

NATIONAL CREDIT UNION ADMINISTRATION

OFFICE OF INSPECTOR GENERAL

**PURCHASE CARD
REVIEW**

OIG-02-09 August 14, 2002



A handwritten signature in black ink, which reads "William A. DeSarno". The signature is written in a cursive style.

**WILLIAM A. DeSARNO
ACTING INSPECTOR GENERAL**

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EXECUTIVE SUMMARY

Recent reports by the General Accounting Office and Offices of Inspectors General, as well as congressional correspondence, have raised serious concerns over the adequacy of internal controls over the use of government credit cards. Reports of fraudulent and unauthorized expenditures have exposed a widespread pattern of abuse involving government contractor-issued travel and purchase cards. As a result, the National Credit Union Administration (NCUA) Office of Inspector General (OIG) performed a review of NCUA's SmartPay Visa purchase card program. The objective of this review was to determine if there is any abuse of the NCUA purchase cards. A similar report on NCUA's travel card program will be issued shortly.

NCUA has 32 open purchase card accounts. All six regional offices and several central offices have at least one purchase card. We reviewed purchase card transaction activity for 31 purchase cards (the OIG purchase card was excluded from this review) for the period from June 2000 through November 2001.

A judgmental sample of 122 transactions for 26 purchase cards was selected for review. We did not identify any abusive purchases using the NCUA Visa purchase cards. However, we did identify several weaknesses in purchase card internal controls and management.

Specifically, we found that purchase card policies and procedures are not comprehensive. In this regard, we found that purchase card policies and procedures are derived from various sources; including verbal (non-documented) guidance, memoranda, NCUA Instructions, and ad hoc cardholder office forms. While there are some basic internal controls in place, we observed that actual controls varied from office to office, and in most offices there were instances of non-compliance with those controls. Some examples of internal control weaknesses are:

- Eleven of 17 regional office transactions (including AMAC) did not have documentation that someone, other than the cardholder, initially authorized a purchase;
- Six of nine central office cardholders did not have vendor invoice/statements authorized for payment by either their respective office director or the Contracting Officer;
- Neither regional nor central offices had vendor competition documentation or a contracting officer competitive waiver for purchases over \$5,000, as required;
- Thirteen of 26 purchase cards had at least one purchase without purchase supporting documentation; and

- The Office of Chief Financial Officer (OCFO) made vendor payments and expense cost reallocations on vendor statements that were not authorized for payment.

Moreover, we identified three former NCUA employees who had open purchase card accounts. Additionally, half of the current open purchase card accounts had assigned Agency/Organization Program Coordinators (AOPCs) who were no longer in an oversight position for those cardholders.

This report offers ten recommendations to improve controls over the purchase card program. Comments from NCUA's Office of the Chief Financial Officer are included in the body of the report after each recommendation.

BACKGROUND

BANK OF AMERICA CONTRACT

In 1998, NCUA contracted, through a GSA contract, with Nations Bank (now Bank of America) to provide Visa purchase cards to select NCUA employees. The purpose of the purchase card program is to streamline the procurement process for small purchases.

The Bank of America (BOA) purchase card features:

A purchase card ‘hierarchy’ is a Bank of America reporting and organizational structure that the agency uses to establish its monitoring program. The hierarchy defines:

- Account reporting group (which accounts report to whom);
- AOPC access rights (which accounts are under a particular AOPC); and
- Account authorization controls (what vendor and spending control limits are established for a particular group of accounts).

Purchase card hierarchies (account groupings) may have certain spending limit and vendor controls established on all cards in that hierarchy. These controls can be dollar limitations or particular type of vendor limitations. Spending control options are:

- Spending limit per cycle (a dollar spending ceiling per billing cycle);
- Single purchase limit (a dollar spending ceiling per purchase);
- Velocity limits by day, month, or cycle (a dollar spending ceiling by time frame); and
- Merchant category code restrictions (a type of vendor by BOA codes; for instance restaurants may be code 5812).

Another feature of the BOA purchase card is on-demand card activation/deactivation which is available through the credit card vendor.

Bank of America system management reports are available to the agency AOPCs through an on-line reporting system. There are three general types of reports available:

- Standard – examples include delinquency reports, account activity reports, and statistical summary reports; and
- Ad hoc/Customized – these are customized designed reports using the vendor’s database of information.

The Agency/Organization Program Coordinator (AOPC) is responsible for:

- Understanding and communicating to cardholders, NCUA's policies and procedures for official government purchases;
- Maintaining point of contact (from BOA) information for NCUA;
- Specifying present card authorization limits (dollar and merchant code restrictions); and
- Activating optional services and new cardholders.

A purchase cardholder is responsible for:

- Using the account for purchase of goods and services as specified in the GSA master contract and the NCUA task order; and
- Understand the NCUA's policies and procedures regarding definition of authorized purchases, record keeping, and reconciliation of monthly statements.

The Designated Billing Office is responsible for:

- Ensuring centrally billed purchase accounts are correct for payment; and
- Properly processing invoices for payment and in accordance with the Prompt Payment Act.

Bank of America is responsible for:

- 24 hour seven days a week customer service; and
- Electronic purchase card transaction data and reporting.

Bank of America has established the following general guidelines for purchase card use:

- Cardholders are responsible for using the card for purchases of government related products and services as specified in the GSA master contract and NCUA's task order. Failure to adhere to the contract and task order, may result in permanent revocation of the card, notification of the situation to management and further disciplinary measures as dictated by NCUA policy;
- NCUA defines authorized purchases. Personal purchases are prohibited;
- The cardholder is the only person who may use the card;
- The cardholder is responsible for retaining all charge slips, register receipts, etc. and follows the NCUA policies and procedures for reconciliation, approval, and allocation of transactions. The cardholder is to maintain an audit trail for all purchases, per NCUA guidelines; and
- The cardholder requests changes to the account in accordance with NCUA policies and procedures.

NCUA PURCHASE CARD PROCESS, POLICIES AND PROCEDURES

We interviewed NCUA staff regarding the practices of the purchase card program. We also observed practices through our review of purchase card documentation. Some of the observed practices are not provided in documented policies and procedures. Therefore, we refer to them as *Undocumented NCUA policy and procedures*.

On the other hand we reviewed all agency policies and procedures regarding purchase cards and procurements. We refer to these as **documented policies and procedures** with the appropriate agency reference.

Below is a listing of the purchase card policies and procedures by process (card issuance, card usage, card payments, card cancellation, and program monitoring)

Card issuance

- *Office or Regional Director request purchase cards from the Director Office of Administration*
- *Director Office of Administration approves/disapproves card issuance*
- *Contract Specialist notifies BOA for approved requests*
- *BOA establishes account and mails card to cardholder*
- *No known formal training for cardholders*
- *OA to retain documentation for the above*
- Director of OA has authority to approve sign and issue procurement documents (with authority to redelegate per Instruction 1770.11, **(PRO 2)**)
- Director of OA is authorized to sign all agency procurement documents and may appoint a designee to act in his stead (**Instruction 1770.11**)
- Regional Directors (RDs) and Asset Management and Assistance Center (AMAC) President are authorized to approve, sign and issue purchase orders and Blanket Purchase Agreements (BPAs) up to \$10,000 per order (**PRO 9**)
- RDs and AMAC President have authority to sign and issue POs and BPAs up to \$10,000 per order for goods or services other than ADP hardware and software (**Instruction 1770.11**)

Card usage

- *Cardholder is the only one authorized to use card*
- *Cardholder to retain documentation for the above*
- For purchases between \$5,000 and \$10,000, the contracting officer shall obtain competitive price quotes (verbal or written) from a reasonable number of vendors **(Instruction 1770.11)**
- Cards (*central office*) have a \$5,000 limit for single purchase and \$25,000 monthly limit. They can be used to purchase goods. Any purchase requiring exceptions to policy or waiver must have prior written approval of the contracting officer. **(Director of OA memo dated 10/21/99)**
- Each region may establish its own procedures for requesting that goods and/or services (sic) be bought using the purchase card. However, at a minimum, requests must be submitted in writing or via e-mail. **(Bulletin 1770B)**
- Cardholders obtain e-mail approval from their Office Director (OD) with vendor name, products to purchase, item cost, total cost and other vendors surveyed if any. OD will approve or disapprove using request e-mail and forward copy to OA Mail. After receiving approval cardholder will order item **(OCIO Purchase Card Policy and Procedures)**
- For central office employees: If an OD approves a request (listing goods or service requested with approximate cost and proposed vendor), then this is forwarded to OA Mail. After clearing with the budget officer, the OA contract specialist will place the order **(Bulletin 1770B)**
- Purchase cards have a \$25,000 limit and can be used for anything a purchase order can be used for, except: airfares, other forms of transportation, contracts awarded from a formal solicitation, and anything over \$25,000 **(Bulletin 1770B)**
- All central office deliveries go to central receiving and all regional deliveries to the Regional Office (RO). **(Instruction 1770.11)**

Card payments

- *All purchase cards are centrally billed with NCUA liable for purchases*
- *Office of Chief Financial Officer receives all purchase card statements and makes payments, debiting clearing accounts for each cardholder account*
- *Cardholders receive statements, code the expense/asset accounts for purchases and authorize payment. Office/regional directors approve payment and forward to OCFO for reallocation of expense/asset account distribution from their respective clearing accounts*
- *OCFO to retain documentation for the above*
- CFO is authorized to make payments for goods and services **(PRO 5)**
- For regions, the RD or Assistant Regional Director for Operations (ARDO) approves invoices for payment. For the central office, the Contracting Officer approves invoices for payment **(Bulletin 1770B)**
- Cardholder reviews credit card statement for accuracy and certifies for payment. Cardholder then forwards statement to contracting officer through OD. Contracting Officer is to review and approve statement and forward to OCFO for payment **(OCIO Purchase Card Policy and Procedures)**
- Offices will process original invoices received for credit card purchases and training classes for which there are no purchase requisition/order and no goods receipt, by approving them for payment and forwarding them to OCFO. Invoices will be reviewed by OCFO to ensure the required receipt of goods has been posted in the accounting system and approved by authorized staff. **(Instruction 02020.04)**
- OCFO must rely on all offices to provide documentation that attests to the propriety and correctness of payments to be made. All invoices will be approved by NCUA employees responsible for receiving and examining such goods or services. **(Instruction 2145.2)**

Card cancellation

- *For the Central Office, Office of Human Resources (OHR) notify OCFO and send cards which are cut up*
- *Regions (for regional staff) notify OCFO and send cards which are cut up*

Program monitoring

- *Delinquency reports*

NUMBER OF CARDS ISSUED

There are 32 open purchase cards. The distribution of open purchase cards is as follows:

OFFICE/REGION	# CARDS	SINGLE(S), DAILY(D) PURCHASE LIMIT	MONTHLY PURCHASE LIMIT
Region I	2	\$10,000 (D)	\$25,000
Region II	4	10,000 (D)	25,000
Region III	3	10,000 (D)	25,000
	2	10,000 (D)	50,000
Region IV	1	10,000 (D)	25,000
	1	10,000 (D)	50,000
Region V	2	10,000 (D)	50,000
Region VI	2	10,000 (D)	50,000
	1	10,000 (D)	25,000
AMAC	3	10,000 (D)	25,000
Subtotal	21		
OCFO*	1	10,000 (S)	50,000
	1	10,000 (S)	25,000
	1	10,000 (D)	25,000
OHR**	1	10,000 (S)	50,000
OCIO	3	10,000 (D)	25,000
OGC	1	10,000 (D)	25,000
	1	5,000 (S)	25,000
OCCU	1	5,000 (S)	25,000
OIG	1	5,000 (S)	25,000
Subtotal	11		
Total	32		

AMAC = Asset Management and Assistance Center

OCFO = Office of Chief Financial Officer, Division of Procurement and Facilities Mgt.

* Formerly the Office of Administration

OHR = Office of Human Resources, Division of Training and Development

** Formerly the Office of Training and Development

OCIO = Office of Chief Information Officer

OGC = Office of General Counsel

OCCU = Office of Corporate Credit Unions

OIG = Office of Inspector General

ESTIMATE OF DOLLAR USAGE

The dollar amount (annual total, monthly average, high month, and low month) of transactions for 2001 were as follows:

OFFICE/REGION	TOTAL	MO. AVG.	MO. HIGH	MO. LOW
Region I	\$38,683	\$3,224	\$6,827	\$901
Region II	71,283	5,940	22,118	798
Region III	120,741	10,062	23,585	2,552
Region IV	107,672	8,973	14,824	2,948
Region V	34,318	2,860	6,958	709
Region VI	50,952	4,246	14,409	742
AMAC	81,681	6,807	10,059	4,516
Subtotal	\$505,330	\$42,111		
OCFO	102,654	8,554	18,234	4,955
OHR	186,146	15,512	36,711	4,124
OCIO	61,160	5,097	38,991	388
OGC	25,304	2,109	5,741	55
OCCU	18,248	1,521	3,914	0
OIG	3,817	318	954	0
Subtotal	\$397,329	\$33,111		
Total	\$902,659	\$75,222		

OBJECTIVES, SCOPE and METHODOLOGY

OBJECTIVES

1. To determine if there is any abuse of NCUA purchase cards
2. If any abuse is discovered, determine the extent of such abuse and if the abuse is systemic

SCOPE

This review was of limited scope and was performed in accordance with generally accepted government auditing standards. We did not review supporting documentation for all potentially misused charges and we assumed all hotel charges were for legitimate official business. The following was the scope of the review:

- Reviewed purchase card charges on Bank of America monthly statements for 100% of NCUA purchase cards during the period from June 2000 through November 2001.
- Reviewed OCFO purchase card payments and supporting documentation from June 2001 through December 2001.

METHODOLOGY

Our review criteria for particular transactions were judgmentally selected based upon dollar amount, “unusual” vendor name, and/or “unusual” vendor code. We reviewed supporting documentation for 122 transactions on 26 purchase cards.

- Interviewed NCUA staff and BOA officials;
- Reviewed NCUA policies and procedures;
- Reviewed BOA purchase card program documentation;
- Reviewed listings of all past due, suspended, cancelled or charged-off accounts;
- Reviewed separated employee open charge card accounts;
- Reviewed purchase card holders who had “red flag” closed accounts;
- Reviewed purchase cardholder profiles; and
- Reviewed card usage for unusual activity (100% cards)
 - Unusual vendors
 - High dollar (over \$5000) amount per transaction
 - Unusual items not normally needed by office or region.

REVIEW RESULTS

NO EVIDENCE OF ABUSE WITH NCUA GOVERNMENT ISSUED PURCHASE CARDS

There are 32 open purchase cards. All six regions, AMAC and six central offices have open purchase cards. We reviewed 31 purchase cardholder accounts for transaction activity for the period from June 2000 through November 2001. See BACKGROUND for a listing of open purchase cards. We identified “potentially” abusive transactions during this review and then judgmentally selected 122 transactions for 26 cardholders. We contacted and requested supporting documentation for each of these transactions from the 26 cardholders. In addition, we requested vendor payment supporting documentation from OCFO for the months from June 2001 through December 2001.

Our review of the requested documentation did not identify any abusive purchases made with the NCUA Bank of America issued purchase credit cards. However, we did identify some weaknesses in purchase card internal controls and card management issues, which are discussed below.

INTERNAL CONTROLS OVER USAGE NEED TO BE STRENGTHENED

We identified the following basic internal control system:

1. Purchase request/authorization;
2. Purchase supporting documentation (order confirmation, invoice, packing slip etc);
3. Payment authorization; and
4. Vendor competition, if required (transactions over \$5,000).

INTERNAL CONTROLS IN PLACE

The following are internal controls that we “observed” in the course of our review of requested documentation from cardholders. A “yes” indicates that at least one of the reviewed transaction had this internal control. A “no” indicates that none of the reviewed transactions had this internal control.

Region Office	Order Authorized	Invoice and/or Packing slip	Payment Authorized	Completed (if over \$5k)	Number of Transactions Reviewed
RI	No	Yes	Yes	N/A	2
RI	No	Yes	Yes	No	9
RII	Yes*	Yes	Yes	No	3
RII	No	Yes	Yes	N/A	3
RIII	No	Yes*	Yes	N/A	2
RIII	No**	Yes	Yes	N/A	2
RIII	No	Yes*	Yes	No	6
RIII	No	Yes	Yes	N/A	4
RIV	Yes	Yes*	Yes	N/A	3
RIV	Yes	Yes*	Yes	N/A	9
RV	No	Yes	Yes	N/A	2
RV	No	Yes*	Yes	N/A	7
RVI	No	Yes*	Yes	N/A	3
RVI	Yes*	Yes*	Yes	N/A	6
AMAC	No	Yes	Yes	N/A	4
AMAC	Yes*	Yes	Yes	No	3
AMAC	Yes*	Yes	Yes	N/A	3
OA	Yes*	Yes*	No	N/A	9
OA	Yes	Yes*	No	No	3
OA	Yes*	Yes*	Yes*	N/A	5
OTD	Yes*	Yes*	No	No	19
OCIO	Yes	Yes	No	N/A	3
OCIO	Yes	No	No	N/A	3
OCIO	Yes	Yes*	No	N/A	3
OGC	Yes	Yes	Yes*	N/A	3
OCCU	Yes	Yes	Yes*	N/A	3
Totals					122
Yes	15	25	20	20	
No	11	1	6	6	
N/A					

* Had at least one exception to control

** Cardholder stated this is a Regional Office card, which he does not use

Policy and procedures

Regions

NCUA Bulletin 1770B, dated July 15, 1999:

- “Each region can establish its own procedures requesting that goods and/or (sic) be bought using the purchase card. However, at a minimum, requests must be submitted in writing or via e-mail.”
- “RD or ARDO approve invoices for payment”

Central Offices and AMAC

NCUA Bulletin 1770B:

- If an Office Director approves a request (listing goods or service requested with approximate cost and proposed vendor) then this document is forwarded to OA Mail. After clearing with the Budget Officer, the OA contract specialist will place the order.
- The Contracting Officer approves invoices for payment.

Purchase request/authorization

Regions

Of the 14 regional purchase cards reviewed, we observed 10 that did not have any requests to purchase in writing. In addition, two regional cards had one instance each where there was no written request to purchase. Region IV has established a good purchase request/authorization document, which could be a model for universal application.

Central Offices and AMAC

Of the 12 purchase cards we reviewed, one card did not have any purchase request/authorizations (four transactions) in writing. Five of the remaining 11 cards (nine transactions) had at least one transaction that did not have prior written order authorization. This amounted to 13 out of 62 total central office transactions reviewed. Note: All but two central office purchase cards are held by staff other than OA contract specialists, contrary to policy that only contract specialists place central office purchase card procurements.

Purchase supporting documentation

Regions

All of the regions had documentation to support the majority of their actual purchases (order confirmation, invoices, packing slip). However, seven of 14 cardholders had at least one transaction where this documentation was lacking: This amounted to nine out of 60 regional transactions reviewed.

Central Offices and AMAC

One of the 12 purchase cards reviewed did not have any supporting documentation (three transactions). Five of the remaining 11 purchase cards reviewed had at least one transaction with an exception to supporting documentation (eight transactions).

Payment authorization

Regions

All regional transactions reviewed had proper payment authorizations. In other words, the RD or ARDO had documented written payment authorization on their respective regional purchase card monthly statements. However, when a transaction is neither initially requested/authorized from someone other than the cardholder and there is a lack of purchase supporting documentation, a payment authorization is lacking in proper support. This creates the risk that a statement is paid for transactions which may have not been authorized. This scenario occurred in seven reviewed transactions.

Central Offices and AMAC

Six of the 12 purchase cards reviewed did not have any authorized payment approval (40 transactions). Three of the remaining six purchase cards had at least one exception to proper authorization approval. For these latter three cards, the same individual who approved the order, also approved the card statement for payment. The majority of central office payment approvals were not made by the Contracting Office, contrary to policy as stated in Bulletin 1770B. Rather, many of the central office payment approvals either had no payment approval signature or the signature was by the cardholder.

For example, in December 2001, out of six total central office purchase card statements:

- One statement was approved by the Acting Contracting Officer;
- Two statements were approved by Deputy Office Directors; and
- Three statements had no approval signature or were signed by the cardholder.

Vendor competition

Regions, Central Offices and AMAC

We reviewed nine transactions over \$5,000. In all nine cases, there was no documented evidence that the transaction was competed or that a waiver to competition was obtained.

OFFICE/REGION	AMOUNT	DESCRIPTION	COMMENT
Region I	\$6,038	NCUA logo shirts	Per cardholder – other regions used vendor
Region II	6,200	SSP training	Per SSP – training specific to vendor
Region III	6,774	Two projectors	Only one competitive quote
Region III	9,976	Chairs	
AMAC	6,343	Legal Subscriptions	
Div. Procurement & Facilities Mgt	5,940	16 Palm Pilots	Ordered prior to Contract Officer approval
Div. Training and Development	6,000	Leadership Develop. Training	IDP signed by supervisor and Dir. OTD
Div. Training and Development	6,978	Software training	IDP signed by supervisor and Dir. OTD
Div. Training and Development	7,269	Software training	IDP signed by supervisor and Dir. OTD

IDP = Individual Development Plan

OTD = Office of Training and Development, now Div. Training and Development

Note that four of the nine transactions were for training. Per Delegated Authority HR6, Regional Directors, President of AMAC and Office Directors have the authority to approve, request and authorize training. However, it is unclear whether this is restricted by procurement policies for obtaining competitive vendors for procurements over \$5,000.

FINDING 01:

NCUA lacks a comprehensive purchase card internal control system. Compliance with internal controls, currently in place, was not consistently followed within offices or regions.

RECOMMENDATION 01:

The Contracting Officer and the OCFO should establish a comprehensive internal control structure and monitor this structure for compliance. See APPENDIX A – Recommended Internal Controls for Placing Orders and OTHER MATTERS – Policies and Procedures.

OCFO RESPONSE: OCFO disagreed with our conclusion that NCUA lacked a comprehensive purchase card internal control system. OCFO pointed out that the purchase card internal control system was established by the former Office of Administration, which was organizationally placed within OCFO during January 2002. However, OCFO agrees with the recommendation. OCFO has determined that the former practice of having the cardholder authorize the allocation of charges to the respective cost centers and accounts was not a valid form of internal control. OCFO now requires that the Office/Regional Director, or their designee, approve all charge card statements prior to allocation of expenses. In addition, the NCUA Procurement Manual is currently being rewritten. This will remove the inconsistencies with the NCUA Bulletin 1770B, dated July 15, 1999, and NCUA Instruction 2020.04 dated May 14, 1998, both prepared by the former Office of Administration.

OIG RESPONSE: We believe the evidence presented supports our conclusion. It is our understanding that the internal control weaknesses will be addressed in the rewritten Procurement Manual.

OCFO VENDOR STATEMENT PAYMENTS

Prior to June 2001, purchase cardholders received their respective credit card statements. They coded the statements for expense categories and obtained authorization to pay. The coded and authorized statements were mailed to the OCFO for payment. However, under this process, vendor statements were not being paid timely. Therefore beginning in June 2001, all purchase card vendor statements were mailed directly to the OCFO. These statements are paid prior to regional or central office director and cardholder review. The OCFO pays the vendor and an offsetting debit is made to a clearing account for each cardholder. The vendor statements are then forwarded to the respective regional/central office to identify the appropriate expense category and obtain payment approval authorization. The region or central offices forward the annotated and payment authorized statements, without supporting documentation, back to the OCFO. The OCFO then performs an adjusting journal entry to remove the charges from the respective clearing accounts and charges the appropriate expense accounts designated by the regions and central offices.

NCUA's written policies have not been revised to reflect current practices initiated in June 2001, as described above. For example:

NCUA Bulletin 1770B, dated July 15, 1999 states:

- The RD or ARDO approve regional invoices for payment; and
- The Contracting Officer approves central office invoices for payment

NCUA Instruction 2020.04 dated May 14, 1998 states:

- Offices will process original invoices for credit card purchases by approving them for payment and forwarding them to OCFO.

We reviewed the OCFO payment process for the months of June 2001 through December 2001. As shown below, over one quarter of all statements paid during this period were lacking proper authorization:

MONTH	NUMBER OF STATEMENTS REVIEWED	NUMBER OF STATEMENTS WITH AUTHORIZATION EXCEPTIONS*
May 2001	21	2
June 2001	19	2
July 2001	20	7
August 2001	17	6
September 2001	18	6
October 2001	18	6
November 2001	21	8
December 2001	19	5
Totals	153	42

* Statement not signed or initialed by Regional Director, Office Director or Contracting Officer

In several instances, the cardholder was the only approval signature on the statement. In other instances, there was no signature at all on the vendor statements.

FINDING 02:

The OCFO does not always comply with internal policies for payments of purchase card invoices. Paying purchase card invoices without proper regional or office director approval and not having any invoice supporting documentation (purchase authorization, purchase receipt etc), increases the risk of making improper vendor payments.

RECOMMENDATION 02:

The OCFO should ensure that all proper vendor invoice/statement supporting documentation is present before reallocation of clearing accounts. This supporting documentation may be stored in the respective cardholder region or office. Documentation should consist of:

1. Order request/authorization;
2. Purchase supporting documentation; and
3. Payment authorization

OCFO RESPONSE: The OCFO agrees with the finding and recommendation. Also, OCFO recommends that the monthly purchase card consolidated statement be forwarded to the Director of Procurement Facilities Management monthly to ensure that all purchase card transactions conform to NCUA's procurement policies. This review would be completed after the monthly statement has been paid and each charge applied to the appropriate cost center and account classification.

CARD MANAGEMENT ISSUES SHOULD BE ADDRESSED

CARDHOLDER ISSUANCE

According to NCUA Bulletin 1770B, there are two purchase cards held by Office of Administration (now Division of Procurement and Facilities Management) staff members and, while the number regional cards vary, each region has at least two cards.

FINDING 03:

NCUA policy and actual practice are not consistent. There are eight purchase cards in the central office outside of the Division of Procurement and Facilities Management. In addition, the Division of Procurement and Facilities Management has three purchase cardholders. It is also unclear, whether Office Directors have delegated procurement authority. Per Instruction 1770.11 7.f., "central office directors and the president of CLF (Central Liquidity Facility) have not been delegated procurement authority." But according to Instruction 1770.11 7.b., "NCUA's primary contracting officer...is authorized to sign all agency procurement documents, and may appoint a designee to act in his stead."

RECOMMENDATION 03:

The policy regarding whether central office staff, other than the Contracting Officer, have procurement authority should be clarified. In addition, the Contracting Officer should review the dollar volume of activity of cardholders to determine a reasonable dollar credit limit for purchase cards and consequently, the number of cards that need to be issued. See BACKGROUND – Estimate of Dollar Usage.

OCFO RESPONSE: The OCFO agrees with the finding and recommendation. OCFO stated that the policy for making and paying purchase card transactions is currently being rewritten.

FINDING 04:

Purchase cardholders have a substantial line of credit (\$25,000 to \$50,000 per month) and NCUA is liable for all charges on the purchase cards. We identified several NCUA purchase cardholders who had past government credit card "red flags" on their accounts. The following is a list of current purchase cardholder past "red flags"

- Two cardholders had purchase cards closed due to security reasons (unable to determine reason)

- One cardholder had an individually billed travel card closed due to security reasons (unable to determine reason)
- One cardholder has an individually billed travel card which is past due
- One cardholder had an individually billed travel card cancelled due to non-payment

RECOMMENDATION 04:

Review, at least annually, potential new cardholders and current cardholders for government (purchase or travel) card red flags and determine if the risk of the red flag warrants the staff person continuing as a purchase cardholder. This review should be documented in writing.

OCFO RESPONSE: The OCFO agrees with the finding and recommendation. The OCFO believes that the monthly dollar limits for the purchase cards should be revised. The Office of the Chief Technology Officer, the Division of Training and Development and the Division of Procurement and Facilities Management should have the higher limits of \$50,000, and all other offices should be limited to \$25,000. Since the amounts now charged are directly posted to the office/regional office budgets, there is no indication that the current limits are exceeded or there is a control problem. Also, OCFO agrees that the annual review of all “red flags” is appropriated to reduce any risk to NCUA.

AOPC DESIGNATION

FINDING 05:

Agency/Organization Program Coordinator (AOPC) designations are outdated. Sixteen current accounts list the AOPC as an individual who is no longer the Regional Director for the cardholder’s region or the Contracting Officer for the central office.

RECOMMENDATION 05:

The OCFO should periodically review AOPC designations and make revised AOPC designations, as appropriate, in a timely fashion.

OCFO RESPONSE: The OCFO agrees that the finding is correct. The designations of former RD’s and Contracting Officers have not been valid for over two years. After implementation of the purchase card program, the regional offices decided that they did not need AOPC access. The AOPC remained inactive on the database as a decision of the contracting bank. However, the OCFO believes that monitoring of the purchase card accounts is performed through monthly reviews of purchase card statements. The OCFO agrees with the recommendation and will designate the Director of Facility Management Services as the AOPC on all purchase card accounts.

ACCOUNT DOLLAR and MERCHANT CODE LIMITS

Account Dollar Limits

There are three purchase card account groupings (hierarchies) in use at NCUA. Each of the three has different dollar limitations. However, all three have the same merchant code (types of vendors, i.e. restaurants) restrictions. See BACKGROUND – Number of cards issued for detail of the dollar limitations by card.

The first hierarchy has 26 purchase cards with a \$10,000 daily limit. Seven of these cards have a \$50,000 cycle (monthly billing) limit and 19 have a \$25,000 cycle limit. In other words, the cardholders can make purchases up to \$10,000 per day and up to \$25,000 or \$50,000 per month, respectively.

The second hierarchy has three purchase cards with a \$10,000 single purchase limit. Two of these cards have a \$50,000 cycle limit and one card has a \$25,000 cycle limit. In other words, the cardholders can make individual purchases up to \$10,000 each and can make purchases up to \$25,000 or \$50,000 per month, respectively.

The third hierarchy has three cards with a \$5,000 single purchase limit and \$25,000 cycle limit. In other words, these cardholders can make individual purchases up to \$5,000 and \$25,000 per month.

FINDING 06:

During our review, we noted that every transaction (nine) over \$5,000 was in non-compliance with competition or waiver to competition policy and procedures. In addition, it does not appear that the \$50,000 cycle limit is warranted. All purchase cards have a \$25,000 or \$50,000 monthly spending limit. During 2001, only two offices had any single month with purchases exceeding \$25,000.

RECOMMENDATION 06:

We recommend that all purchase cards have a \$5,000 single purchase limit and that the cycle limit be reviewed to reflect reasonable usage patterns.

OCFO RESPONSE: OCFO agrees that all credit card purchases over \$5,000 for items not purchased from the General Services Administration (GSA) Federal Supply Schedule, Government Wide Access Contracts must conform to NCUA's policy and procedures regarding competition in the market place. However, OCFO told us that since all the purchases noted in the OIG's report were off the GSA schedule, they were properly competed as required. OCFO also believes that the \$25,000 to \$50,000 monthly spending limits are appropriate based upon needs and functions of the various offices. It is currently the initiative of the Administration to encourage more use of purchase card transactions to streamline government efficiency and reduce costs.

OIG RESPONSE: The OIG was not furnished with any evidence that any of the "exception" transactions were purchased from the GSA schedule. The OCFO conclusion that all of the transactions were purchased from the GSA schedule was based

upon verbal assurances. OCFO assured us that it would require documented evidence in the future for GSA schedule transactions over \$5,000.

Merchant Code (MCC) Restrictions

Merchant code restrictions can be placed on purchase cards and provide an additional internal control against misuse. These merchant codes identify like kinds of vendors. For instance, veterinary services are merchant code 0742. By placing a merchant code restriction on code 0742, the restricted purchase card can not be used to procure veterinary services.

Bulletin 1770B, dated July 15, 1999 states:

Purchase cards can be used for anything except

- Airfares and other forms of transportation
- Contracts awarded from a formal solicitation
- Purchase of goods and services over \$25,000

Current merchant code restrictions on purchase cards include:

- All airlines, except code 4511 (Airlines Air carriers)
- Wire transfer money orders
- Utilities
- Financial institutions (cash disbursements, merchandise services/convenience checks)
- Betting – Including lottery, gaming chips, track wagers
- Intra company purchases

FINDING 07:

Purchase cards are not restricted to other forms of transportation such as rental cars, railways, taxicabs, bus lines, cruise lines and boat rentals. In addition there are many merchant codes, on NCUA purchase cards, which are not restricted but seem unlikely to be needed for official purposes, such as:

- Veterinary services 0742
- Marinas Marine supplies 4458
- Travel agencies and tour operators 4722
- Package tour operators 4723
- Motor vehicle supplies and new parts 5013
- Cigar stores and stands 5993
- Pet shops 5995
- Swimming pools 5996
- Non-financial institution Foreign currency 6051
- Securities brokers dealers 6211
- Insurance 6300, 6381, 6399
- Trailer parks and campgrounds 7033
- Beauty shops and barber shops 7230
- Funeral services 7261
- Dating and escort services 7273
- Tax preparation service 7276

- Massage parlors 7297
- Truck stop transactions 7511
- Motor home and recreational vehicle rental 7519
- Automotive shops 7531-7549
- Motion picture theatres 7832
- Dance halls studios and schools 7911
- Theatrical producers 7922
- Bands, orchestras 7929
- Billiard, pool and bowling 7932, 7933
- Amusement Parks 7996
- Country clubs 7997
- Aquariums 7998
- Elementary and secondary schools 8211
- Child care services 8351
- Political organizations 8651
- Religious organizations 8661
- Automobile associations 8675
- Bail and bond payments 9223

RECOMMENDATION 07:

The OCFO should consider expanding the use of merchant code restrictions after considering the purpose and intended use of NCUA’s purchase cards.

OCFO RESPONSE: The OCFO agrees with the finding and recommendation.

IMPROPER OPEN ACCOUNTS

FINDING 08:

We identified three former employees who had open purchase card accounts. However, no activity was posted on these cards subsequent to their separation from NCUA. We forwarded these names to OCFO for action.

RECOMMENDATION 08:

At least annually, the NCUA should match all purchase cardholders to a current NCUA employee roster. Any discrepancies should be reviewed and resolved. Additionally, the NCUA should review the separated employee process (policy, procedures, controls) for reliability.

OCFO RESPONSE: The OCFO agrees with the finding and recommendation. The cards for the three separated employees have been cancelled by OCFO. Purchase cards are issued to offices for authorized purchases, and carried one or more individual’s name. When the individual(s) leave or transfer, the card remains in the office, and can be used by another individual in the office. A name on a purchase card is a matter of formality and does not serve as a personal liability or limitation. There is a certain amount of turnover for ownership of the card, particularly in the regions, and there has not been consistent notification to change card ownership.

OIG RESPONSE: Notwithstanding OCFO comments, Bank of America Cardholder Procedures – General Information and Guidelines, state -“Use by anyone other than the approved cardholder is strictly prohibited”.

OTHER MATTERS

POLICIES AND PROCEDURES

FINDING 09:

As discussed above, internal control policies and procedures are not comprehensively defined. We observed through our review a myriad of policy and procedure documents. These ranged from Delegated Authorities, NCUA Instructions and Bulletins to memoranda and ad hoc office forms. This has produced a non-comprehensive, disjointed and sometimes contradictory guidance. For instance:

Non-comprehensive

- Documentation for card issuance and card usage is not discussed in any of the written guidance we reviewed. The guidance leaves unstated, what office or staff persons should retain documentation evidencing requests for cards, and granting of such requests? Also left unanswered is, which office or staff person should retain supporting documentation for purchases?
- Staff responsibilities are not clearly defined. That is who is authorized to request that a particular cardholder make a specific purchase?
- For regions “at a minimum requests must be submitted in writing or via e-mail.” Who is authorized to submit requests and to whom do they submit them?
- Training and qualifications are not discussed for responsible staff

Disjointed

- Policy states that the Contracting Officer approves all Central Office purchase card statements for payment, yet practice is that Office Directors or cardholders themselves approve purchase card statements for payment.
- It is unclear what criteria is used to determine credit limits for particular credit cardholders.
- It is unclear why certain merchant code restrictions were established on the purchase cards; while other merchant codes with obvious non-governmental procurement use were retained.
- Having each region determine its own purchase card policies and procedures.

Contradictory

- Does having central office staff, other than the Contracting Officer, make and approve credit card purchases, contradict procurement delegations of authority?
- Does the delegation of authority to order training for staff fall under procurement competition policies?

RECOMMENDATION 09:

The agency should draft a procurement policy and procedure manual. This should be comprehensive by including all types of procurements (contracts, purchase orders, credit cards etc); appropriate laws and regulations; Board delegated authorities; staff duties responsibilities; training required; internal control structure(s); work processes and methods of performing procedures/processes (identified software and procedures, forms etc). Updates should be forwarded to all responsible staff and then incorporated into the manual in a timely fashion. Specifically for purchase card procurements, the agency needs to clearly define delegated authorities; card issuance, usage and cancellation procedures; restrictions; training; documentation retention; and internal controls.

OCFO RESPONSE: OCFO agrees with the finding and recommendation.

TRAINING

FINDING 10:

NCUA provides no training regarding purchase card policies and procedures. Cardholders are mailed a BOA pamphlet when their card issued to them. It is uncertain what procurement training is provided to persons authorizing purchases, persons approving payments and AOPCs. There are no training or qualification requirements noted in NCUA purchase card policies.

RECOMMENATION 10:

We recommend that upon completion of a more comprehensive guide to purchase card policy and procedures, that the OCFO conduct an in-house training session for all staff with purchase card responsibilities (issuance, purchase authorization, cardholder, payment authorization, monitoring, cancellation etc). Any new staff person, assigned purchase card duties should be required to undergo appropriate training. The training provided should be documented and the individual certified as having taken the course(s).

OCFO RESPONSE: OCFO agrees with the finding and recommendation.

APPENDIX A – SUGGESTED INTERNAL CONTROLS FOR PLACING ORDERS

Below is an OIG suggested internal control structure for use of credit cards when placing orders (card usage).

The work process and responsible staff for a request to purchase (Order Authorization) is:

- Staff person “A”, perhaps a division director or deputy, places a request to purchase.
- The written request is sent to the cardholder (Staff person “B”)
- The request should be in writing and identify, the item(s), estimated cost, proposed vendor or vendors, and budget code to be charged.

The work process and responsible staff for Placing an Order is:

- Staff person “B” is the cardholder, perhaps someone with purchase requisition duties and training, places the order following the above Order Authorization.
- Staff person “B” obtains and retains an order confirmation (if available), invoice, and/or a packing slip (if available) for the order placed.
- Staff person “B” notifies staff person “A” when the order has been placed.
- Staff person “B” receives the ordered item and notifies staff person “A” when the item has been received (unless it is an accountable item, in which case it follows already established policy and procedures).
- Staff person “B” prepares the cost allocation (general ledger codes) on the vendor statement.

The work process and responsible staff for Payment Authorizations is:

- Staff person “C” is the regional/office director and approves purchase card statements for payment.
- Staff person “C” approves payment of vendor statements after reviewing the above documentation (order authorization, placing order).
- Staff person “C” forwards the approved statement and all supporting documentation to the OCFO for payment

The work process for Payment of statements is:

- The OCFO follows the current policy of making payments upon receipt of vendor statements.
- The OCFO reviews each vendor statement and all attached documentation and approvals (order authorization, placing order, payment authorization) for payment approval.
- The OCFO, after the above review, prepares the cost reallocation (general ledger codes) from clearing accounts to the appropriate expense/asset accounts.

For orders over \$5,000:

- No purchase card orders over \$5,000 should be allowed via single purchase limit of \$5,000 on all purchase cards.

NOTE: Staff persons A, B and C should be different designated staff. Each of them should also have an alternate.