



**Defense Nuclear Facilities
Safety Board
Washington, DC 20004-2901**

**Office of the
Inspector General**

September 29, 2014

MEMORANDUM TO: Mark T. Welch
General Manager

FROM: Stephen D. Dingbaum */RA/*
Assistance Inspector General for Audits

SUBJECT: AUDIT OF THE BOARD'S PURCHASE CARD PROGRAM
(DNFSB-14-A-01)

The Office of the Inspector General (OIG) conducted an audit to determine whether internal controls are in place and operating effectively to maintain compliance with applicable purchase card laws, regulations, and Defense Nuclear Facilities Safety Board (Board) policies.

Overall, the Board used purchase cards appropriately during the period under review. However, the Board's purchase card internal controls need improvement. Specifically, some of the purchase card controls are incomplete, outdated, or not fully implemented. As a result, internal controls are less effective and the potential for personal use, misuse, or loss is increased. We made recommendations to address the internal control deficiencies identified during the audit.

Please provide information on actions taken or planned on each of the recommendations within 30 days of the date of this report. Actions taken or planned are subject to OIG followup.

BACKGROUND

The Governmentwide Purchase Card Program was established in the late 1980s as a way for agencies to streamline Federal acquisition processes. Purchase cards provide a low-cost, efficient vehicle for obtaining goods and services directly from vendors. They can be used for micro-purchases,¹ as well as to place orders and make payments on contract activities.

The General Services Administration (GSA) oversees the Governmentwide Purchase Card Program. GSA contracts with several banks, including Citibank — the bank used by the Board — to provide purchase cards to Federal employees. The Federal Acquisition Regulation, which is the primary procurement authority for agencies, was reissued in March 2005.

Oversight of the Governmentwide Purchase Card Program is also the responsibility of the Office of Management and Budget (OMB). In August 2005, OMB issued Circular A-123, Appendix B, *Improving the Management of Government Charge Card Programs*,² which establishes minimum requirements and suggests best practices for agency purchase card programs. This circular requires each agency to develop and maintain written policies and procedures for use of purchase cards.

On October 5, 2012, the President signed into law the *Government Charge Card Abuse Prevention Act of 2012*. This act requires agencies to establish and maintain safeguards and internal controls for Government charge cards and establishes additional reporting and audit requirements.

The Board has had a purchase card program in place since late 1998. In December 2005, the Board issued Administrative Directive 211.2, *Charge Card Management Program*, which serves as the principal guide for the Board's charge card programs.

¹ A micro-purchase is an acquisition of supplies or services in which the aggregate amount does not exceed \$3,000. For services subject to the Service Contract Act, the amount cannot exceed \$2,500. For construction projects subject to the Davis-Bacon Act, the limit is \$2,000.

² OMB Circular A-123, Appendix B, *Improving the Management of Government Charge Card Programs*, was last revised on January 15, 2009.

The Board has an updated directive currently in draft. *DNFSB Purchase Card Policy and Procedures*³ is a supplement to the directive and was last revised in April 2012.

Administrative Directive 211.2 sets forth the policies, procedures, and responsibilities associated with the Board's charge card programs. The Board has a designated Program Coordinator for the purchase card program who is responsible for day-to-day program management. The Program Coordinator provides oversight of the purchase card program and serves as the liaison between cardholders and the contracting bank. Other Program Coordinator responsibilities include

- Establish policies, procedures, and training requirements.
- Set up new cardholder accounts and cancel inactive accounts.
- Resolve technical and operational disputes between the bank and the cardholders.
- Conduct reviews, three times each year, of purchase card records to ensure that the program is operating in accordance with applicable guidance.

From October 1, 2012, through June 12, 2014, the Board had 15 active cardholders. During that period, there were approximately 1,050 purchase transactions totaling about \$544,000.

OBJECTIVE

The audit objective was to determine whether internal controls are in place and operating effectively to maintain compliance with applicable purchase card laws, regulations, and Board policies.

³ This is the official title of the Board's purchase card policy and procedure document.

RESULTS

The Board's purchase card program internal controls are generally in place and operating effectively to maintain compliance with applicable purchase card laws. The Board appeared to use its purchase cards appropriately during the period under review and no instances of fraud, waste, or abuse were identified. However, opportunities exist to improve internal controls and Federal compliance.

Purchase Card Internal Controls Can Be Improved

Overall, the Board used purchase cards appropriately during the period under review. However, the Board's purchase card internal controls need improvement. Specifically, some of the purchase card controls are incomplete, outdated, or not fully implemented. As a result, internal controls are less effective and the potential for personal use, misuse, or loss is increased.

What Is Required

Guidance Should Be Up-to-date and Implemented

OMB Circular A-123, Appendix B, requires all agencies to maintain an updated Charge Card Management Plan, which includes written policies and procedures. This circular also requires agencies to submit a copy of their plan to OMB annually. The elements required in the Charge Card Management Plan include, but are not limited to

- Appropriate authorization controls.
- Documentation and record retention requirements.
- Strategic sourcing policies and practices.

OMB Circular A-123, Appendix B, also states that charge card managers are responsible for implementing the appropriate controls to ensure compliance with Federal laws and specific agency policies, and for monitoring the charge card program. Administrative Directive 211.2 includes key internal controls. These controls include (1) cardholders located at the Board's headquarters are required to obtain an approved requisition before they can use their purchase card, (2) supervisors shall review all support related to each purchase card transaction, and (3) the Program Coordinator shall perform reviews of purchase card transactions three times each year. These reviews should include an inspection for appropriate sole source justification documentation.

Additionally, the Federal Acquisition Regulation requires that sole source procurement justification, over the micro-threshold limit, must be sufficiently documented in writing.

DNFSB Purchase Card Policy and Procedures allows for verbal approval of requisitions. However, there are no parameters for which transactions may be approved verbally and which transactions require signatory approval.

What We Found

Opportunities To Improve Internal Controls

Purchase card controls need improvement and clarification. Specifically,

- Purchase card requisitions are sometimes approved verbally. Of the 146 purchase transactions reviewed during this audit, 40 were verbally approved. These 40 transactions totaled approximately \$15,500. In these instances, cardholders typed their supervisor's name in the approval box.
- Purchase approval policy for cardholders located at the individual nuclear facility sites (site representatives) is insufficient. Site representatives are not required to obtain an approved requisition.⁴ However, the Board's policies and procedures do not provide guidance on site representative purchase approval practices.

⁴*DNFSB Purchase Card Policy and Procedures* states that "Requests for supplies or services require the Cardholder, with the exception of DNFSB Site Representative Cardholders, to prepare a GSA Form 49 'Requisition/Procurement Request for Equipment, Supplies, or Services' approved by their immediate supervisor."

- Record retention policies are contradictory. *DNFSB Purchase Card Policy and Procedures* states that cardholders must retain their documentation for only 1 year. However, Administrative Directive 211.2 states that the record retention requirement for all purchase card transactions is 3 years. This resulted in one cardholder discarding her fiscal year 2013 support.
- Record documentation and competitive procurement policies are insufficient. *DNFSB Purchase Card Policy and Procedures* does not provide guidance on competitive procurement steps to be taken or sole source procurement documentation requirements.
- Although Administrative Directive 211.2 includes the Charge Card Management Plan elements, it is not submitted to OMB, as required, and was last updated December 2005. Management plans to issue an updated version in December of this year.
- Controls related to documentation review are not fully implemented. For example, cardholders provide monthly Citibank statements to their supervisor for review, but do not always provide all supporting documentation. Another example is that Program Coordinator reviews of sample purchase card transactions are not performed.
- Justification for sole source procurement is not documented. During the review period, 15 purchase transactions exceeded the micro-threshold limit of \$3,000 and were procured through a sole source. These 15 transactions, which totaled approximately \$81,300, lacked sole source justification documentation.

Why This Occurred

Policies Incomplete, Outdated, or Not Fully Implemented

The purchase card internal controls need improvement because the Board's management has not (1) sufficiently addressed key topics in their existing policies and procedures, (2) updated Administrative Directive 211.2, (3) submitted Administrative Directive 211.2 to OMB, or (4) enforced all of the internal controls written into the directive.

Why This Is Important

Increased Potential for Financial Loss and Misuse

Purchase card internal controls are less effective due to the incomplete, outdated, and partially implemented policies and procedures. As a result, the potential for cardholders to inadvertently or intentionally misuse their purchase card is increased. Moreover, without proper review of all support and periodic transaction reviews, misuse and loss is less likely to be detected.

RECOMMENDATIONS

OIG recommends that the Board

1. Update *DNFSB Purchase Card Policy and Procedures* to (a) remove verbal approval of requisitions, (b) provide guidance on site representative purchase approvals, (c) correct the record retention policy to 3 years to agree with Administrative Directive 211.2, (d) provide guidance on competitive procurement requirements, and (e) provide guidance on sole source justification documentation requirements.
2. Finalize draft Administrative Directive 211.2 to include all of the required elements of a Charge Card Management Plan, as outlined in OMB Circular A-123, Appendix B.
3. Develop a plan to update, as necessary, and submit Administrative Directive 211.2 and *DNFSB Purchase Card Policy and Procedures* to OMB annually.
4. Implement and enforce the controls noted in Administrative Directive 211.2, including (a) first level review of all supporting documentation for each transaction, (b) periodic purchase card transaction reviews, and (c) documentation of sole source procurement justification.
5. Document that all cardholders have been informed of the updated policies, procedures, and implemented controls.

BOARD COMMENTS

An exit conference was held with the Board on September 22, 2014. Board management agreed with the report finding and recommendations. The Board opted not to provide formal comments for inclusion in this final report.

SCOPE AND METHODOLOGY

SCOPE

The audit focused on reviewing documentation of the Board's purchase card transactions from October 1, 2012, through June 12, 2014, and meeting with individuals who manage and participate in the Board's purchase card program.

METHODOLOGY

OIG reviewed Federal guidance pertaining to the administration of purchase card programs. Additionally, OIG considered pertinent internal Board purchase card program documents. Lastly, OIG reviewed previously issued Federal audit reports addressing issues related to other agencies' purchase card programs.

OIG interviewed management and staff in the Office of the General Manager to gain an understanding of the implementation and oversight of the Board's purchase card program. Additional discussions were conducted with cardholders at the Board's offices in Washington, DC.

Auditors analyzed Citibank reports, generated from the Citibank Custom Reporting System covering October 1, 2012, through June 12, 2014, to identify transactions for additional followup. These transactions were selected based on attributes such as occurring on a weekend, occurring while the cardholder was on travel, being charged to a merchant that appeared to be travel related, being charged to merchants that do not have an immediately discernable work related purpose, being a convenience check transaction, exceeding the micro-purchase limit, or having the appearance of a split

transaction. Based on this analysis, auditors followed up on 146 purchase transactions, which totaled approximately \$149,000.

OIG examined transaction records and supporting documentation for these selected transactions. Supporting documentation included purchase card transaction receipts, monthly Citibank statements, the reconciliation log, and requisitions. OIG reviewed these documents to determine (1) the propriety of purchases, (2) whether cardholders retained the appropriate records in accordance with Federal and Board guidance, and (3) whether the Office of the General Manager provides sufficient oversight of the purchase card program.

Auditors used reports generated from the Citibank Custom Reporting System and information provided by the Program Coordinator to test for compliance with purchase card transaction and monthly limits as well as timely card cancellation. OIG also reviewed training certificates to determine whether all training was up-to-date as well as the Board's policies and procedures and submissions to OMB for compliance with Federal requirements.

OIG relied on computer-processed data from Citibank of all purchase card activity during the audit period. For purposes of data reliability testing, OIG verified the completeness and accuracy of the data by comparing hardcopy cardholder statements, receipts, and other supporting documentation to the Citibank reports used for testing. We concluded that the data was sufficiently reliable for our audit purposes.

We conducted this performance audit at the Board's headquarters from May through August 2014 in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Internal controls related to the audit objective were reviewed and analyzed. Throughout the audit, auditors were aware of the possibility of fraud, waste, or abuse in the program.

The audit work was conducted by Eric Rivera, Team Leader; Lindsey Heeszal, Auditor; George Gusack, Student Analyst; and Anthony Lipuma, Senior Assistant for Audit Operations.

TO REPORT FRAUD, WASTE, OR ABUSE

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Email: [Online Form](#)

Telephone: 1-800-233-3497

TDD 1-800-270-2787

Address: U.S. Nuclear Regulatory Commission
Office of the Inspector General
Hotline Program
Mail Stop O5-E13
11555 Rockville Pike
Rockville, MD 20852

COMMENTS AND SUGGESTIONS

If you wish to provide comments on this report, please email OIG using this [link](#).

In addition, if you have suggestions for future OIG audits, please provide them using this [link](#).