

WR-B-02-03

AUDIT REPORT

SANDIA NATIONAL LABORATORIES PROCUREMENT CARD PROGRAM



AUGUST 2002

U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL
OFFICE OF AUDIT SERVICES



U. S. DEPARTMENT OF ENERGY
Washington, DC 20585

August 6, 2002

MEMORANDUM FOR: ASSOCIATE DIRECTOR FOR MANAGEMENT AND
ADMINISTRATION

FROM: Lawrence R. Ackerly, Director (Signed)
National Nuclear Security Administration Audit Division

SUBJECT: INFORMATION: Audit Report on "Sandia National
Laboratories Procurement Card Program"

BACKGROUND

Sandia National Laboratories' Procurement Card Program provides employees with the ability to procure low value, commercially available goods and services quickly and easily. The program, which began in the mid-1990's, has grown from about 25 cardholders with purchases of about \$500,000 to over 1,600 cardholders with purchases totaling about \$55 million.

Sandia's internal auditors reviewed the internal controls over procurement cards in 1998 and 1999 and found that restricted items were being purchased, receipts were not being maintained, and unauthorized users were making purchases. In addition, a recent Office of Inspector General report, *U.S. Department of Energy's Purchase Card Programs – Lessons Learned* (IO1OP001, February 2002), disclosed that the Department of Energy's system of safeguards and controls over its purchase card programs needed to be strengthened.

In light of the Procurement Card Program's growth and problems previously identified by Sandia Internal Audit and the Office of Inspector General, we sought to determine whether procurement cards were being used appropriately.

RESULTS OF AUDIT

We found that Sandia procurement cardholders:

- Purchased restricted items;
- Split purchases to avoid transaction limits; and,
- Allowed unauthorized users to make purchases.

Sandia had not enforced its existing policies and procedures nor did it have adequate controls over the approval of transactions. Without the necessary policies and procedures, the risk of waste or abuse within the Procurement Card Program is increased.

We recommended that the Manager, Albuquerque Operations Office require Sandia to comply with the actions stipulated in its Procurement Manual. In addition, we recommended that the managers review receipts for compliance with purchase limits, as well as the type of purchase, and incorporate an "appropriate use" performance measure into its performance plan.

MANAGEMENT REACTION

Management concurred with the recommendations and is in the process of initiating corrective actions.

Attachment

cc: Manager, Albuquerque Operations Office

SANDIA NATIONAL LABORATORIES PROCUREMENT CARD PROGRAM

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OVERVIEW

INTRODUCTION AND OBJECTIVE

Employees of Sandia National Laboratories (Sandia) have several procurement methods available to them, to include the Procurement Card Program. This Program provides employees with the ability to procure low value, commercially available goods and services without going through the more protracted procurement process. Sandia's Procurement Card Program, which began in the mid-1990's, has grown from about 25 cardholders with purchases of about \$500,000 to over 1,600 cardholders with purchases totaling about \$55 million.

In 1998 and 1999 reviews of internal controls over procurement cards, Sandia's internal auditors found that restricted items were being purchased, receipts were not being maintained, and unauthorized users were making purchases. In addition, a February 2002 Office of Inspector General Report, *U.S. Department of Energy's Purchase Card Programs – Lessons Learned* (IO1OP001), disclosed that the Department of Energy's system of safeguards and controls over its purchase card programs needed to be strengthened.

In light of the Procurement Card Program's growth and problems previously identified by Sandia Internal Audit and the Office of Inspector General, we sought to determine whether procurement cards were being used appropriately.

CONCLUSIONS AND OBSERVATIONS

Sandia procurement cardholders continued to purchase restricted items and split purchases, thereby avoiding transaction limits. We also determined that unauthorized users made purchases. These inappropriate purchase activities occurred because Sandia had not enforced its existing policies and procedures and did not have adequate controls over the approval of transactions. As a result, the risk of waste or abuse was increased.

We recommended that the Manager, Albuquerque Operations Office require Sandia to comply with the actions stipulated in its Procurement Manual. In addition, we recommended that the Department require Sandia managers to review receipts for compliance with purchase limits as well as the type of purchase and incorporate an "appropriate use" performance measure into its performance plan.

(Signed)
Office of Inspector General

Procurement Card Program

Use of Procurement Cards

Our review of FY 2001 purchases disclosed that cardholders bought restricted items and split purchases, thereby avoiding dollar limits. Out of a sample of 119 purchases, we found that Sandia employees purchased six restricted items. One cardholder, for example, bought a computer, a specifically prohibited item, at a cost of over \$2,100. Others bought specialty built items, which are also specifically restricted, at a cost of over \$1,400.

In addition, our sample identified that thirty-one purchases totaling over \$17,900 were made by unauthorized users. In one case, a cardholder had given his procurement card to a colleague who made all purchases on that card. In another case, a cardholder allowed several individuals to charge purchases to the holder's card at a special web page set up to buy material from a vendor. In an expanded review of the transactions made through this web page, we determined that over \$284,000 had been charged to the holder's procurement card in FY 2001. Although we reviewed only cost, not appropriateness, we concluded that delegating card use was a violation of Sandia's policy that could lead to the purchase of restricted or unneeded items. Sandia officials stated that this was an approved pilot program; however, we did not receive any documentation stating that this cardholder was authorized to allow others to make purchases on his procurement card.

Additionally, we reviewed the FY 2001 procurement card transaction universe and identified seven instances where purchases were split for the apparent purpose of circumventing the card's spending limit. One cardholder, for example, split a purchase totaling over \$48,400 into two equal amounts, making the purchase fit under the \$25,000 transaction limit. In another example, three cardholders split one purchase totaling over \$25,000. Each cardholder charged multiple amounts, thereby avoiding the transaction limits.

Procurement Card Requirements

Sandia's Procurement Manual (Manual) establishes the policy for using procurement cards. The Manual identifies items that may not be purchased with a procurement card, how much can be spent with a procurement card, who is authorized to use a procurement card, and what documentation must be maintained by cardholders. The Manual lists 25 items and services that should not be purchased with a procurement card; these prohibited purchases include cellular phone airtime charges, computers, and items that must be developed or built to particular specifications.

The Manual also outlines the dollar limits on procurement card use as follows: (1) \$2,500 for low value services such as one-time repairs, (2) \$5,000 for any individual item, (3) \$25,000 for any individual transaction, and (4) \$25,000 per procurement card per month. The Manual stipulates that cardholders must not split orders to remain within these established limits. Another restriction is on the procurement authority given to the cardholder. Specifically, this authority is personal and, as such, may not be shared, delegated, or transferred. In addition, there is a requirement that procurement documentation such as receipts, invoices, and packing slips must be retained for at least three years and must contain the purchased item's description as well as price.

Controls Over Procurement Card Use

Sandia's previous internal audit reports included recommendations that Sandia outline the consequences of noncompliance in its Manual, improve its monitoring of compliance with the Manual, and require approval of each manager's monthly reconciliation statements recorded on Sandia's computerized reconciliation system. We noted, however, that Sandia had not yet established a process to independently review and approve purchases made by managers. We also noted a weakness in Sandia's procurement card policy and that performance measures relating to the Procurement Card Program were not as useful as they could have been.

We found that no one was required to review purchases made by Sandia managers. In addition, a cardholder's cognizant manager was not required to review receipts for the items purchased. Consequently, a manager's knowledge of what was actually purchased was limited to the description entered by the cardholder into the reconciliation system. A cardholder, therefore, could easily cover the purchase of restricted items. The inadequacy of this control can be seen in the earlier example of a computer purchase. In this instance, the cardholder entered the description "computer parts" (non-restricted items) when the actual purchase was a computer (a restricted item). Some managers did not require cardholders to enter any description of the purchase at all into the reconciliation system. We also noted that Sandia did not assure that cardholders adhered to the policy of keeping receipts. Our sample, for instance, identified two purchases, which had no receipts or other supporting documentation. Without such documentation, the appropriateness of purchases made with procurement cards cannot be determined.

The performance measure for the Procurement Card Program also contributed to the noncompliance because it focused only on the dollar amount spent and not on what was purchased. That is, Sandia met its performance target if dollars spent using procurement cards in the current year matched a specified increase over the prior year. In FY 2001, for instance, the measure required a 15 percent increase over FY 2000.

Increase Risk

Weak internal controls over procurement cards increase the risk that they will be used inappropriately. Based on our sample, we project that procurement cards were used inappropriately in over 15,600 purchases out of over 73,600 purchases made in FY 2001. With such a large projected rate of inappropriate use, the risk of waste or abuse increases dramatically.

RECOMMENDATIONS

We recommend that the Manager, Albuquerque Operations Office require Sandia to:

1. Enforce compliance with the requirements of the Procurement Manual including, at a minimum, removal of the procurement cards from those who inappropriately use them;
2. Include a requirement in the Procurement Manual that managers who approve procurement card purchases review receipts for compliance with Procurement Manual requirements;
3. Institute a procurement card usage review and approval process for managers that currently do not have their purchases reviewed; and,
4. Include a measure of appropriate use in the annual performance measures developed for the Procurement Card Program.

**MANAGEMENT
COMMENTS**

The Albuquerque Operations Office concurred with the recommendations and proposed corrective actions. Management comments are included in their entirety in Appendix 1.

AUDITOR COMMENTS

Management's proposed actions are responsive to our recommendations.

United States Government

Department of Energy

Albuquerque Operations Office

memorandum

DATE: MAY 30 2002

REPLY TO: OMOC:MSB:LAR

SUBJECT: AL's Comments on the OIG Draft Report: **Audit of Sandia National Laboratories Procurement Card Program**

TO: Frederick D. Doggett, Deputy Assistant Inspector General for Audit Services, IG-32, HQ

Attached are our comments and position on the report finding(s) and recommendation(s).

If you have any questions on this matter, please contact Lillian Retallack at (505) 845-4442.

Ann Wright for
Robert R. Gibson, III
Director
Office of Management and Operating Contracts

2 Attachments

cc w/attachments:
Richard Speidel, NA-66, HQ
Merley Lewis, CR-2, HQ
Len Raab, AFSC, AL

Appendix 1 (continued)

Department of Energy
Albuquerque Operations Office (AL)
Position on Office of Inspector General
Draft Report Recommendations

Audit of Sandia National Laboratories (SNL) Procurement Card Program

Recommendation No. 1

Enforce compliance with the requirements of the Procurement Manual including, at a minimum, removal of the procurement card from those who inappropriately use it.

AL Position

Concur. AL concurs that SNL should enforce compliance with the requirements of the Procurement Manual. However, AL recognizes that not all abuses of the credit card are intentional and SNL management should be able to have a certain amount of discretion in distinguishing between accidental misuse or intentional misuse of the credit cards and seek appropriate discipline based on the circumstance. AL concurs that removal of the procurement card should be a consequence to those that intentionally abuse its use. AL will direct SNL to review its current enforcement policies and procedures in the Procurement Manual to identify areas that can be modified to stress the seriousness of credit card abuse and disciplinary action that could be taken. AL will require that SNL submit its findings by September 30, 2002.

Recommendation No. 2

Include a requirement in the Procurement Manual that managers who approve procurement card purchases review receipts for compliance with Procurement Manual requirements.

AL Position

AL concurs that the Procurement Manual should include a requirement for review of procurement purchase card receipts for compliance; however, AL suggests periodic review of original receipts and verification of purchases by managers responsible for approving procurement card purchases. AL will direct SNL to review its current policies and procedures on purchase cards to identify how the review process of purchase card purchases by managers can be improved. AL will require that SNL submit its findings by September 30, 2002.

Recommendation No. 3

Institute a procurement card usage review and approval process for managers that currently do not have their purchases reviewed.

Appendix 1 (continued)

AL Position

AL concurs that the Procurement Manual should include a requirement to have manager purchases periodically reviewed. Although team supervisors and above have unlimited approval authority for purchase requisitions, transactions should still be reviewed periodically to ensure proper documentation and receipts are on file. This would not be a labor-intensive effort, since managers hold only five percent of the p-cards and frequency and size of occurrences are limited. AL will direct SNL to review its current policies and procedures on purchase card purchases to identify how the review process of purchase card purchases by managers can be improved. AL will require that SNL submit its findings by September 30, 2002.

Recommendation No. 4

Include a measure of appropriate use in the annual performance measures developed for the Procurement Card Program.

AL Position

AL concurs that, in light of the current findings, an additional requirement to measure appropriate use be made part of the performance measure for the Procurement Card Program. This should help prevent potential future abuse in use of the purchase cards. AL will direct SNL to review its current performance measure and identify an appropriate measure to preclude inappropriate use of the purchase card. AL will require that SNL submit its findings by September 30, 2002.

Appendix 2

PRIOR REPORTS RELATING TO PROCUREMENT CARDS

Office of Inspector General

- *U.S. Department of Energy's Purchase Card Programs – Lessons Learned* (IO1OP001, February 2002). This letter report summarizes the findings of the Office of Inspector General to date and presents a series of "lessons learned." This report states that the Department of Energy's system of safeguards and controls over its purchase card programs needs to be strengthened.
- *Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Cost Claimed by and Reimbursed to Bechtel BWXT Idaho, LLC Under Department of Energy Contract No. DE-AC07-99ID13727* (WR-V-02-01, October 2001). This report identified the questionable cost incurred when an employee misused a purchase card to buy property for personal use.

Sandia Internal Audit

- *Corporate Internal Audit Report – Energy and Environment Sector, Sandia Corporation, Procurement* (AR9715/AU1997002, January 21, 1998). The report found, among other things, that the internal controls for administering the procurement card contract and program need improvement.
- *Corporate Internal Audit Report – Energy and Environment Sector, Sandia Corporation, Procurement Card* (AR1999034, September 24, 1999). The report identified problems with the implementation of the Procurement Card Program. Specifically, the report pointed out that the procurement card policy was not being followed and it lacked an effective enforcement policy.

Appendix 3

SCOPE

The audit was performed between October 2001, and April 2002, at Sandia National Laboratories. We reviewed the FY 2001 Procurement card purchases.

METHODOLOGY

To accomplish our audit objective, we:

- Reviewed applicable Department of Energy, and Sandia regulations;
- Interviewed Sandia personnel;
- Reviewed prior audit reports related to the audit objective;
- Analyzed procurement card purchase source documentation such as receipts and invoices to identify the purchase of restricted items, purchases exceeding dollar limits, split purchases, and unauthorized use;
- Reviewed the *FY01 DOE/SNL Appraisal Agreement* to determine whether performance measures were established for the Procurement Card Program;
- Selected a statistical sample of 119 out of the 73,600 purchases in FY 2001; and,
- Used Audit Command Language (ACL), a data analysis software, to review the universe of FY 2001 procurements.

The audit was conducted in accordance with generally accepted Government auditing standards for performance audits and included tests of internal controls and compliance with laws and regulations to the extent necessary to satisfy the objective of the audit. Accordingly, we assessed internal controls and performance measures established under *The Government Performance and Results Act of 1993*. Sandia had a performance measure related to the Procurement Card Program. However, it only recognized the increased use of the procurement cards as a success. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. We relied on computer-processed data to determine the universe of procurement card purchases. We assessed the reliability of this data and determined it was reliable. An exit conference was held with management officials on July 17, 2002.

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