

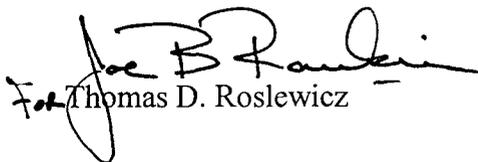
**Memorandum**

Date . SEP - 5 1997
From Deputy Inspector General
for Audit Services
Subject Review of the National Institutes of Health Internal Controls Over Purchase Card
Activities (A-15-96-80003)
To Anthony L. Itteilag
Deputy Director for Management
National Institutes of Health

The attached final report presents the results of the Office of Inspector General's review of internal controls over purchase cards at the National Institutes of Health (NIH). The report contains recommendations to improve NIH's controls over card purchases.

In responding to our draft report, NIH generally agreed with our recommendations. The NIH's comments are presented as Appendix C to this report.

We would appreciate your views and the status of any further action taken or contemplated on our recommendations within 60 days. If you have any questions, please call Joseph J. Green, Assistant Inspector General for Public Health Service Audits, at (301) 443-9742.


For Thomas D. Roslewicz

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF THE
NATIONAL INSTITUTES OF HEALTH
INTERNAL CONTROLS OVER
PURCHASE CARD ACTIVITIES**



JUNE GIBBS BROWN
Inspector General

SEPTEMBER 1997
A-15-96-80003

**Memorandum**

Date . SEP - 5 1997
Deputy Inspector General
From for Audit Services

Subject Review of the National Institutes of Health Internal Controls Over Purchase Card Activities (A-15-96-80003)

To Anthony L. Itteilag
Deputy Director for Management
National Institutes of Health

This report provides you with the results of the Office of Inspector General's review of internal controls over, and use of purchase cards by the National Institutes of Health (NIH).

EXECUTIVE SUMMARY**OBJECTIVE**

The objective of the review was to determine whether NIH has designed and implemented adequate internal controls over its purchase card activities.

FINDINGS

Generally, NIH has designed and implemented adequate management controls over the use of purchase cards. The General Services Administration (GSA) provided general guidance to agencies for using purchase cards. We found NIH to be in compliance with the GSA guidance. Our findings agreed with those of Enterprise Integration Services, an NIH contractor, which issued a June 1996 report concluding that NIH was in compliance with all applicable GSA guidance.

However, NIH may not be in compliance with General Accounting Office (GAO) internal control standard relating to separation of duties. Individual cardholders were authorized to both order and sign for receipt of goods and services. Internal control standards issued by GAO specify that key duties, such as authorizing, approving, and recording transactions; and issuing and receiving assets should be separated among individuals. The NIH officials identified several compensating controls that they believe adequately make up for the apparent lack of separation of key duties and responsibilities; however, they told us that they did not formally assess the risks in this area.

In addition, NIH cardholders did not always comply with NIH policy and procedures relating to payment of sales taxes. Six of the 25 cardholders whose transactions we

reviewed improperly paid State sales tax on eight transactions in June and July 1996. The NIH officials advised us that they would obtain refunds from the vendors in the eight cases and take additional actions to prevent sales taxes from being paid in the future.

Our review also showed that sensitive property procurements, such as computer equipment and cameras were not always entered in property management records as required by NIH. We were advised by NIH officials that this was due to a computer programming error which was corrected after we called it to NIH's attention.

We are recommending that NIH:

- ① fully evaluate the effectiveness of controls over the card purchase program which compensate for the lack of separation of duties;
- ② ensure that cardholders pay no more State sales taxes on card purchases;
- ③ revise the property module designed for card purchases so all object classes designated for sensitive and accountable property trigger electronic alerts to the property management officials to place decals on such property and enter them into the property management system; and
- ④ review all card purchases and identify all sensitive equipment items that should have been entered into the property management system and enter them.

The NIH generally concurred with our recommendations. The NIH's comments are addressed in this report and are included in their entirety in Appendix C.

OTHER MATTER

The National Performance Review (NPR) Report issued by the Vice President in 1993 recommended that agencies promote the use of purchase cards to realize savings of administrative costs associated with making small purchases. Based on February 1997 card purchase volume, we estimated that NIH's annual card purchase volume to be about \$17.4 million. The NIH officials advised us that they are planning to increase the annual card purchases to about \$100 million. We believe that this goal is reasonable. Further, we believe that NIH can increase card purchases to about \$152 million annually if they make card purchases the preferred means of making small purchases of up to \$2,500, as requested by the Deputy Assistant Secretary for Grants and Acquisition Management (DASGAM). We believe that at such a volume NIH can save about \$4 million in administrative costs annually. See Appendix B.

BACKGROUND

The GSA awarded a contract, in 1989, to Rocky Mountain BankCard System, Inc. (RMBCS). Under this contract, GSA made purchase cards available to all Government agencies. In this contract, GSA provided guidance to the Federal agencies for using the cards--see Appendix A. However, GSA stated that it is the responsibility of each agency participating in the purchase card program to establish and implement its own internal procedures concerning the program.

In 1993, the NPR Report identified the purchase card as an acquisition reform that could save millions of dollars annually. The NPR Report recommended that all Federal agencies use purchase cards and that the Federal Acquisition Regulations be amended to promote and facilitate purchase card use for making small purchases.

The card use was further facilitated in 1994 by the enactment of the Federal Acquisition Streamlining Act, Executive Order 12931, and an Office of Management and Budget memorandum to agency senior procurement executives. Also, in December 1994, an interim Federal Acquisition Regulation rule was issued making the card the preferred method for micro-purchases.¹ This rule also eliminated competition and other procurement requirements for micro-purchases.

The NIH started a pilot project in May 1995, to implement a purchase card system for making small purchases. The pilot project was limited to two of its institutes, the National Cancer Institute and the National Center for Human Genome Research. The NIH started its pilot by issuing 33 cards to officials in the two institutes.

In June 1996, NIH started implementing the card program in all of its components. Officials in the Division of Policy and Planning, Office of Procurement Management, told us that they plan to expand the use of the card to all NIH organizations.

The NIH's policy manual for using the purchase card program, issued December 16, 1996, states that the purchase card "is a simplified acquisition method, and as such, is subject to the simplified acquisition provisions established in the Federal Acquisition Regulations (FAR)..."

Under this purchase card program, cardholders can acquire goods and services, orally (telephonically) or in person, and charge the costs on a special Government VISA card, called International Merchant Purchase Authority Card (I.M.P.A.C), administered by RMBCS.

The charges are electronically downloaded by NIH to its data base from the RMBCS data base on the 5th day of each month for the immediately preceding month. The NIH then sorts the charges by cardholder. The cardholders access this system electronically, and reconcile their

¹ *A micro-purchase is a purchase not to exceed \$2,500.*

records of purchases logs to the billed charges. The cardholder attests to the accuracy of the charges, or disputes certain charges if warranted. If the cardholder disputes any of the charges, he or she is to try to resolve the dispute with the vendor first. However, if the cardholder is not able to do so, he or she must contact RMBCS about the dispute and file a charge dispute form and send it to RMBCS. The cardholders make their monthly purchase logs, their reconciliations and their monthly documentation of card purchases available to their card approving officials for review and approval.

The card approving officials are responsible for reviewing the cardholders' monthly logs for card purchases and the monthly purchase card statements. They are also responsible for approving payment for the purchases. Upon approval of the card approving officials, the statements of accounts, the purchase logs, the receiving or packing slips, and other documents are returned to the cardholders for storage. The electronic information is sent to the Office of Financial Management (OFM) for payment.

The Division of Policy and Planning (DPP), in NIH's Office of Procurement Management, conducts oversight reviews of the credit card operation. On a monthly basis, DPP selects a random number of the cardholders and conducts reviews of the acquisition files of the selected cardholders. The reviews are focused on assessing the adequacy of the documentation and compliance with published procedures, as well as on identifying unauthorized purchases, and evidence of improper order splitting. In case of impropriety, DPP starts administrative actions, including criminal prosecution or disciplinary action, as appropriate.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of the review was to determine whether NIH has designed and implemented adequate internal controls over purchase card activities.

We obtained and analyzed NIH's draft and final policy manual for the purchase card program. This draft was dated June 26, 1996, and the final was released on December 16, 1996. We analyzed the policy manuals to ascertain whether they provided adequate internal control procedures to protect NIH's interest and minimize the inherent risk of using purchase cards.

We also obtained and analyzed a report on purchase card controls at NIH, dated June 28, 1996, and prepared by Enterprise Integration Services. The report addressed whether NIH's internal procedures for the card were in agreement with GSA guidance, as included in its contract with RMBCS, for using the cards. The contractor also used guidance issued by the Department of Health and Human Services (HHS).

We obtained audit reports on purchase card activities issued by various Federal departments and agencies and documented the problems cited in those reports to determine whether NIH's internal procedures for the card would guard against the occurrence of such problems.

We obtained documentation for all NIH card purchases made in June and July of 1996. There were 846 such transactions valued at \$437,425. We randomly selected 100 of 846 purchase card transactions and reviewed the official records for these transactions to ascertain compliance with the draft of NIH's internal procedures. These 100 selected transactions were made by 25 of the 33 cardholders who made purchases during June and July of 1996. These 25 cardholders made 754 of the 846 test period card purchases. We also reviewed the 754 transactions made by the 25 cardholders involved in our sample to ascertain whether: (1) any State sales taxes were paid; and (2) sensitive accountable property items purchased with the cards were entered in the NIH's property management system.

We interviewed the cardholders who made the sampled transactions and the card approving officials with oversight responsibilities over the cardholders. We interviewed the purchase card coordinator for NIH, property personnel, and a systems analyst who designed and implemented the property module for the card purchases.

We obtained and analyzed: (1) a report on the purchase card activities issued by GAO in August of 1996;² (2) a report on using the cards, issued by HHS' Purchasing Practices and Policies Group in June 1994;³ and (3) policy statements issued by HHS and the Public Health Service on oral ordering, including the use of purchase cards to make small purchases.

We also obtained a memorandum issued by HHS' DASGAM in November of 1993. The memorandum requested department management to make card purchases the preferred mechanism for acquiring supplies and services in amounts of \$2,500 or less.

In addition, we obtained and reviewed GAO's Title 2, Policies and Procedures Manual for Guidance of Federal Agencies (Manual). This Manual includes general and specific internal control standards. We evaluated NIH's compliance with the separation of duties standard because the separation of duties was reported as a problem in most of the audit reports we obtained from other Federal agencies concerning the card use. However, we did not evaluate the adequacy of NIH's compensating controls.

We performed our review in our office in Rockville, Maryland, and at NIH, located in Bethesda, Maryland, between October 1996 and March 1997.

² *General Accounting Office ACQUISITION REFORM Purchase Card Use Cuts Procurement Costs, Improves Efficiency GAO/NSIAD-96-138, Issued August 6, 1996.*

³ *REPORT ON THE POTENTIAL INCREASED USE OF PURCHASE CARDS AND OTHER PURCHASING MECHANISMS, Issued in June 1994, by The Purchasing Practices and Policies Group, Acquisition Team, Support Services Workgroup, DHHS Continuous Improvement Program.*

FINDINGS IN DETAIL

NIH'S COMPLIANCE WITH GAO'S STANDARD ON SEPARATION OF DUTIES

The NIH allows the same individual cardholder to order and sign for receipt of goods and services purchased with the cards. Our review showed that NIH's policy manual for using the card does not require the ordering and receiving functions be separated. Thus, NIH may not be in compliance with a Federal internal control standard relating to the separation of duties, as specified in GAO's Manual, as it appears in Title 2.

The Accounting and Auditing Act of 1950 requires Federal agencies to establish and maintain an effective system of internal controls. To assist agencies, GAO issued the Manual to provide guidance on internal controls.

Also, GAO's guidance contained in Appendix II of Title 2, Specific Standard 4, Separation of Duties, states that to reduce the risk of error, waste, or wrongful acts, or reduce the risk of them going undetected; key duties are to be separated between different officials. Specifically stated under Specific Standard 4 is "Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions should be separated among individuals." The GAO also specified that key duties include authorizing, approving, and recording transactions, issuing and receiving assets, making payments, and reviewing or auditing transactions.

Our review of 100 randomly selected purchases made with the purchase cards during June and July of 1996 showed that these purchases were made by 25 NIH cardholders. Fifteen of these cardholders--3 procurement and 12 non-procurement cardholders--ordered and received, as well as attested to receiving the ordered goods.

When we discussed our observations with NIH officials, they said that requiring the separation of duties for ordering and receiving functions in the credit card program would be counterproductive because it would impose more administrative burden on program cardholders. This, they believe, would discourage potential cardholders from using the cards. They also told us that they have not formally assessed their current management controls over card purchases, but they believe that their current controls over ordering and receiving are adequate. They said:

- ① sensitive accountable property purchased with the cards is being flagged for the property management office which in turn puts decals on the property and records it in the property system. The property management office action effectively substantiates that the items were received by NIH;
- ② they expect that most of the credit card procurements will be made by cardholders who are procurement officials. These procurement officials usually make card purchases for other officials. In these cases, NIH believes there is adequate separation of duties because the requestor will send requisition forms to the

procurement cardholders for these purchases. According to NIH, these requisition forms are usually approved by appropriate officials before they are sent to the cardholders, and the requesters usually sign for the receipt of goods and services;

- ③ all cardholders' purchases are reviewed by the cardholders' approving officials on a monthly basis. The NIH management officials told us that approving officials are knowledgeable of what is needed and what should be purchased, and they look for exceptions in their reviews;
- ④ the Division of the Policy and Planning, in the Office of Procurement Management, conducts oversight reviews of purchases made by a randomly selected number of cardholders on a monthly basis; and
- ⑤ cardholders have monthly spending limits based on specific budgetary allowances.

We did not evaluate the adequacy of these compensating controls. However, we agree that this combination could reduce NIH's vulnerability to error, waste, or wrongful acts. We believe NIH should do a more extensive analysis of the degree to which these controls will be effective over card purchases.

RECOMMENDATION:

We recommend that NIH:

- ① fully evaluate the effectiveness of controls over the card purchase program which compensate for the lack of separation of duties.

Agency Comments

The NIH concurred with the recommendation, and stated that, although it believes that its internal controls over purchase card activities are adequate and that they are in compliance with Federal internal controls standards relating to the separation of duties, it will have an independent risk assessment performed to ensure the adequacy of the compensating controls over ordering and receiving.

COMPLIANCE WITH POLICY DIRECTIVES

State Sales Taxes

Six of the 25 cardholders whose transactions we reviewed improperly paid State sales taxes on 8 of their transactions. Although the program was still in the early stage of implementation and the

dollar amount of the errors was low, this, if not corrected, could become more serious as NIH expands the program.

The NIH instructs cardholders not to pay State sales taxes. This is included in NIH Policy Manual, Internal Procedures for the Purchase Card (I.M.P.A.C.) Program. Specifically, paragraph 16, section g(2), of the manual instructs the cardholder "to advise the merchant that the purchase is tax exempt." In the event the merchant does not cooperate, the cardholder is instructed to contact RMBCS to resolve the problem.

Our review of 754 card purchases made in June and July of 1996 by the 25 cardholders involved in the sampled transactions showed that 6 cardholders erroneously paid State sales taxes on 8 purchases.

We brought these errors to the attention of the involved cardholders and card approving officials who are responsible for reviewing the monthly card purchases and approve them for payment. These officials acknowledged that the sales taxes were paid in error and said they would obtain refunds.

RECOMMENDATION

We recommend that NIH:

- ② ensure that cardholders pay no more State sales taxes on card purchases.

Agency Comments

The NIH concurred with the recommendation. The NIH reiterated that it believes that actions have already been taken to address this recommendation. For example, NIH stated that Procurement officials have contacted all blanket order agreement vendors and informed them about the sales taxes exemption status of NIH. In addition, information on the sales tax exemption is included in the purchase card training for all potential cardholders.

Accounting for Sensitive Property

Our review of all the purchases made in June and July of 1996 by the cardholders involved in the randomly selected transactions showed that in 12 instances, sensitive property, such as ADP equipment, cameras, and ADP peripherals, were purchased. In six of these instances, the purchased equipment items were properly accounted for and included in the property management records. However, the other six items were not included in the property management records.

These items were excluded from the records because of a computer programming error. We were told by NIH officials that the computer programming error occurred because the object

classes for personal computers and peripherals were omitted from the computer systems module that would alert personnel responsible for maintaining property records that such property was purchased. These personnel are required to place inventory decals on property and record the property in the property management system.

The NIH's Policy Manual for using the card, Attachment #7, states sensitive property items are items that require special control or are subject to unusual rates of loss, theft, or misuse. The Policy Manual also classified sensitive property as accountable property regardless of acquisition value, and stated that such property should be included in the property management system.

RECOMMENDATIONS

We recommend that NIH:

- ③ revise the property module designed for card purchases so all object classes designated for sensitive and accountable property trigger electronic alerts to the property management officials to place decals on such property and enter them into the property management system; and
- ④ review all card purchases and identify all sensitive equipment items that should have been entered into the property management system and enter them.

Agency Comments

The NIH concurred with recommendation #3 above and stated that the property module has already been corrected.

The NIH also concurred with the objective of recommendation #4 and stated that it believed that it can meet the recommendation by alternative means to those we suggested. The NIH stated that about 27,000 purchase card transactions had been made as of June 5, 1997, and that it does not have the resources to review every order. However, NIH stated that it will notify in writing all cardholders and card approving officials of the requirement to enter sensitive property into the property management system, and ask them to ensure that prior purchases are also entered into the system.

OTHER MATTER

NIH Progress in Expanding Card Use

In 1993, the NPR Report identified the purchase card as an acquisition reform that could save millions of dollars annually, and recommended that all Federal agencies use the cards for small purchases. In 1994, HHS' Purchasing Practices and Policies Group of the Acquisition Team stated, in a report titled, "REPORT ON THE POTENTIAL INCREASED USE OF PURCHASE

CARDS AND OTHER ORAL ORDERING MECHANISMS,” that 80 percent of purchase orders for amounts of \$2,500 or less can be converted to oral purchasing mechanisms, including card purchasing. Also, DASGAM, in a memorandum dated November 17, 1993, requested department management to make card purchases the preferred means for purchasing supplies and services in amounts of \$2,500 or less.

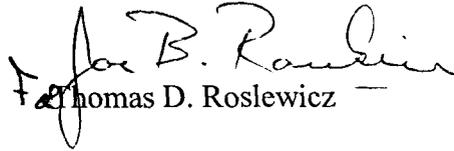
The NIH officials advised us that they have implemented or are planning to implement initiatives to increase the annual card purchases to about \$100 million. According to those officials, NIH:

- ① trained some cardholders with procurement background, and authorized them to make card purchases of up to \$25,000 at a time, and plans to train and authorize other procurement officials to use the card to make purchases up to \$100,000 at a time;
- ② reviewed and reduced the number of goods and services that earlier were deemed unauthorized for card purchases;
- ③ started a process to develop and design a custom buying environment (an IntraMall) that uses the card as the primary means for laboratory scientists and technicians, as well as administrative and purchasing staff, to make and pay for purchases. This, the officials said would more readily connect buyers and vendors, and reduce the costs of procurement. Also, this system would streamline the reconciliation process for cardholders and use electronic commerce;
- ④ sent letters to NIH’s vendors with blanket purchase agreements, as well as other vendors, to inform them that it implemented a card purchasing program, and to provide them with alternate processing procedures for orders that are made with the cards;
- ⑤ conducted monthly training of potential cardholders. They said that at the end of March 1997, they have trained about 1,300 potential cardholders;
- ⑥ promoted the card use for purchases from NIH vendors; and
- ⑦ encouraged small business representatives to accept the card for NIH purchases.

During the pilot project, NIH trained and issued cards to 33 cardholders. These cardholders made about 3,300 card purchases amounting to \$1.6 million. Since the end of pilot in May 1996, NIH increased the number of cardholders by 354. Based on the volume of card purchases of \$1.45 million reported for February 1997, we estimate the annual volume to be about \$17.4 million (\$1.45 million multiplied by 12).

In Fiscal Year (FY) 1996, NIH made 28,371 purchase orders and 214,000 records of calls⁴ in amounts of \$2,500 or less. An NIH procurement official told us these purchase orders amounted to about \$18.5 million, and the records of call purchases amounted to about \$171 million. Thus, NIH spent about \$189.5 million in such purchases in FY 1996.

Considering the progress that NIH has made in expanding the use of the cards, we believe that the \$100 million goal is reasonable. Further, we believe that NIH can increase card purchases to about \$152 million annually if they make the card purchases the preferred means of making small purchases of up to \$2,500, as requested by the DASGAM. The NIH can reach this volume by converting 80 percent of the aforementioned purchase orders and records of calls, and save an estimated \$4 million in administrative costs. See Appendix B for details.


Thomas D. Roslewicz

⁴ *A record of call is a procurement made by any authorized NIH official from a vendor with whom NIH has a negotiated blanket purchase agreement*

APPENDICES

**THE FOLLOWING IS A LIST OF GENERAL SERVICES ADMINISTRATION
GUIDANCE TO FEDERAL AGENCIES FOR USE OF PURCHASE CARDS**

The GSA states in its publication, titled "Governmentwide Commercial Credit Card Service," and dated October 1995, that Government agencies interested in participating in the Governmentwide Commercial Credit Card Program must first consult their internal procedures, regulations, and policy provisions regarding the card use and then proceed accordingly. The provisions included herein are intended to provide some guidance, but it is each respective agency's responsibility to establish and implement its own internal procedures concerning the program. At a minimum, the internal procedures should address the following issues:

1. designate an agency/organization program coordinator (APC); designate a billing and a dispute office point of contact;
2. define the role of the APC and ensure that all cardholders and approving officials realize a liaison to the contractor exists within their agency and that frequent calls to the contractor made at the cardholder level are unnecessary and undesirable;
3. develop coordination procedures between the APC, billing, and dispute offices. Each office's functions and responsibilities as they relate to the contract should be delineated;
4. establish the responsible offices for determining qualified cardholders, approving officials, granting delegations of authority, spending limits, and authorization activity codes. Determine who will approve changes to cardholder purchase limits and other exceptions;
5. establish coordination procedures between cardholders, their approving officials, and the finance office;
6. designate the responsible office for approval of changes to cardholder limits and other exceptions;
7. determine what form of media will be used for receipt of invoices, payments, and receipt of reports; formulate procedures outlining use of the chosen media;
8. establish content of delivery order requiring, at a minimum, the names, addresses, and telephone numbers of the following: APC, designated billing office contact, and disputes office contact;

9. establish purchase procedures, including telephone orders. The content, and retention of accountable documentation for each purchase must be addressed;
10. formulate resolution and disciplinary procedures for situations involving improper use of the card;
11. establish payment procedures, including attention to statement reconciliation at the cardholder and approving official level and subsequently involving the finance office. Procedures must require that payment be made in accordance with the Prompt Payment Act;
12. establish billing discrepancy procedures;
13. establish strong security measures for the cards in order to prevent unauthorized use and to limit potential of fraud;
14. establish procedures to be followed in the event of lost or stolen cards, the termination or transfer of an employee who is a cardholder and other such situations that may arise; and
15. the agency must perform training of cardholders and approving officials, and other designated Government personnel on the use of the card.

**ESTIMATE OF SAVINGS AVAILABLE
THROUGH EXPANDED USE OF PURCHASE CARDS IN NIH**

The HHS' Purchasing Practices and Policies Group of the Acquisition Team stated, in its June 14, 1994 report titled, "REPORT ON THE POTENTIAL INCREASED USE OF PURCHASE CARDS AND OTHER ORAL ORDERING MECHANISMS," that 80 percent of purchase orders for amounts of \$2,500 or less can be converted to oral purchasing mechanisms, including card purchasing. Also, DASGAM, in a memorandum dated November 17, 1993, requested department management to make card purchases the preferred means for purchasing supplies and services in amounts of \$2,500 or less.

Based on these documents, the number of purchase orders and records of calls in amounts of \$2,500 or less made by NIH in FY 1996, and the charges that the Office of Procurement (OPM) and the Office of Financial Management (OFM) levy on institutes, centers, and divisions for processing transactions under these mechanisms, we estimated that NIH can save about \$4 million if it converted 80 percent of its purchases made with the traditional purchase order and records of calls mechanisms to card purchases. Our estimate is as follows:

1. \$2,156,215 could be saved if NIH converted 22,700 purchase orders (80 percent of 28,371 under \$2,500 purchase orders it made in FY 1996 to card purchases. This estimate is based on 22,700 multiplied by \$95 (\$100 OPM charge per purchase order less than \$25,000 minus \$5 OPM charges to process a purchase card order);
2. \$123,134 could also be saved in payment costs associated with this conversion. This is estimated based on the fact that by converting these 22,700 purchase orders to card purchases, there would be 22,388 less payments to be made by OFM. We arrived at the number of payments as follows:
 - the NIH makes a payment to a vendor every time a purchase was made from that vendor with the traditional purchase order mechanism. Therefore, NIH can reduce the number of payments by 22,700 due to this conversion, less the number of payments that OFM would make on behalf of the 26 institutes for the card purchases. This would amount to 12 payments for each of the 26 institutes, or 312 payments. Thus, the net reduction of payments due to this conversion is 22,388, or 22,700 minus 312.
 - the OFM charges \$5.50 to process a commercial payment. Therefore, NIH would save 22,388 multiplied by \$5.50 or \$123,134.

3. \$1,712,000 could be saved in procurement costs on 171,200 records of call if 80 percent of the 214,000 current annual records of calls are converted to card purchases. This estimate is based on estimated savings of \$10 a transaction--OPM charges \$15 to process a record of call, while it charges \$5 for each purchase made with the card.



DEPARTMENT OF HEALTH & HUMAN SERVICES

APPENDIX C
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Public Health Service

National Institutes of Health
Bethesda, Maryland 20892

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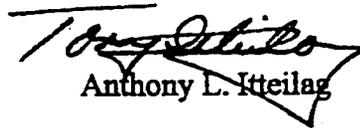
TO: Mr. Thomas D. Roslewicz
Deputy Inspector General for Audit Services, OIG/OS

FROM: Deputy Director for Management, NIH

SUBJECT: Office of Inspector General (OIG) Draft Report *Review of the National Institutes of Health Internal Controls Over Purchase Card Activities, A-15-96-80003*

Attached are the NIH comments on the subject draft report. We appreciate the opportunity to review this document and provide input. In general, we concur fully or in principle with the report's recommendation. Our comments delineate the actions taken or planned to implement these recommendations.

Should your staff have any questions, please ask them to contact William Gillen, Office of Management Assessment, NIH, at 301-496-2462.


Anthony L. Itteilag

Attachment

National Institutes of Health (NIH) Comments on the Office of Inspector General (OIG)
Draft Report Review of the NIH Internal Controls Over Purchase Card
Activities, A-15-96-80003, May 1997

OIG Recommendation

We are recommending that the NIH:

1. Fully evaluate the effectiveness of controls over the card purchase program which compensate for the lack of separation of duties.

NIH Comment

We concur. As noted in the draft OIG report, NIH officials met with auditors to discuss the rationale for establishing the ordering and receiving functions at NIH. The NIH purchase card program has been designed and developed to meet the needs of cardholders and provide proper stewardship of the procurement function. We believe that controls over purchase card activities are adequate and in compliance with Federal internal controls standards related to separation of duties. It is the view of NIH officials that requiring more stringent separation of duties would be counter productive because it would impose additional administrative burdens on the cardholder (research scientists and laboratory technicians) and thus would jeopardize their acceptance and use of the purchase cards. Nonetheless, the NIH will have an independent risk assessment performed to ensure the adequacy of the compensating controls over ordering and receiving.

OIG Recommendation

2. Ensure that cardholders pay no more State sales taxes on card purchases.

NIH Comment

We concur and believe that actions have already been taken to address this recommendation. As noted in the draft OIG report, NIH procurement officials have contacted all blanket purchase order agreement vendors and informed them of the sales tax exemption status of NIH. In addition, information on this sales tax exemption is included in the purchase card training for all potential cardholders.

OIG Recommendation

3. Revise the property module designed for card purchases so that all object classes designated for sensitive and accountable property trigger electronic alerts to the property management officials to place decals on such property and enter them into the property management system.

NIH Comment

We concur and believe that actions have been taken to address this recommendation. The OIG draft report discusses problems in accounting for some sensitive property obtained via purchase cards and notes that these problems were caused by a computer programming error. This error has been corrected.

OIG Recommendation

4. Review all card purchases and identify all sensitive equipment items that should have been entered into the system and enter them.

NIH Comment

We concur with the objective of this recommendation and believe that we can meet it by alternative means to those suggested by the OIG. More than 27 thousand purchase card orders had been made as of June 5, 1997. We do not have the resources -- and we do not believe the time would be well-spent even if we did have the resources -- to review every order. However, we will notify in writing all cardholders and card approving officials of the requirement to enter sensitive property into the property management system, and ask them to ensure that prior purchases are also entered into the system.