

**AUDIT REPORT**  
**PURCHASE CARD PROGRAM**

**Number A-03-06**

**December 3, 2003**

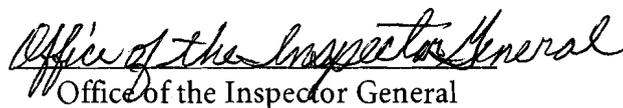
## SUMMARY

The Office of the Inspector General audited the controls over the Smithsonian Institution's Purchase Card Program. The purpose of the audit was to determine whether internal controls were adequate to ensure that purchase cards were being used only for authorized purposes. The scope of the audit included an evaluation of the adequacy of purchase card controls and procedures and testing of those controls and procedures for compliance with applicable laws, policies, and procedures.

Overall, the internal controls over the Purchase Card Program were adequate to ensure cardholders were using purchase cards for authorized purposes. Furthermore, our audit disclosed no instances where purchase cards were used for unauthorized purposes. However, we noted that improvements were needed in three areas: accuracy of financial data, independent receiving, and on-line approval of purchases. We made four recommendations to improve controls over the Purchase Card Program. In summary the recommendations are:

- (1) Revise and (2) implement the Purchase Card Program system requirements to ensure that purchase card transactions are recorded in the PeopleSoft financial system in real-time.
- Revise Smithsonian Directive 314, *Requisitioning-Purchase of Supplies, Equipment, and Services Handbook*, and the Purchase Card Training manual to address (3) independent receiving, and (4) on-line approvals.

Management concurred with recommendations three, and four, and partially concurred with recommendations one and two. Management's implementation plans for recommendations one and two will be acceptable if the plan provides cardholders accurate, timely, and reliable financial information to assess funds availability prior to purchasing goods or services with the purchase card, and provides specific dates for implementing the requirements.

  
Office of the Inspector General

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## ABBREVIATIONS AND ACRONYMS

ERP	Enterprise Resource Planning
GAO	General Accounting Office
OC	Office of the Comptroller
OCIO	Office of the Chief Information Officer
OCon	Office of Contracting
OPMB	Office of Planning, Management, and Budget
SD	Smithsonian Directive
SFS	Smithsonian Financial System
STRI	Smithsonian Tropical Research Institute

## INTRODUCTION

### A. Purpose

The purpose of the audit was to determine whether internal controls over the Purchase Card Program were adequate to ensure that purchase cards were being used only for authorized purposes. The objectives of the audit were to (1) evaluate the adequacy of internal controls and policies and procedures, (2) assess the efficiency of operations, and (3) test transactions in order to determine whether the Institution was compliant with policies and procedures, and internal controls were operating as desired.

### B. Scope and Methodology

The audit was conducted from April 23, 2003, to August 15, 2003, in accordance with generally accepted government auditing standards. We determined whether controls were in place to ensure that the Purchase Card Program was operating as intended. The audit evaluated the adequacy of the controls and procedures over the Purchase Card Program and tested transactions for compliance with applicable laws, policies, and procedures.

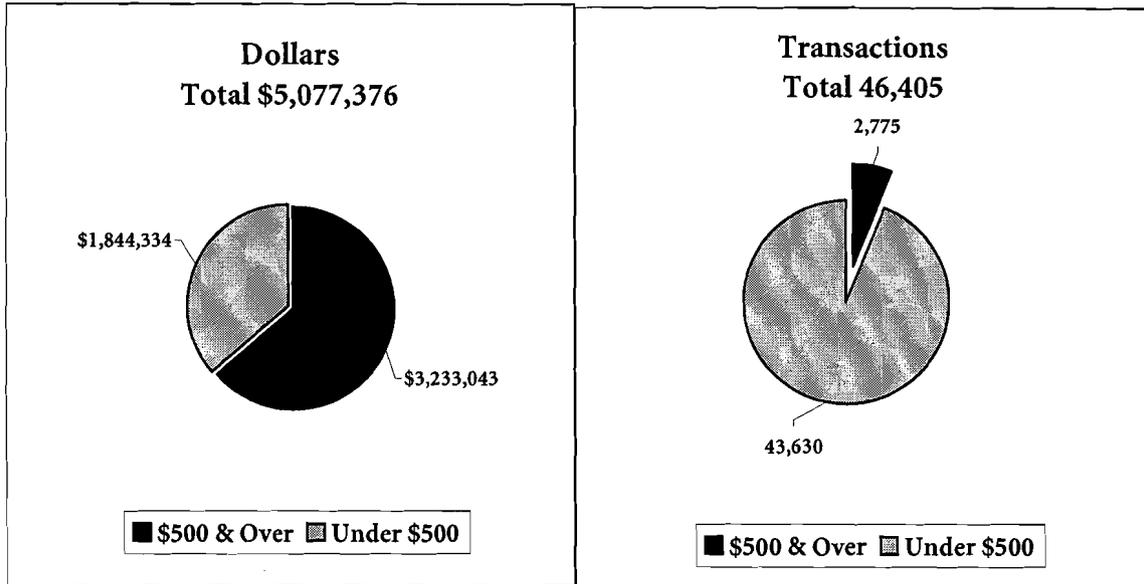
We reviewed the following:

- Policies and procedures relating to the Purchase Card Program;
- Prior purchase card audits from other federal government agencies;
- The GAO *Audit Guide on Auditing and Investigating the Internal Control of Government Purchase Card Programs*;
- The purchase card process -- from card approval through payment for card purchases -- and the associated documents; and
- Purchase card transactions for the billing period October 2002 through April 2003.

We conducted interviews with staff from offices involved in the purchase card process such as the Office of Contracting (OCon), Office of the Comptroller (OC), Office of the Chief Information Officer (OCIO), and select units that used the card. Through interviews and transaction reviews, we reviewed purchase card controls and practices.

For the 7-month billing period from October 2002 to April 2003, cardholders made 46,405 purchases totaling approximately \$5.1 million. We excluded small purchases under \$500 from the total population of 46,405 purchases to focus on the higher risk purchases. The targeted sample population included 2,775 purchases totaling approximately \$3.2 million (see chart 1). We tested a statistical sample of 79 purchases totaling \$91,000 from this targeted population of 2,775 purchases to determine whether (1) the Institution had strong internal controls and sound policies and procedures, (2) cardholders used purchase cards only for official expenses, and (3) approving officials were adequately reviewing, approving, and certifying cardholder's purchases prior to payment.

**Chart 1**  
**Purchase Card Transactions for Billing Period of October 2002 to April 2003**



For each purchase, we reviewed the purchase card transaction log, monthly card statement, advance approval for the purchase, documentation of funds availability for the purchase, purchase receipt and packing slip if appropriate, evidence that the goods or services ordered were received by someone other than the cardholder, and evidence that the cardholder obtained documented approval for restricted purchases if appropriate. We sought to answer questions such as:

1. Was the number of cardholder accounts manageable?
2. Was advance approval of the purchase documented?
3. Was funds availability documented before the purchase?
4. Was the purchase supported by documents such as receipts, invoices, or packing slips?
5. Was the cardholder the approving official's supervisor?
6. Was there documented approval for restricted purchases?

**C. Background**

The purpose of the Purchase Card Program is to reduce costs by lowering the number and dollar amount of petty cash and purchase order purchases. The Purchase Card Program is also meant to reduce the paperwork and speed up the process for obtaining goods and services. The Institution selected Citibank as their merchant bank for the government purchase card, which is also known as the SmartPay card.

The Institution began the Smithsonian Purchase Card Program in May 2000. The Institution implemented the program to operate with the Smithsonian Financial System (SFS). Since that time, the Institution has been undergoing a fundamental change to improve its financial systems to provide efficient, accurate, and reliable information to further the Institution's mission, goals, and objectives. The focus of that change has been the Institution's Enterprise Resource Planning (ERP) System. When the Institution began replacing SFS with the ERP on October 1, 2002, the Purchase Card Program was re-configured to operate with the new ERP system. Although the Institution is moving to have more functions processed through ERP, the Institution's units continue to use a system of "cuff" records and manual reconciliations to facilitate day-to-day operations.

OCon establishes policy, develops training materials for purchase cards, and manages the Purchase Card Program. OCon processes purchase card applications, maintains the cards, monitors disputed purchases, and reviews purchase card use. If necessary, OCon may also suspend or cancel cardholders' cards. OCon has assigned one staff member to be the Purchase Card Program Manager. Other key people in the purchase card process are the cardholders and approving officials.

The cardholder is responsible for the following:

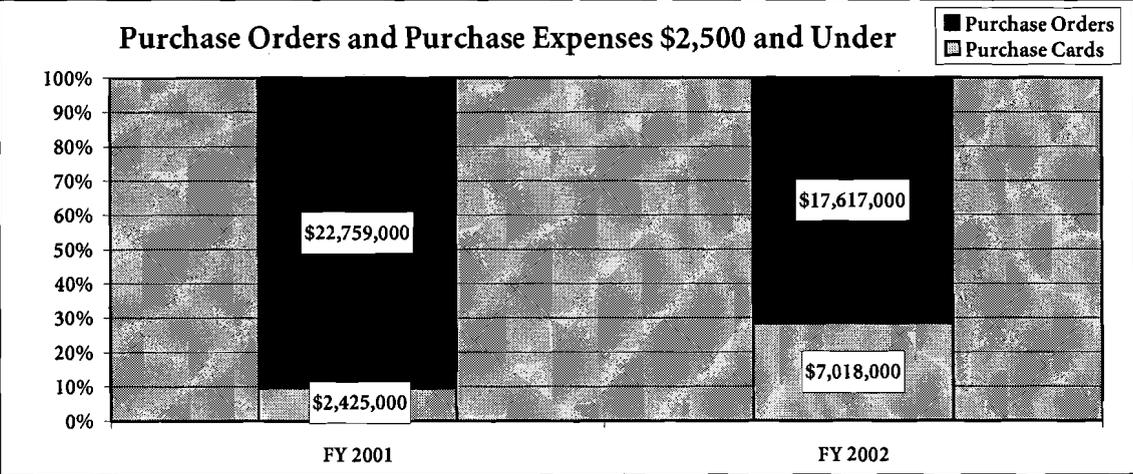
- Ensuring that funds are available prior to making purchases, and complying with single purchase and monthly limits;
- Procuring supplies and services consistent with the organizational responsibilities and for legitimate Institutional requirements;
- Receiving goods ordered and maintaining appropriate receipt records;
- Maintaining adequate documentation of all purchase transactions;
- Providing approving officials applicable receipts to enable certification of payment;
- Safeguarding the purchase card; and
- Resolving disputes with vendors.

The approving official is responsible for the following:

- Ensuring the adequacy of cardholder's documentation;
- Monitoring cardholder purchases to ensure that cardholders are purchasing within assigned limits, are not splitting purchases, and are purchasing valid goods and services;
- Certifying purchases for payment;
- Reporting any cardholder misuse of the card; and
- Conducting semiannual reviews to ensure that cardholders are in possession of their cards.

To examine whether the Institution has been able to reduce costs by decreasing the use of purchase orders and increasing the use of purchase cards, we reviewed whether the Institution has been increasing the use of purchase cards for purchases that do not exceed \$2,500, rather than using purchase orders. For fiscal year 2001, purchase card transactions represented approximately \$2.4 million or 10 percent of the approximately \$25 million in total purchases of \$2,500 and under that were made using both purchase cards and purchase orders. In fiscal year 2002, purchase card transactions increased to approximately \$7 million or 28 percent of the approximately \$25 million in total purchases under \$2,500(See Chart 2). As of June 30, 2003, there were a total of 658 purchase card accounts and 157 approving officials.

Chart 2



## RESULTS OF AUDIT

### A. Accuracy of Financial Data

Cardholders and fund managers did not use ERP financial information to determine whether they had funds available prior to making purchases.<sup>1</sup> This occurred because the available budget balances within ERP were inaccurate due to delays of up to 45 days in posting transactions. The total available budget balances for the units were overstated by an average of \$1.2 million a month for the billing periods October 2002 through April 2003. Consequently, cardholders and fund managers stated that the available budget balances on ERP were inaccurate and they could not use them to determine if they were operating within budget. As a result, they continued to incur costs to maintain their own “cuff” records.

#### Background

A number of criteria such as Institution directives, manuals, government practices, and ERP system documents indicate cardholders require accurate, timely, and reliable financial information to assess funds availability prior to purchasing goods or services with the purchase card. These criteria include the following: (1) Smithsonian Directive (SD) 115, *Management Controls*, (2) Smithsonian Institution *Purchase Card Training* manual, and (3) government practices represented by the National Institutes of Health purchase card procedures, and (4) the ERP System Boundary Document.<sup>2</sup> Smithsonian Directive 115, *Management Controls*, states that, “Transactions should be promptly recorded and accounted for in order to prepare timely accounts and reliable financial reports.” The purchase card manual requires cardholders to verify that they have funds available prior to using a purchase card to make a purchase. The manual indicates that the cardholder is to document the availability of funds; however, it does not indicate how this is to be done. The National Institutes of Health purchase card procedures indicate that purchase transactions are posted daily to the cardholder’s account and the daily posting of the purchases serve as the obligation amount. According to the ERP System Boundary document, the goals of the ERP implementation are to (1) improve the accuracy of financial data; (2) provide on-line, real-time financial reporting with transaction details; and (3) to eliminate unit financial (“cuff” record) systems.<sup>3</sup>

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<sup>1</sup> In October 2002, the Institution implemented a number of financial modules of the Smithsonian Enterprise Resource Planning System using PeopleSoft.

<sup>2</sup> The ERP System Boundary Document establishes a formal agreement among Institution stakeholders and the Chief Technology Officer on the high-level requirements, cost, and schedule for the ERP system project.

<sup>3</sup> System Boundary Document for the Smithsonian Enterprise Resource Planning System, dated May 23, 2001, page 5.

## Results

Cardholders and fund managers did not use the ERP to verify funds availability for 66 of the 79 purchase card transactions in our sample (84 percent). However, the units did check their “cuff” records to ensure funds availability for 54 out of those 66 purchases. Other units did not verify funds availability using either ERP or their “cuff” records for the remaining 12 of the 66 purchases.

Based upon our sample of 79 purchase card transactions from the targeted population of 2,775, we are 90 percent confident that the number of purchase card transactions in which the cardholder did not check for funds availability through ERP is between 2,130 and 2,506 (77 to 90 percent) out of the 2,775 transactions.

The working group that was responsible for defining the functional processes and data requirements did not identify and address the cardholders’ needs prior to implementing the ERP modules. The cardholders needed to have the amounts of their available funds accurately represented to assess funds availability prior to purchasing. In fiscal year 2000, OCon intended for the units to rely on “cuff” records to verify funds availability. Prior to the October 1, 2002, implementation of the ERP purchasing module, the working group did not identify or address the delays in posting the purchase card expenses and updating available budget balances.<sup>4</sup> OCon stated they were not given an opportunity to review the purchase card portion of the purchasing module and to reassess the purchase card process. The working group comprised representatives from OCon, OCIO, Smithsonian Astrophysical Observatory, and the National Museum of Natural History. However, we saw no evidence of OC or Office of Planning, Management, and Budget (OPMB) participation or input in the working group’s requirements for the purchase card portion of the purchasing module. Also, the Chief Financial Officer did not ensure that the working group responsible for the functional requirement definition for the purchase card included cross-functional experts from OC and OPMB.

The cardholders and fund managers told us they were not using ERP to manage their purchase card transactions because, in their view, the available budget balances on ERP were inaccurate. This prevented the cardholders from determining whether they had sufficient funds available for their purchases. Available budget balances in total were overstated on average by \$1.2 million monthly prior to payment to Citibank for the billing period of October 2002 through April 2003. Having inaccurate available budget balances has contributed to the overall erosion of the units’ confidence in ERP financial information and has encouraged them to continue to rely on their own records. This result is contrary to the objective of the new accounting system, which is to eliminate the need for duplicate systems.

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<sup>4</sup> Working groups were established to identify processes and recommend changes to the system.

## Conclusion

Given that the Chief Financial Officer is requesting units to increase utilization of purchase cards, the magnitude of the inaccurate available budget balances will only increase over time. The Institution should promptly record the expenses of its purchase card transactions in the ERP in order to provide current and accurate accounting information for the units. Without this information, there are increased risks of units overspending their budgets due to a lack of accurate information and units continuing to spend or waste money maintaining “cuff” records.

## Recommendations

We recommended that the Chief Financial Officer:

1. Ensure that OCon, in coordination OCIO, OC, and OPMB, revise the Purchase Card Program system requirements so that purchase card transactions will reduce available budget balances in ERP financial records in real time.
2. Implement the revised Purchase Card Program system requirements.

## Management Comments

1. Partially concur. Posting of purchase card transactions to ERP should occur more promptly; however, real-time posting will be difficult to achieve. Other priorities during the implementation of ERP took precedence over the prompt processing of purchase card transactions. For example, OCIO staff and the ERP Implementation Team were correcting other reported deficiencies in the Purchase Card Module of ERP and implementing critical system enhancements. A task group comprised of members from OCon, OC, OCIO, OPMB, and select cardholders and approving officials will establish realistic ERP purchase card transaction processing procedures to reduce the delay in posting transactions. An interim plan will be established by May 30, 2004.
2. Partially concur. A final plan to implement the new processing procedures to be determined.

## Office of the Inspector General Response

Management's actions to provide an interim plan by May 31, 2004, will be acceptable if the plan provides (1) cardholders with accurate, timely, and reliable financial information to assess funds availability prior to purchasing goods or services with the purchase card, and (2) specific dates for implementing the requirements. Although management stated that other priorities took precedence over the processing of purchase card transactions, establishing a group of members to determine an interim plan would normally have occurred during the purchase card requirements definition phase.

## **B. Independent Receiving**

The dual duties of purchasing and receiving goods and services were sometimes performed by individual cardholders; however, Institution policy requires that these duties be separated to minimize risk. There was little evidence that someone other than cardholders were receiving goods or services. Although the Purchase Card Training manual indicated that these duties should be separated, it was silent on how these duties should be separated and it required the cardholder to document the receipt of goods and services. Without the separation of purchasing and receiving functions there is an increased risk that individuals could exceed or abuse their assigned responsibilities. If only the cardholder documents the receipt of the purchase, there is an increased risk that goods and services may not be received or may not be for business purposes.

### **Background**

The purchase card manual indicates that there should be a separation of purchasing duties and we believe that this is especially true for high value items. Separating duties offers protection against fraudulent activity. However, the manual states that the cardholder is responsible for purchasing, receiving, and accepting goods and services. The cardholder is to note on the purchase card transaction log the dates of receipt and acceptance of goods or services.

SD 115, *Management Controls*, states that key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, and reviewing the transactions. Managers should exercise appropriate oversight to ensure that individuals do not exceed or abuse their assigned authorities.

According to internal control best practices, documentation provides the basis for establishing responsibility for the execution and recording of transactions. Each step in the execution and recording of a transaction should be documented.<sup>5</sup>

### **Results**

The separation of duties between the placing of an order using the purchase card and the receipt of the ordered goods or services was inadequate. In most cases, cardholders documented that they had received the goods or services purchased with purchase cards. For 57 of the 79 purchases in our sample (72 percent), there was no separation of duties between the person purchasing and receiving goods and services. The cardholder received the goods or services for these transactions according to the purchase card transaction log, signed packing slip, or signed invoice.

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<sup>5</sup> Walter G. Kell and Richard E. Ziegler, *Modern Auditing* (Boston: Warren, Gorham & Lamont, 1980), pp. 116-117.

Of the 2,775 transactions in the targeted population (sample of purchases \$500 and over), we estimate that between 1,775 and 2,229 (64 to 80 percent) of the transactions had no separation of duties between placing orders and the receiving of goods and services.

There are no purchase card procedures in SD 314, *Requisitioning – Purchase of Supplies, Equipment, and Services Handbook*. There is a Purchase Card Training manual that calls for the separation of duties, but it does not specify how this should be done and it requires the cardholder to document the receipt of goods and services.

Although we found no examples of improper purchasing activity in our sample, we believe that these conditions subject the Institution to the risk of improper purchases. Independent receiving of goods or services by an individual other than the cardholder provides additional assurance that purchased items are not acquired for personal use and that purchased items come into the possession of the Institution.<sup>6</sup>

### Conclusion

We believe that independent documentation of receipt of items purchased by a cardholder is a basic internal control activity that provides additional assurance that the Institution receives items it has purchased. Although the original intent of purchase cards was to increase efficiency and reduce costs by streamlining the purchasing process, auditors have recommended that internal controls must be in place.<sup>7</sup> Although internal controls should mitigate risks, managers must assess the cost of internal controls in relation to the risk of potential loss. We believe that the purchase card policy and procedures should require documented independent receiving for sensitive items of \$500 or more in value to be consistent with the higher risk purchases addressed by the Chief Financial Officer's announcement, dated October 18, 2002, dealing with "Change in Dollar Threshold for Accountable Non-expendable Personal Property."

### Recommendation

We recommended that the Director, OCon, revise the Purchase Card Training manual and draft a revision to SD 314, *Requisitioning – Purchase of Supplies, Equipment, and Services Handbook* to require independent receiving for sensitive items of \$500 or more in value and indicate how it should be documented.

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<sup>6</sup> General Accounting Office, *Purchase Cards Control Weaknesses Leave Army Vulnerable to Fraud, Waste and Abuse* (GAO-02-732, June 2002), page 31.

<sup>7</sup> Ibid.

Management Comments

Concur. The Purchase Card Training manual and Small Purchasing and Contracting Handbook will be revised to address this recommendation. This action will be accomplished by January 31, 2004.

Office of the Inspector General Response

The Director's plan of action, once implemented, will be responsive to our recommendation.

### C. On-line Approval of Purchases

Approving officials did not authorize purchases on-line in ERP for approximately \$2 million out of \$5 million in purchase card transactions for the 7-month billing period September 26, 2002, through April 25, 2003.<sup>8</sup> The lack of on-line approval occurred for the following reasons:

- Operational and procedural problems;
- The Smithsonian Tropical Research Institute had not yet converted to ERP;
- A system problem prevented the approving official from approving purchases on-line when the card statement contained more than 250 purchases; and
- The working group, according to the system design notes, did not identify exception reports as a requirement.

The Institution has not established a fully automated process to bridge purchasing data from Citibank to ERP. OCIO currently assists OCon in transferring this data. Upon implementation, ERP did not have the capability to allow OCon to identify those approving officials that did not approve purchases on-line. Without this information, OCon could not determine why these approving officials did not approve purchases on-line and ensure that they approve purchases on-line in the future. Our sample of purchase card transactions indicated that when on-line approvals were missing, the majority of purchases were manually approved. Although we did not observe any improper purchases during our review, the lack of on-line approvals increases the risk that improper purchases may be made that are not essential to execute Institution programs.

#### Background

After OCIO downloads the monthly billing of purchase card transactions from Citibank into ERP financial reports, OCon notifies the cardholders and approving officials that they have two weeks to verify, redistribute costs, and approve the purchase card transactions on-line in ERP. When that two-week period expires, whether or not the approving official have approved the purchases, OCIO overrides payment approval for all purchase card transactions that were not in the approved status in ERP so that Citibank can be paid.

The Purchase Card Training manual assigns the approving official the responsibility for approving the cardholder's charges within ERP and for validating the cardholder's purchases for payment to Citibank. The Purchase Card Training manual requires that approving officials review all cardholder statements after they have been verified on-line by the cardholder and, if everything is in order, authorize the purchases on-line.

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<sup>8</sup> See Chart 3.

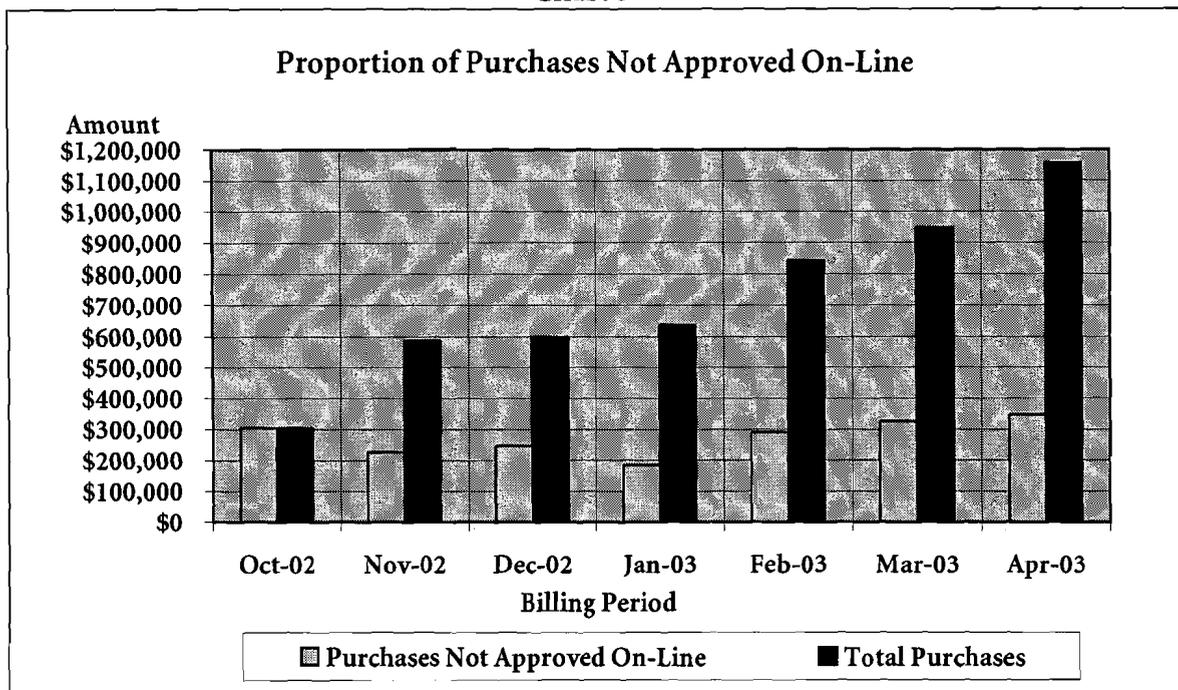
SD 115, *Management Controls*, states that management controls must provide reasonable assurance that assets are safeguarded against waste, loss, unauthorized use, and misappropriation. Institution managers must take systematic and proactive measures such as the following:

- Develop and implement cost-effective management controls;
- Assess the adequacy of management controls in both Federal and Trust programs and operations;
- Identify needed improvements; and
- Take corrective action.

### Results

Approving officials did not complete on-line approval of approximately \$2 million, or 38 percent, of the \$5 million total in purchase card transactions from September 26, 2002, through April 25, 2003 (See Chart 3). OCon did not inform the units that they had not completed their on-line approval for these purchases.

Chart 3



As indicated in table 1 on page 13, there are a number of reasons for this condition: (1) operational and procedural problems, (2) Smithsonian Tropical Research Institute (STRI) was not converted to ERP, (3) system limitations, and (4) the working group did not identify exception reports as a requirement.

**Table 1**  
**Reasons Why Approving Officials Did Not Approve Purchases On-Line**

Cause	Amount	Percent
Operational & Procedural Problems <sup>9</sup>	\$1,348,682	70%
STRI Not Converted to ERP	376,327	20%
ERP <sup>10</sup>	194,601	10%
<b>Total</b>	<b>\$1,919,610</b>	<b>100%</b>

Approving officials did not complete on-line approval for the reasons noted in Table 1. Operational and procedural problems were the most significant reason approving officials did not approve purchases on-line (see Table 1). Another reason why approving officials did not approve purchases on-line in ERP is that OCon did not ensure that the cardholders and approving officials were set up with the proper security profile and trained to use ERP prior to implementation. OCon has told us this was only a problem in the first quarter of fiscal year 2003.

Smithsonian Tropical Research Institute (STRI) had not converted to ERP, so they were unable to verify or approve their purchase card purchases on-line. STRI's purchases accounted for \$376,000 of the approximately \$2 million in total purchases that OCIO approved on-line in ERP, or 20 percent. During our audit STRI converted to ERP.

Approving officials were also unable to approve purchase card purchases on-line because ERP currently does not allow cardholders or approving officials to load large card statements with more than 250 purchases. According to OCon officials, these purchases were primarily FedEx shipping fees. Although OCon officials have reported the 250-transaction on-line approval limitation to OCIO management, the limitation remains unresolved. FedEx shipping fees accounted for \$195,000 (or 10 percent) of the approximately \$2 million total of the purchases not approved on-line.

During the development of the system requirements, the purchasing workgroup did not identify exception reporting as a requirement. As a result, there was no exception report to identify those approving officials who failed to do their on-line approvals. OCon realized that there was no exception report after the implementation of the ERP purchasing module, but they did not request that the report be added to the system requirements. OCIO wrote a program that converted the status of the purchases from unapproved to approved, but the program did not identify who the approving officials

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<sup>9</sup> See Table 2.

<sup>10</sup> The ERP system can display up to 250 transactions per card statement. Because the number of purchase card transactions in some units exceeded the 250 per month limitation, approving officials could not approve those purchases on-line. Those purchases represented approximately ten percent of the dollar amount of purchases which could not be approved on line.

were. Until our audit, OCon was unaware of who these people were and was unable to contact them to correct the problem.

To explain in more detail the most significant cause behind the \$2 million in purchases that were not approved on-line, we looked more closely at the \$1.3 million in purchases that were not approved on-line because of operational and procedural problems. We judgmentally selected nine cardholders who had purchases in the April 2003 billing period that were not approved on-line, totaling \$83,512 out of the total \$1.3 million in purchases. We contacted the cardholders' approving officials to determine why they did not approve those purchases on-line. The results are in Table 2.

**Table 2**  
**Sampling of Operational and Procedural Reasons for the April 2003 Billing Cycle**

<b>Reason Why Approving Officials Did Not Approve On-Line</b>	<b>Amount of Sample</b>	<b>Percent of Sample</b>	<b>Approving Officials</b>
Approving Official did not Perform Duties	\$33,260	40%	1
Missed the Deadline	24,262	29%	3
System Response Time	11,545	14%	1
Missing Information From Cardholder	8,315	10%	2
On-line Approval Error <sup>11</sup>	6,130	7%	2
<b>Total</b>	<b>\$83,512</b>	<b>100%</b>	<b>9</b>

Although we did not observe any improper purchases during our review, the lack of on-line approval increases the risk that improper purchases may be made and not detected. For example, one unit had \$33,260 in purchases for the April billing period where there was no on-line approval and the approving official had not reviewed the supporting documentation. Purchases such as these could be improper and any improprieties would not be detected.

### Conclusion

Improvement is needed to ensure approving officials fulfill their responsibilities to approve purchase card transactions on-line. The Institution is taking corrective action to convert STRI to ERP and fix the system problem to address the lack of on-line approval related to these areas. However, OCon needs to establish a control to follow up on approving officials who did not approve purchases on-line because of operational and procedural problems.

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<sup>11</sup> Of the \$6,130 in on-line approval errors, \$3,635 was approved on-line by an approving official who was unable to explain why it did not show up as approved in the ERP. For the remaining \$2,495, the approving official thought she had approved all of the transactions, but overlooked the last three purchase transactions on the purchase card statement.

### Recommendation

We recommended that the Director, OCon, include procedures in the Purchase Card Training manual and in SD 314, *Requisitioning – Purchase of Supplies, Equipment, and Services Handbook* so that OCon ensures that approving officials are approving purchases on-line.

### Management Comments

Concur. Soon after ERP was implemented, OCon determined that there was no standard ERP delivered report available to determine which approving officials were not approving purchase card transactions in the ERP. In May 2003, OCIO staff developed and implemented a report now available to the Purchase Card Program. However, to run this report and compile and analyze the data is very labor intensive. OCon will coordinate with OC and work with OCIO staff to improve this report for the Purchase Card Program Manager's use. The Purchase Card Training manual and Small Purchasing and Contracting Handbook will be revised to expand on the on-line approval requirement and address the oversight procedures for enforcing this requirement. This action will be completed by May 31, 2004. The software deficiencies that prevented the viewing and reconciling of extensive transactions remain a problem. OCon has informed OCIO and the ERP Implementation Team of this issue. OCon also indicated that STRI has converted to ERP and is now able to approve purchases on-line.

### Office of the Inspector General Response

The Director's plan of action, once implemented, will be responsive to our recommendation.



Smithsonian Institution

Memo

Chief Financial Officer

Date October 17, 2003

To Thomas D. Blair, Inspector General

cc Dennis R. Shaw, Chief Information Officer  
John W. Cobert, Director, Office of Contracting  
Bruce A. Dauer, Director, Office of Planning, Management and Budget  
Catheryn C. Hummel, Comptroller

From Alice C. Maroni, Chief Financial Officer 

Subject Response to the Draft Report, Office of the Inspector General Audit A-03-06, Purchase Card Program

Thank you for providing me a copy of the draft report on your audit of the Purchase Card Program, audit A-03-06. My staff has reviewed the issues presented in the report. On behalf of the Chief Financial Officer (CFO) organization I am providing the comments below which address each of the recommendations or actions suggested. Thank you for the opportunity to comment prior to issuance of your final report.

Issue 1 Cardholders and fund managers did not use the PeopleSoft financial information to determine if funds were available prior to making purchases because PeopleSoft provided inaccurate fund balances due to delays of up to 45 days in posting purchase card transactions. This prevented verification of sufficient funds available unless units used their cuff records. The Institution should promptly record the expenses of its purchase card transactions in order to provide current and accurate accounting information for the units

It is recommended that the Chief Financial Officer:

- Ensure that the Office of Contracting (OCon), in coordination with the Office of the Chief Information Officer (OCIO), Office of the Comptroller (OC), and the Office of Planning, Management and Budget (OPMB), revises the Purchase Card Program system requirements so that purchase card transactions will reduce available balances in PeopleSoft financial records in real-time.
- Implement the revised Purchase Card Program system requirements

Comment: We partially concur with both recommendations.

We agree that the delay in posting purchase card transactions should be reduced, but real-time reduction of balances in the financial system will be difficult to achieve. When the purchase card module of PeopleSoft was implemented, the original timeframes for processing payments and redistribution of charges by the units remained the same as for the previous financial system. The number of purchase card transactions was small and the impact on account balances was minimal. As

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the number of purchase card transactions and associated dollars has grown, it has had a greater impact on unit fund balances. Therefore, the purchase card transactions need to be updated more promptly in PeopleSoft.

During the implementation of the purchase card module in PeopleSoft it was determined that the software has many shortcomings in its basic design. During the first quarter FY 2003, deficiencies of the Purchase Card Module of PeopleSoft were presented to OCIO staff and the ERP Implementation Team. Critical enhancements to the system were also discussed and prioritized. Correcting these software deficiencies and implementing critical enhancements took precedence over the need to more frequently load purchase card transactions.

In addressing this recommendation, OCon, OCIO and OC will review the current process, determine the priority for enhancing system capabilities, and make procedural changes. OCon staff will create and lead a task group to establish and implement realistic PeopleSoft purchase card transaction processing procedures to reduce the delay in posting transactions. The task group members will include: the Purchase Card Program Manager, OCon; Associate Director for Procurement Programs, OCon; select members of the Smithsonian purchase cardholder and approving official community; Financial Management Systems staff from OCIO; policy and operations staff from OC; and appropriate staff from OPMB. An interim plan will be established by May 31, 2004.

Action completion date: Final plan implementation to be determined.

Issue 2 Cardholders did not always obtain or document the advance approval of their purchases. The purchase card training manual specifies the need for the cardholder to obtain approval, but it is not clear regarding when approval should be obtained, whether it should be documented and how, and who should approve it. Without documented advance approval of purchases, the cardholder is at risk and it is more difficult for the approving official to determine when purchases are necessary.

It is recommended that the Director, OCon,

- Revise the Purchase Card Training manual to require advance approval for sensitive items of \$500 or more in value, indicate how this approval should be documented, and who should provide it. SD 314, *Requisitions – Purchase of Supplies, Equipment, and Services Handbook*, should also be revised to include the Purchase Card Program.

Comment: Concur.

A requirement that *advanced approval* be obtained by cardholders prior to completing purchases was not recommended in GSA purchase card program implementation guides that we referred to at the time the Smithsonian purchase card program was being developed and implemented. The statement in the training manual, "...obtain appropriate approvals," refers to cardholder responsibilities for ensuring that program supervisors concur with requested purchases, and that the offices which must clear the types of purchases included on the Restrictions to Purchasing List are contacted. OCon will clarify the language in the section of the Purchase Card Training Manual

that covers purchases of non-expendable personal property. The Small Purchasing and Contracting Handbook for implementing SD 314, Procurement and Contracting, will also be revised to address this recommendation. By addressing this recommendation, OCon will emphasize the importance of cardholder and approving official responsibilities in assuring that sensitive property of \$500 or more in value, as identified in the Property Management Handbook for implementing SD 315, Property Management, is properly accounted for, tagged, and entered in the Smithsonian fiscal and personal property inventory records.

Action completion date: January 31, 2004

Issue 3 The duties of purchasing and receiving goods and services were performed by cardholders, however, Institution policy requires that these duties be separated. Without the separation of purchasing and receiving functions there is an increased risk that individuals could exceed or abuse their assigned responsibilities, or that goods and services may not be received or may not be for business purposes. Independent receiving of goods or services by an individual other than the cardholder provides additional assurance that purchased items are not acquired for personal use and that purchased items come into the possession of the Institution.

It is recommended that the Director, OCon,

- Revise the Purchase Card Training manual to require independent receiving for sensitive items of \$500 or more in value and indicate how it should be documented. SD 314, *Requisitioning – Purchase of Supplies, Equipment and Services Handbook*, should also be revised to reflect this requirement.

Comment: Concur.

Cardholders are often the individuals making the purchases directly from vendors, and receive items at that same time. When an item is delivered it is most often to the purchase cardholder. Cardholders include in their purchase card transaction logs the names of employees who are requesting purchases. When items and services are delivered directly to the requesting unit, cardholders follow up to verify that purchases have been received and obtain packing slips and receipts for the delivered items and services. As approving officials perform their responsibilities for validating completed purchases, they provide a secondary assurance that items and services have in fact been received, were necessary for unit operations and activities, no misuse or abuse of purchase cards has occurred, and that capitalized non-personal property and sensitive property is accounted for, tagged and entered into the Smithsonian fiscal and property inventory records.

The Purchase Card Program Government-wide is intended to speed the acquisition of micro-purchases (defined as \$2,500 or less). Government-wide the decision has been made to treat micro-purchases differently from all other purchases. It has not been a requirement at the Smithsonian that someone other than the ordering cardholder verify receipt of items and services purchased. However, to minimize risk of sensitive items not being properly accounted for in the Smithsonian's fiscal records, the Director, OCon will establish and implement policy that requires cardholders to obtain third party verification of receipt of sensitive items ordered and

paid for with purchase cards. Third party verification of receipt will be required from individuals other than the ordering cardholder.

The independent receiving information in the Purchase Card Program Training Manual is reference to general purchase and receiving requirements. It will be revised to address required third party verification for receipt of sensitive items ordered and paid for with purchase cards. Procedures for documenting receipt of sensitive items will also be included in the cardholder and approving official responsibilities cited in the Small Purchasing and Contracting Handbook for implementing SD 314, Procurement and Contracting.

Action completion date: January 31, 2004

Issue 4 Approving officials did not authorize purchases on-line in PeopleSoft for a total of approximately \$2 million out of \$5 million in purchase card transactions for the 7-month billing period September 26, 2002 through April 25, 2003. The lack of on-line approvals occurred for the following reasons: operational and procedural problems; the Smithsonian Tropical Research Institute (STRI) had not yet converted to PeopleSoft; a system problem prevented the approving officials from approving purchases on-line when the card statement contained more than 250 purchases; and, the ERP working group, according to the system design notes, did not identify exception reports as a requirement.

It is recommended that the Director, OCon,

- Include procedures in the Purchase Card Training manual so that OCon ensures that approving officials are approving purchases on-line. SD 314, *Requisitioning – Purchase of Supplies, Equipment and Services Handbook*, should also be revised to reflect this requirement.

Comment: Concur.

Soon after PeopleSoft was implemented, OCon determined that there was no standard PeopleSoft delivered report available to determine which approving officials were not approving purchase card transactions in PeopleSoft. In addition, there was the software deficiency of not being able to view and reconcile extensive lists of transactions. OCIO and the ERP Implementation team were made aware of these issues. In May 2003, OCIO staff developed and implemented a report now available to the Purchase Card Program Manager that assists in identifying which approving officials are not performing this required function. However, to run this report and compile and analyze the data is extremely labor-intensive. Problems with viewing lengthy lists of transactions still exist and require approving officials to devote significant blocks of time to perform their online review and approval responsibilities. STRI has converted to PeopleSoft and is now able to approve purchases online.

To address this recommendation, OCon will coordinate with OC and work with OCIO staff as appropriate, to improve the report available to the Purchase Card Program Manager so that the following may occur:

1. On a monthly basis the Purchase Card Program manager may discern which approving officials have not approved purchase card transactions on-line within

the prescribed timeframes and send an email to those approving officials requesting reason(s) for non-compliance.

2. Approving officials who do not respond, or whose response does not include satisfactory explanations for not approving transactions online, will be given one warning and then an email will be sent to the appropriate Unit Director informing him/her of the non-compliance.
3. Purchase cards assigned within negligent approving officials' jurisdictions will be suspended until completed paperwork is sent to OCon, with cardholder and approving official certification on Citibank statements and other documentation requested by the Purchase Card Program Manager.
4. Approving officials unwilling to perform this duty on-line will lose their approval authority and units will be required to appoint replacements.

Information regarding the responsibilities for online approvals cited in the Purchase Card Training Manual will be expanded to include the procedures which have already been implemented. These procedures are now being covered in purchase card training classes and during presentations by the Purchase Card Program Manager on the steps necessary to reallocate expenditures in PeopleSoft. These written requirements and procedures will also be incorporated into the Small Purchasing and Contracting Handbook for implementing SD 314, Procurement and Contracting policy.

Action completion date: May 31, 2004

I am gratified to know that the purchase card program administration and management oversight is generally in good order and that no instances of abuse or misuse of purchase cards were identified. The delegations of authority issued by the Director, OCon, clearly cite the purchasing authority and spending limitations that must be adhered to by cardholders, as well as the administrative and recordkeeping requirements of cardholders and approving officials. Decisions to waive program requirements are made by the Director, OCon when unit purchase requirements are outside of those normally allowed to be completed with the card.

OCon takes very seriously its responsibility for the Institution's purchase card program. OCon will continue its periodic reviews of purchase cardholder and approving official activities to assure that purchases of required goods, supplies and services by the units are completed in the most cost-effective and efficient manner possible. Improvements to procedural and recordkeeping requirements shall be made whenever necessary to prevent fraud, waste and abuse in the program. I thank you and your staff for the time dedicated to your assessment of the purchase card program during this audit.

Please direct any questions you may have regarding this response to Curtis B. Sanchez, OCon, at 202.275.1174 or by e-mail to [SanchezC@si.edu](mailto:SanchezC@si.edu).