal controls in the agency's purchase card program were not consistently followed and that the majority of transactions reviewed did not comply with regulatory and program guidance. NASA recommended the procurement officers at the locations reviewed establish policies and procedures for holding purchase card program participants accountable for not complying with guidance and that procurement officers at the NASA Center identified in the report develop procedures to reinforce restrictions on the purchase of prohibited items and follow required competitive procedures in issuing purchase orders.

APPENDIX C

INTERNAL CONTROL ACTIVITY TESTING RESULTS

1. ILMS-Ariba Use

Cardholder use of ILMS-Ariba shows clear evidence of approving official approval of purchases, funding availability, and transparency for potential strategic sourcing initiatives. The Office of Inspector General (OIG) reviewed each transaction for evidence of ILMS-Ariba use. OIG considered the control activity “ILMS-Ariba Use” noncompliant if ILMS-Ariba use was improper or untimely or was not used. The untimely and improper use of ILMS-Ariba is described in the section “Use of ILMS-Ariba” of the report.

| Activities Tested | Noncompliance | Rate of Noncompliance |
|-------------------|---------------|-----------------------|
| 112 | 62 | 55% |

2. Determine Adequate Department Need

Cardholder documentation must contain a request for the items purchased. The request shows that the items purchased have a legitimate and authorized government need. The request may be any document, from an email to an ILMS-Ariba procurement request. OIG considered the “determine adequate department need” activity to be deficient if a request for the purchase was not documented in the cardholder file.

| Activities Tested | Noncompliance | Rate of Noncompliance |
|-------------------|---------------|-----------------------|
| 117 | 36 | 31% |

3. Unauthorized Items

The *Worldwide Purchase Card Program Manual* lists specific items that are not authorized for procurement with a purchase card. OIG compared the selected transactions with the list and found that items obtained with purchase cards that were prohibited was a violation of the review authorized/unauthorized list control activity.

| Activities Tested | Noncompliance | Rate of Noncompliance |
|-------------------|---------------|-----------------------|
| 114 | 9 | 8% |

4. Ensure Available Funding

The purchase card program manual requires cardholders to ensure that funding is available to cover all costs, including shipping and handling charges, prior to purchase. ILMS-Ariba also requires the source of funding to be included in the purchase request to complete the transaction. Purchase cardholders may use two types of funding for the purchase card, bulk funding or single transaction funding. Cardholders who use bulk funding must maintain a declining balance of available funding—bulk funding is the Department’s preferred method of funding the purchase card accounts. If cardholders choose to use single transaction funding, they must document that funding was obtained prior to purchase. OIG reviewed cardholder documentation for evidence that funding was available prior to purchase and considered the “ensure available funding” control satisfied if the following conditions were met: (1) the cardholder completed the transaction in ILMS-Ariba, (2) the cardholder did not use ILMS-Ariba but maintained a log with a declining balance that showed available funds, or (3) the cardholder used single transaction funding and documented availability of funds prior to purchase.

| Activities Tested | Noncompliance | Rate of Noncompliance |
|-------------------|---------------|-----------------------|
| 117 | 36 | 31% |

5. Screening for Required Vendors

The purchase card program manual lists a series of required vendors to be used by the cardholder prior to using commercial vendors. The required vendors include Federal sources, such as the GSA Advantage¹ service. Cardholders are permitted to purchase from commercial vendors if the items needed are not available from any of the required vendors. If the items are available from a required vendor, the cardholder must obtain a waiver to purchase from the commercial vendor. For example, a cardholder may obtain a waiver if the

¹ GSA Advantage is an on-line shopping service for the purchase of Government-wide supplies/services.

required vendor, such as GSA Advantage, cannot provide the item within a specific time-frame. The manual expressly prohibits the use of commercial vendors for pricing reasons. The Department receives volume discounts on items that are purchased through required vendors such as GSA Advantage, and when cardholders circumvent the “screening for required vendors” control, the Department loses the opportunity for future discounts. OIG considered the “screening for required sources” control activity deficient if the transaction was with a commercial vendor and a waiver was not included in the cardholder files.

| Activities Tested | Noncompliance | Rate of Noncompliance |
|-------------------|---------------|-----------------------|
| 115 | 52 | 45% |

6. Proof of Purchase

Cardholders must keep receipts or other documentation from the vendor as proof of purchase in their files. The receipts include the actual price charged to the cardholder and evidence that sales tax was not charged. The U.S. Government is exempt from state sales tax, and it is a cardholder’s responsibility to ensure that the Department is not paying sales tax on purchases. OIG considered the “proof of purchase” control followed if the files contained a receipt from the vendor for the purchase.

| Activities Tested | Noncompliance | Rate of Noncompliance |
|-------------------|---------------|-----------------------|
| 119 | 21 | 18% |

7. Record Purchase in Buying Log

The buying log helps the cardholder track purchases and the available funding. The purchase card program manual requires the cardholders to maintain a log of their purchases and a declining balance of funding available if using bulk funding. Cardholders who use ILMS-Ariba have their purchases automatically maintained in a log that keeps a declining balance of bulk funding. Printouts from ILMS-Ariba do not always show a declining balance because the printout is a report for a certain timeframe. OIG considered the “record purchase in buying log” followed if the transaction was recorded manually by the cardholder and showed a declining balance or the transaction was completed using ILMS-Ariba.

| Activities Tested | Noncompliance | Rate of Noncompliance |
|-------------------|---------------|-----------------------|
| 118 | 50 | 42% |

8. Independent Receipt and Acceptance

Office of Management and Budget (OMB) and Government Accountability Office (GAO) guidance requires that the items obtained with the purchase card be received independently from the cardholder. Independent receipt is to ensure that the purchase card is used for official use only. OIG considered the “Independent Receipt and Acceptance” control area to be deficient if the documentation did not have evidence of an independent receipt. OIG accepted a signature of a person other than the cardholder as evidence of independent receipt.

| Activities Tested | Noncompliance | Rate of Noncompliance |
|-------------------|---------------|-----------------------|
| 114 | 50 | 44% |

9. Establishment of Accountability of Property

OMB and GAO emphasize the establishment of accountability of items received by purchase card transactions, especially easily pilfered items such as cameras or media storage devices. The purchase card program manual requires items only over a certain dollar amount to be entered into the accountable property system. The program manual also requires the cardholder to ensure that the property is properly entered into the system. If the cardholder files had evidence that a purchase was entered into the property management system when required (for example, property considered to be easily pilfered or more than \$500 and not consumable), OIG considered this control activity satisfied. OIG also accepted evidence from the cardholder that the item was currently in the Department’s property management system at that time.

| Activities Tested | Noncompliance | Rate of Noncompliance |
|-------------------|---------------|-----------------------|
| 13 | 10 | 77% |

10. Cardholder Reconciliation

Reconciling the monthly Citibank statements is a process in which the cardholder compares purchases made with line items on the statement. The cardholder signs and dates the statements as proof of reconciliation and validation of purchases made on the account. The monthly reconciliations are a key component of the purchase card internal controls because the cardholder does not pay the purchase card invoice. The Bureau of Resource Management (RM) in Charleston, SC, pays the entire domestic purchase card invoice from Citibank. The cardholder reconciliation helps to ensure that the invoice paid is accurate. The cardholder is responsible for taking appropriate actions if unauthorized purchases appear on the statement.

This process is called the “dispute process,” which has a limited timeframe in which to be completed. Timely cardholder reconciliations help to ensure that the Department is paying only for authorized purchases. The purchase card program manual requires cardholders to complete the monthly reconciliation process and forward the signed and dated statement to the approving official within 5 business days after the end of the monthly billing cycle. OIG considered the “cardholder reconciliation” control activity satisfied when the cardholder files contained a signed and dated monthly statement within the required timeframe.

| Activities Tested | Noncompliance | Rate of Noncompliance |
|-------------------|---------------|-----------------------|
| 120 | 80 | 67% |

In its August 25, 2010, response to the draft report, the Bureau of Administration, Office of the Procurement Executive (A/OPE), stated, “We believe that the internal controls are sufficient to detect and prevent the improper, unauthorized, or fraudulent use of the purchase cards used domestically and that the majority of issues raised were due to program participants not complying with established procedures.” A/OPE cited OIG’s example in which “[c]ardholders were found by the OIG to be 100% non-compliant with the monthly reconciliation process if the cardholder did not reconcile the statement within 5 business days.” In its response, A/OPE recommended that OIG “identify in the audit report which of these cardholder actually completed the reconciliation process even though they may have gone beyond the 5 business day window allotted for statement reconciliation.”

OIG found, as represented in the table in section 10, that 67 percent of the activities tested for cardholder reconciliation were noncompliant—not 100 percent as stated by A/OPE. In testing internal controls, OIG must be consistent and cannot have variability of compliance. In addition, the testing criterion used was A/OPE’s prescribed internal control for cardholder reconciliation based on the need for RM to complete payment in a timely manner. If cardholders are not held to the 5 business day requirement, the internal control has no merit. OIG agrees that cardholder noncompliance with established internal controls is an issue that has resulted in the increased potential for improper, unauthorized, and fraudulent use of the purchase card, even though specific instances of such use were not found during the audit.

11. Approving Official Review

The approving official is an integral part of the monthly reconciliation process and over-all monitoring of the cardholder. The approving official must review all of the purchases and supporting documentation for each transaction made by the cardholder to verify that all of the charges are authorized. The approving official must complete the reconciliation within 3 business days and sign, date, and forward the statement to RM, in Charleston, for

payment. The purchase card program manual also allows a 2-day grace period for reconciling the monthly statements, for a total of 10 days from the end of the billing cycle to sending the statement to Charleston. OIG considered the “approving official review” control satisfied if the cardholder file contained a Citibank statement that was signed and dated within the required 10 days by the approving official.

| Activities Tested | Noncompliance | Rate of Noncompliance |
|-------------------|---------------|-----------------------|
| 120 | 102 | 85% |

APPENDIX D

BUREAU TESTING RESULTS

Results of Testing Internal Control Activities

| Internal Control Activity | Bureau of Diplomatic Security | | Bureau of Administration | | Bureau of Information Resource Management | | Others (Data Mining) | |
|-----------------------------------|-------------------------------|-----------------------|--------------------------|-----------------------|---|-----------------------|----------------------|-----------------------|
| | Tested | Did Not Comply (Rate) | Tested | Did Not Comply (Rate) | Tested | Did Not Comply (Rate) | Tested | Did Not Comply (Rate) |
| 1 ILMS-Ariba Use | 40 | 1 (3%) | 28 | 22 (79%) | 37 | 32 (86%) | 7 | 7 (100%) |
| 2 Department Need | 40 | 0 (0%) | 34 | 18 (53%) | 36 | 13 (36%) | 7 | 5 (71%) |
| 3 Unauthorized Item | 37 | 0 (0%) | 34 | 5 (15%) | 36 | 2 (6%) | 7 | 2 (29%) |
| 4 Ensure Available Funding | 40 | 0 (0%) | 34 | 20 (59%) | 36 | 10 (28%) | 7 | 6 (86%) |
| 5 Required Vendor Screening | 40 | 7 (18%) | 33 | 24 (73%) | 35 | 16 (46%) | 7 | 5 (71%) |
| 6 Proof of Purchase | 42 | 1 (2%) | 34 | 11 (32%) | 36 | 7 (19%) | 7 | 2 (29%) |
| 7 Use of Buying Log | 40 | 0 (0%) | 34 | 28 (82%) | 37 | 16 (43%) | 7 | 6 (86%) |
| 8 Independent Receipt | 40 | 3 (8%) | 32 | 19 (59%) | 35 | 22 (63%) | 7 | 6 (86%) |
| 9 Establishment of Accountability | 8 | 8 (100%) | 0 | 0 (0%) | 4 | 1 (25%) | 1 | 1 (100%) |
| 10 Cardholder Reconciliation | 42 | 42 (100%) | 34 | 12 (35%) | 37 | 19 (51%) | 7 | 7 (100%) |
| 11 Approving Official Review | 42 | 42 (100%) | 34 | 32 (94%) | 37 | 22 (59%) | 7 | 6 (86%) |
| Total | 411 | 104 (25%) | 331 | 191 (58%) | 366 | 160 (44%) | 71 | 53 (75%) |

APPENDIX E

PURCHASE CARD PROGRAM TERMS AND DEFINITIONS

Approving Official is normally the supervisor to whom a cardholder reports for authorization to purchase required supplies and services. The approving official is responsible for reviewing monthly cardholder reconciliations and ensures proper cardholder procedures are followed when purchasing supplies or services.

Buying Log is used by the cardholder to document information related to each purchase such as item description, vendor name, date ordered and received, dollar amount of supplies, and funding information. Cardholders are required to record purchases in the buying log.

Cardholder is the only authorized user of the purchase card and has sole responsibility for expenditures charged against the card.

Citibank is the contractor the Department of State uses to execute the purchase card program. Citibank is contracted on task order as part of the General Services Administration (GSA) SmartPay2 master contract.

Declining Balance applies only when the cardholder uses bulk funding for purchase card transactions. The cardholder is required to maintain a declining balance of funds with each purchase in the buying log.

Delegation of Authority Memorandum identifies responsibilities and provides authority to participate in the program. Cardholders and approving officials receive their delegation of authority from the bureau program coordinator.

Designated Billing Office is responsible for payment of the Citibank monthly invoice within the Prompt Payment Act timeframes. The domestic designated billing office is the Bureau of Resource Management, Charleston, SC.

Dispute Process is a five-step process to resolve purchase card issues after the cardholder's attempts to resolve a charge with a vendor are not successful. The cardholder is required to track disputes and credits resulting from a dispute on future statements and coordinate this information with the designated billing office.

Key Program Administrator is responsible for administering the program in an assigned geographic region. The Department purchase card program is administratively split into six geographic regions. The domestic region is covered entirely by one key program administrator, even though the purchase card use domestically is approximately half of the funding worldwide.

Micro-purchase Limit is established in the *Federal Acquisition Regulation* (subpart 2.101). The current limits are \$3,000 for commercial supplies and \$2,500 for domestic services. Cardholders may not exceed this limit in a single purchase without additional purchasing authority.

Monthly Reconciliation is the process in which cardholders reconcile the monthly statement from Citibank with their buying log and supporting documentation for purchases. The cardholders must complete the reconciliation within 5 business days of the end of the billing cycle.

Operations Manager is responsible for the day-to-day administration of the program. The operations manager is not part of the Bureau of Administration's (A) Office of the Procurement Executive (A/OPE). The purchase card administrative operations, such as issuing new cards and resolving cardholder issues, are conducted from A's Office of Program Management and Policy, Office of Logistics Management.

Procurement Request is an internal document that conveys to the cardholder requests for supplies or services. The cardholder must ensure that each procurement request clearly describes the requirement and contains all necessary approvals and clearances. Procurement requests should be received in writing, including email requests and requests through ILMS-Ariba.

Program Coordinator is the equivalent of a bureau executive director and is responsible for overall management of the program at the bureau. The bureau program coordinator is responsible for bureau purchase card program participants and performs the day-to-day administration and local management of individual program participants, including performing annual reviews and ensuring that internal controls are in place to prevent potential misuse or abuse of the program.

Program Manager is responsible for strategic planning, training, program development, and worldwide management of the program. The Program Manager is in A/OPE.

SmartPay2 is GSA's U.S. Government-wide charge card program. SmartPay2 includes purchase cards, travel cards, and fleet cards. The Department of State purchase card program is part of the GSA SmartPay2 program.

Strategic Sourcing is the continuous analysis of purchase card use to ensure the Department is leveraging its buying power with vendors to receive discounts on commonly purchased items and applying those discounts to purchases. An example of strategic sourcing is the GSA Federal Strategic Sourcing Initiative, in which GSA has established blanket purchase agreements with office supply vendors to provide additional discounts to the negotiated prices already available on the GSA schedule.

Use is defined as any transaction, purchase, or attempt to purchase resulting in a declined transaction by Department purchase card holders.

APPENDIX F

BUREAU OF ADMINISTRATION RESPONSE



United States Department of State

Washington, D.C. 20520

MEMORANDUM

AUG 25 2010

To: OIG/DIG – Harold W. Geisel

Through: A – Steven J. Rodriguez, Assistant Secretary for Operations 

From: A/OPE – Corey Rindner 

Subject: Comments on report “Audit of Department of State (DOS) Purchase Card Domestic Use

Thank you for the opportunity to comment on OIG’s draft “Audit of Department of State Purchase Card Domestic Use”. We appreciate the opportunity to provide comments and recommendations to this report and look forward to working with the OIG to further enhance this very important Department program. While we feel the report fails to recognize program improvements that have been made and are to be made in spite of resource limitations, A/OPE does appreciate the efforts of the OIG in addressing the need for additional staffing to strengthen the Purchase Card program. Additional resources for the program have repeatedly been requested since the Purchase Card was established resulting in no additional positions and only very limited increases in funding.

Despite the exponential expansion of the program from \$5 million in 1995 to over \$80 million in 2009, OIG audits and GAO reviews to date have not identified instances of fraudulent card use of the Department’s Purchase Card program. Additionally, the Department’s program is considered by the Commercial Card community to be one of the forerunners in innovation and structure for the Federal Government. Numerous enhancements including implementation of Payment Cards to save thousands of dollars in delinquency charges, online role-based training and the current initiative to develop an automated tool to further increase oversight, streamline operations and improve program management and reporting capabilities are a few examples of steps that we have taken to ensure the integrity of this multi-million dollar program.

Recommendation 1: OIG recommends that the Bureau of Administration develop and implement a plan to ensure continuous monitoring of purchase card program participants’ compliance with purchase card internal controls.

Drafted by: A/OPE/PD– Margaret A. Colaianni, x 6-1688, August 23, 2010

Cleared: A/EX: Joseph H. McGuire-ok
 A/LM/PMP: Jan E. Mouzon-ok
 A/OPE: Corey M. Rindner-ok
 A: Jean L. Hartung-ok
 A: Peter J. Covington-ok
 A: Phong C. Ngo-ok

This plan should include adequate staffing resources in the Office of the Procurement Executive for monitoring the purchase card program.

A/OPE partially agrees with this recommendation. While A/OPE believes that defined internal control activities for the program are adequate, we feel that additional resources are needed in A/OPE to strengthen the program and ensure stricter adherence to “operational procedures” by Program Coordinators and Approving Officials. This is especially critical based on the exponential expansion of the program from \$5 million in 1995 to over \$80 million today and the continuing need for ongoing program enhancements.

We disagree that Purchase Cardholders did not comply with Department of State internal control policies and procedures “because A/OPE did not adequately monitor cardholder compliance”. The Purchase Card Program as established provides clear and consistent delegated responsibilities to each individual in the program from the Program Manager in A/OPE to the Cardholder making the purchases at the Bureau or Post level. Although A/OPE serves as the Program Management office with overall program responsibility including defining and establishing internal controls necessary to ensure the integrity of the program, the requirement for continuous monitoring and oversight to ensure compliance rests with the Bureau or Post Program Coordinators and the Approving Officials. This responsibility is consistently defined throughout policy guidance.

A/OPE delegated primary oversight monitoring to Program Coordinators at each Bureau and Post, with additional monitoring and reconciliation responsibilities to Approving Officials. These responsibilities, such as authorizing purchases and the maintenance of purchase logs, are discussed across all policy documents including the Purchase Card Manual, Web site guidance and in all online role based Purchase Card training courses developed in partnership with FSI. Additionally, an annual program review, performed by the Program Coordinator, was mandated as the final check and balance on internal controls which is consistent with OMB Circular A-123, Appendix B. The Annual Review requires the Program Coordinator to sample and validate that steps such as verification of receipt, monthly reconciliation, and maintenance of adequate files and logs are being performed and to document any cases of Cardholder non-compliance. As a further control, A/OPE prohibits changes such as increased card limits unless the Program Coordinator can demonstrate that Annual Reviews have been accomplished on a timely basis and any areas of non-compliance rectified.

A/OPE disagrees that “the delegation of all monitoring leads to potential inadequate separation of duties and conflicts of interest, because all Cardholder

monitoring is conducted by those individuals who may benefit from Purchase Card use". Based on an OIG December 2004 Audit ("Review of the Department of State's Overseas Purchase Card Program, Report Number AUD/PPA-05-01), the OIG recommended that A/OPE clarify the roles and responsibilities of Approving Officials in the day-to-day administration of the Purchase Card program and annual reviews. The OIG concluded that "Additional overseas purchase card program oversight, including the conduct of annual reviews, could be done by the Approving Officials". A/OPE in turn revised all policy guidance to comply with the OIG recommendation that the Approving Official should take a greater role in the day-to-day administration of the program including participating in the annual review process. Our decentralized structure is also consistent with other government agencies which delegate oversight responsibilities across their organizations such as the DoD, USDA, DOJ, DOT, etc.

A/OPE agrees that additional staffing for the Purchase Card Program would improve management controls. As noted in the current draft audit report, A/LM/PMP is thinly staffed (only one FTE assigned to the domestic region) for managing the entire domestic card program and A/OPE has no capacity for conducting program audits. Unfortunately, other Department priorities continue to prevent us from obtaining the resources needed to solve this problem. Because Purchase Cards are used around the world, A/OPE developed the concept of the Purchase Card Management and Reporting System (PMARS). PMARS was envisioned as both an administrative tool to establish and manage accounts and as a management and reporting tool to track compliance activities such as tracking whether Program Coordinators are performing their Annual Reviews. Unfortunately, PMARS has never been fully funded due to higher Department IT priorities. We are systematically developing the automated system as residual funding and resources are identified.

To improve Purchase Card internal control processes, A/OPE recommends:

1. Implement PMARS as both an administrative tool to establish and manage accounts and as a management and reporting tool to track compliance activities such as tracking completion of Annual Reviews by Program Coordinators to ensure compliance with Purchase Card policies and procedures.
2. Develop a plan to improve monitoring by analyzing the results of the Internal Control Activity Testing to determine root causes and addressing those root causes. Implementation of this program is subject to the availability of resources.

3. OIG expand the number of parties responsible for implementing this recommendation to include the Bureau Program Coordinators, A/LM for Ariba and any other participants involved in Purchase Card oversight.

Recommendation 2: OIG recommends that the Bureau of Administration issue an updated Worldwide Purchasing Card Program Manual to ensure appropriate use of purchase cards and to prevent fraud, waste and abuse as required by the Office of Management and Budget, Appendix B, Circular A-123. The update should include guidance regarding mandatory domestic cardholder use of the Integrated Logistics Management System.

A/OPE concurs with this recommendation and anticipates completing an updated manual by the end of the first quarter of FY11. We feel that it is important to note that the Worldwide Purchase Card Manual was developed following the implementation of the Department's Purchase Card program and was maintained faithfully with numerous updates until November 2006. At this time, due to severe staffing limitations, we began focusing our efforts on enhancements to the Purchase Card website that have proven to be a much more efficient method of meeting both program and customer needs (More information on this website is on page 5 of Attachment Three).

While we continue to strive to make improvements, we believe that the DoS Purchase Card program is built on a strong foundation of internal controls that have been developed to mitigate the risk of fraud, misuse and abuse as required by the Office of Management and Budget (OMB) Circular A-123, Appendix B. This structure was established from the onset of the program, based on the existence of only one position in A/OPE to manage the work and the need for continuous monitoring and oversight. Our decentralized structure is also consistent with other government agencies who delegate oversight responsibilities across their organizations such as the DoD, USDA, DOJ, DOT, etc. Roles and responsibilities of each program participant are clearly and consistently spelled out across all policies and procedures. Pivotal to the prevention of misuse and abuse is the oversight role of the Program Coordinator highlighted in Attachment Two and of the Approving Official. As recommended in the OIG December 2004 Audit ("Review of the Department of State's Overseas Purchase Card Program", Report Number AUD/PPA-05-01), A/OPE further expanded the role of the Approving Official in the day-to-day administration and in the Annual Review process.

ATTACHMENTS:

Attachment One: Additional Responses to Draft Audit Report

Attachment Two: Summary of Program Coordinator Oversight Responsibilities

Attachment Three: A/OPE Recent Purchase Card Initiatives

**ATTACHMENT ONE – ADDITIONAL RESPONSES TO DRAFT AUDIT
REPORT Dated AUGUST 24, 2010**

Page 1, OIG states: “A/OPE has not updated the manual for Cardholders, the Worldwide Purchase Card Program Manual, since November 2006”.

A/OPE Response: Although this statement is accurate, it should be noted that A/OPE has made numerous updates to the Purchase Card manual since the inception of the program to ensure that the manual addresses updated Purchase Card policies and procedures under the purview of the Purchase Card program. A list of these updates was provided to the OIG on July 14, 2010. It is also important to note that the manual applies to all Purchase Card participants and not just Cardholders as is referenced by the OIG. While the current 2006 version of the manual does not include language on mandatory Ariba usage, it does address all other important program and internal control requirements. As mentioned in our response to Recommendation 2 of this report, A/OPE’s efforts have been focused on developing, maintaining and enhancing the Purchase Card website where participants in the program can obtain the same information and policy guidance as that found in the Purchase Card Manual, as well as additional program related information. This website has proven to be a more effective and time saving tool for our customers, which is a fact we believe should be noted in this report.

Page 2, Table 1 and 2: The OIG report includes two tables identifying specific Purchase Card participants and roles and responsibilities and references that this information was extracted from the Purchase Card manual. The extracted information however does not accurately reflect the overall responsibility of the Program Coordinator. The extracted information on the Program Coordinator responsibilities only states, “Responsible for all cardholders and approving officials in the bureau and performs the annual reviews”.

A/OPE Response: The Purchase Card manual, November 16, 2006, clearly states in various sections that the Program Coordinator has overall responsibility for the Bureau or Post program as follows:

- Section III – Frequently Asked Questions, page 17, Question: Who are the key Bureau or Post Purchase Card participants and what are their responsibilities, Program Coordinator”, “Responsible for overall management of the program at the Bureau or Post. Designated authority to Approving Officials, establishes internal controls and performs an Annual Review of Bureau or Post Purchase Card activity.”
- Page 24, “The day-to-day administration and local management of individual DBOs, Approving Officials and Cardholders is the responsibility of the designated Bureau or Post Program Coordinator”.
- Section VII – Roles and Responsibilities of Bureau and Post Program Participants, 7.2 Program Coordinator (PC), “The Program Coordinator (PC) oversees the Bureau, Office or Post management and operations of the Purchase Card program....”. “Specific responsibilities of the PC include but are not limited to:
 - Ensures that each Bureau or Post program has the necessary internal controls in place to prevent any potential misuse or abuse on the program.
 - With the assistance of the AO and other officials, performs an annual in-house review of the Purchase Card program (Annual Review process) noting any best practices or identifying any discrepancies and follow-on correction action required.”, etc.

Page 4, “Training”, the OIG states that the Department offers training on-line and in the classroom at the Foreign Service Institute.

A/OPE Response: Classroom workshops are not offered at FSI but offered primarily on an annual basis in Frankfurt or at another Post upon request. Also, A/OPE, in collaboration with FSI, developed three separate online role based training courses noted below. A/OPE recommends that the audit make mention of these courses and corrects the reference to training held at FSI.

- PA-297 Online Cardholder and Approving Official Training
- PA-299 Online Program Coordinator Training
- PA-300 Online Designated Billing Official Training

Page 5, OIG states that “The primary objective of the audit was to determine whether the Department’s internal controls were sufficient to detect and prevent the improper, unauthorized, or fraudulent use of the purchase cards used domestically”.

A/OPE Response: We believe that the internal controls are sufficient to detect and prevent the improper, unauthorized, or fraudulent use of the purchase cards used domestically and that the majority of issues raised were due to program participants not complying with established procedures. An example of this is where Cardholders were found by the OIG to be 100% non-compliant with the monthly reconciliation process if the Cardholder did not reconcile the statement within 5 business days. A/OPE recommends that the OIG identify in the audit report which of these Cardholders actually completed the reconciliation process even though they may have gone beyond the 5 business day window allotted for statement reconciliation.

Page 9, “A/OPE Monitoring”, OIG states that, “A/OPE is responsible for all aspects of the program, including policy, procedures, monitoring, Web site maintenance, and strategic planning”.

A/OPE Response: Oversight of the Purchase Card program is a shared responsibility as it would be an impossibility for one individual, the A/OPE Program Manager, to fully perform all oversight. Additional oversight responsibility is performed by various participants including the Operations Manager and Key Program Administrators, the Bureau or Post Program Coordinators, the Designated Billing Officials and the Approving Officials. Each of these individuals plays a unique role in ensuring that the program functions in accordance with program policy to prevent misuse or abuse. Roles and responsibilities of each program participant are clearly explained in multiple policy documents available from the A/OPE Purchase Card website:

<http://aopec.a.state.gov>.

Page 9, OIG states, “At the time of OIG’s audit, the Program Manager was updating the program manual but said that because of competing demands and lack of personnel, updating the manual was not a high priority”.

A/OPE Response: This comment was based on the fact that Purchase Card participants have 24/7 access to policy guidance from the A/OPE Purchase Card website. Examples of similar guidance includes: Purchase Card role based training courses, Online Purchase Card guide, Roles and Responsibilities, “How to...” perform specific functions under the Purchase Card program, Annual Review policy, Guidance for purchases above \$3,000, etc. Please see the A/OPE website for a complete listing of information available to all program participants.

Page 9 & 10, “Bureau Program Coordinator Monitoring”, the OIG states that they requested annual reviews from six Bureaus but only received three reviews, and that three reviews were completed in April 2010 – more than three months after the due date and only after OIG had requested the reviews”.

A/OPE Response: One of the functionalities for the Purchase Card Management and Reporting System (PMARS) is to serve as a central clearing house for all Department Purchase Card program Annual Reviews. A/OPE recognizes the need for an automated approach to ensure compliance with the Annual Review process and conveyed this need to the OIG during various audit meetings leading up to the draft July 27, 2010 domestic audit report. To further clarify this need, A/OPE provided a demo to the OIG on the functionality of PMARS and the vision for the future. PMARS will address a layer of assurance that reviews have been conducted in a far more efficient and streamlined manner than the current paper-based processes.

Page 11, paragraph two, OIG states, “A/OPE, the program office, was not involved in identifying these violations of Department policies or in the corrective actions bureau program coordinators took to correct the violations”.

A/OPE Response: A/LM/PMP has been delegated the authority to administer the Purchase Card program by geographic region and works closely with A/OPE to consult on corrective actions to be taken. In the case cited by the OIG, both A/LM/PMP and the Bureau Program Coordinator took the necessary action in accordance with their authority on the program.

Page 11, “Split Purchases”, OIG provides examples of where a Cardholder split purchases to circumvent the Cardholder’s single purchase limit.

A/OPE Response: A/OPE has a standardized and well advertised policy in place know as “Tool kits” for Cardholders to request various temporary or permanent changes to their accounts including changes to single, monthly or both purchase limits. In addition, as part of the Annual Review process, the Program Coordinator is required to validate Cardholder Purchase Card limits to determine if they remain appropriate and/or if higher or lower limits are required based on mission needs.

Page 12, “Use of ILMS-Ariba”, OIG stated that they found that only 50 (45 percent) of 112 activities tested (eight were exempt) used ILMS-Ariba properly.

A/OPE Response: A/OPE agrees to add some language to the Purchase Card manual stating that usage of Ariba is mandatory. However, we believe that the responsibility to arrange for Ariba training and enforcement resides outside the Purchase Card program. A/OPE recommends that the OIG review the reasons why Department employees may not be using Ariba and include this in the report.

Page 13, “Conclusion”, OIG states that A/OPE needs to monitor the Purchase Card program in order to prevent Cardholders not complying with policies and procedures, splitting purchases, purchasing unauthorized items, disclosing purchase card account numbers to unauthorized personnel and to properly use the mandated procurement system.

A/OPE Response: A/OPE believes that the policies and procedures are in place to mitigate fraud and misuse and that Program Coordinators need to take further action with regards to management and oversight at the Bureau level to ensure compliance. A/OPE has provided the Program Coordinators with the proper tools (Annual Review, access to online reports, etc.) to have program specific information and monitor their program to prevent fraud and misuse.

Page 19, OIG states a reference to the March 2008 Government Accountability Office (GAO) report Government Wide Purchase Cards – Actions Needed to Strengthen Internal Controls to Reduce Fraudulent, Improper, and Abusive Purchases. Within this paragraph OIG cites two of the three purchases made by the Department of State that appeared in the GAO report which included Old Navy online and Match.com (an online dating service).

A/OPE Response: As indicated in the GAO report referenced by the OIG, both the Old Navy online and the Match.com charges were fraudulent charges against the Cardholder's account made by a third unauthorized party (by someone other than the Cardholder). The report goes on to state that in both cases, the Cardholder followed the proper dispute procedures and disputed both transactions which were later removed from the Cardholder's account. A/OPE recommends that if the OIG cites these two transactions from the DoS Purchase Card program, they should also include the fact that these charges were made by a third unauthorized party and not the Cardholder and that both charges were properly disputed in a timely manner and removed from the Cardholder's account.

**ATTACHMENT TWO - SUMMARY OF PROGRAM COORDINATOR
OVERSIGHT RESPONSIBILITIES**

The Program Coordinator plays a critical role in the management and oversight of the Bureau or Post Purchase Card program. This document summarizes the important role of the Program Coordinator as highlighted in the Department's Purchase Card policy guidance.

Delegation of Authority Memorandum: Specific Program Coordinator responsibilities include: "***Oversee the Bureau or Post management and operations of the Purchase Card program***"; "Ensure that Approving Officials and Designated Billing Officials (DBOs/FMOs) and Cardholders ***are provided the appropriate initial and refresher training***"; "Review Cardholder monthly Statements of account as part of the Annual Review Process"; and "Complete an Annual Review of the Bureau or Post Purchase Card Program and certify the Annual Review to ensure that ***authorized controls and procedures are adhered to by all program participants.***"

Purchase Card Manual: Specific responsibilities include: Ensures that each Bureau or Post program ***has the necessary internal controls in place to prevent any potential misuse or abuse on the program***"; "***Ensures*** DBOs, Cardholders and Approving Officials ***receive initial and refresher training appropriate to their role in the program***"; "Reviews Cardholder spending activity as part of the Annual Review process to ensure that both single and monthly purchase limits remain valid"; and "***Reviews card activity to determine continued need*** for each Bureau or Post Cardholder".

Purchase Card Online Guide: Specific responsibilities include: "Ensures Cardholders, Approving Officials & Designated Billing Officials receive appropriate training"; "***Establishes Purchase Card controls***"; and "Performs Annual In-House review with the assistance of the AO."

Purchase Card Annual Review: Specific Program Coordinator responsibilities include: "***Ensure compliance with established procurement and financial management practices, operating procedures and Purchase Card controls.***"; "***Enhance oversight to prevent fraud and misuse***"; Verify participant profile information to ensure it is current and complete"; Ensure all participants meet initial and refresher training requirements"; Validate continued card need based on historical and projected use"; and Raise program awareness by highlighting areas of improvement and/or best practices".

pg. 1

4 FAM 455.2, “Definitions” for Program Coordinator: Specific responsibilities include: “responsibility for *oversight of the bureau or post purchase card program including all activity of his or her cardholders, approving officials and designated billing officials.* Domestically, the PC is established at the bureau executive-director level. Overseas, the PC is established as the post management officer level or equivalent”.

PA-299, Purchase Card Training for Program Coordinators: Specific responsibilities include: “*oversees the management and operations of the Bureau or Post Purchase Card program....*”; “Program Coordinators are required to perform the mandatory Annual Review of the Bureau or Post program each fiscal year for the prior fiscal year. PCs are ultimately responsible for all aspects of the Bureau or Post program *including preventing misuse and abuse on their program and the timely payment of monthly invoices.*”

**ATTACHMENT THREE - A/OPE RECENT PURCHASE CARD
INITIATIVES**

August 2010

Although the Purchase Card program has experienced a significant growth from \$5 million in spend in 1995 to the current FY10 spend level of over \$80 million, resources have remained unchanged. Despite this challenge, A/OPE has continued to develop initiatives and enhancements to the program that have increased operational efficiency and strengthened internal controls. A few of these recent initiatives/enhancements are presented below:

Purchase Card Management and Reporting System (PMARS)

A/OPE is leading an effort to develop, test and implement the Purchase Card Management and Reporting System (PMARS). PMARS is a web-based application that provides users worldwide with a single portal to accomplish all Purchase Card related activity and oversight in a far more efficient manner than the current paper-based environment. The current Purchase Card environment is based primarily on cumbersome paper-based processes which creates systemic long lead times of six months or longer and customer frustration. Additionally, no automated methodology exists for Bureaus and Posts to perform the required Annual Review and certify compliance with established program policies and procedures and regulatory guidance as mandated by OMB's Circular A-123, Appendix B. As a result, it is difficult to ensure compliance with reviews, including anomalies found and corrective actions taken, since review certification results are not captured in a central data base. By consolidating program, banking and regulatory requirements under one umbrella, PMARS will provide end users with a true "one stop shop" for all Purchase Card needs and greater flexibility to manage and respond to evolving needs and challenges.

PMARS implementation is critical for the following reasons: 1) PMARS significantly reduces processing lead times for establishing new accounts and specials requests from six months or longer to less than ten days; 2) PMARS provides greater transparency into all transactions to ensure proper accountability and oversight; 3) PMARS ensures compliance with OIG, OMB

1

(A-123) and GAO mandates requiring agencies to take appropriate steps to monitor card programs to prevent misuses and abuse; 4) PMARS reduces procurement costs by increasing card usage throughout the Department resulting in cost avoidance savings of approximately \$122.77 per transaction (See OIG Report No. ISP-I-07-12); and 5) PMARS provides management with a robust tool to ensure data integrity, respond quickly to Bureau/Post needs and to consistently monitor card usage and flag anomalies. Once implemented, PMARS will standardize and integrate administrative processes to ensure compliancy with DOS policy, OIG, OMB and GAO mandates and to increase the Department's internal control and management oversight of the program.

The first phase of PMARS focuses on Cardholder processes and provides an automated workflow and approval process. Future phases will encompass functionality for the remaining Purchase Card participants (Approving Official, Designated Billing Official and the Program Coordinator) and the implementation of management and reporting tools necessary for increased internal controls and worldwide oversight. As part of our oversight strategy, we are also working with Citi and Visa to explore usage of their data mining tool, IntelliLink to complement PMARS functionality.

To date, five soft launches have been implemented at Embassies Pristina, Skopje, Canberra, New Delhi and Stockholm. The purpose of the soft launches is to test core functionality for the Cardholder including requesting a first card, performing maintenance functions on existing card accounts and submitting special requests such as threshold increase requests, changes to card blocks, one time Forced Authorization requests etc. Other functionality tested during the soft launches included the approval work flow and transmission of data electronically to Citibank and back to the Department. We are currently working towards implementation of PMARS to the A Bureau.

New Card Products: Payment Cards

After a successful pilot for courier services, A/OPE expanded use of Payment Cards in 2009 for additional recurring services including domestic utilities, the Department's domestic copier paper needs, jet fuel and more recently for overseas utilities and telecommunications. Overall benefits of Payment Cards

usage include: Reduction in the number of invoices sent to Finance for payment; 2) Consolidation of transactions under one invoice; 3) Significant reduction in Prompt Payment penalties for the Department; and 4) Vendors are paid within 48 hours versus several months in some cases. For example, the Office of Global Publishing Solutions (A/GIS/GPS) was able to completely clear out a large backlog of paper invoices in the amount of \$300,000 that previously would have gone to Global Financial Services Charleston for individual payments. Additional Payment Card benefits noted by GPS include the automation of internal controls for receipt and acceptance of invoices and the creation of a new vendor online website for tracking and payment. Due to this success, GPS is considering additional candidates for the Payment Card program such as copier lease & maintenance and business cards. The Payment Card has also lead to significant process improvements for the Bureau of Consular Affairs for payment of courier services to transport thousands of Passport documents. For Embassy Canberra, usage of the payment card has led to reduction in ICASS costs, increased efficiencies and the ability to track utility usage especially usage spikes and associated costs.

Training Enhancements:

A/OPE continues to be a strong advocate of training to expand customer knowledge about the program, increase compliance and ensure that the necessary tools are available to meet ever changing customer needs. Recent training product implementations include:

Purchase Card Workshops

Annual Purchase Card “101” and advanced “102” workshops in Germany. Both workshops have been implemented by Frankfurt as part of their yearly worldwide training program offering to Posts worldwide.

FSI Online Courses

In collaboration with FSI, implementation of role-based online Purchase Card Courses which include an automated test. Recent online course implementations include:

- PA-297 - Cardholder and Approving Official Online Training: A major update to this course was completed in 2008.
- PA-300 - Designated Billing Official (DBO) Online Training
- PA-299 - Program Coordinator (PC) Online Training

Purchase Card Outreach Training and Assistance Outreach:

A/OPE continues to pursue an active overseas outreach program to ensure that Post participants obtain information on current policies and procedures, training and assistance with implementation of their local Purchase Card programs. Outreach topics focus on internal controls and key responsibilities of each participant in the Purchase Card program and a variety of other topics including use of bulk funding, electronic access of statements and invoices and best practices.

CY 10 outreach efforts included:

New Delhi Mission-wide training conducted in February 16-19, 2010. This workshop was at the invitation of Post and encompassed all aspects of the card program from roles and responsibilities to Purchase Card ethics.

Purchase Card 101 and 102 workshops conducted in Frankfurt June 14 – 16, 2010 for approximately 25 representatives from four geographical regions.

2009 training and site visit to Embassy Pristina. Participating representatives included mission wide Pristina Purchase Card participants as well as representation from USAID.

Site visit to Embassy Skopje in June 2010 to discuss the results of the Post soft launch. Embassy Skopje was the first soft launch Post.

Participation on two panels at the annual GSA hosted SmartPay2 Credit Card conference in Atlanta to discuss innovative products agencies are using to further streamline Purchase and/or Travel Card programs. The Program Manager discussed the use of Payment Cards throughout the Department for utilities, courier and medical services, copier paper, jet fuel and telecommunications.

Purchase Card Web Site Enhancements:

A/OPE continues to evolve their Purchase Card website to ensure that it meets the needs of the customers and reflects the most current program environment. The website is used by Bureaus and Posts worldwide. The website offers Purchase Card participants access to all policy related information from A – Z, including roles and responsibilities, establishing and changing accounts, training, statement access and reconciliation, disputes, Convenience Checks, Delegation letters, Toolkit requests, etc. During CY 2010 significant updates were made to reflect the transition from the prior SmartPay1 program (SP1) to the current SmartPay2 (SP2) program environment including accessing online statements, new program forms and procedures and updates to policy guidance.

**FRAUD, WASTE, ABUSE
OR MISMANAGEMENT**
of Federal programs hurts everyone.

Contact the
Office of Inspector General
HOTLINE
to report illegal or wasteful activities:

202-647-3320
800-409-9926

oighotline@state.gov

oig.state.gov

Office of Inspector General
U.S. Department of State
P. O. Box 9778
Arlington, VA 22219

Cables to the Inspector General
should be slugged "OIG Channel"
to ensure confidentiality.