UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

June 13, 2007

CONTROL NUMBER
ED-OIG/A17G0012

Lawrence Warder, Chief Financial Officer
Office of the Chief Financial Officer
United States Department of Education
Federal Building No. 6, Room 4E313
400 Maryland Avenue, SW
Washington, DC 20202

Dear Mr. Warder:

This **Final Audit Report** entitled, *Digital Analysis of Department Purchase Card Activity,* presents the results of our audit. The objectives of our audit were to (1) identify abnormal occurrences in purchase card activity, (2) determine effectiveness of controls related to unexpected purchase card activity, and (3) review the unexpected purchase card activity for potential fraud or abuse. Our review focused on purchase card activity during the period July 1, 2005 through June 30, 2006.

BACKGROUND

Digital analysis is an audit technique designed to uncover abnormal occurrences of specific digits or digit combinations in large sets of data. Unusual patterns of number occurrence may be indicative of poor controls, fraud, or abuse. Benford's Law provides the expected rate of occurrence for specific digit combinations. By comparing the Department's data to expected rates of occurrence, unusual transactions can be identified for further review.

The Department issues Government Commercial Purchase Cards (purchase cards) to facilitate the acquisition of goods and services for the Department. The purchase card is used for many micro-purchases, which are purchases of $2,500 or less. It can also be used for purchases from task order and delivery order contracts, and as a method of payment for simplified acquisitions, which are purchases above $2,500 up to $100,000.

Pursuant to Section 807 of the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 (Pub. L. 108-375), effective September 28, 2006, the Federal Acquisition Regulation definition of micro-purchase threshold was changed. The micro-purchase threshold for supplies, equipment and some services increased from $2,500 to $3,000. This change is outside of our audit period of July 1, 2005 through June 30, 2006.

The Department selected Bank of America (BOA) to provide purchase card support and services. The Office of the Chief Financial Officer (OCFO)/Contracts and Acquisitions Management (CAM) manages the purchase card program within the Department and is the liaison with BOA. Executive Officers are responsible for administering the purchase card program in individual Principal Offices. Approving Officials and Alternate Approving Officials are appointed by the Executive Officer and are the primary officials responsible for authorizing cardholder purchases and ensuring timely reconciliation of cardholder statements.

AUDIT RESULTS

We identified and reviewed unexpected occurrences in purchase card activity. Our review revealed no indicators of fraud or ineffective controls. However, there is a lack of adherence to the Department's purchase card Directive, resulting in recurring instances in which personal parking expenses are being paid via the purchase card.

In response to the draft audit report, OCFO generally concurred with the recommendations and provided a draft Corrective Action Plan (CAP) to address each recommendation. The full text of OCFO's response is included as Attachment 1 to this audit report.

Finding – Use of Appropriated Funds For Non-governmental Purposes

Our review of selected purchase card transactions revealed that the Department's Advisory Committee on Student Financial Assistance (Advisory Committee) is paying for the personal parking expenses of two staff members via the purchase card. The parking is at a garage located at the staff members' official duty station. During the one-year audit period there were seven purchase card transactions between the Advisory Committee and Colonial Parking totaling $4,291.06.

According to the Advisory Committee, this is a recurring expense. The Advisory Committee has considered this expense to be a performance award for the Executive Director since 1997. In 1998, the Advisory Committee's former Executive Director approved the payment of personal parking expenses for two additional staff members based on their performance evaluations. The former Executive Director continued to approve payment of these benefits until he resigned in 2005. The Chairman of the Advisory Committee awarded the incoming Executive Director this performance-based benefit for the remainder of his tenure as the Advisory Committee's Executive Director. The Executive Director continues to approve payment of the Executive Officer's personal parking expenses.

U.S. Department of Education Handbook OCFO-05, Handbook for Travel Policy, dated May 25, 2006, Chapter III: Making Travel Arrangements - Part C. Local Transportation (FTR 301-70.102, 301-70.200), provides that travel performed within a 35-mile radius of the employee's duty station or place of daily commute is considered local travel. Reimbursement of expenses

for local travel is authorized only for costs incurred above and beyond an employee's normal round trip commuting costs.

U.S. Department of Education Departmental Directive OCFO: 3-104, Government-wide Commercial Purchase Card Program, dated January 23, 2002, states "this Directive applies to all Departmental employees, education boards, commissions, and councils who participate in the Department Purchase Card Program for the procurement of and payment of goods and services for use by the Department…."

U.S. Department of Education Departmental Directive OCFO: 3-104, Part VII. Requirements, provides the card cannot be used for goods and services for personal (i.e., non-Governmental) use.

Title 31, U.S. Code Section 1301(a) provides that public funds may be used only for the purpose or purposes for which they were appropriated except as otherwise provided by law. It prohibits charging unauthorized items to an appropriation.

The Advisory Committee is not adhering to the Department's purchase card Directive. As a result of the Advisory Committee's improper use of the purchase card, the Department is incurring expenses that are for non-governmental use.

Recommendations:

To ensure that appropriated funds are used only for governmental purposes, we recommend that the Chief Financial Officer:

1.1 Reiterate to the Advisory Committee its responsibility to ensure purchase card transactions are only used for government purposes and to discontinue use of the purchase card for personal parking expenses.

1.2 Determine the appropriateness and feasibility of the Department withholding future Advisory Committee funding in the amount of funds expended on personal parking expenses, and issuing a Form 1099-Miscellaneous Income to the individuals that received paid parking for the previous year.

OCFO Comments:

In response to the draft audit report, OCFO generally concurred with the recommendations and provided a draft CAP to address each recommendation. The full text of OCFO's response is included as Attachment 1 to this audit report.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to (1) identify abnormal occurrences in purchase card activity, (2) determine effectiveness of controls related to unexpected purchase card activity, and (3) review the unexpected purchase card activity for potential fraud or abuse.

To accomplish our audit objectives, we performed the following procedures:

- Reviewed OCFO/CAM quarterly reviews of selected purchase card activity;
- Reviewed Departmental Directives and OCFO procedures to gain an understanding of the purchase card program;
- Reviewed OCFO's Report to Congress on the Department of Education's Requirements and Benchmarks to Reduce, Fraud, Misuse, and Abuse of Government Purchase Cards, dated August 1, 2006; and the Department's OMB Circular Appendix A-123 Implementation Acquisition Management Cycle Narrative on the Purchase Card Process, dated May 8, 2006, to determine the procedures and controls the Department has in place to manage payments for purchase cards;
- Obtained comparative data about purchase card use by Principal Office and a data extract file of all Department purchase card activity for a one-year period, July 1, 2005 through June 30, 2006, from the Department's Contracts and Purchasing Support System and the BOA Electronic Government Ledger System (EAGLS);
- Analyzed 8,549 Department purchase card transactions totaling approximately $2.9 million during the review period, and identified and assessed 8 transactions totaling approximately $37,000, that exceeded the micro-purchase threshold for the review period;
- Performed a digital analysis of the Department's purchase card data file using Benford's Law, to identify unusual occurrences of digit combinations, which may be indicative of possible error, fraud, manipulative bias or processing inefficiency;
- Identified 15 two-digit combinations that exceeded the expected rate of occurrence, representing 1,817 purchase card transactions totaling approximately $874,000;
- Performed an analytical review of the 1,817 purchase card transactions by cardholder and merchant, to eliminate high occurrence transactions that were considered low-risk in nature;

- Of the remaining 236 purchase card transactions, we then assessed a limited judgmental sample of 20 purchase card transactions totaling approximately $13,000. We traced the sample items back to source documentation and conducted follow-up discussions with various components of the Department, when necessary.

We relied on computer-processed data obtained from BOA (EAGLS) of all Department purchase card activity during the review period. For purposes of data reliability testing of the BOA (EAGLS) file, we verified the completeness and accuracy of the data by reviewing cardholder statements, invoices, receipts, and other supporting documentation to validate purchase amounts recorded in these systems.

We also verified monthly purchase card payments made by the Department to BOA, by comparing a monthly BOA payment file to the wire payments contained in the BOA (EAGLS) data extract file and noted no exceptions. In addition, we secured general ledger documentation to support the purchase card payments. Based on our testing, we concluded that the computer-processed data was sufficiently reliable for the purpose of our audit.

Our audit focused on purchase card activity during the period July 1, 2005 through June 30, 2006. We conducted our fieldwork from September 2006 through February 2007 at the Department's offices located in Washington, DC. We held an exit conference with Department officials on March 13, 2007. We performed our audit in accordance with generally accepted government auditing standards appropriate to the scope of review described above.

ADMINISTRATIVE MATTERS

Corrective actions proposed (resolution phase) and implemented (closure phase) by your office will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System (AARTS). ED policy requires that you develop a final CAP for our review in the automated system within 30 days of the issuance of this report. The CAP should set forth the specific action items, and targeted completion dates, necessary to implement final corrective actions of the finding and recommendations contained in this final audit report.

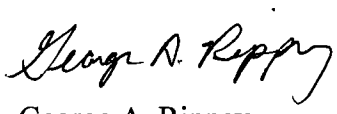
In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General is required to report to Congress twice a year on the audits that remain unresolved after six months from the date of issuance.

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

We appreciate the cooperation given us during this review. If you have any questions, please call Greg Spencer at (202) 245-6015.

Sincerely,



George A. Rippey
Acting Assistant Inspector General for Audit

Attachment

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE CHIEF FINANCIAL OFFICER

THE CHIEF FINANCIAL OFFICER

MAY 17 2007

MEMORANDUM

TO: George Rippey
Acting Assistant Inspector General for Audit Services
Office of Inspector General

FROM: Lawrence Warder
Chief Financial Officer

SUBJECT: Draft Audit Memorandum, *Digital Analysis of Department Purchase Card Activity*
Control Number ED-OIG/A17G0012

I am pleased to have the opportunity to respond to the Office of Inspector General (OIG) Draft Audit Memorandum entitled, *Digital Analysis of Department Purchase Card Activity.* The Office of the Chief Financial Officer (OCFO) has no comment on the objectives, scope, methodology or findings in the report. We are pleased that your analysis of over 8,500 purchase card transactions totaling approximately $2.9 million resulted in only one finding. We generally concur with the report's two recommendations. Attached is the draft Corrective Action Plan which we propose to resolve this audit.

If you have any questions regarding this response, please feel free to contact Cynthia Bond-Butler at 202-245-6221.

Attachment: Draft Corrective Action Plan