

U.S. International Trade Commission

Evaluation of the Purchase Card Program



OIG-ER-13-08

March 20, 2013



Office of Inspector General

The U.S. International Trade Commission is an independent, nonpartisan, quasi-judicial federal agency that provides trade expertise to both the legislative and executive branches of government, determines the impact of imports on U.S. industries, and directs actions against certain unfair trade practices, such as patent, trademark, and copyright infringement. USITC analysts and economists investigate and publish reports on U.S. industries and the global trends that affect them. The agency also maintains and publishes the Harmonized Tariff Schedule of the United States.

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UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

March 20, 2013

OIG-LL-003

Chairman Williamson:

This memorandum transmits the Office of Inspector General's final report, *Evaluation of the Purchase Card Program*, OIG-ER-13-08. This evaluation focused on whether the Commission was effectively achieving the goals of the purchase card program, by reducing the administrative costs and time for procuring items and ensuring effective controls are in place to mitigate the risk of fraud, misuse, and delinquency. In finalizing this report, we analyzed management's comments to our draft report and have included those comments in their entirety as Appendix A.

The evaluation confirmed the Commission has been achieving the goals of the purchase card program, and identified two areas for improvement. This report contains six recommendations to address the improvement areas. In the next 30 days, please provide me with your management decisions describing the specific actions that you will take to implement each recommendation.

Thank you for the courtesies extended to the evaluators during this review.

Philip M. Heneghan
Inspector General

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Results of Evaluation

The objective of this evaluation was to answer the following question:

Is the Commission's purchase card program effective?

Yes, the Commission's purchase card program is effective.

For the purpose of this evaluation, "effective" was defined as achieving the desired goals of the government purchase card program. The Office of Management and Budget, Circular A-123, Appendix B, Improving the Management of Government Charge Card Programs, (Circular A-123) provides government-wide charge card program requirements. Government-wide goals are to reduce administrative costs and time for purchasing and paying for goods and services; ensuring effective controls are in place to mitigate the risk of fraud, misuse, and delinquency; by maximizing refunds where appropriate and using government charge card data to monitor policy compliance and inform management decision-making.

During our review of the Commission's purchase card program we found:

- The policies and procedures were consistent with government-wide guidance;
- The process included segregation of duties between purchase cardholder, approver, and billing office;
- Training was required before a purchase card was issued;
- Purchase cardholders were issued appointment letters;
- Purchase cardholders were issued single and monthly purchase limits;
- Cardholders maintained documentation that supported the items and services purchased; and
- Cardholders agreed having the purchase card reduced administrative costs and time for purchasing for small, low-cost items under the micro-purchase threshold.

While we found the Commission's purchase card program to be effective, we did identify two areas for improvement: 1) increase monitoring and oversight of the purchase card program and 2) properly classifying purchase card transactions. Each of these areas for improvement are described in detail in the report.

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Improvement Areas and Recommendations

Improvement Area 1:

Monitoring the Effectiveness of the Purchase Card Program

Circular A-123 states, “agencies have an ongoing requirement to evaluate the effectiveness of the actions taken to comply with the requirements of this guidance.” We reviewed the Commission’s policies, procedures, and practices and found that the Commission had instituted policies and procedures consistent with the guidance, but monitoring compliance of the procedures was minimal, and monitoring the effectiveness of the procedures was not evident.

For example, many cardholders interviewed described practices where they had changed their internal processes to provide a quicker turnaround time for staff. Some examples included obtaining an e-mail approval for a purchase instead of an actual signature; using an e-mail from the requestor instead of completing forms; and having delegated authority from the approving official to procure certain items within certain dollar thresholds. These practices minimized administrative costs and time for acquiring items with the purchase card, however they were inconsistent with the procedures outlined in the Commission’s Financial Accounting Manual. The Office of Procurement has performed periodic internal reviews of purchase cardholder records, but they did not assess compliance with procedures or the effectiveness of purchase card policies.

Circular A-123 states that the charge card manager should establish and maintain “master file/official cardholder records, including training, appointment, single and monthly purchase limits, and related records.” The Office of Procurement maintains an excel spreadsheet that contains all of data elements required in Circular A-123, however, they lacked source documentation to support the data. In addition, the spreadsheet identified seven purchase cardholders that had not met the 3-year refresher training requirement, yet no action had been taken prior to this evaluation to contact the cardholders or suspend their purchase authority.

Circular A-123 directs agencies to maximize benefits to the Federal Government when using government charge cards, and maximizing refunds where appropriate. The purchase card vendor provides refunds based on volume of spending and frequency of payment. We were told that the Commission has been processing invoices on a daily basis simply because the formula offers the highest amount of quarterly rebates, without regard to any overhead costs associated with daily processing. Additionally, there had

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not been any analysis of spend volume to determine whether there were any opportunities for the Commission to obtain higher rebates for increased use of the purchase card. Since the Commission has not performed any reviews of spend volume or invoice payment options, they do not know if they are maximizing refunds.

The charge card vendor has been collecting purchase card data, and reporting to the Office of Management and Budget on behalf of the Commission. The reports provide information such as, the number of purchase cardholders, number of transactions per month, dollar value of transaction per month, year to date information, fiscal year comparisons, and even percentage of change over time.

We found that the Commission had not requested to receive this information. As a result, the Commission lost opportunities to use the data as a risk management tool to identify any unexpected trends or changes of purchase card use.

Maintaining proper records, monitoring the effectiveness of policies and procedures, and reviewing performance data are effective tools for minimizing risks for abuse, increasing efficiencies in processes, and strengthening the overall management of the purchase card program.

Recommendation 1: The Office of Procurement develop master file/official cardholder records that include at a minimum: training records to confirm that all purchase card holders are up to date on their training, appointment letters for each card holder, and purchase limits.

Recommendation 2: The Office of Procurement review the current purchase card policies and procedures to determine if changes should be made to improve the efficiency of the purchase card program.

Recommendation 3: The Chief Financial Officer request to be added to the distribution list to obtain the Commission's monthly performance metrics.

Recommendation 4: The Chief Financial Officer perform a cost analysis of spend volume and invoice payment options.

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Improvement Area 2: *Improving the Classification of Purchase Card Obligations*

The Office of Management and Budget Circular A-11, *Preparation and Submission of Budget Estimates*, (Circular A-11) requires agencies to report obligations and expenditures by object class.

As part of this evaluation, we compared three sets of purchase card data (card holder documentation, purchase card log entries, and data generated from the oracle financial system) for consistency. We did not find significant differences between these three data sets. However, we did notice that a significant number of transactions were not being classified or recorded to the proper object classification code.

We found three underlying reasons for the misclassifications:

- USITC guidance for classifying items was not being properly followed;
- The process for validating the object class code for purchase card obligations was not effective; and
- USITC guidance for classifying purchases was not consistent with Circular A-11.

We found several instances where the purchase cardholder used the incorrect budget code. This error was not noticed during the repost process, where the code was supposed to be validated. During the repost process, the Office of Finance uses Purchase Card Log, which contains information entered by the purchase card holder, to verify the organization code and object class code. However, the purchase card log is not designed to collect the appropriate level of information to properly perform this task.

We were also informed that training requests were handled differently, and while the purchase card log was updated with some data, it was not used to assign an organization code or an object class code. All training requests were entered into an Access database by the Procurement Assistant. The database is used by the Office of Finance to manually obligate the training in the financial system.

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Circular A-11, section 83.10 provides guidance on classifying obligations for education and training. The table below shows these differences between the two sets of guidance:

If the Obligation is for....	Circular A-11 Object Class	USITC Object Class
Payments of tuition to universities or colleges	25.2	Not separately identified in guidance.
Payment to all other private sector company for training courses	25.1	25.2
Payments to other Federal government agencies for training courses.	25.3	25.3

We reviewed purchase card transactions for the month of February. We found 29 out of 115 transactions used the incorrect object class code. Training accounted for 89% of the transactions misclassified, where we found code 25.2 was regularly used, regardless of whether the payment was made to a university, a private company, or other Federal agency.

Recommendation 5: The Commission update the Financial Management Codes manual to align the object class codes and descriptions with Circular A-11.

Recommendation 6: The Commission update the process to collect the appropriate amount of information required to validate the object class code.

Management Comments and Our Analysis

On March 8, 2013, Chairman Irving A. Williamson provided management comments to the draft evaluation report. The Chairman agreed with the findings of our evaluation and that there are two areas where improvements can be made.

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Objective, Scope, and Methodology

Objective:

- Is the Commission's purchase card program effective?

Scope:

For purposes of this evaluation, the term effective was defined as achieving the desired goals of the purchase card program by reducing administrative costs and time for procuring items and ensuring effective controls are in place to mitigate the risk of fraud, misuse, and delinquency.

- Purchase card program management: policies and procedures; key officials; appointment letters; purchase limits; training; separation of duties; maintenance of master files; oversight and monitoring;
- Included all active purchase card holders; and
- Purchase card transactions between October 1, 2011 and April 30, 2012.

Scope Limitations: Did not include convenience checks, property management, payment delinquency, split-purchases, strategic sourcing, credit worthiness, environmental requirements, 508 requirements, or state and local tax recovery efforts.

Methodology:

- Reviewed applicable laws, regulations, and guidance for government purchase card programs;
 - Reviewed Commission policies, procedures, and related documents;
 - Interviewed Commission purchase cardholders and other staff involved in purchase card process;
 - Reviewed master/official purchase card files;
 - Reviewed all purchase cardholder documentation for February 2012 transactions;
 - Reviewed entries in the purchase card log;
 - Reviewed cardholder history reports from oracle;
 - Reviewed Commission rebate information;
 - Reviewed Commission performance metric reports; and
 - Analyzed data.
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Appendix A: Management Comments on Draft Report

Chairman



UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

CO81-LL-004

March 8, 2013

MEMORANDUM

TO: Philip M. Heneghan, Inspector General

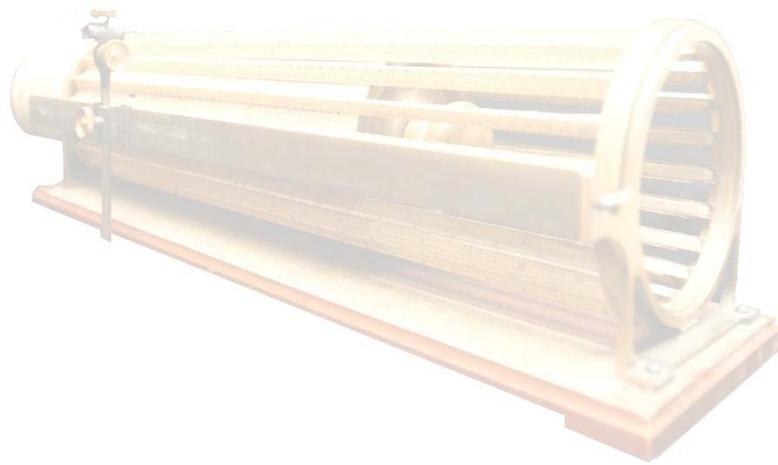
FROM: Irving A. Williamson, Chairman *Iaw*

SUBJECT: Management Response to the Inspector General's Draft Report, "Purchase Card Program"

I am in receipt of the Inspector General's draft report, *Evaluation of the Purchase Card Program*, dated February 21, 2013. I appreciate the opportunity to review this report and provide comments.

The Inspector General's draft report found that the Commission was effective in achieving the goals of the purchase card program, as it has been reducing the administrative costs and time for procuring items, and has been ensuring that effective controls are in place to mitigate the risk of fraud, misuse, and delinquency. While the Commission's purchase card program was found to be effective, the report also identified areas for improvement. Specifically, the Inspector General has recommended that the Commission increase its monitoring and oversight of the purchase card program and properly classify its purchase card transactions.

We agree with the findings and the Commission will institute management decisions that address the recommendations put forth in this report. Thank you for your review.



“Thacher’s Calculating Instrument” developed by Edwin Thacher in the late 1870s. It is a cylindrical, rotating slide rule able to quickly perform complex mathematical calculations involving roots and powers quickly. The instrument was used by architects, engineers, and actuaries as a measuring device.

To Promote and Preserve the Efficiency, Effectiveness, and Integrity of the U.S. International Trade Commission



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