



U.S. Securities and Exchange Commission

Office of Inspector General

Office of Audits

Internal Control Review of the Government Purchase Card Program



**KEARNEY &
COMPANY** *Certified Public Accountants
and Consultants*

September 18, 2008
Report No. 440



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

OFFICE OF
INSPECTOR GENERAL

September 18, 2008

To: Sharon Sheehan, Associate Executive Director, Office of Administrative Services

From: H. David Kotz, Inspector General *HDK*

Subject: *Audit of the Government Purchase Card Program, Report No. 440*

This memorandum transmits the Securities and Exchange Commission, Office of Inspector General's (OIG's) final report detailing the results of our audit on the government purchase card program. The audit was conducted by OIG's contractor Kearney & Company, as part of our continuous effort, to assess the management of the Commission's programs and operations.

The final report contains 17 recommendations, which if implemented, should improve the operations of the government purchase card program. Your written response to the draft report, dated September 15, 2008, is included in its entirety in Appendix II to the audit report. The Office of Administrative Services concurred with all of the report recommendations and has already initiated corrective action to address many of the deficiencies identified during the audit.

Should you have any questions regarding this report, please do not hesitate to contact me. We appreciate the courtesy and cooperation that you and your staff extended to our auditors and contractor during this audit.

Attachment

cc:

Peter M. Uhlmann, Chief of Staff
Diego Ruiz, Executive Director, Office of the Executive Director
Kristine Chadwick, Associate Executive Director, OFM
Norbert Doyle, Assistant Director, Office of Acquisitions, OAS
George Eckard, Assistant Director, Finance and Administration Office, OIT
Zayra Okrak, Assistant Director, Finance and Accounting Office, OFM
Diane Galvin, Assistant Director, Planning and Budget Office, OFM
Alan Diguardia, Branch Chief, Financial Operations Branch, OFM
Kim Davis, GPC Agency Program Coordinator, OAS
Darlene L. Pryor, Management Analyst, OED

Rick Hillman, Managing Director of Financial Markets and Community Investment, GAO

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1. EXECUTIVE SUMMARY

The Securities and Exchange Commission's (SEC's) Office of Inspector General (OIG) contracted the services of Kearney & Company (Kearney) to conduct an audit of the SEC's Government Purchase Card (GPC) program. Effective internal controls over the GPC program are necessary to ensure that fraudulent, improper, and abusive purchases do not occur, and if such purchases do occur, the transactions are promptly detected and appropriate corrective action is taken.

The OIG contracted Kearney to conduct this audit as a follow-up to the OIG's report, *Purchase Cards*, which was issued November 25, 2002. Kearney's primary audit objectives were to assess the design of the GPC program's internal controls and operations and to determine whether:

- 1) improper or potentially fraudulent purchases were made through the GPC program; and
- 2) GPC purchases complied with spending limits, competitive bid requirements, and Property Management program requirements.

Kearney found that while the internal controls over the GPC program are generally adequately designed, based on the results of the test work performed, the controls are not operating effectively. Kearney identified several themes in exceptions that were found during testing of GPC transactions. The SEC is not in compliance with current documented policies and procedures, and the SEC has not revised its policies and procedures. In the interim, SEC divisions and offices have adopted unapproved, unofficial operating practices. This includes variation in the use of a BankCard Log to track GPC transactions.

The SEC does not obtain required approvals or retain required documentation for GPC transactions. Kearney's testing of GPC transactions identified missing transaction approvals, lack of required competitive bids, and missing supporting documentation. For example, approximately 20 percent of tested transactions did not provide support for receipt of goods or services.

In addition, Kearney identified two expenditures that were bifurcated to circumvent approval dollar thresholds. Kearney also identified deficiencies in the training and certification of users prior to the issuance of GPCs, as well as inadequate control over spending limits and untimely cancellation of GPCs. Combined, these deficiencies increase the risk of waste and defalcation through poor training and monitoring of purchasing practices.

Additionally, Kearney identified certain instances where the implementation of additional controls is needed. For example, the Office of Administrative Services (OAS) should set up a process to ensure completion of GPC training and a signed Letter of Delegation before the GPC is issued.

Although Kearney noted no occurrences of fraud in its test work, the current internal control environment creates increased risk of waste, fraud, and abuse in the GPC program. This report provides seventeen recommendations, several of which OAS personnel have begun to address. OAS concurred with all seventeen of the findings and recommendations. Management's response is included in its entirety in Appendix II.

2. OBJECTIVES, SCOPE, AND METHODOLOGY

OIG contracted Kearney to conduct this audit as a follow-up to the OIG's report, *Purchase Cards*, which was issued November 25, 2002. Kearney's audit objectives were to assess the design of the GPC program's internal controls and operations and to determine whether:

- Corrective actions from the prior OIG report were implemented.
- Improper or potentially fraudulent purchases were made through the GPC program.
- GPC purchases complied with spending limits, competitive bid requirements, and Property Management program requirements.
- Only authorized employees made purchases through the GPC program.
- GPCs were deactivated in a timely manner when cardholders left the SEC.

In performing the test work for the GPC Program, Kearney considered the following key controls as prescribed in the SEC Administrative Regulations and the Smartpay Purchasing Card Program procedures:

- Current practices are in compliance with formal policies and procedures.
- Cardholders verified funds were available before making a purchase.
- Multiple order transactions had quotes from two or more suppliers to justify the vendor that was used.
- Purchases were recorded on the BankCard log and supporting documentation was retained.
- Purchases were tax exempt.
- Cardholders did not exceed their GPC threshold authority.
- Receiving reports or receipt confirmations for purchases were included in supporting documentation retained by the cardholder.
- Partial deliveries were not charged the full amount on the GPC.
- Amended cardholder statements had the supporting documentation sent to the Transaction Disputes Officer.
- The cardholder reconciled the monthly statement and submitted it to the Approving Official within two days of receipt.
- The Approving Official approved transactions for payment.
- Cardholders did not use the GPC to procure prohibited items.
- The Associate Executive Director, Office of Information Technology (OIT), approved purchases for Automated Data Processing equipment, supplies, or services. A copy of the Procurement Requisition authorizing the purchase was delivered to the property officer, who is responsible for verifying that the information agrees with the data in TRAQ, the property tracking system.
- Payments were made within 30 calendar days of receipt of the cardholder statement as required by the Prompt Payment Act (Public Law 97-177).

Kearney reviewed prior findings and recommendations from the OIG November 25, 2002 report, *Purchase Cards* and found that the SEC closed the report's seven recommendations regarding the GPC, as the result of corrective action management took to correct the deficiencies.

However, based on the seventeen recommendations in the report resulting from Kearney's audit, it is evident that the SEC needs to take additional corrective actions.

The audit's scope encompassed fiscal year (FY) 2007 and included 4,744 transactions that were posted to the GPC from October 1, 2006 to September 30, 2007. The audit focused solely on the SEC's GPC program. Kearney conducted this performance audit in accordance with generally accepted government auditing standards. These standards require Kearney to plan and perform the audit in order to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objectives. Kearney believes that the evidence obtained provides a reasonable basis for its findings and conclusions based on the audit objectives.

Kearney interviewed key personnel for the GPC program at SEC headquarters to gain an understanding of GPC program policy and procedures in place. Personnel interviewed included: the Agency Program Coordinator (APC), GPC holders, Approving Officials, and budget analysts. Kearney performed tests of controls in order to ensure that they were operating as intended. Kearney used IDEA® – Data Analysis Software to compute a sample size at a 95 percent confidence level. Kearney selected a statistical sample of 76 GPC transactions totaling \$491,465 from the universe of 4,744 transactions with an absolute value of \$9,043,394 posted to the GPC from October 1, 2006 to September 30, 2007, and including all SEC offices. Consequently, SEC's headquarters and its regional offices were included in Kearney's testing procedures. Cardholders who had a GPC transaction selected in the sample of 76 GPC transactions were selected for cardholder testing, which was performed for 27 of the SEC's 96 cardholders. SEC's operating procedures were first compared to the agency's formal internal policies and procedures, and then were evaluated against applicable laws, regulations, and best practices prescribed by internal control guidance and issued by the Committee of Sponsoring Organizations (COSO) and the Government Accountability Office (GAO). Examples of the internal control guidance include COSO's *Internal Control – Integrated Framework* and GAO's *Standards for Internal Control in the Federal Government* (Green Book).

3. BACKGROUND

The SEC selected Mellon Bank to serve as the vendor for the GPC program. The SEC has 96 employees located at its headquarters and regional offices that are approved GPC holders who make purchases on behalf of the agency. The GPC holders primarily make small purchases for the agency for goods and services up to \$3,000. The OAS issued guidance for the GPC program, the SECR 10-6, *Smartpay Purchasing Card Program*, on June 30, 1999.

Cardholders are responsible for the GPCs and are directed to use them as prescribed in the SECR 10-6, *Smartpay Purchasing Card Program*. All cardholders receive a Letter of Delegation of Authority sanctioning their GPC authority and spending limits, as approved by the Associate Executive Director of OAS. According to the SECR 10-6, *Smartpay Purchasing Card Program*, "Training for cardholders and approving officials will be given by the APC. The objective of the training is to acquaint them with the guidelines in this regulation." To satisfy this training requirement, cardholders must complete the General Services Administration's (GSA) web-based training before they can be issued a GPC.

The OAS appoints an APC to oversee the GPC program. The APC's duties include, but are not limited to serving as liaison to Mellon Bank, instructing cardholders and Approving Officials, conducting high-level reviews of purchases, following up on disputed charges and billing errors, etc. Approving Officials serve to ensure the GPC program is administered in compliance with governing GPC regulations. Approving Officials complete a detailed review of transactions prior to approving the cardholders' statements for payment. OIT must approve all IT purchases – only cardholders in OIT are authorized to make IT purchases.

Each month, Mellon Bank sends a statement to all cardholders. The statement identifies all the purchases made on the GPC by transaction. In addition, a consolidated statement is sent to the Office of Financial Management (OFM). The consolidated statement is comprised of all GPC purchases and is listed by the name of the cardholder. The consolidated statement is used to ensure that approved statements are received and the total amount due is remitted to Mellon Bank. Within two days of receipt, cardholders are required to reconcile and sign the individual statements, and then forward it to the Approving Official, who certifies the statement by signing it. OFM only pays statements that both the cardholders and the Approving Officials have signed.

4. RESULTS

A detailed discussion of Kearney's findings follows:

Outdated Purchase Card Regulation

The SECR 10-6, *Smartpay Purchasing Card Program*, was issued on June 30, 1999 and needs to be revised. The regulation is outdated and consists of procedures that are different from those currently followed by GPC program officials and cardholders. Thus, GPC program officials and cardholders are currently in violation of this SEC regulation in a number of areas. For example, cardholders are currently using a small purchase threshold of \$3,000 whereas the SECR 10-6, *Smartpay Purchasing Card Program*, establishes a threshold of \$2,500.

In addition, several of the forms detailed in the SECR 10-6, *Smartpay Purchasing Card Program*, are obsolete. For example, only one department still uses the SEC Form 1710, *Procurement Requisition*.

Recommendation 1

The Office of Administrative Services should revise the SECR 10-6 *Smartpay Purchasing Card Program* to reflect relevant procedures that Government Purchase Card program officials and cardholders should follow. Additionally, the SECR 10-6, *Smartpay Purchasing Card Program*, should be revised periodically as procedural or policy changes occur.

BankCard Log Not Used

Kearney tested 76 GPC transactions and found that for 44 of the 76 GPC transactions tested, a BankCard log was not provided by the cardholder. At a minimum, the BankCard log should contain the vendor's name, a brief description of the purchase, the amount spent, and the date of

purchase. BankCard logs are required to ensure that all GPC purchases are properly accounted for and comply with current SEC policy. The SECR 10-6, *Smartpay Purchasing Card Program*, Section B, Paragraph 9.c states, “When making a credit card purchase, the cardholder must enter the transaction on the BankCard order log, and retain in a file any documentation associated with the acquisition.”

OAS officials stated that the SECR 10-6, *Smartpay Purchasing Card Program*, is outdated and that current practice no longer requires cardholders to use BankCard logs. However, Kearney identified several cardholders that have continued to maintain a BankCard log, and it is an effective internal control mechanism. Without the continued use of a BankCard log, individual GPC users will not be able to readily verify transactions that appear on GPC statements.

Recommendation 2

The Office of Administrative Services should require that Government Purchase Cardholders use a BankCard log (manual or automated) each month to verify purchases.

Documentation Not Available

The audit found that cardholders did not retain required documentation to support GPC transactions. Specifically, Kearney found that:

- For 15 of 76 GPC transactions tested, no evidence of receipt of goods or services was available.
- For 3 of 76 GPC transactions tested, no Mellon Bank GPC Statement was available.
- For 10 of 76 GPC transactions tested, no invoice was available.
- For 11 of 76 GPC transactions tested, no availability of funds confirmation was available.

In addition, the audit found that cardholders did not always retain the Letter of Delegation, which documents their spending and usage limits, or the GSA training certificate that documents that the cardholder has completed the required training. Specifically, Kearney found that:

- For 5 of 27 cardholders tested, no Letter of Delegation was provided.
- For 1 of 27 cardholders tested, no GSA web training certificate was provided.

SEC GPC cardholders did not have files that contained all the required documentation. The GAO’s *Government Auditing Standards*, Chapter 1, Section 1.02, states, “Government managers are responsible for providing reliable, useful, and timely information for accountability of government programs and their operations.” Further, the SECR 10-6, *Smartpay Purchasing Card Program*, Section B, Paragraph 9.c states, “When making a credit card purchase, the cardholder must enter the transaction on the BankCard order log, and retain in a file any documentation associated with the acquisition.” Because documentation was not retained, purchases were not adequately supported and the cardholders’ delegated authority to use the GPC was not evidenced.

Recommendation 3

The Office of Administrative Services should revise the SECR 10-6, *Smartpay Purchasing Card Program*, and require cardholders to retain in their files: purchase receipts, Mellon Bank Government Purchase Card Statements, invoices, confirmations for availability of funds, Letters of Delegation, training certificates, etc. The documentation should be readily available for review and stored in a manner that will allow an individual other than the cardholder to find a specific transaction, if necessary.

Approvals Not Obtained

The audit found that cardholders did not obtain approval of the monthly GPC statement from the assigned Approving Official. The SECR 10-6, *Smartpay Purchasing Card Program*, Section A, Paragraph 2.f states, “When reconciled and validated by the cardholder, the statement is forwarded to the cardholder’s approving official for signature.” Kearney found that the Approving Official did not sign the GPC statement for 4 of 76 transactions that were tested. However, in those cases, Mellon Bank was paid even though verifiable authorization for payment from the assigned Approving Official was not obtained.

Recommendation 4

The Office of Administrative Services Agency Program Coordinator should periodically issue a reminder to cardholders that monthly Government Purchase Card statements must be signed by the assigned Approving Official prior to payment and that without the signed statements, payment should not be made.

Quotes Not Obtained

The SECR 10-6, *Smartpay Purchasing Card Program*, Section A, Subsection 3, *Responsibilities*, states, “Purchases in excess of \$2,500 are treated subject to the requirements in 48 CFR Part 13,” and the cardholder “Ensures that when a purchase exceeds \$2,500 with only one source or specific make or model, that an SEC Form 2180, Notation to the File for Non-Competitive Action, is prepared.” In September 2006, the Federal Acquisition Regulation, Part 13 was revised and the micro-purchase threshold was increased from \$2,500 to \$3,000. The SEC’s GPC practice during Kearney’s audit allowed cardholders to use \$3,000 as the micro-purchase threshold limit. Therefore, the SECR 10-6, *Smartpay Purchasing Card Program*, is outdated and needs to be revised to reflect the Federal Acquisition Regulation \$3,000 micro-purchase threshold limit.

The audit found that cardholders made GPC purchases without the adequate price verification and authorization of procurement method (i.e., sole source). Of the 40 transactions (all of which were over the \$3,000 threshold) that were tested, 5 did not have evidence of a quote from the vendor or the sole source justification that is required for transactions over \$3,000. Without obtaining quotes or justifying the use of a sole source, the SEC may not receive the best value for the goods and services it procures. Details of the 5 transactions are provided in the table below:

Table 1. Transactions Without Vendor or Sole Source Justification

Date of Transaction	Amount
October 13, 2006	\$10,000.00
October 20, 2006	\$5,388.63
January 15, 2007	\$ 3,327.10
March 8, 2007	\$10,120.00
July 20, 2007	\$19,250.00

Source: Kearney & Company Generated

Recommendation 5

The Office of Administrative Services should revise the SECR 10-6, *Smartpay Purchasing Card Program*, to ensure compliance with the Federal Acquisition Regulation pertaining to vendor quotes and the \$3,000 micro-purchase threshold limit.

Recommendation 6

The Program Coordinator should periodically issue a reminder to cardholders that prior to making a purchase over \$3,000, they must obtain and retain evidence of quotes or a sole source justification.

Split Transactions

Cardholders used the GPC to make multiple payments to the same vendor, for the same type of items purchased, on the same day. The SECR 10-6, *Smartpay Purchasing Card Program*, Section A, Paragraph 2.p states, “Neither cardholders nor merchants are allowed to split a single purchase into smaller dollar transactions in order to avoid exceeding the single purchase limit.”

Of the 76 transactions tested, 2 were split purchases. In these situations, the purchases were divided into multiple transactions. For example, one of the split purchase transactions involved a copier maintenance agreement that was paid for each machine, each month, and totaled \$5,388.63 from October 17, 2006 to October 25, 2006. The second split purchase was for seminars totaling \$10,120, which was paid for with four \$2,530 transactions. By splitting the purchases and ignoring the purchase limits, the potential risk of improper purchases increases.

Recommendation 7

The Office of Administrative Services should issue guidance to cardholders describing what constitutes a split purchase, warning of the prohibition against splitting purchases and specifying the penalty for making a split purchase.

Information Technology Approval Not Obtained

The audit found that IT purchases were made without OIT’s prior approval. The sample of 76 GPC transactions selected contained 34 transactions for IT-related purchases. Kearney tested

these 34 transactions and found OIT did not approve 2 of the IT-related purchases. Without obtaining OIT approval, cardholders can potentially make purchases that are incompatible with SEC's current IT infrastructure.

The SECR 10-6, *Smartpay Purchasing Card Program*, Section B, *Smartpay Purchasing Card Program*, Paragraph 8.a states, "The purchase of ADPE [automatic data processing equipment] supplies and services must be approved by the Associate Executive Director, Office of Information Technology (OIT)." Since this position no longer exists, the SEC's current practice is to have IT purchases made with the GPC approved by either the Assistant Director, Finance and Administration Office or the Branch Chief, Budget and Acquisitions Branch within OIT depending on the dollar amount of the purchase and other factors. For 2 of the 34 IT-related purchases we reviewed, we found no evidence of OIT approval by these individuals or offices on the SEC Form 1710, *OIT Procurement Requisition*, or supporting documents maintained by the cardholders.

Recommendation 8

The Office of Administrative Services, in consultation with the Office of Information Technology, should revise SECR 10-6, *Smartpay Purchasing Card Program*, to reflect current practices with regard to approval of information technology purchases made with the Government Purchase Card. The regulation should also emphasize the importance of information technology-related purchases being approved by the Office of Information Technology prior to the purchase and clarify the types of purchases that require Office of Information Technology approval. This will help ensure that Information Technology purchases are not made until all approvals are obtained.

Availability of Funds Not Obtained Prior to Purchase

The audit found that cardholders made purchases on the GPCs prior to obtaining confirmation that funds were available to be obligated. Of the 76 transactions tested, Kearney found 9 transactions where the confirmation of availability of funds was not made before the purchase occurred. While funding for the 9 transactions was ultimately available, cardholders are not authorized to make purchases without ensuring funding is available. The SECR 10-6, *Smartpay Purchasing Card Program*, Section A, Paragraph 3.d states, "The Cardholder: (1) Ensures funds are available *before* making credit card purchases."

Recommendation 9

The Office of Administrative Services Agency Program Coordinator should issue a reminder to cardholders that Government Purchase Card transactions must have funds obligated prior to making a purchase.

Incorrect Fiscal Year Funds Used

Of the 76 GPC transactions Kearney tested, ten were committed in FY 2006 and paid in FY 2007. However, Kearney found that two of the ten transactions were paid with FY 2007 funds,

when FY 2006 funds should have been used. In those cases, FY 2006 funds should have been used because the purchases originated in FY 2006. Cardholders had to identify which commitments were open at the end of FY 2006 and then inform OFM so that the manual processes required by the Momentum system to reserve funds into the next FY could be completed. If the manual process was not done, then funds would not be reserved and current year funds would be required for payment.

Recommendation 10

The Office of Administrative Services Agency Program Coordinator should consult with the Office of Financial Management to verify that obligations that are open at the end of the fiscal year are rolled forward into the next fiscal year.

Late Payment

For GPC purchases tested, 12 of 76 were paid over 30 days after receipt of the Mellon Bank GPC statement. Per 5 CFR 1315.10, *Late Payment Interest Penalties*, “Interest will be calculated from the day after the payment due date through the payment date at the interest rate in effect on the day after the payment due date....” The root cause of the late payments could not be determined from the GPC transaction testing because no systemic trends were identified. Due to the late payments, the SEC paid \$2,655 in interest to Mellon Bank, thus incurring unnecessary costs.

Recommendation 11

The Office of Administrative Services Agency Program Coordinator and the Office of Financial Management should work together to identify underlying root causes, thereby ensuring payments are made to Mellon Bank within 30 days after receipt of the Mellon Bank Government Purchase Card statement.

Training Not Provided

The audit determined that the APC does not offer formal training to cardholders as directed by the SECR 10-6, *Smartpay Purchasing Card Program*. Cardholders only take training provided online by GSA. Upon completion of the training, the cardholder forwards the certification to the APC. However, based on a comparison of the GSA online training to the SECR 10-6, *Smartpay Purchasing Card Program*, the guidance contains numerous policies that are not covered in the GSA on-line training such as:

- Authorized usage limits and Merchant Category Code access.
- Review of the card statement and submission to the Approving Official.
- What to do in case of a partial delivery.
- What to do for a billing error or a dispute.
- IT approval requirement.
- Policies upon separation.

The APC occasionally sends cardholders an email to remind them of GPC policy. However, the APC's e-mail distribution list does not include all cardholders.

The SECR 10-6, *Smartpay Purchasing Card Program*, Section B, *Smartpay Purchasing Card Program*, Paragraph 18, *Training*, Subsection a, states that, "Training for cardholders and approving officials will be given by the APC. The objective of the training is to acquaint them with the guidelines in this regulation." The lack of proper training can lead to misunderstanding and misuse of the GPC.

Recommendation 12

The Office of Administrative Services should develop a formal Securities and Exchange Commission Government Purchase Card training course and set up a plan to rollout the training to all cardholders in a timely manner.

Recommendation 13

The Office of Administrative Services Agency Program Coordinator should update the email distribution list to ensure that Government Purchase Card email messages are sent to all cardholders.

Untimely Certification

Most cardholders received their GPC and purchase delegation authority prior to completing the appropriate GPC training and signing the Letter of Delegation. Without taking GPC-related training and signing a Letter of Delegation, cardholders will not be aware of the GPC limitations and governing regulations. Thus, the risk of GPC misuse and/or abuse increases. Specifically, Kearney found that:

- Out of 27 cardholders tested, 20 completed the GSA web training after being issued the GPC.
- Out of 27 cardholders tested, 24 signed their Letter of Delegation after being issued the GPC.

The SECR 10-6, *Smartpay Purchasing Card Program*, Section A, Paragraph 3.b (3) states that the APC, "Provides information and conducts training to approving officials, cardholders, and others who may become involved in the SmartPay Purchasing Card Program."

The SECR 10-6, *Smartpay Purchasing Card Program*, Section A, Paragraph 2.g states, "Delegation of Authority. A memorandum issued by the Associate Executive Director, OAPM, [now OAS] that delegates the SEC employee as an authorized cardholder. This delegation of authority specifies:

- (1) The spending and usage limitations unique to that cardholder; and
- (2) The merchant category codes (MCC) the cardholder is permitted to use."

However, currently no one has the responsibility to verify that GPC training was completed and the Letter of Delegation was signed before the GPC is issued to the cardholder.

Recommendation 14

The Office of Administrative Services should set up a process to ensure completion of Government Purchase Card training and a signed Letter of Delegation before the Government Purchase Card is issued to the cardholder.

Inadequate Control over Limits

The audit found that the OAS has not established procedures to require the APC to review actual GPC limits per the Mellon Bank against limits set forth in the Letter of Delegation. Kearney found that 5 of 27 cardholders had transaction limits that did not agree to the limits set forth in their Letter of Delegation. Improper limits create an environment where the SEC is more susceptible to improper use of the GPC due to increased exposure.

Recommendation 15

The Office of Administrative Services should develop procedures to review and ensure that cardholder limits agree to the Letter of Delegation and the Government Purchase Card provider on a regular basis.

Cancellation of the Government Purchase Card

Cardholders that leave SEC employment are required to surrender the GPC to either the Approving Official or an OFM representative. The cardholders leaving the SEC must complete SEC Form 1455 (4-07), *Employee Clearance Record*, upon separation. However, it is not required to be filed until the day the person separates the SEC. This gives the employee the use of the GPC until their last day of service. The practice allows for the increased risk of misuse of the GPC, because the cardholder can make unauthorized purchases that will not be detected or verified by the Authorizing Official until after the person no longer works for the SEC.

Recommendation 16

The Office of Administrative Services should revise the SECR 10-6, *Smartpay Purchasing Card Program*, and require supervisors or the Approving Official to notify the Agency Program Coordinator that a cardholder is leaving the Securities and Exchange Commission. The Agency Program Coordinator should immediately suspend the cardholder's Government Purchase Card.

APC Segregation of Duties

From February 2006 to February 2007, the APC had access to a GPC and performed oversight functions for the GPC program, creating an environment that allows for easier misuse of the GPC. A fundamental element of internal control is the segregation of certain key duties so that

an individual does not have the authority to approve purchase card transactions and serve as a cardholder at the same time.

Recommendation 17

The Office of Administrative Services should revise the SECR 10-6, *Smartpay Purchasing Card Program*, to ensure that the Agency Program Coordinator does not have direct access to a Government Purchase Card.

List of Recommendations

Recommendation 1

The Office of Administrative Services should revise the SECR 10-6 *Smartpay Purchasing Card Program* to reflect relevant procedures that Government Purchase Card program officials and cardholders should follow. Additionally, the SECR 10-6, *Smartpay Purchasing Card Program*, should be revised periodically as procedural or policy changes occur.

Recommendation 2

The Office of Administrative Services should require that Government Purchase Cardholders use a BankCard log (manual or automated) each month to verify purchases.

Recommendation 3

The Office of Administrative Services should revise the SECR 10-6, *Smartpay Purchasing Card Program*, and require cardholders to retain in their files: purchase receipts, Mellon Bank Government Purchase Card Statements, invoices, confirmations for availability of funds, Letters of Delegation, training certificates, etc. The documentation should be readily available for review and stored in a manner that will allow an individual other than the cardholder to find a specific transaction, if necessary.

Recommendation 4

The Office of Administrative Services Agency Program Coordinator should periodically issue a reminder to cardholders that monthly Government Purchase Card statements must be signed by the assigned Approving Official prior to payment and that without the signed statements, payment should not be made.

Recommendation 5

The Office of Administrative Services should revise the SECR 10-6, *Smartpay Purchasing Card Program*, to ensure compliance with the Federal Acquisition Regulation pertaining to vendor quotes and the \$3,000 micro-purchase threshold limit.

Recommendation 6

The Program Coordinator should periodically issue a reminder to cardholders that prior to making a purchase over \$3,000, they must obtain and retain evidence of quotes or a sole source justification.

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Recommendation 9

The Office of Administrative Services Agency Program Coordinator should issue a reminder to cardholders that Government Purchase Card transactions must have funds obligated prior to making a purchase.

Recommendation 10

The Office of Administrative Services Agency Program Coordinator should consult with the Office of Financial Management to verify that obligations that are open at the end of the fiscal year are rolled forward into the next fiscal year.

Recommendation 11

The Office of Administrative Services Agency Program Coordinator and the Office of Financial Management should work together to identify underlying root causes, thereby ensuring payments are made to Mellon Bank within 30 days after receipt of the Mellon Bank Government Purchase Card statement.

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Recommendation 17

The Office of Administrative Services should revise the SECR 10-6, *Smartpay Purchasing Card Program*, to ensure that the Agency Program Coordinator does not have direct access to a Government Purchase Card.

Management Comments

MEMORANDUM

To: Jacqueline M. Wilson, Assistant Inspector General for Audits

From: Norbert S. Doyle, Assistant Director, Office of Acquisitions

Via: Sharon Sheehan, Associate Executive Director, Office of Administrative Services

Norbert S. Doyle 9/15/08

Sharon Sheehan 09/15/08

Subj: Office of Inspector General (OIG) Draft Audit Report 440 dated September 3, 2008

Attached are our comments of the subject report. As noted in the report, the Office of Administrative Services has already incorporated many of the Inspector General's recommendations. We have taken numerous steps to improve controls of the Government Purchase Card Program to include the hiring of a contractor support individual to assist in the oversight of this critical program.

Recommendation 1

The Office of Administrative Services (OAS) should revise the SECR 10-6 *Smartpay Purchasing Card Program* to reflect relevant procedures that Government Purchase Card program officials and cardholders should follow. Additionally, the SECR 10-6, *Smartpay Purchasing Card Program*, should be revised periodically as procedural or policy changes occur.

Response

Concur. The OAS is drafting a new regulation to replace SECR 10-6 with an estimated release date of March 2009.

Recommendation 2

The Office of Administrative Services should require that Government Purchase Cardholders use a Bankcard log (manual or automated) each month to verify purchases.

Response

Concur.

- On August 7th, the APC notified all cardholders to begin using a GPC log and provided a sample log for consistency (Attachment A).
- The APC will verify use of the GPC log during monthly oversight reviews.

Recommend closure of this finding.

Recommendation 3

The Office of Administrative Services should revise the SECR 10-6, *Smartpay Purchasing Card Program*, and require cardholders to retain in-their files: purchase receipts, Mellon Bank Government Purchase Card Statements, invoices, confirmations for availability of funds, Letters of Delegation, training certificates, etc. The documentation should be readily available for review and stored in a manner that will allow an individual other than the cardholder to find a specific transaction, if necessary.

Response

Concur with comments.

- The Office of Financial Management's (OFM) financial system houses all commitment/obligation history and is readily accessible.
- The APC notified all GPC holders on August 7th to maintain a log and keep all GPC records (receipts, invoices, CQs, etc) in a safe place for a period of 3 years (Attachment A).
- Effective August 14th, the APC randomly pulls files on a monthly basis to ensure compliance (Attachments B&C).
- The APC maintains electronic copies of all cardholder and approving official training and delegations on the J:Drive.
- OAS has contracted for an electronic archive system that will be in place on or about March 2009. The system will archive and allow for easy retrieval of GPC documentation starting from the initial request, monthly statements, and backup documentation through to the final statement/cancellation.

Recommendation 4

The Office of Administrative Services Agency Program Coordinator should periodically issue a reminder to cardholders that monthly Government Purchase Card statements must be signed by the assigned Approving Official prior to payment and that without the signed statements, payment should not be made.

Response

Concur.

- The APC issues a reminder monthly to all cardholders that the AO must sign their statement before sending it to OFM (Attachment D).
- The cardholder Delegation Letter states that the AO must sign all statements (Attachment E).
- Both the AO and the cardholder sign the Acknowledgement and Acceptance memorandum before the APC orders a card (Attachment F).

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- The APC gives OFM a current list of cardholders identifying their approving officials (Attachment G).

Recommend closure of this finding.

Recommendation 5

The Office of Administrative Services should revise the SECR 10-6, *Smartpay Purchasing Card Program*, to ensure compliance with the Federal Acquisition Regulation pertaining to vendor quotes and the \$3,000 micro-purchase threshold limit.

Response

Concur. The OAS is drafting a new regulation to replace SECR 10-6 with an estimated release date of March 2009.

Recommendation 6

The Program Coordinator should periodically issue a reminder to cardholders that prior to making a purchase over \$3,000; they must obtain and retain evidence of quotes or a sole source justification.

Response

Concur. The APC will continue to send periodic reminders to cardholders to obtain and retain evidence of quotes or a sole source justification in their files for purchases over \$3,000 (Attachment H).

Recommend closure of this finding.

Recommendation 7

The Office of Administrative Services should issue guidance to cardholders describing what constitutes a split purchase and warning of the prohibition against splitting purchases and specifying the penalty for making a split purchase.

Response

Concur.

- The APC has issued guidance and warnings concerning misuse of the GPC to all cardholders (Attachment J).
- The APC monitors GPC purchases in pvsnet, which is the Mellon Bank's automated purchase card system, and addresses with the appropriate cardholder all purchases that appear to be split.

Recommend closure of this finding.

Recommendation 8

OAS in consultation with the Office of Information Technology should revise SECR 10-6, *Smartpay Purchasing Card Program*, to reflect current practices with regard to approval of IT purchases made with the Government Purchase Card. The regulation should also emphasize the importance of IT-related purchases being approved by the Office of Information Technology prior to the purchase and clarify the types of purchases that require OIT approval. This will help ensure that Information Technology purchases are not made until all approvals are obtained.

Response

Concur. The OAS is drafting a new regulation to replace SECR 10-6 with an estimated release date of March 2009. The new regulation will address policies regarding the use of the GPC to purchase IT related items.

Recommendation 9

The Office of Administrative Services Agency Program Coordinator should issue a reminder to cardholders that Government Purchase Card transactions must have funds obligated prior to making a purchase.

Response

Concur. The APC has issued a reminder to cardholders (Attachment K).

Recommend closure of this finding.

Recommendation 10

The Office of Administrative Services Agency Program Coordinator should consult with the Office of Financial Management to verify that obligations that are open at the end of the fiscal year are rolled forward into the next fiscal year.

Response**Concur.**

- The OFM and the APC have consulted on ways to verify open commitments at the end of the fiscal year.
- OFM plans to re-institute the process whereby funds are obligated rather than committed prior to using the GPC. It is planned to re-institute the process to coincide with the transition of the GPC Program to JPMorgan Bank in November 2008.

Recommendation 11

The Office of Administrative Services Agency Program Coordinator and the Office of Financial Management should work together to identify underlying root causes, thereby ensuring payments are made to Mellon Bank within 30 days after receipt of the Mellon Bank Government Purchase Card statement.

Response 11

Concur.

- Since early 2008, OFM pays the bank as the approved statements arrive.
- The APC sends emails periodically throughout the month reminding cardholders of the due date (Attachment L).
- Since June 2008, cardholders receive their bank statements via email, which provides them 7 to 10 additional calendar days to process their statements.
- As of March 2008, OFM receives approved statements via email rather than receiving paper statements, which contributed to lost statements and a longer processing time.

Recommend closure of this finding.

Recommendation 12

The Office of Administrative Services should develop a formal Securities and Exchange Commission Government Purchase Card training course and set up a plan to rollout the training to all cardholders in a timely manner.

Response 12

Concur: The APC developed formal training and conducted the first class on August 6, 2008 to new cardholders. To ensure adequate time for existing cardholders to attend classes the APC plans to conduct 5 classes between August 2008 and March 2009. The APC will offer training quarterly thereafter (Attachment M).

Recommend closure of this finding.

Recommendation 13

The Office of Administrative Services Agency Program Coordinator should update the email distribution list to ensure that Government Purchase Card email messages are sent to all cardholders.

Response 13

Concur. The GPC distribution list is up-to-date and will be maintained (Attachment N).

Recommend closure of this finding.

Recommendation 14

The Office of Administrative Services should instruct the Agency Program Coordinator and Approving Officials to require completion of Government Purchase Card training and a signed Letter of Delegation before the Government Purchase Card is issued to the cardholder.

Response 14

Concur.

- The OAS is drafting a new regulation to replace SECR 10-6 with an estimated release date of March 2009. The regulation will address the requirement to complete GPC training and to return a signed memorandum of Acknowledgement and Acceptance before issuing a GPC.
- The APC will revise AO delegation letters to stipulate that AO's must ensure that CHs have current certificates of training prior to approving a GPC statement.

Recommendation 15

The Office of Administrative Services should develop procedures to review and ensure that cardholder limits agree to the Letter of Delegation and the Government Purchase Card provider on a regular basis.

Response 15

Concur. On a quarterly basis, the APC will verify cardholder limits against delegation letters. The APC can also access spending limits real-time via the internet and may receive reports upon request from the bank.

Recommend closure of this finding.

Recommendation 16

The Office of Administrative Services should revise the SECR 10-6, *Smartpay Purchasing Card Program*, and require supervisors or the Approving Official to notify the Agency Program Coordinator that a cardholder is leaving the Securities and Exchange Commission. The Agency Program Coordinator should immediately suspend the cardholder's Government Purchase Card.

Response 16

Concur. The OAS will incorporate this recommendation into the new SECR 10-6 with an estimated release date of March 2009.

Recommendation 17

The Office of Administrative Services should develop procedures to ensure that the Agency Program Coordinator does not have direct access to a Government Purchase Card.

Response 17

Concur. The OAS will incorporate this recommendation into the new SECR 10-6 with an estimated release date of March 2009. The card issued to the current APC was cancelled in February 2008 at the direction of the head of the contracting activity.

Office of Inspector General Response to Management Comments

The Office of Administrative Services (OAS) concurred with all 17 findings and recommendations and they indicated that several recommendations are already being implemented. For 9 of the 17 findings, OAS provided the Office of Inspector General (OIG) with supporting documentation and requested the recommendations be closed. As part of our audit follow-up process we will conduct a detailed review of the supporting documentation OAS has provided OIG and based on our confirmation that the corrective action satisfactorily addresses the report's findings and recommendations, we will close the recommendations accordingly.

Audit Request and Ideas

The Office of Inspector General welcomes your input. If you would like to request an audit in the future or have an audit idea, please contact us at:

U.S. Securities and Exchange Commission
Office of Inspector General
Attn: Assistant Inspector General, Audits (Audit Request/Ideas)
100 F Street, N.E.
Washington D.C. 20549-2736

Tel. # 202-551-6061

Fax # 202-772-9265

Email: oiq@sec.gov

Hotline

To report fraud, waste, abuse, and mismanagement at SEC, contact the Office of Inspector General at:

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