Office of Inspector General

Audit of NARA's
Purchase Card Program

OIG Report No. 08-02

November 14, 2007

Executive Summary:

The National Archives and Records Administration (NARA) Office of the Inspector General (OIG) performed an audit of NARA's Purchase Card Program. The objectives of our audit were to assess (1) compliance with laws and regulations, (2) efficiency of operations, and (3) adequacy of management controls to help prevent fraud, waste and abuse by cardholders or others who attempt to manipulate the program.

The purpose of the federal Purchase Card Programs is to minimize the paperwork needed to make, with proper authorization, purchases. Although purchase cards provide efficiency and savings to the government, Purchase Card Programs are high-risk because they allow the same individual to order, pay for, and receive goods and services. This offers the potential for fraud, abuse, and improper transactions if not carefully monitored.

From November 24, 2005 through November 24, 2006, NARA processed 21,367 transactions at a value of $11,479,509. We found no significant abuse from the sampled items we reviewed and are encouraged by management's oversight of the Purchase Card Program. However, opportunities exist to improve management controls and expand the Purchase Card Program. Specifically, we found the following:

- Access to the Citibank Online Systems[1] needs to be updated to prevent users who no longer need access from accessing the purchase card related data, and to ensure proper authority of users.

- NARA's Purchase Charge Card Management Plan (Plan) does not address all the elements required by Office of Management and Budget (OMB) Circular A-123, Appendix B, *Improving the Management of Government Charge Card Programs.* For example, NARA's Charge Card Management Plan does not include a description of how NARA will test the effectiveness of its controls over the purchase card program. Additionally some reviews and oversight functions performed by management are not included in current NARA policies and procedures.

- Procurement files maintained by the Acquisitions Service Division lacked documentation supporting delegation of authority, spending limits, and training.

- NARA's listing of cardholders and approving officials maintained by the Finance Branch differs in spending limits, cardholders and approving officials from those reported in the Citibank Online System. In addition, we found two approving officials who were also cardholders and could potentially approve their own transactions.

---

[1] NARA uses Citibank for purchase card services. Citibank Online Systems provide a broad range of reporting and account maintenance functions including Web-based electronic access to detailed report generation and online account maintenance.

- In our test of a sample of transactions, we found instances where: 1) sufficient documentation did not exist supporting procurement requests and/or transactions; 2) transactions over the micro-purchase threshold were not matched to the purchase orders created from PRISM[2]; 3) cardholders did not classify expenditures to the most appropriate budget object class code or fund; 4) accountable property was not recorded in NARA's Personal Property Management System; and 5) split purchases occurred.

We made 20 recommendations which, when implemented by management, will assist the agency in enhancing the purchase card program to meet OMB Circular A-123, Appendix B requirements.

---

[2] PRISM is a procurement system which interfaces with the Bureau of the Public Debt (BPD) accounting system that NARA uses. The PRISM system is used to enter purchase requests, purchase orders, contracts, interagency agreements, and all purchase payments over $2,500 against existing awards that authorize payment by purchase card.

2

Background:

A U.S. government purchase card is an internationally accepted credit card issued by individual contractors and available to personnel in all federal agencies under a single General Services Administration (GSA) contract. The purpose of Purchase Card Programs is to minimize the paperwork needed to make, with proper authorization, purchases. Although purchase cards provide efficiency and savings to the government, Purchase Card Programs are high-risk because they allow the same individual to order, pay for, and receive goods and services. This offers the potential for fraud, abuse, and improper transactions if not carefully monitored.

Beginning in 2007, agencies were required to submit to Office of Management and Budget (OMB) a charge card management plan as prescribed by OMB Circular A-123, Appendix B, *Improving the Management of Government Charge Card Programs*. NARA's Purchase Charge Card Management Plan (Plan) outlines the policies and procedures for implementing and managing the NARA purchase card program to ensure that a system of internal controls is followed and to mitigate the potential for fraud, misuse, and delinquency. It establishes guidelines for the proper use of purchase cards for acquiring supplies and services through small purchase procedures. Based on this Plan, the Agency/Organization Program Coordinator (A/OPC) oversees NARA's purchase card program. The NARA Citibank Liaison establishes and maintains accounts; issues and destroys cards; serves as liaison between the cardholder and the purchase card contractor; provides on-going advice; audits purchase card accounts as required; and keeps necessary account information current. The A/OPC and the NARA Citibank Liaison are both part of the Finance Branch (NABF). The Director of the Acquisition Services Division (NAA) provides policy leadership in acquisition and procurement management, approves procurement authority requests and spending limits, and annually reviews previous fiscal year purchases.

A purchase cardholder is authorized to purchase necessary supplies, equipment, and non-personal services up to the micro purchase limit. The cardholder must use the card in compliance with procurement regulations; safeguard the card account number; obtain approval from an approving official prior to purchase; review and reconcile electronic Citibank statements; and ensure an audit trail is maintained. Contracting officers may procure supplies and services over $2,500 using appropriate procurement procedures (i.e., purchase orders) and pay the vendor with the purchase card.

Approving Officials are responsible for approving purchases and monitoring the purchase card account activity of their subordinate holders. Approving officials must verify all cardholder transactions are legitimate government requirements; ensure regulations are followed; verify the funds are appropriately allocated between accounting codes; and ensure cardholders reconcile all transactions and maintain records to provide an audit trail for all purchases. Monthly, each approving official must review and approve the on-line Citibank statement for each of their subordinate cardholders.

In November 30, 2006, NARA had 212 purchase cardholders with an annual credit limit of over $60 million and 83 approving officials. NAA lowered monthly credit limits and as of September 2007 the annual financial risk decreased from $60 million to $20.6 million.

Objectives, Scope, and Methodology:

The objectives of our audit were to assess (1) compliance with laws and regulations, (2) efficiency of operations, and (3) adequacy of internal or management controls to help prevent fraud, waste and abuse by cardholders or others who attempt to manipulate the program. The scope of this audit covered purchase card transactions made from November 2005 through November 2006.

To accomplish our objective we:
- Reviewed relevant laws and regulations, NARA guidance pertaining to the purchase card program, and Citibank guidance.
- Held discussions with NARA staff and Citibank representatives to obtain an understanding of the purchase card program.
- Reviewed pertinent documentation related to selected transactions to test the effectiveness of controls.
- Obtained access to Citibank Online Systems in order to download and analyze NARA charge card transactions.
- Employed judgmental sampling focusing upon high-risk and large dollar transactions. Specifically, we examined 63 out of 21,367 transactions accounting for $349,772.63 out of $11,479,509 or 3% of the total purchases made from November 24, 2005 through November 24, 2006.
- Reviewed the procurement files for the selected cardholder and approving officials to verify their delegation of authority, spending limits and training.

The review was conducted at Archives II in College Park, MD and encompassed all NARA programs. Our audit was performed from December 2006 through August 2007 and was conducted in accordance with generally accepted government auditing standards. These 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 believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Findings

1. Access to Citibank Online Systems Not Terminated

Approving officials, users with account maintenance duties or read only access, are not removed when access to Citibank Online Systems[3] are no longer needed. This condition exists due to an oversight on the part of management. Specifically, management omitted establishing controls ensuring access to Citibank Online Systems is terminated when access is no longer needed. The National Institute of Standards and Technology (NIST) Special Publication (SP) 800-12: *Introduction to Computer Security: The NIST Handbook* states when user accounts are no longer required they should be terminated. When user accounts are not terminated in a timely manner, former approving officials maintain the capability to both approve and reallocate charges. Other former users are capable of changing account data or accessing sensitive data, such as credit card account numbers.

There are no controls in place to ensure approving officials, Agency/Organization Program Coordinators (A/OPC), financial managers, users with read only access, and estatement approver's access rights are removed from the Citibank Online Systems when the employee leaves NARA, no longer has purchase card related responsibilities, or no longer has a need for purchase card data. It is due to an oversight on the part of management that the NARA Employee Clearance Record (NA Form 3009) does not include an area to ensure access to Citibank Online Systems is deactivated for all users when leaving or transferring offices at NARA.

As a result, the A/OPC does not know when an approving official leaves the agency or transfers in NARA. The approving officials continue to have access to the Citibank Online Systems with the capability of approving and reallocating charges. Likewise, the A/OPC does not know when users with account maintenance duties or read only access leave the agency. These users continue to have access to the Citibank Online Systems with the capability of changing account data or accessing sensitive or private information.

Based on NIST SP 800-12, effective administration of users' computer access is essential to maintaining system security. When user accounts are no longer required, the supervisor should inform the application manager and system management office so accounts can be removed in a timely manner.

The risk of fraud increases as former approving officials maintain the capability of approving and reallocating charges. In addition, the release of personally identifiable information can result in substantial harm and inconvenience to individuals whose

---

[3] Citibank Online Systems include four components. The Citibank® Online Statements system provides online access to account statements for streamlined review and payment. The CitiDirect® Card Management System provides online program administration, management and reporting. The CitiBank® Custom Reporting System allows users to create custom reports from more than 600 data elements. The CitiBank® Electronic Reporting System manages files and reports received online.

information is disclosed, and to the agency. It may also lead to identify theft or other fraudulent use of the information.

RECOMMENDATIONS

1. The Assistant Archivist of Administration should direct the NARA Citibank Liaison to deactivate User IDs not associated with valid and current users from Citibank Online Systems.

   Management Response:

   Management concurred with our recommendation.

2. The Assistant Archivist of Administration should direct the A/OPC to revise the Employee Clearance Record (NA Form 3009) to include the process of deactivating access to the Citibank Online Statement System and the Citibank Card Management System in accordance with NARA 205 Forms Management procedures.

   Management Response:

   Management concurred with our recommendation.

3. The Assistant Archivist of Administration should require the NARA Citibank Liaison to review a report with Citibank Online System access information at least annually to ensure controls for deactivating access are working as planned and to ensure users continue to have a need for access.

   Management Response:

   Management concurred with our recommendation.

2. OMB Circular A-123, Appendix B Requirements Not Fully Addressed

NARA's Purchase Charge Card Management Plan (Plan) developed in response to Office of Management and Budget (OMB) Circular A-123, Appendix B, *Improving the Management of Government Charge Card Programs*[4], outlines the policies and procedures for implementing and managing the NARA Purchase Card Program to ensure

---

[4] OMB requires agencies to maintain internal controls that reduce the risk of fraud, waste, and error in government charge card programs. OMB Circular A-123, Appendix B establishes standard minimum requirements and suggested best practices for government charge card programs, requires each agency to maintain written policies and procedures for the appropriate use of charge cards consistent with the OMB requirements, and requires each agency to develop and submit to OMB a charge card management plan.

a system of internal controls is followed and to mitigate the potential for fraud, misuse, and delinquency. However, NARA's Plan does not address all the elements required by OMB Circular A-123, Appendix B. The A/OPC stated this condition exists because all procedures relating to the Purchase Card Program were not included in NARA's Plan. In addition, the Director of the Acquisition Services Division (NAA) stated they lack resources to address all risks in their review of the purchase card program and other priorities come before revising outdated policy and procedures. With millions of dollars a year at risk, it is important for NARA to establish controls and evaluate the effectiveness of those controls over the purchase card program.

NARA's Plan identifies controls over the appointment/termination process, training, monthly and annual monitoring of transactions for misuse and abuse. However, NARA's Plan does not include a description of how it will ensure the ongoing effectiveness of controls. For example, NARA's Plan states that "NARA Management is responsible for evaluating the risk management controls and the training programs in order to ensure the ongoing effectiveness of the charge card management plan." This is hardly adequate to suffice OMB's intent, which is to identify specific risks associated with each agency's purchase card program and what is being done to overcome the risks identified. In addition, the Plan does not cover all of the required elements. For example, strategic sourcing, refund management, and tax recovery efforts are not covered. Further, reviews and analysis performed by NAA are not established in NARA policies and procedures.

Based on OMB Circular A-123, Appendix B, the elements required in the charge card management plan are:
- Identification of key management officials and their responsibilities for each charge card program. These officials will include, but are not limited to, Agency/Organization Program Coordinator, Approving Officials or other equivalent officials, and other accountable/billing officials;
- Establishment of a process for formal appointment of cardholders and approving officials, where applicable;
- Description of agency training requirements;
- Management controls, policies, and practices for ensuring appropriate charge card usage and oversight of payment delinquencies, fraud, misuse, or abuse;
- Establishment of appropriate authorization controls;
- Implementation of policies and practices to ensure strategic sourcing consistent with Chapter 8 of this Guidance;
- Explanation of how available reports and data are used for monitoring delinquency, misuse, performance metrics, spend analysis, and other relevant transactions and program management issues;
- Documentation and record retention requirements;
- Recovery of charge cards and other documentation when employees terminate employment, and if applicable, when an employee moves to a different organization; and
- Description of how the agency will ensure the ongoing effectiveness of the actions taken pursuant to this Guidance, including, but not limited to, evaluating the effectiveness of training, risk management control , refund management controls, strategic sourcing policies, and tax recovery efforts.

Controls established in meeting the requirements of OMB Circular A-123, Appendix B must be included in internal agency regulations, procedures, and training material.

NABF stated they did not include all of the procedures relating to the Purchase Card Program in NARA's Plan. In addition, NAA has stated they lack resources to address all risks in their review of the purchase card program and that other priorities come before revising outdated policy and procedures.

We evaluated the effectiveness of certain controls. For example:

- We evaluated the number of cardholders under each approving official. NARA's average span of control is 2.6 cardholders to every approving official, which is reasonable and well within General Services Administration (GSA) recommended ratio of one approving official for every seven cardholders. However, three approving officials had control of more than seven cardholders. Further review determined that nine approving officials reviewed more than 50 transactions a month on average, which is excessive based on GSA guidance.

- We also evaluated whether the approving official was a higher-level official as required by NARA's Procurement Guide, Chapter 5, Simplified Acquisition Methods. We found two instances where the approving official's grade level was lower than the cardholder. In these instances, the cardholders were not the supervisor of the approving official.

With millions of dollars at risk, it is not only important to establish controls, but it is critical for management to evaluate the effectiveness of those controls. Written policies and procedures are critical in assuring that internal controls are established and communicated to employees. Effective internal control helps in managing change to cope with shifting environments and evolving demands and priorities.

RECOMMENDATIONS

4. The Assistant Archivist of Administration should direct the A/OPC to ensure all elements of OMB Circular A-123, Appendix B are covered in NARA's Purchase Charge Card Management Plan including an explanation justifying action not taken in areas not covered, such as strategic sourcing, refund management, and tax recovery efforts.

   Management Response:

   Management concurred with our recommendation.

5. The Assistant Archivist of Administration should direct the A/OPC to develop a plan for evaluating controls in order to ensure the ongoing effectiveness of training controls, risk management controls, refund management controls, and tax

recovery efforts. For example, the A/OPC should identify risks over the purchase card program, identify controls addressing those risks, and define how the controls will be evaluated and how often.

Management Response:

Management concurred with our recommendation.

6. The Assistant Archivist of Administration should ensure controls identified in the Plan are included in internal agency policy and procedures.

   Management Response:

   Management concurred with our recommendation.

7. The Assistant Archivist of Administration should direct the Director of NAA to review the activity of the three approving officials controlling more than seven cardholders and the nine approving officials reviewing, on average, more than 50 transactions a month to determine whether approving official's duties need to be adjusted based on the organization's environment.

   Management Response:

   Management concurred with our recommendation.

8. The Assistant Archivist of Administration should direct the Director of NAA to work with the Regional Administrator of the Northeast Region (NRA) to change the approving official to an approving official whose grade level is higher than the cardholders.

   Management Response:

   Management concurred with our recommendation.

3. Procurement Files Not Adequately Documented

Procurement files maintained by NAA lacked documentation supporting delegation of authority, spending limits, and training. This condition exists due to an oversight on the part of management to include guidance pertaining to records disposition over purchase card appointment records. In addition, NAA stated that the NARA application for purchase card and approving official is not needed after NAA prepares a letter of appointment as a cardholder or approving official. The Government Accountability

Office (GAO) requires appropriate documentation of transactions and internal control. When procurement files are not adequately maintained, there is no evidence supporting appointment justifications, training, appointment letters, individual limitations on procurement authority, and related records pertaining to purchase cardholders and approving officials.

Based on our review of procurement files:

- A procurement authority letter was not included in 10 procurement files. In addition, the documentation in one cardholder's procurement files did not agree with their single purchase limit, and the documentation in two cardholder files did not agree with their monthly limits in the Citibank system.
- The documentation in seven procurement files did not demonstrate that the employees's training was up to date during the scope of audit sample selected. In addition, the NARA Citibank Liaison's training was not up to date during our audit period. Three employees updated their training after our scope period.
- In two instances, the application included evidence that the cardholder did not meet the relevant government experience requirement at the time the application was approved.

GAO's *Standards for Internal Control in the Federal Government* states that management is responsible for developing the detailed policies, procedures, and practices to fit their agency's operations. Internal control need to be clearly documented and should appear in management directives, administrative polices, or operating manuals.

NARA's Purchase Charge Card Management Plan refers to NARA File Maintenance and Records Disposition Manual 203, Chapter 5, item 514 as guidance for maintaining training certificates, but does not indicate maintaining applications or letters of appointment for purchase cardholders and approving officials. Based on NARA File Maintenance and Records Disposition Manual 203, Chapter 5, item 514, program offices and NAA must maintain the appointment justifications, copies of training certificates, appointment letters, individual limitations on procurement authority, and related records pertaining to the designation of contracting officers and contracting officers technical representatives until the designation is cancelled. However there is no NARA guidance, due to an oversight on the part of management, pertaining to records disposition over the NARA application for purchase cards and approving officials, appointment letters, and copies of training certificates for purchase cardholders and approving officials.
NAA stated the NARA application for purchase card and approving official is not needed after NAA prepares a letter of appointment as a cardholder or approving official because the letter of appointment supports the cardholder's authority and spending limit,or the approving official's authority. However, without the NARA application for purchase card and approving official documented in the procurement file, there is no evidence supporting the program offices' approval, spending limit request, organization's need for a purchase card, and NAA's evaluation that the cardholder and approving official meets the education, training and experience requirements. When procurement

10

files are not adequately maintained, the risk increases that there is a lack of evidence supporting delegation of authority, spending limits, and training.

RECOMMENDATIONS

9. The Assistant Archivist of Administration should direct the Director of NAA to notify and work with NARA Records Management Staff (NHR) to determine whether the Application for Purchase Card and Approving Official, copies of training certificates, appointment letters, and related records pertaining to the appointments for cardholders and approving officials need to be included in a NARA Record Schedule and maintained as part of each cardholder and approving officials' procurement file supporting the program offices' supervisory approval, the organizational need for a purchase card, NAA's evaluation and approval, and NAA's delegation of authority.

   Management Response:

   Management concurred with our recommendation.

4. NARA Listing of Cardholders And Approving Officials Is Not Accurate

NARA's listing of cardholders and approving officials contains differences in spending limits and approving officials than those reported in the Citibank system. This condition exists because comparisons between the NARA Listing and Citibank system data are not being performed by management. The Treasury Financial Manual (TFM) requires management to maintain a current list of cardholders and approving officials. As a result, NARA's listing is inaccurate and certain information in the Citibank System may be inaccurate. In order to conduct relevant reviews and analysis of cardholders and approving officials, the information needs to be accurate.

We found the following differences:
- Two cardholder's monthly limits on the NARA listing of cardholders were different than those limits on Citibank's account listing.
- One person listed on the Citibank's account listing as closed was listed on the NARA listing of cardholders as open.
- One cardholder was listed twice on the NARA listing.
- One cardholder is not listed with the correct approving official on the NARA Listing.
- Two cardholders in the Citibank system are not listed as cardholders on the NARA listing.
- Four approving officials listed on the NARA Listing did not agree with the Citibank system.
- Five approving officials listed in the Citibank system were not included on the NARA listing or should not be in Citibank system with approving authority.
- Two approving officials were listed as approving officials for their own card account within the Citibank System.

TFM, Chapter 4500, section 4525 states that management of the purchase card program includes maintenance of a current list of cardholders and approving officials.

The differences between NARA's listing of cardholders and approving officials and the Citibank system are due to NABF staff not periodically comparing the NARA listing of cardholders and approving officials that NABF prepares based on Citibank purchase card account applications and NAA procurement authority letters received from NAA to Citibank reports. Thus, there is a risk that an accurate list of cardholders and approving officials does not exist, that cardholders may have higher spending limits in the Citibank system than approved by NAA, or that approving officials can approve their own transactions increases. In order to conduct relevant reviews and analysis of cardholders and approving officials, the information needs to be accurate.

RECOMMENDATIONS

10. The Assistant Archivist of Administration should direct the Director of NAA to correct the errors on the NARA listing of cardholders and approving officials.

    Management Response:

    Management concurred with our recommendation.

11. The Assistant Archivist of Administration should direct the Citibank Liaison to compare the NARA listing to Citibank generated reports for completeness and accuracy and work with the Director of NAA on adjusting the NARA Listing.

    Management Response:

    Management concurred with our recommendation.

12. The Assistant Archivist of Administration should direct the Citibank Liaison to work with Citibank on developing a custom report of cardholders, related approving officials, related alternate approving officials, spending limits, organization and location for easier comparison to NARA's listing of cardholders and approving officials.

    Management Response:

    Management concurred with our recommendation.

5. Procurement Request And Transactions Not Adequately Supported

Cardholders did not maintain sufficient documentation supporting procurement requests and transactions as required by the NARA Procurement Guide. This condition exists because approving officials approved transactions despite inadequate support. Online approvals by the cardholder and approving officials do not provide sufficient evidence to determine if a reconciliation and certification were actually performed. NARA policy requires supporting documentation, such as purchase orders, evidence of competition and packing slips. Without supporting documentation and without testing the effectiveness of the approving official process, the risk of fraud, waste, and abuse increases.

We found that:

a. Ten transactions lacked sufficient procurement request documentation.
b. Four transactions lacked sufficient transaction/invoice documentation.
c. Nine transactions over $2,500 were not matched to the purchase order.
d. Documentation could not be found for one transaction due to storage of documents during an office move.

NARA Procurement Guide establishes that the cardholder must obtain approval from an approving official prior to purchase; review and reconcile electronic transactions; and ensure that an audit trail is maintained. The cardholder should obtain a sales slip or packing slip and maintain documentation with the purchase card documentation files. Contracting personnel must document competitive orders over $2,500. Purchases over $2,500 must be place using a purchase order (SF 1449, Solicitation/Contract/Order for Commercial Items or OF 347, Order for Supplies or Services). Bureau of Public Debt's guidance on using the Citibank Online System states that users have the ability to match expenses to purchase orders within the Citibank Online System by entering the purchase order, line, shipment, and distribution number in the description line and selecting 'matching order' for the accounting string code. NARA Interim Guidance 402-6 provides procedures for purchase card approvals.

NARA relies upon online reconciliation and approval capabilities. The example at the top of the next page demonstrates NARA's online reconciliation and approval sign-offs. The figure shows that the purchase card statement ended on October 25, 2006. The cardholder submitted the purchase card statement for review by the approving official on October 26, 2006 and the approving official approved the purchase card statement on October 27, 2006.

Read Notes

CARDHOLDER   Cardholder Name
ACCOUNT NUMBER   xxxxxxxxx▇▇▇▇
STATEMENT PERIOD   09/23/2006 - 10/24/2006

If you see an envelope to the left of an entry, then you can click on it to view the note.
Entries without an envelope are status changes only.

The following notes have been attached to this account:

Approving Official Name
10/27/2006 8:22:36 AM
Closed

Cardholder Name

10/26/2006 10:57:46 AM
Pending Approval

Cardholder Name
10/25/2006 9:01:49 PM
New

NARA relies upon online reconciliation and approval capabilities, but these processes do not provide sufficient evidence to determine if a comprehensive reconciliation and certification were actually performed. Without supporting documentation, cardholders can not exercise due diligence in reconciling their statements and an approving official has no means of reasonably determining whether the item purchased represents a legitimate government need or is fraudulent, improper, or abusive.

NAA performs oversight of purchase card transactions by reviewing high use cardholder transactions. NAA also monitors transactions over the micro-purchase thresholds which have not been matched to a purchase order. Due to the results of their monitoring, NAA limited many cardholder's authority to the new micro-purchase level of $3,000 and decreased many monthly purchase limits. NAA also, for some cardholders, reviews all contract officer actions and has counseled cardholders and approving officials to better document bids.

RECOMMENDATIONS

13. The Assistant Archivist of Administration should direct the Director of NAA to establish written policies and procedures to evaluate the effectiveness of cardholder reconciliations and approving officials certifying duties.

    Management Response:

    Management concurred with our recommendation.

6. Accounting Budget Object Classes and Accounting Fund Misclassified

Purchase cardholders misclassified over $109,000 in expenditures to incorrect budget object classes. In addition, $61,000 of Repairs and Restoration obligated funds, based on an established contract, were expended from the Operating Expense fund. NARA Admin., 201, Chapter 5 provides for proper classification of obligations. This condition exists due to of several reasons: 1) cardholders may not reallocate transactions from their default accounting string; 2) approving officials may not have verified the funds were appropriately allocated; 3) descriptions of budget object class codes are not comprehensive and do not include examples specific to NARA; or 4) NABF does not, due to other priorities, periodically evaluate the effectiveness of the controls over the allocation of expenditures to ensure consistency and appropriateness of accounting fund and budget object class used. As a result, external reports by budget object class were inaccurate and funds expended from the operating expense fund could have been used for other operating expenses had the proper fund allocation been used based on the contract. Proper accounting classification is important because management makes decisions based on financial data.

In 19 instances cardholders did not allocate the transaction to the most appropriate budget object class.

Transaction Amount	Description of Purchase	BOC Used	BOC that should have been used
$ 150.00	Copier and coin box lease	Miscellaneous Services	Non-ADP Rentals
$ 1,759.55	Conference table chairs	General Supplies	Other Equipment – Non Capitalized
$ 695.00	Training	Services of Other Agencies	Government Sourced Training
$ 540.00	IT software services	General Supplies	Management and Professional Support Services
$ 180.27	Gift store supplies	Miscellaneous Services	General Supplies
$ 2,504.70	Copier Maintenance Agreement Support	Miscellaneous Services	Operations and Maintenance of Equipment- Non ADP
$ 2,743.33	Newspaper ad	Miscellaneous Services	Advertising
$ 5,773.00	Visual case - special use furniture	Miscellaneous Services	Other Equipment - Non Capitalized
$ 2,500.00	Painting services	Miscellaneous Services	Repairs and Maintenance
$ 50,000.00	Renovating services	Miscellaneous Services	Repairs and Maintenance
$ 3,329.56	Reception Desk	General Supplies	Other Equipment - Non Capitalized
$ 1,595.00	Powerlite projector	General Supplies	ADP Equipment -Non-Capitalized

15

Transaction Amount	Description of Purchase	BOC Used	BOC that should have been used
* $ 7,680.01	Toner and ink cartridges	General Supplies	ADP Supplies
$ 2,500.00	Printing services - Admission Tickets	General Supplies	Commercial Printing and Duplication
*$ 5,207.10	Toner	General Supplies	ADP Supplies
$ 3,041.00	Ice machine	General Supplies	Other Equipment-Non Capitalized
$ 15,261.38	2 Digital Video Recorder	General Supplies	Other Equipment-Non Capitalized
$ 2,500.00	Printing services - brochure	General Supplies	Commercial Printing and Duplication or Advertising
$ 1,350.00	Annual maintenance of Scanner	Miscellaneous Services	Operations and Maintenance of Equipment-Non ADP
$109,309.90			

*$12,887.11   Does not affect the external reporting for the agency as the costs of all BOC's that begin with 26 are rolled together and reported externally as one amount.

In two instances cardholders did not allocate the transaction to the accounting fund based on the contract.

Transaction Amount	Description of Purchase	Accounting Fund Used	Accounting Fund that should have been used
$ 25,000	Room 19E3 SCIF Modifications	NAR0300SE06XX Operating Expenses	NAR0302SE06XX Repairs and Restorations
$ 36,000	Room 506 SCIF Modifications	NAR0300SE06XX Operating Expenses	NAR0302SE06XX Repairs and Restorations
$ 61,000			

NARA Admin., 201, chapter 5, Budget, Part 6.54c states that "Obligations must be classified by operating budget area, activity, project, function, organization, and by object class and cost element as prescribed by the official accounting system for adequate review of financial operations." NARA Financial Reference Manual 2006 provides a listing and description of budget object classes that should be used. In addition, external reporting by object class is required by OMB Circular A-11 and 31 USC 1104(b).

In general, cardholders allocate expenditures to the budget object class they feel best describes the purchase based on the descriptions of budget object classes. Transactions allocated to miscellaneous services and general supplies are common budget object codes because of the generality of the description, and these are usually set as the cardholders default budget object code. Further, cardholders and approving officials may not be verifying the transaction was allocated to the most appropriate budget object class or fund. NARA's descriptions of budget object classes are not comprehensive and do not include examples specific to NARA.

NABF does not, due to other priorities, periodically evaluate the effectiveness of the controls over the allocation of expenditures to ensure consistency and appropriateness of accounting fund and budget object class used. Cardholders and approving officials may not think budget object classifications are important if NABF does not review, question, and correct misclassifications.

As a result, external reports by appropriated fund and budget object classes contain inaccuracies. In addition, funds expended from the Operating Expense fund could have been available for other operating expenses had the proper fund allocation been used based on the applicable contracts. Proper accounting classification impacts management decisions.

RECOMMENDATIONS

14. The Assistant Archivist of Administration should direct NABF to clarify budget object class guidance, by expanding the descriptions and providing examples and exceptions.

    Management Response:

    Management concurred with our recommendation.

15. The Assistant Archivist of Administration should direct the NABF to incorporate a review of budget object class and fund codes in their monthly review of purchase card transactions. For example, the Citibank Liaison could review a sample of transaction for proper coding.

    Management Response:

    Management concurred with our recommendation.

16. The Assistant Archivist of Administration should direct the A/OPC to communicate to cardholders and approving officials the purpose and importance of proper BOC classification and fund classification, and their responsibility in changing the default allocation, if needed.

    Management Response:

    Management concurred with our recommendation.

7. Accountable Property Guidance Needed

We found instances where there was no evidence that accountable property purchased using government purchase cards was recorded in NARA's Personal Property Management System (property system). Accountable property was not recorded because there is no clear guidance for purchase cardholders to follow when purchasing accountable property. GAO requires appropriate documentation of transactions and internal control. Accordingly, there is a resulting increase in the risk of loss or theft of accountable property not recorded in the property system.

Eight transactions in our sample included accountable property purchased using the purchase card. The following items were not recorded in the property system:

Description	Amount
2 Printers	$ 720.00
Powerlite Projector	$ 1,595.00
ADRES Computer System Items	$ 10,979.43
Scanner	$ 15,995.00
Total	$ 29,289.43

NARA's Property Managers Users Guide includes printers, projectors, computer processors, and scanners as sensitive items that are considered accountable property which must be accounted for in NARA's Personal Property Management System. It also states that offices with acquisition authority must forward to NAF a copy of NA Form 5007 for credit card purchases. However, NARA's Procurement Guide states that NA Form 5007 is optional for purchase card purchases not exceeding $2,500.

NARA is revising its accountable personal property threshold from $1,000 to $3,000 and will include changes to sensitive items, limiting sensitive items to laptop computers, weapons, and digital cameras.

GAO's *Standards for Internal Control in the Federal Government* states that management is responsible for developing the detailed policies, procedures, and practices to fit their agency's operations. Internal control need to be clearly documented and should appear in management directives, administrative policies, or operating manuals.

Only 15 percent of cardholders are also Property Accountable Officers (PAO) and may be familiar with the Property Managers User Guide. Otherwise, cardholders who are not PAOs may not be familiar with the Property Managers User Guide. NARA policies and procedures do not provide an adequate process for ensuring that accountable property obtained by purchase card is recorded in the property system.

Accountable property obtained with purchase cards includes items that can be easily pilfered, such as computers, camera, scanners, TVs, and DVD players. Entering such

18

items in the property records is critical to help assure accountability and financial control over these assets and deter theft or improper use of government property.

We acknowledge the change in policy regarding sensitive items and the change in the accountable personal property threshold. However, existing controls would still allow sensitive items purchased by credit card not to be recorded in the PPMS.

RECOMMENDATIONS

17. The Assistant Archivist of Administration should direct the Property Management Officer to develop policies and procedures to provide reasonable assurance that accountable property assets acquired with a purchase card are entered into an accountable property system immediately after being received. Cardholders should be required to contact accountable property officers (or others acting in a similar capacity) before acquiring accountable property, or within a reasonable time thereafter, to ensure the property is properly bar coded and tracked in the property system. This should be completed prior to placement of the asset in service.

Management Response:

Management concurred with our recommendation.

18. The Director of Policy and Planning Staff (NPOL) should communicate the new policy to all cardholders and approving officials and be included in any NARA training related to purchase cards.

Management Response:

Management concurred with our recommendation.

19. The Assistant Archivist of Administration should direct the Property Management Officer to ensure the accountable property listed above meeting NARA's current requirements are inventoried and recorded in the property system.

Management Response:

Management concurred with our recommendation.

8. Split Purchases

There were two instances where recurring monthly purchases for the same service were made exceeding the micro purchase threshold. The individual monthly transaction costs were below the micro purchase threshold. These transactions were not made against

existing procurement agreements. NARA's procurement guidance prohibits making "multiple, recurring purchases for the same item or service, if the total of the multiple purchases is greater than $2,500" without the use of a procurement agreement, such as a contract, purchase order, or delivery order. The use of the purchase card for recurring purchases is not intended to avoid competition and may lead to an unauthorized commitment of funds if not made by a contracting officer with the proper authority using proper procurement agreements.

In one instance a cardholder routinely used the Defense Logistics Agency Document Automation and Production Service (DAPS) for copying workbooks for classroom instruction. In one month's activity, the purchases made with DAPS exceed the micro purchase limit of $2,500.

In the second instance a monthly cost of $219.13 was paid for the lease of a copier, which would total $2,629.56 for the year, again exceeding the micro purchase limit.

NARA's Procurement Guide, Chapter 5, Simplified Acquisition Methods defines Split Requirement as "Multiple, recurring purchases for the same item or service, if the total of the multiple purchases is greater than $2,500, are not allowed... Typically, multiple purchases of the same item or service actually equal one requirement and should be handled as such. Purchasing the same item or service separately could lead to an unauthorized commitment...because the actual value, the total of the multiple purchases, is greater than the purchase card limit..."

Based on NARA's Procurement Guide, Part 1, General Acquisition Policy, Chapter 2, section 4, purchases above the micro-purchase threshold using the government purchase card are permissible only by warranted contracting officers, as a method of payment against existing award documents, who must promote competition.

The individual transaction costs of the split purchases were below the micro purchase threshold, and they were not questioned or prevented by their approving official. In one case the cardholder was not a contracting officer and exceeded their authorized limit; however the cardholder felt this price was fair and better than others vendors assessed.

The purpose of the micro purchase limit is to require purchases above established limits to be subject to additional controls to ensure they are properly reviewed and approved before the agency obligates funds. By allowing these limits to be circumvented, NARA had less control over the obligation and expenditure of its resources. In addition, split purchases increase the risk goods or services can be procured without competition.

The Acquisition Services Division has taken action with one vendor and is developing an NARA-wide interagency agreement with DAPS for copying services.

RECOMMENDATIONS

20. The Assistant Archivist of Administration should direct the Director of NAA to use procurement agreements, such as Delivery Orders, with vendors for filling repetitive needs for supplies or services. Various procurement agreements can be designed to reduce administrative costs in accompanying small purchases by eliminating the need for issuing individual purchase documents.

Management Response:

Management concurred with our recommendation.

21

National Archives and Records Administration

Date: NOV 0 6 2007

To: NPOL

From: NA

Subject: OIG Draft Report No. 07-14, Audit of NARA's Purchase Card Program

Thank you for the opportunity to comment on the Draft Report No. 07-14: Audit of NARA's Purchase Card Program.

We concur with all recommendations made in this draft report. Based on discussions with —b(6)— of your office, we understand that the following changes will be made to the final report: (1) The name "Office of Administrative Services" will be corrected throughout the report to "Office of Administration", (2) Recommendation 8 will be revised to be specific to the instance in the finding, and (3) Recommendation 15 will direct that an NABF staff member be assigned rather than the more specific Citibank Liaison.

Please note that actions to satisfy some of the recommendations are already underway. If you have any questions concerning these comments, please contact via e-mail or telephone, —b(6)— at 301-837-—, or —b(6)— at 301-837-——

ADRIENNE C. THOMAS
Assistant Archivist for Administration

Attachment