



U.S. Securities and Exchange Commission  
Office of Inspector General  
Office of Audits

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# Controls Over the SEC's Government Purchase Card Program



March 28, 2014  
Report No. 517



OFFICE OF  
INSPECTOR GENERAL

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

**M E M O R A N D U M**

March 28, 2014

**To:** Vance Cathell, Director, Office of Acquisitions  
**From:** Carl W. Hoecker, Inspector General, Office of Inspector General  
**Subject:** *Controls Over the SEC's Government Purchase Card Program,*  
Report No. 517

Attached please find the Office of Inspector General's (OIG) final report detailing the results of our audit of controls over the U.S. Securities and Exchange Commission's (SEC's) government purchase card program. The report contains 11 recommendations for corrective action that, if fully implemented, should strengthen the SEC's government purchase card program.

On March 13, 2014, we provided you with a draft of our report for your review and comment. In your response, you concurred with our recommendations. We have included your response as Appendix III in the final report.

Within the next 45 days, please provide the OIG with a written corrective action plan that addresses the recommendations. The corrective action plan should include information such as the responsible official/point of contact, timeframe for completing required actions, and milestones identifying how your office will address the recommendations.

We appreciate the courtesies and cooperation extended to us during the audit. If you have questions, please contact me or Rebecca L. Sharek, Deputy Inspector General for Audits, Evaluations, and Special Projects.

Attachment

cc: Mary Jo White, Chair  
Erica Y. Williams, Deputy Chief of Staff, Office of the Chair  
Luis A. Aguilar, Commissioner  
Daniel M. Gallagher, Commissioner  
Kara M. Stein, Commissioner  
Michael S. Piwowar, Commissioner  
Jeffery Heslop, Chief Operating Officer  
Anne K. Small, General Counsel  
Timothy Henseler, Director, Office of Legislative and Intergovernmental Affairs  
John J. Nester, Director, Public Affairs

Michael Whisler, Assistant Director, Office of Acquisitions

Judith Blake, Branch Chief, Business Management Office, Office of Acquisitions

Tanya Dorsey, Management and Program Analyst, Business Management  
Office, Office of Acquisitions

Karen Glass, Agency/Organization Program Coordinator, Office of Acquisitions

Darlene L. Pryor, Management and Program Analyst, Office of the Chief  
Operating Officer

# Executive Summary

## Controls Over the SEC's Government Purchase Card Program Report No. 517 March 28, 2014

### Why We Did This Audit

Purchase cards, by their nature, are at risk for misuse, fraud, waste, and abuse. The *Government Charge Card Abuse Prevention Act of 2012* (Act) requires that executive agencies that issue and use purchase cards "establish and maintain safeguards and internal controls" over their usage. The Act further requires the Inspector General of each executive agency to conduct, at a minimum, annual assessments of the agency's purchase card program and to perform analysis or audits, as necessary, of purchase card transactions. Inspectors General must report the results of such analysis or audits to the head of the executive agency and report to the Director of the Office of Management and Budget on the agency's progress in implementing corrective actions.

### What We Recommended

To improve the SEC's controls over its purchase card program, we made 11 recommendations for corrective action. The recommendations address training; controls over transactions; requirements of the *Government Charge Card Abuse Prevention Act of 2012*; controls over monthly purchase limits; reconciliations with bank information; and reviews of rebates. Management concurred with the recommendations, which will be closed upon completion and verification of corrective action.

### What We Found

We conducted a risk assessment of the SEC's purchase card program and determined an overall risk level of moderate. We found that the SEC Office of Acquisitions (OA) has established internal controls that reduce the risk of fraud, waste, and abuse in the usage of purchase cards and convenience checks. Moreover, we did not find any instances of illegal or erroneous use of purchase cards or convenience checks. Nevertheless, certain areas need strengthening. We found that:

- purchase cardholders and approving officials did not complete or properly document all required training;
- controls over purchase card and convenience check transactions need improvement;
- OA did not always adjust monthly credit limits as necessary or meet all requirements of the *Government Charge Card Abuse Prevention Act of 2012*;
- purchase cardholders and approving officials did not timely reconcile purchases with bank information;
- OA did not develop a charge card management plan and other information for agency reporting to the Office of Management and Budget; and
- OA did not review bank rebates for accuracy and proper recording.

Three findings – "BankCard Log Not Used," "Documentation Not Available," and "Untimely Certification [of Training]" – were previously identified as weaknesses in our 2008 report, *Internal Control Review of the Government Purchase Card Program*, Report No. 440, September 18, 2008. Management concurred with all 17 recommendations for corrective action resulting from the report, all of which were closed.

In September 2012, OA assigned a new Agency/Organization Program Coordinator who has taken steps to improve the SEC's purchase card program. During our audit, the Coordinator identified and reported to management many of the deficiencies we observed. Additional management attention is warranted to ensure that the SEC's safeguards and internal controls over purchase card and convenience check use are adequate and effective.

For additional information, contact the Office of Inspector General at (202) 551-6061 or [http://www.sec.gov/about/offices/inspector\\_general.shtml](http://www.sec.gov/about/offices/inspector_general.shtml).

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## ACRONYMS

AO	approving official or alternate approving official
A/OPC	Agency/Organization Program Coordinator
FAR	Federal Acquisition Regulation
FY	fiscal year
GSA	General Services Administration
MCL	monthly credit limit
OA	Office of Acquisitions
OMB	Office of Management and Budget
PCH	purchase cardholder
SEC	U.S. Securities and Exchange Commission
TFM	Treasury Financial Manual

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## Background and Objectives

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### Background

Executive agencies, including the U.S. Securities and Exchange Commission (SEC), use purchase cards and convenience checks<sup>1</sup> to purchase needed goods and services. Agencies must maintain internal controls that reduce the risk of fraud, waste, and abuse in their purchase card programs. Specifically, the *Government Charge Card Abuse Prevention Act of 2012* (Charge Card Abuse Prevention Act or Act)<sup>2</sup> requires heads of executive agencies that issue and use purchase cards and convenience checks to “establish and maintain safeguards and internal controls” over their usage. The Act further requires the Inspector General of each executive agency to take these actions:

- conduct periodic assessments of the agency’s purchase card program to identify and analyze the risks of illegal, improper, or erroneous purchases and payments;
- perform analysis or audits, as necessary, of purchase card transactions designed in part to identify potentially illegal, improper, or erroneous uses of purchase cards;
- report the results of such analysis or audits to the head of the executive agency concerned; and
- report to the Office of Management and Budget (OMB) on the agency’s implementation of recommendations that address the audit findings.<sup>3</sup>

Additionally, the Act requires the head of each executive agency having more than \$10 million in annual purchase card spending to report semiannually to the OMB, jointly with the agency’s Inspector General, any violations or other actions committed by the agency’s employees that are covered by the Act. *OMB Memorandum M-13-21, Implementation of the Government Charge Card Abuse Prevention Act of 2012*, September 6, 2013, provides guidance to executive departments and agencies on implementing the Act’s internal control and reporting requirements.

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<sup>1</sup> According to *Office of Management and Budget Circular A-123, Management’s Responsibility for Internal Control, Appendix B, Revised*, convenience checks are “a payment and/or procurement tool intended only for use with merchants that do not accept purchase cards and for other authorized purposes where charge cards are not accepted.” In this report, “purchase card program” includes both purchase cards and convenience checks.

<sup>2</sup> Public Law 112-194 (October 5, 2012).

<sup>3</sup> On January 27, 2014, we reported to OMB that our most recent audit of the SEC’s purchase card program – *Internal Control Review of the Government Purchase Card Program*, Report No. 440, September 18, 2008 – resulted in 17 recommendations for corrective action, all of which were closed (see <http://www.sec.gov/about/offices/oig/reports/audits/2008/440ofinmemo.pdf>). We further reported that the OIG was in the process of performing an audit of the SEC’s purchase card program and expected to issue this report by March 31, 2014.

As shown in Table 1, the SEC's purchase card and convenience check spending averaged about \$5.3 million between fiscal years (FY) 2010 and 2013.<sup>4</sup>

**Table 1: SEC Purchase Card and Convenience Check Spending by FY**

FY	Purchase Card Spending	Convenience Check Spending	Total	Average Amount Spent
2010	\$4,932,258	\$184,980	\$5,117,238	\$5,266,202
2011	\$4,474,987	\$324,395	\$4,799,382	
2012	\$5,636,457	\$512,063	\$6,148,520	
2013	\$4,531,635	\$468,031	\$4,999,666	

Source: SEC Office of Acquisitions.

The requirements for agency acquisitions using simplified acquisition methods such as government purchase cards are outlined in the Federal Acquisition Regulation (FAR).<sup>5</sup> Additionally, *OMB Circular No. A-123, Management's Responsibility for Internal Control, Appendix B, Revised* (OMB Circular A-123), provides policies and procedures for agencies' management of purchase cards and requires agencies to have internal controls to reduce the risk of fraud, waste, and error in the usage of those cards. Further, *SEC Operating Procedure, OP 10-6, Government Purchase Card Program* (OP 10-6), details the policies and procedures for the SEC's purchase card program and describes the responsibilities of those who administer and manage the program.

### SEC's Purchase Card Program

The Office of Acquisitions (OA) oversees the SEC's purchase card program. Specifically, OA's Agency/Organization Program Coordinator (A/OPC) is responsible for the program's management, administration, and day-to-day operations. According to OP 10-6, the A/OPC's responsibilities include, in part, the following duties:

- reviewing and processing nominations for new purchase cardholders (PCHs) and approving officials (AOs)<sup>6</sup> and opening, maintaining, and closing cardholder accounts;
- facilitating and ensuring adequate training and maintaining PCH and AO training records;
- developing and updating program policies and procedures and serving as the primary contact for program policy matters;

<sup>4</sup> Because the SEC's annual purchase card spending amounted to less than the \$10 million reporting threshold, the SEC Office of Inspector General and the SEC Chair are not required to issue to OMB a joint semiannual report.

<sup>5</sup> 48 Code of Federal Regulations, Chapter 1, Subchapter C, Part 13.

<sup>6</sup> In this report, "AO" also refers to personnel who function as alternate AOs when the designated AO is unavailable.

- reviewing and raising or lowering purchase card credit limits; and
- serving as the SEC liaison with the bank that issues purchase cards and ensuring that PCHs timely reconcile transactions with bank information.

Until December 2011, the SEC's purchase card issuer was J.P. Morgan Chase and Co. (J.P. Morgan Chase). U.S. Bancorp has been the SEC's purchase card issuer from January 2012 to present.

As of September 30, 2013, the SEC had 85 PCHs at its headquarters and regional offices. PCHs have a single purchase, micro-purchase threshold<sup>7</sup> of \$3,000 for stand-alone procurements and a monthly purchase limit set by the A/OPC. In addition, every PCH has a designated AO who is required to approve purchases in advance.

Some PCHs also use convenience checks to purchase needed goods and services. However, according to OMB Circular A-123 and OP 10-6, convenience checks are permitted only when a vendor does not accept the purchase card and there is no other source available. Before using a convenience check, PCHs are required to make a reasonable effort to locate another vendor that can provide the same goods and services and that can accept the purchase card; PCHs are also required to document that effort.

### **Purchase Card and Convenience Check Training**

As a safeguard and internal control, the Charge Card Abuse Prevention Act mandates that "[a]ppropriate training is provided to each purchase cardholder and each official with responsibility for overseeing the use of purchase cards issued by the executive agency." OMB Circular A-123, as well as *Treasury Financial Manual Part 4—4500, Government Purchase Cards* (TFM, Part 4—4500), also require that PCHs and AOs complete training before their appointments, take refresher training at least every 3 years, and maintain evidence of completed training. Lastly, the SEC's purchase card operating procedure requires PCHs and AOs to take initial and refresher training.

Specifically, OP 10-6 requires PCHs, AOs, and the A/OPC (purchase card program participants) to take the online course "GSA [General Services Administration] SmartPay Purchase Card Training (Cardholders)." PCHs and AOs are required to complete the training before assuming their purchase card duties. The course provides PCHs and AOs instructions on how to secure and use the purchase card and how to avoid fraudulent use. The course also includes standards of conduct and ethics for the use of the card and the consequences for misuse of the card. PCHs who use convenience checks are required to take supplemental training before using the checks. PCHs must confirm with the A/OPC that they have completed the convenience check training. Purchase card program participants are also required to take the GSA online purchase card course as refresher training every 3 years. Upon completing the course,

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<sup>7</sup> According to the FAR, Section 13.201, a "micro-purchase" is an acquisition of supplies or services using simplified acquisition procedures. The amount of the purchase cannot exceed the specified "micro-purchase threshold."

purchase card program participants must take a test and score 75 percent or higher to obtain a completion certificate. The certificate includes the employee's name, course name, and training completion date. The employee is required to print a copy of the certificate for his or her records and provide a copy to the A/OPC.

### **Best Practice – A/OPC's Reviews of PCH Activity**

In September 2012, OA assigned a new A/OPC. In January 2013, the A/OPC began conducting reviews of the purchase card records for all PCHs with purchase cards as of December 31, 2012 (74 cardholders). The A/OPC performed the reviews from January to August 2013. The A/OPC informed us that the reviews consisted of discussions with PCHs about their purchase card and convenience check procedures and reviews of a sample of purchase card transactions. In September 2013, the A/OPC detailed her findings in a memo to the OA Director. The A/OPC informed us that she would be conducting reviews of all PCHs again in FY 2014. She indicated in her memo to the OA Director that she would schedule FY 2014 reviews first with those cardholders who were found noncompliant with policies and procedures "to ensure proper corrective actions were implemented." We consider the A/OPC's reviews to be a best practice.

## **Objectives**

The objectives of the audit were to:

- determine whether the SEC's purchase card program effectively operates and is properly managed in compliance with governing laws and regulations and agency policy; and
- assess whether the internal controls over the SEC's purchase card program have been adequately designed, appropriately implemented, and are operating effectively to detect misuse, fraud, waste, or abuse by cardholders or others.

Appendixes I and II include additional information on our scope and methodology; review of internal controls; statistical sampling; prior coverage; and the applicable Federal laws, regulations, policies, and guidance.

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## Results

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### **Finding 1: Compliance With and Oversight of Purchase Card Training Requirements Need Improvement**

Some PCHs and AOs did not complete required refresher training. In addition, some AOs had not taken any purchase card training. Further, OA's purchase card training files were not current for all purchase card program participants.

OMB Circular A-123, TFM Part 4—4500, and OP 10-6 require PCHs and AOs to complete training before their appointments and to take periodic refresher training. Purchase card program participants are further required to document their completion of purchase card training.

The A/OPC oversees cardholder training and maintains the OA file that contains the PCHs' and AOs' training records. In addition, the A/OPC keeps a control list of all PCHs and AOs and the dates they last completed required training. The A/OPC uses that list to monitor the PCHs' and AOs' training status to ensure that they comply with training requirements.

To determine whether purchase card training was properly managed for compliance with governing regulations and guidance and whether appropriate internal controls were designed, implemented, and operating effectively, we reviewed PCH and AO training and A/OPC oversight. We obtained the A/OPC's May 28, 2013, control list, which consisted of the names and training dates of 137 PCHs and AOs. We then reviewed OA's training records for all PCHs and AOs. We noted that some AOs oversee more than one PCH and that some PCHs also function as AOs to other PCHs.

We determined that most SEC purchase card program participants had timely completed required purchase card training, as evidenced by a current training certificate in OA's files. However, we found that 8 percent (10 of 137) of PCHs and AOs—7 PCHs and 3 AOs—had training certificates that were over 3 years old. We also found that an additional four AOs did not have any training certificates on file. We contacted those 14 individuals and asked whether they had current purchase card training certificates. One PCH who had an outdated certificate on file and one AO who had no certificate on file provided us with certificates that showed their purchase card training was current. We were unable to locate current certificates for the remaining 12 PCHs and AOs identified as having missing or outdated certificates. Our review determined that the purchase card training files were not current and that PCH and AO compliance with training requirements, and A/OPC oversight, need to be strengthened.

We also found that the A/OPC had not tracked PCHs' convenience check training. This training consists of PowerPoint presentation slides that PCHs are required to review before they can use convenience checks. The A/OPC informed us that since March

2013 she has required PCHs to confirm that they have viewed the slides and that they have no questions about them. The A/OPC also told us that she was extending this requirement to AOs.

### **Conclusion**

Not all PCHs and AOs complied with training requirements. Further, OA had not fully established controls to ensure that PCHs and AOs complied with the SEC's training policy. We noted that the A/OPC had been newly assigned and had not had an opportunity to fully establish such controls.

Without effective controls over purchase card training, PCHs and AOs might not complete required training, which could result in a lack of awareness about purchase card program requirements and restrictions. This could potentially lead to misuse of purchase cards and/or convenience checks.

### **Recommendation 1:**

The Office of Acquisitions should (a) establish procedures to periodically verify that purchase cardholders and approving officials have taken the required purchase card and convenience check training; and (b) restrict purchase cardholders' use of purchase cards or approving officials' participation in the approval process when those individuals do not timely complete required purchase card training.

**Management Comments.** The OA Director concurred with this recommendation and stated that OA had identified this issue and was working to correct it during the audit. The OA Director further stated that OA completed a 100 percent verification of training in July 2013 and established internal procedures and controls to assure that training is current and that OA takes action to restrict official's participation if training is not current. Management's complete response is reprinted in Appendix III.

**OIG Evaluation of Management's Response.** Management's actions are responsive; therefore, the recommendation is resolved and will be closed upon verification of the actions taken.

### **Recommendation 2:**

The Office of Acquisitions should remind purchase cardholders and approving officials of the requirement to (a) notify the Agency/Organization Program Coordinator that they have completed initial and refresher training; and (b) send their training certificates to the Agency/Organization Program Coordinator.

**Management Comments.** The OA Director concurred with this recommendation and stated that the A/OPC conducted training in August 2013, and provided a general reminder to all purchase card program participants. The OA Director further stated that, as training renewals become due, each participant will be reminded and appropriate action will be taken if their training certificates are not received. Management's complete response is reprinted in Appendix III.

**OIG Evaluation of Management's Response.** Management's actions and proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon verification of the actions taken.

## Finding 2: Controls Over Purchase Card and Convenience Check Transactions Need Improvement

PCHs and AOs did not fully comply with the SEC's purchase card program's operating procedure. Further, OA did not implement adequate internal controls needed to ensure that PCHs obtained and maintained supporting documentation and used purchase card logs and that AOs properly approved purchase card and convenience check transactions.

Federal laws and regulations, as well as the SEC's purchase card operating procedure, require PCHs to obtain and keep adequate documentation for purchase card transactions and to adhere to purchase card policies. The Charge Card Abuse Prevention Act requires that each executive agency establish safeguards and internal controls to ensure that the "[r]ecords of each purchase card transaction (including records on associated contracts, reports, accounts, and invoices) are retained in accordance with standard Government policies on the disposition of records." According to the National Archives and Records Administration guidelines,<sup>8</sup> these materials must be retained for 3 years after the final payment is made. OP 10-6 requires cardholders to "[m]aintain supporting documentation of individual transactions, such as vendor quotes, receipts, invoices, and sole-source justifications if applicable, and make documentation readily available for examination." OP 10-6 also requires PCHs to keep a purchase card log which, along with the documentation supporting each transaction, must be reconciled with bank information.

Supporting documentation assists the AO and the A/OPC in examining the appropriateness of a given purchase, and the PCHs need it to reconcile their purchase records with the transaction information from the bank. PCHs are also required to obtain the AO's approval in writing before making a purchase.

OP 10-6, in alignment with OMB Circular A-123, states that "[c]ardholders may use convenience checks as a method of payment for transactions only when the vendor will not accept a GPC [government purchase card] and no other source is available." OP 10-6 requires the PCH, before using a convenience check, to make a reasonable effort to locate a vendor that provides the same goods and services and accepts purchase cards. PCHs are also required to document that effort.

### Testing of Purchase Card and Convenience Check Transactions

To determine whether controls over the purchase card program were effectively operating and properly managed in compliance with governing regulations, guidance, and policy, we randomly selected a total of 148 transactions, comprised of two samples. We selected 74<sup>9</sup> purchase card and convenience check transactions from a universe of

<sup>8</sup> *National Archives and Records Administration, General Records Schedules, Transmittal No. 22, April 2010, General Records Schedule 3, Procurement, Supply, and Grant Records.*

<sup>9</sup> Ten of the 148 transactions were made with convenience checks.

approximately 25,000 transactions from October 2009 to September 2012,<sup>10</sup> and 74 purchase card and convenience check transactions from a universe of 7,368 transactions from October 2012 to September 2013. The PCHs were requested to provide documentation to support the related transactions. Second, and in some cases, third requests were sent to PCHs who did not respond to our initial requests for information or who did not provide all requested documents.

Using the supporting documents provided to us, we tested the transactions to determine whether they were properly approved, adequately documented, and followed Federal regulations and SEC policy. Table 2 shows the results of our testing.

**Table 2: Results of Testing: Sampled Purchase Card and Convenience Check Transactions**

Results	Cause
For 2 of 148 transactions, PCHs did not provide supporting documents; those two transactions were made by individuals who are no longer PCHs.	OA did not, at the time, have a process to obtain the records of PCHs who relinquish their purchase cards.
For 52 out of 148 transactions, the PCHs did not provide documentation that the AO had approved the transactions before the purchases were made.	These PCHs did not comply with OP 10-6, which requires PCHs to obtain AO approval in writing before making a purchase.
For 3 out of 10 convenience check transactions, no documentation was provided to support the use of convenience checks.	These PCHs did not comply with OP 10-6 documentation requirements for the use of convenience checks.
For 18 out of 148 transactions, we did not find the purchase recorded on the purchase log, or the amount either was not recorded on the log or differed from the amount on the invoice or bank information.	Certain PCHs used self-designed purchase log formats instead of the OA-recommended template; we could not find all purchases recorded on these logs. Some differences between the log and the bank information were due to the accumulation of amounts on the log that were shown individually by the bank.
For 18 out of 148 transactions, PCHs did not provide purchase card logs.	Some PCHs did not adhere to the requirement in OP 10-6 to maintain purchase card logs.
For 2 purchase card transactions, there was no documented preapproval by the Office of Financial Management for the purchase of food or drink.	Certain PCHs did not comply with SEC policy.

Source: Results of Office of Inspector General transactions testing.

Overall, we did not identify any instances of illegal or erroneous use of the purchase card. However, we found areas that need improvement and additional oversight. For example, for some transactions in our sample, we were unable to obtain supporting

<sup>10</sup> We were unable to test transactions for October 2009 because the bank statements were not available. We also did not test transactions from January through March of 2012, because the information from the bank indicated that those months' transactions had not been closed.

documentation or evidence that the AO had approved the transaction before the purchase was made. In addition, for some transactions using convenience checks, no documentation was provided to show that the PCH had made a reasonable effort to locate other vendors that could provide the same goods and services and that could accept the purchase card. Finally, we found that some PCHs had not maintained or properly completed purchase card logs in accordance with OP 10-6. These instances were primarily caused by a lapse in compliance by PCHs and oversight by OA and resulted in reduced controls over purchasing activity. We previously identified deficiencies in the maintenance of purchase logs and the unavailability of documentation in our audit report entitled *Internal Control Review of the Government Purchase Card Program*, Report No. 440, September 18, 2008.<sup>11</sup>

Moreover, our review revealed an internal control deficiency in the processing and approval of certain invoices for deposition services. A PCH informed us that an SEC attorney had requested deposition services directly from a vendor and that the vendor had forwarded three resulting invoices, totaling \$5,247, directly to the attorney. The PCH said that she was unaware of the transaction until she received the invoices from the attorney. The AO told us that he had not approved the transactions before the services were ordered, as required. The A/OPC also noted this practice during her FY 2013 reviews of cardholder activity. In her summary memo to the OA Director, the A/OPC stated, "There was a long-term acceptance of the practice of attorneys and paralegals contacting vendors with the intention of ordering services/supplies," and she called it a "serious" issue. If SEC attorneys continue this practice, there is a risk that the PCHs could exceed their spending limits, and/or the attorneys could make unauthorized purchases of goods and services.

## Conclusion

We found deficiencies in AOs' purchase approvals and PCHs' transaction documentation and purchase log maintenance. We also identified an internal control deficiency in the processing and approval of certain invoices. Specifically, an SEC attorney, rather than the PCH, had ordered deposition services from a vendor, and the AO did not approve the transaction before it was placed.

Accordingly, internal controls over purchase card and convenience check transactions need strengthening. This includes controls for PCHs' and AOs' compliance with purchase card policy and the A/OPC's related oversight responsibilities. Having effective controls helps ensure that purchase cards and convenience checks are used properly in accordance with governing regulations, guidance, and policy.

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<sup>11</sup> The report can be accessed over the Internet at <http://www.sec.gov/about/offices/oig/reports/audits/2008/440finmemo.pdf>.

**Recommendation 3:**

The Office of Acquisitions should ensure that the Agency/Organization Program Coordinator takes these actions:

(a) continues to conduct periodic purchase card reviews and monitors compliance with purchase card policies such as (1) transaction approvals by approving officials prior to purchase; (2) adequate documentation of purchase card and convenience check transactions; and (3) maintenance of purchase logs using the purchase log template; and

(b) promptly communicates to the appropriate purchase cardholders and approving officials any deficiencies identified during these reviews that need corrective action.

**Management Comments.** The OA Director concurred with this recommendation and stated that the A/OPC will continue to follow the procedures and communicate any deficiencies identified for corrective action. Management's complete response is reprinted in Appendix III.

**OIG Evaluation of Management's Response.** Management's proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon verification of the actions taken.

**Recommendation 4:**

The Office of Acquisitions should (a) remind purchase cardholders and approving officials that only cardholders may order goods and services; and (b) ensure that the Agency/Organization Program Coordinator includes compliance with this requirement in her periodic purchase card reviews.

**Management Comments.** The OA Director concurred with this recommendation and stated that the A/OPC reminded purchase card program participants during the August 2013 training that only cardholders may place orders. The OA Director further stated that the A/OPC will review compliance during the periodic purchase card reviews. Management's complete response is reprinted in Appendix III.

**OIG Evaluation of Management's Response.** Management's actions and proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon verification of the actions taken.

**Recommendation 5:**

The Office of Acquisitions should take appropriate action, up to and including suspension and cancellation of purchase card or approval authority, for cardholders and approving officials who do not comply with purchase card policies.

**Management Comments.** The OA Director concurred with this recommendation and stated that, based on the facts of any occurrence, OA will consider other remedies up to and including suspension or cancellation of program authority for those who fail to comply with purchase card policies. Management's complete response is reprinted in Appendix III.

**OIG Evaluation of Management's Response.** Management's proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon verification of the actions taken.

#### **Recommendation 6:**

The Office of Acquisitions should consider obtaining a contract for deposition services.

**Management Comments.** The OA Director concurred with this recommendation and stated that OA's Mission Support Branch, in conjunction with the Enforcement Division, has been working on a strategic sourcing initiative. The OA Director further stated that a request for proposal was issued, proposals are being evaluated, and an award is anticipated in the near future. Management's complete response is reprinted in Appendix III.

**OIG Evaluation of Management's Response.** Management's proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon verification of the actions taken.

#### **Recommendation 7:**

The Office of Acquisitions should determine whether the purchase of deposition services without proper authority and approval is consistent with (a) SEC Operating Procedure OP 10-6, "Government Purchase Card Program"; and (b) SEC Administrative Regulations SECR 10-1 (Rev. 1), "Ratification of Unauthorized Commitments," and take appropriate action as necessary.

**Management Comments.** The OA Director concurred with this recommendation and stated that OA shares the concern about potential procurement of deposition services or other services without proper authority and is committed to implementing the purchase card program with all reasonable controls to assure proper exercise of authority. The OA Director further stated that ongoing efforts to establish contractual methods to support deposition services, increase oversight, and enhance training for program participants will effectively manage risk in this area. Management's complete response is reprinted in Appendix III.

**OIG Evaluation of Management's Response.** We are pleased that management concurred with this recommendation and agree that management's proposed actions will improve controls over future purchases. However, we reiterate that OA should determine whether known purchases of deposition services without proper authority and approval require action in accordance with

SEC Administrative Regulations SECR 10-1 (Rev. 1), "Ratification of Unauthorized Commitments." We will conduct followup activities to determine whether OA takes corrective action that is responsive to the recommendation.

### **Finding 3: OA Did Not Always Adjust Monthly Credit Limits or Meet All Requirements of the Charge Card Abuse Prevention Act**

OA does not periodically review and adjust PCHs' monthly credit limits (MCL) to reflect actual needs. Also, OA has not established policies on the number of purchase cards to issue to PCHs, authorized credit limits, and categories of employees eligible for cards, as required by the Charge Card Abuse Prevention Act.

Government purchase cards have credit limits on the total amount that PCHs can spend during the month. Credit limit requirements are governed by the Charge Card Abuse Prevention Act, OMB Circular A-123, and OP 10-6. MCLs are designed to reduce financial risks. They ensure that PCHs do not have more credit than they require to make needed purchases. MCLs help prevent PCHs from spending more than is authorized, and they also reduce the risk that PCHs might use the card to procure unauthorized products or services. Therefore, it is important that the MCLs do not exceed the amount that the PCHs actually need.

To determine whether OA's process for establishing and reviewing MCLs was operating effectively and was properly managed, we reviewed OA's process for determining the PCHs' MCLs. Previously, the default MCL for all PCHs was set at \$50,000; however, MCLs no longer have a default amount. The PCH's supervisor recommends an MCL for that PCH at the time a new purchase card application is completed. The A/OPC told us that she reduced some PCHs' limits after reviewing cardholder activity.

The A/OPC informed us that in December 2013 she compared, for each PCH, the highest month's purchase card and convenience check spending for FY 2013 with the PCH's assigned MCL. She then sent an email to each PCH's AO, listing the highest month's spending and the assigned MCL. The A/OPC stated in her email, "Specifically, if there is a wide gap from what you spent in FY13/month and what is authorized, we will be seeking to reduce the monthly limit." In that email she also asked the AO to recommend, for the PCH, an appropriate MCL for FY 2014. We obtained and reviewed the A/OPC's emails and noted that the highest month's spending in FY 2013 was sometimes significantly less than the assigned MCL. For example, according to the emails, one PCH with a \$50,000 MCL spent less than \$1,000 in her most active month; another PCH with a \$50,000 MCL spent in her most active month less than \$10,000.

In summary, the MCLs of PCHs sometimes greatly exceeded their monthly spending. Better oversight over MCLs is needed to ensure that they align more closely with actual purchasing needs and reflect actual usage over a period of time as well as anticipated purchasing requirements. Having an MCL that is significantly higher than the PCH's purchasing needs creates a risk that the PCH could use the purchase card to spend more than is actually required to purchase goods and services.

## **Need for Policies on the Number, Categories, Credit Limits, and Eligibility of Cardholders**

The Charge Card Abuse Prevention Act requires “specific policies regarding the number of purchase cards issued by various component organizations and categories of component organizations, the credit limits authorized for various categories of cardholders, and categories of employees eligible to be issued purchase cards, and that those policies are designed to minimize the financial risk to the Federal Government of the issuance of the purchase cards and to ensure the integrity of purchase card holders.”

The Charge Card Abuse Prevention Act was enacted in October 2012, and OA has not yet established and implemented policies on the categories of employees who are eligible for cards, the number of purchase cards to issue, and authorized credit limits for the different categories of PCHs. OA officials told us that the SEC is a small agency and categories of cardholders and employees are not needed. As a result, the SEC’s purchase card program is not fully aligned with the Act’s policy requirements. By not having established policies in these areas, there is a risk that the SEC’s purchase cards could be abused or misused.

### **Conclusion**

We noted that there were PCHs whose monthly purchases were much lower than their MCLs. This indicates that all MCLs and PCH spending trends should be reviewed to determine whether PCHs’ MCLs should be lowered and aligned with the amount that the PCHs actually need. In addition, OA did not establish and implement the Charge Card Abuse Prevention Act requirements on credit limits, categories of cardholders, and eligible employees. The SEC should establish and implement all policies that are required by the Act.

### **Recommendation 8:**

The Office of Acquisitions should ensure that the Agency/Organization Program Coordinator, at least annually, reviews the purchase cardholders’ monthly credit limits and adjusts the limits on the basis of the purchase cardholders’ actual needs.

**Management Comments.** The OA Director concurred with this recommendation and stated that the A/OPC has instituted a review of the monthly credit limits, to occur annually at the minimum. Management’s complete response is reprinted in Appendix III.

**OIG Evaluation of Management’s Response.** Management’s proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon verification of the actions taken.

**Recommendation 9:**

The Office of Acquisitions should establish and implement policies on the number of purchase cards issued by various component organizations, the categories of component organizations, credit limits authorized for various categories of cardholders, and the categories of employees who are eligible to be issued a purchase card, as required under the *Government Charge Card Abuse Prevention Act of 2012*.

**Management Comments.** The OA Director concurred with this recommendation and stated that, although the SEC has no component organizations that will be issuing purchase cards, OA will establish limits on the categories of employees who are eligible to receive purchase cards as well as their credit limits. Management's complete response is reprinted in Appendix III.

**OIG Evaluation of Management's Response.** Management's proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon verification of the actions taken.

## Finding 4: PCHs and AOs Did Not Timely Reconcile Purchases with Bank Information

Our review of the reconciliation process found that PCHs were not timely reconciling purchases with purchase card bank information. Further, AOs were not timely approving PCHs' reconciliations.

Reconciliation is an essential internal control for the purchase card program. It ensures that the bank has accurately recorded purchases and that the PCH has properly verified the purchases with the supporting documentation such as invoices and receipts. The Charge Card Abuse Prevention Act provides that purchase cardholders and officials with the authority to authorize purchase card transactions are responsible for "reconciling the charges appearing on each statement of account for that purchase card with receipts and other supporting documentation." The SEC's *Government Purchase Card Program Supplemental Procedures*, dated December 21, 2012 (Supplemental Procedures), require PCHs to "at a minimum reconcile their transactions within 30 days of the posting date." Once the PCH has completed reconciliation, the AO should review and approve the reconciliation within that same 30-day timeframe.

To assess whether internal controls over the reconciliation process were adequately designed, appropriately implemented, and operating effectively, we reviewed the status of reconciliations with the A/OPC. The A/OPC informed us that some PCHs and AOs were not completing their reconciliations and approvals within the required 30-day period. We asked the A/OPC what control procedures she had implemented to remedy the situation, and she told us that she sends an email to those who miss, or are about to miss, the 30-day deadline.

We obtained and reviewed the A/OPC's emails to the PCHs and AOs, which evidenced her followup efforts. For example, we found that on December 28, 2012, one week after the issuance of the Supplemental Procedures, which include the 30-day reconciliation requirement, the A/OPC sent an email to the PCHs and AOs informing them that they "...MUST reconcile transactions within 30 days.... Currently there are lots of transactions which need to be reviewed and approved and some are very close to exceeding the 30 day timeline." We further found that she had followed up, on an ongoing basis, late or soon-to-be late reconciliations that the PCHs and AOs were responsible for completing. Table 3 details the A/OPC's followup on reconciliations during the first 6 months of calendar year 2013.

**Table 3: A/OPC's Followup on Late Reconciliations and Approvals**

Email Dates	Number of PCHs and AOs	Status of Reconciliations Noted in A/OPC's Emails
January 11, 2013	28	Late
January 16, 2013	13	Late or will be late within the week
January 25, 2013	6	Will be late within two weeks
February 1, 2013	8	Will be late within two weeks
February 22, 2013	7	Late or will be late within the week
March 18, 2013	9	Late or will be late within the week
April 26, 2013	19	Late or will be late within two weeks
May 1, 2013	13	Late
May 23, 2013	20	Late or will be late within two weeks
June 24, 2013	21	Late or will be late within two weeks

Source: A/OPC, OA.

By not performing timely reconciliations, PCHs and AOs could expose the SEC to undue financial risks. In February 2014, the A/OPC notified PCHs that those who miss the 30-day deadline for reconciliation would have their purchase card use suspended until all late reconciliations were completed.

### Conclusion

Some PCHs and AOs have not adhered to the SEC's requirement to reconcile and approve reconciliations within 30 days of the bank's posting of charges, despite the A/OPC's commendable ongoing monitoring and followup efforts. It is important that PCHs and AOs reconcile the bank's information with their purchase documentation in a timely manner. Banks could incorrectly record charges for transactions, and OA would be unaware because PCHs and AOs are not timely reconciling their transactions.

### Recommendation 10:

The Office of Acquisitions (OA) should (a) notify the supervisors of purchase cardholders and approving officials who are habitually late reconciling purchase card transactions with bank information or approving such reconciliations, and (b) consider cancelling the purchase card program authorities of such employees.

**Management Comments.** The OA Director concurred with this recommendation and stated that the A/OPC has already issued guidance to purchase card program participants that late reconciliation will result in suspension of the cardholder account. The OA Director further stated that OA will consider other remedies up to and including cancellation of program authority. Management's complete response is reprinted in Appendix III.

**OIG Evaluation of Management's Response.** Management's actions and proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon verification of the actions taken.

## **Finding 5: OA Did Not Develop a Charge Card Management Plan and Other Information for Agency Reporting to OMB**

OA did not develop a charge card management plan and specified statistical and narrative information for the agency's reporting to OMB in accordance with OMB Circular A-123.

Chapter 2.1 of OMB Circular A-123 requires Federal agencies with a purchase card program to have a "charge card management plan." The plan is to include the following elements:

- identification of key management officials and their responsibilities for the charge card program;
- establishment of a process for formally appointing PCHs and AOs, where applicable, and implementation of a process to ensure new PCHs' creditworthiness;
- management controls, policies, and practices to ensure appropriate charge card and convenience check usage and oversight of payment delinquencies, fraud, misuse, or abuse;
- establishment of appropriate authorization controls;
- documentation and record retention requirements;
- recovery of purchase cards and other documentation when employees terminate employment; and
- description of how the agency will ensure the ongoing effectiveness of the actions taken pursuant to OMB Circular A-123, including evaluation of the effectiveness of training and the implementation of risk management controls.

According to OMB Circular A-123, maintaining a charge card management plan is important because establishing written, formal policies and procedures is needed to assure that internal controls are followed and the potential for fraud, misuse, and delinquency is minimized. The efficiency and integrity of the charge card program can be impaired if the agency does not consider and act upon the elements required in the plan. Agencies are required to submit charge card management plans at least annually, but not later than January 31 of each calendar year.

We determined that OA did not develop and maintain specified statistical and narrative information about the charge card program for the SEC's reporting to OMB, as required by Chapter 5.3 of OMB Circular A-123. The SEC is required to report to OMB's Office of Federal Financial Management statistical information on an annual basis and narrative information on a biannual basis.

The A/OPC told us that she was unaware of these requirements and that OA had not developed or maintained a charge card management plan nor had OA developed specified statistical or narrative information for submission to OMB. The former A/OPC told us that she had thought this reporting was not required. The A/OPC told us that OA would develop a charge card management plan and the required statistical and narrative information for submission to OMB by January 31, 2014.

The A/OPC subsequently notified us that, on January 29, 2014, OA sent to OMB the charge card management plan dated January 28, 2014, and the required statistical and narrative information. The A/OPC sent us a copy of the documents. Accordingly, we are not making a recommendation for corrective action.

## Finding 6: OA Did Not Review Bank Rebates for Accuracy and Proper Recording

OA did not verify the accuracy and proper recording of quarterly rebates it received from banks that issued purchase cards, resulting in noncompliance with the Charge Card Abuse Prevention Act.

Each quarter the SEC receives rebates from U.S. Bancorp for the purchase card program. The rebate amounts are based on the volume of purchases the SEC makes (minus any refunds the SEC has received) in a given quarter and the timeliness of the settlement of these purchases with the bank. The rebate amounts the SEC has received by FY are shown in Table 4.

**Table 4: SEC Purchase Card Rebates by FY**

FY	Rebate
2010	\$57,054
2011	\$53,300
2012	\$24,364
2013	\$32,490

Source: A/OPC, OA.

The Charge Card Abuse Prevention Act requires that “[r]ebates and refunds based on prompt payment, sales volume, or other actions by the agency on purchase card accounts are reviewed for accuracy and properly recorded as a receipt to the agency that pays the monthly bill.”

The A/OPC informed us that OA did not review rebate amounts for accuracy or verify that the rebates were properly recorded as a receipt to the SEC. The A/OPC said that she would begin reviewing these activities in the quarter commencing October 1, 2013.

By not reviewing the rebate amounts for accuracy and ensuring that the SEC properly records the rebates, the SEC could be exposed to the risks that (1) the bank did not properly calculate the rebate amounts; or (2) the SEC did not correctly record them.

### Conclusion

OA did not review rebate amounts for accuracy and did not ensure that the SEC properly recorded the rebates, as required by the Charge Card Abuse Prevention Act. Reviewing rebates and following up as needed are important procedures that OA should implement to ensure that the bank’s rebate amounts are accurate and that the SEC properly records them.

**Recommendation 11:**

In accordance with the *Government Charge Card Abuse Prevention Act of 2012*, the Office of Acquisitions should review for accuracy and proper recording as a receipt to the agency rebates issued by the SEC's purchase card-issuing bank.

**Management Comments.** The OA Director concurred with this recommendation. Management's complete response is reprinted in Appendix III.

**OIG Evaluation of Management's Response.** We are pleased that management concurred with this recommendation. We will conduct followup activities to determine whether OA takes corrective action that is responsive to the recommendation.

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## Appendix I. Scope and Methodology

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We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We determined that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

**Scope.** The audit covered the period of October 1, 2009, to September 30, 2013. The scope included reviews of (1) governing purchase card laws, regulations, and guidance; (2) OP 10-6; (3) purchase card and convenience check transactions; (4) OA's training files; (5) MCLs; (6) purchase and transaction information from the SEC's purchase card-issuing banks, J.P. Morgan Chase and U.S. Bancorp; (7) purchase card rebates; and (8) the A/OPC's duties.

We conducted fieldwork from January 2013 to March 2014 at the SEC's headquarters in Washington, D.C.

We tested purchase card and convenience check transactions. We were unable to test transactions for October 2009 because of the unavailability of bank statements for that month. We did not test transactions from January through March of 2012 because the information from U.S. Bancorp indicated that these months' transactions had not been closed. These months represented a small percentage of the total months included in our sample and, in our opinion, the absence of these months did not impact our ability to draw conclusions on the SEC's purchase card program.

**Methodology.** To achieve the objective of determining whether SEC's purchase card program operates effectively and is managed in compliance with governing laws, regulations, and agency policy, we obtained and reviewed relevant laws, regulations, and guidance. We also reviewed the SEC's internal operating procedures for the purchase card program. Further, we interviewed OA personnel who were responsible for overseeing purchase card operations.

To determine whether staff members were properly trained in purchase card operations, we reviewed for appropriate content the online training course entitled "GSA SmartPay Purchase Card Training (Cardholders)" that the SEC requires PCHs and AOs to take. We also reviewed the PCHs' and AOs' completion certificates in OA's training files. For those PCHs and AOs that had either outdated training certificates (over 3 years old) or no training certificate, we contacted them to determine whether they had current training certificates in their possession.

To achieve the objective of assessing whether the internal controls for the SEC's purchase card program were adequately designed, appropriately implemented, and effectively operated to detect purchase card program representatives' abuse or misuse of the card, we reviewed the "Required Safeguards and Internal Controls" in the *Government Charge Card Abuse Prevention Act of 2012*. We determined whether the

safeguards and internal controls that the Act requires existed in the SEC's program. Further, we assessed risk, focusing on risk considerations that we had identified in our internal control review.

To further meet our audit objectives, we developed and performed tests of purchase card and convenience check transactions. We tested a sample of transactions from J.P. Morgan Chase for FYs 2010, 2011, and the first quarter of FY 2012, and U.S. Bancorp from January 2012 to September 2013. As noted in the "Scope" section of this report, we were unable to test transactions for October 2009 and January through March 2012, because of the unavailability or reliability of data.

For the convenience checks in our review, we requested that the PCHs provide us with documentation showing that the PCHs were not able to procure the service or goods with a purchase card. We obtained and reviewed documentation such as purchase card logs, invoices and documents showing the receipt of the goods or services, and evidence of the AO's prior approval of purchases. For transactions that had purchases from the same vendor within several days of the transaction date, we requested additional documentation from the PCH to assess whether any of those transactions might be a split purchase.

To determine whether there were categories of purchases that could be made by means other than purchase cards to better aggregate purchases and obtain lower prices, we analyzed the purchase card and convenience check transactions selected for our testing during the period October 2009 – September 2012. We sorted them into categories by nature of goods or services and then reviewed the categories. We determined that two categories—office supplies (32 percent, 24 of 74 transactions in our sample) and process servers (10 percent, 7 of 74 transactions in our sample)—accounted for approximately 42 percent of the transactions. The 24 office supply purchases originated from SEC's headquarters and 9 regional offices that used 15 different vendors. The seven purchases for the services of process servers originated from five regional offices that used different vendors for all seven purchases.

We asked OA whether the SEC could realize cost efficiencies by aggregating purchases. OA informed us that for office supplies, the items would have to be shipped to each regional office and additional expenses would be incurred for shipping. There would also be an increased lead time needed to plan for these purchases. We were told that, for office supplies and process servers, the cost in time and effort would not be worth the potential savings involved with aggregating purchases. On the basis of our inquiries and analysis, we concluded that aggregating purchases would not be more cost effective than using the purchase card for individual purchases.

**Internal Controls.** We obtained an understanding of OA's internal controls over the purchase card program and assessed the internal controls in accordance with the "Required Safeguards and Internal Controls" in the *Government Charge Card Abuse Prevention Act of 2012*. For our review of internal controls, we considered the following:

- *Control Environment* – We identified the A/OPC in OA as the designated internal control official over purchase card and convenience check operations and

determined that this person is responsible for ensuring that the program is operating in accordance with U.S. Government laws, regulations, and guidance, and OP 10-6.

- *Risk Assessment* – We conducted a risk assessment that focused on risk considerations that we had identified in our internal control review. We assessed whether the safeguards and internal controls enumerated in the Charge Card Abuse Prevention Act were present and how they were monitored to ensure that the purchase card program functioned properly. We summarized our risk assessment on the basis of inherent risk, control risk, and detection risk and initially concluded that the overall level of risk was moderate to high. We subsequently reduced our assessment of overall risk to moderate, based upon items that came to our attention during the course of the audit. These items included:
  - The A/OPC’s FY 2013 reviews of records maintained by all PCHs, and the detailed memo to the OA Director of her findings, many of which we had also noted. We consider this to be a “best practice.”
  - Communications from the A/OPC that she had taken action in order to correct missing training certificates and bank reconciliation timeliness.
  - The August 2013 training conducted by the A/OPC for all PCHs and AOs.
  - The SEC’s use, beginning in FY 2013, of U.S. Bancorp’s “Analytics” software, which searches for questionable purchase transactions.

We used the results of our risk assessment to determine the attributes for testing and the estimated error rate.

- *Monitoring* – We discussed with the A/OPC her program for conducting reviews from January 2013 to August 2013 of cardholder activities. We tested the A/OPC’s oversight of training by reviewing OA’s training files to determine whether training was current. Also, we reviewed the A/OPC’s monitoring of the PCH and AO bank reconciliation process.
- *Control Activities* – We reviewed the SEC’s operating procedure for its government purchase card program and U.S. Government laws, regulations, and guidance on purchase card and convenience check operations and identified areas where compliance needed improvement. We reviewed the A/OPC’s control activities over PCH and AO training, the PCHs’ timeliness in reconciliation of transactions documents with bank charges, and the compliance by PCHs and AOs with documentation and purchasing policies.
- *Information and Communication* – We identified how the A/OPC disseminated information to the PCHs and AOs so that they could properly and effectively carry out their responsibilities. The A/OPC conducted training in November 2012 to acquaint PCHs and AOs with new online banking procedures and in August 2013

to discuss policy and procedural matters. The A/OPC reviewed the timeliness of PCHs' reconciliation of bank charges with related documentation and followed up by sending reminder emails to the PCHs and AOs who missed, or would miss, the 30-day reconciliation deadline.

Overall, OA has established internal controls that reduce the risk of fraud, waste, and error in the usage of purchase cards and convenience checks. However, certain areas of compliance and oversight need strengthening. These areas, as discussed in the report's findings, include improved oversight of PCH and AO purchase card training, compliance by PCHs and AOs with purchase card policy, timely reconciliation of bank information, and review of rebates for accuracy and their proper recording in the SEC's records.

**Statistical Sampling.** We used E-Z-Quant statistical sampling software to determine the sample size of our two transactions tests, for FYs 2010-2012 and for FY 2013. We used a 90-percent confidence level, 10-percent precision range, and 5-percent expected error rate in determining our sample sizes. The result was two samples of identical size, 74 transactions. For FYs 2010-2012, we obtained bank information for J.P. Morgan Chase and U.S. Bancorp transactions and used systematic selection with random number starting points to select the purchase card and convenience check transactions for testing. For FY 2013, we obtained a listing of U.S Bancorp transactions and used E-Z-Quant's random number generator to select the items to test. We requested that the PCHs provide us with documentation in support of each transaction selected.

**Prior Coverage.** In September 2008, the Office of Inspector General issued its audit report entitled *Internal Control Review of the Government Purchase Card Program*, Report No. 440. The report contained 17 recommendations for corrective action, all of which were closed. Three findings in our current report were also identified in the 2008 audit report: "BankCard Log Not Used," "Documentation Not Available," and "Untimely Certification [of training]."

In addition, the SEC engaged Cotton & Company LLP (Cotton) to perform a risk assessment in FY 2013 of select programs and activities administered by the SEC, for compliance with the Improper Payments Elimination and Recovery Act of 2012. Cotton communicated its findings, which included certain internal control exceptions relating to the purchase card program, including use of convenience checks, in its *Risk Assessment Summary Report* dated June 16, 2013.

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## Appendix II. Applicable Federal Laws, Regulations, Policies, and Guidance

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**48 C.F.R. Parts 13 and 32 (Federal Acquisition Regulation).** This FAR section outlines the requirements for acquisitions made with purchase cards. Subpart 13.2 details the guidelines for purchases at or below the micro-purchase threshold. Subpart 13.3 details various simplified acquisition methods including government purchase cards and explains procedures for the handling of those simplified acquisition methods. 48 C.F.R. § 13.003 explains the prohibition on split purchases for acquisitions.

**Government Charge Card Abuse Prevention Act of 2012, Public Law 112-194, October 5, 2012.** The Act explains the requirements for management of purchase cards and convenience checks in executive agencies. It details the safeguards and internal controls required for the management of the purchase card program, along with penalties for violations and OIG risk assessments and audits required to evaluate the purchase card and convenience check process.

**National Archives and Records Administration, General Records Schedules, Transmittal No. 22, April 2010, General Records Schedule 3, Procurement, Supply, and Grant Records.** Number 3.a.(1)(b) provides guidance on destruction of procurement files. It states that files for transactions at or below the simplified acquisition threshold are to be destroyed 3 years after final payment.

**OMB Circular No. A-123, Appendix B, Revised, January 15, 2009.** This document prescribes policies and procedures for agencies on how to maintain internal controls that reduce the risk of fraud, waste, and error in government charge card programs. It provides guidance on, among other things, the charge card management plan, training, risk management, and the use of convenience checks.

**SEC Operating Procedure, OP 10-6, Government Purchase Card Program.** The operating procedure details the policies and procedures for the SEC's purchase card program. The procedure describes the responsibilities of those who manage or administer the program. OP 10-6 succeeds SECR 10-6, Rev. 1, *Government Purchase Card Program*.

**Government Purchase Card Program Supplemental Procedures, December 21, 2012.** The procedures supplement SEC OP 10-6 and address such areas as maintaining a purchase card log and approving purchase card transactions. The supplemental procedures describe the "pay and chase" system and require that PCHs, at a minimum, reconcile their transactions within 30 days of the bank's posting date.

**SEC Administrative Regulations, SECR 10-1 (Rev. 1), "Ratification of Unauthorized Commitments," September 27, 2012.** This regulation prescribes policies and procedures pertaining to the ratification of unauthorized commitments.

**Treasury Financial Manual, Part 4—Chapter 4500, "Government Purchase Cards."** The chapter outlines the procedures for all agencies that have Government purchase

card programs. It defines the responsibilities of individuals who manage or administer the purchase card program.

**OMB M-13-21, “Implementation of the Government Charge Card Abuse Prevention Act of 2012,” September 6, 2013.** This memorandum provides guidance to agencies and Offices of Inspector General for implementing the provisions of the Act.

**GSA SMARTPAY® SMART BULLETIN, Smart Bulletin No. 021, September 6, 2013; revised and reissued November 18, 2013.** The Bulletin provides a summary of the requirements of the *Government Charge Card Abuse Prevention Act of 2012*, the implementation of which is described in OMB M-13-21, and provides A/OPCs with the compliance summary matrix addressed in OMB M-13-21.

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## Appendix III. Management Comments

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## MEMORANDUM

March 26, 2014

TO: Rebecca Sharek, Deputy Inspector General for Audits, Evaluations, and Special Projects, Office of Inspector General

FROM: Vance Cathell, Director, Office of Acquisitions 

SUBJECT: Response to SEC IG's Draft Audit 517, *Controls Over the SEC's Government Purchase Card Program*

Thank you for the opportunity to review and comment on the recommendations in draft Audit Report, *Controls Over the SEC's Government Purchase Card Program* dated March 13, 2014. The Office of Acquisitions (OA) appreciates the recommendations designed to strengthen the OA's controls over the purchase card program. We are pleased the OIG found that controls to administer the SEC's purchase card program appear to be reasonable, and that certain procedures are considered a best practice.

I welcome your suggestions on improvements in our policies and processes. OA is committed to assuring proper management and oversight of the purchase card program, assuring appropriate safeguards are present and reinforcing our processes of internal controls to provide reasonable assurance that the card program is used efficiently, economically, and effectively.

**Recommendation 1:** The Office of Acquisition should (a) establish procedures to periodically verify that purchase cardholders and approving officials have taken the required purchase card and convenience check training; and (b) restrict purchase cardholders' use of purchase cards or approving officials' participation in the approval process when those individuals do not timely complete required purchase card training.

OA concurs with this recommendation. As recognized in your report, OA had identified this issue and was working to correct it during the audit. We completed a 100% verification of training in July 2013. We established internal procedures, and have controls in place to assure that training is current and that OA takes action to restrict officials' participation if training is not current.

**Recommendation 2:** The Office of Acquisitions should remind purchase cardholders and approving officials of the requirement to (a) notify the Agency/Organization Program Coordinator that they have completed initial and refresher training; and (b) send their training certificates to the Agency/Organization Program Coordinator.

OA concurs with this recommendation. The Agency/Organization Program Coordinator (AOPC) conducted training in August 2013, and provided a general reminder to all GPC

participants. As training renewals become due, each participant will be reminded individually and appropriate action will be taken if their training certificates are not received in OA.

**Recommendation 3:** The Office of Acquisitions should ensure that the Agency/Organization Program Coordinator takes these actions: (a) continues to conduct periodic purchase card reviews and monitors compliance with purchase card policies such as (1) transaction approvals by approving officials prior to purchase; (2) adequate documentation of purchase card and convenience check transactions; and (3) maintenance of purchase logs using the purchase log template; and (b) promptly communicates to the appropriate purchase cardholders and approving officials any deficiencies identified during these reviews that need corrective action.

OA concurs with this recommendation. We especially appreciate your recognition in the report that the procedures we have established are a best practice. The AOPC will continue to follow these procedures and communicate any deficiencies identified to cardholders and approving officials for corrective action.

**Recommendation 4:** The Office of Acquisitions should (a) remind purchase cardholders and approving officials that only cardholders may order goods and services; and (b) ensure that the Agency/Organization Program Coordinator includes compliance with this requirement in her periodic purchase card reviews.

OA concurs with this recommendation. The AOPC reminded GPC participants during the August, 2013 training that only cardholders may place orders, and will review for compliance during the periodic purchase card reviews.

**Recommendation 5:** The Office of Acquisitions should take appropriate action, up to and including suspension and cancellation of purchase card or approval authority, for cardholders and approving officials who do not comply with purchase card policies.

OA concurs with this recommendation. Based on the facts of any occurrence, OA will consider other remedies up to and including suspension or cancellation of program authority for those who fail to comply with purchase card policies.

**Recommendation 6:** The Office of Acquisitions should consider obtaining a contract for deposition services.

OA concurs with this recommendation. Office of Acquisitions, Mission Support Branch in conjunction with Enforcement Division has been working on this strategic sourcing initiative. A request for proposal was issued, proposals are being evaluated, and an award is anticipated in the near future.

**Recommendation 7:** The Office of Acquisitions should determine whether the purchase of deposition services without proper authority and approval is consistent with (a) SEC Operating Procedure OP 10-6, "Government Purchase Card Program"; and (b) SEC Administrative Regulations SECR 10-1 (Rev. 1), "Ratification of Unauthorized Commitments," and take appropriate action as necessary.

OA concurs with this recommendation. OA shares your concern about potential procurement of deposition or other services without proper authority. We are committed to implementing the GPC Program with all reasonable controls to assure proper exercise of authority. Our ongoing

efforts to establish contractual methods to support deposition services, increase oversight, and enhance training for program participants will effectively manage risk in this area.

**Recommendation 8:** The Office of Acquisitions should ensure that the Agency/Organization Program Coordinator, at least annually, reviews the purchase cardholders' monthly credit limits and adjusts the limits on the basis of the purchase cardholders' actual needs.

OA concurs with this recommendation. The AOPC has instituted a review of the monthly credit limits, to occur annually at the minimum.

**Recommendation 9:** The Office of Acquisition should establish and implement policies on the number of purchase cards issued by various component organizations, the categories of component organizations, credit limits authorized for various categories of cardholders, and the categories of employees who are eligible to be issued a purchase card, as required under the *Government Charge Card Abuse Prevention Act of 2012*.

OA concurs with this recommendation. Although SEC has no component organizations who will be issuing cards, we will establish limits on the categories of employees who are eligible to receive purchase cards as well as their credit limits.

**Recommendation 10:** The Office of Acquisitions should (a) notify the supervisors of purchase cardholders and approving officials who are habitually late reconciling purchase card transactions with bank information or approving such reconciliations, and (b) consider cancelling the purchase program authorities of such employees.

OA concurs with this recommendation. As noted in the report, the A/OPC has already issued guidance to the GPC participants that late reconciliation will result in suspension of the cardholder account, and we will consider other remedies up to and including cancellation of program authority.

**Recommendation 11:** In accordance with the *Government Charge Card Abuse Prevention Act of 2012*, the Office of Acquisitions should review for accuracy and proper recording as a receipt to the agency rebates issued by the SEC's purchase card-issuing bank.

OA concurs with this recommendation.

## **Appendix IV. OIG Response to Management Comments**

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The OIG is pleased that OA concurred with the report's 11 recommendations for corrective action. We are also encouraged that OA has indicated that it has taken certain actions to address many of the recommendations in this report.

We believe that fully implementing all of the recommendations will enhance the controls over the SEC's government purchase card program.

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**Comments and Suggestions**

If you wish to comment on the quality or usefulness of this report or suggest ideas for future audits, please contact Rebecca Sharek, Deputy Inspector General for Audits, Evaluations, and Special Projects at [sharekr@sec.gov](mailto:sharekr@sec.gov) or call (202) 551-6083. Comments, suggestions, and requests can also be mailed to the attention of the Deputy Inspector General for Audits, Evaluations, and Special Projects at the address listed above.