



**Denali Commission**  
Office of Inspector General  
Anchorage, AK 99501

September 28, 2016

**MEMORANDUM FOR:** Joel Neimeyer  
Federal Co-Chair

A handwritten signature in blue ink, appearing to read "David Sheppard", is written over a horizontal line.

**FROM:** David Sheppard  
Inspector General

**SUBJECT:** *Improvements Are Needed in the Denali Commission Government  
Purchase Card Program—Final Report No. DCOIG-16-008-A*

This memorandum provides our final audit report on the Denali Commission's government purchase card program. Our objective was to determine whether the Commission's internal control over purchase card transactions is sufficient to ensure that federal funds are being appropriately managed.

Based on this review, we determined that improvements are needed in the Commission's government purchase card program. Specifically, the Commission could improve internal control over (1) purchase card transactions and documentation and (2) the online purchase card management system.

We received the Commission's response to our draft report on September 26, 2016, and included the response in our final report. Please submit to OIG—within 60 days of this final report—the detailed actions you plan to take to implement our recommendations.

We would like to thank the Commission staff for their cooperation and courtesies during our audit. Please contact me at (206) 220-7970 if you would like to discuss the results of this review.

Attachment

cc: Denali Commissioners  
Corrine Eilo, Chief Financial Officer, Denali Commission  
David Smith, Deputy Inspector General, U.S. Department of Commerce

DENALI COMMISSION

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# Improvements Are Needed in the Denali Commission Government Purchase Card Program



**FINAL REPORT**

September 28, 2016

DCOIG-16-008-A

DENALI COMMISSION  
OFFICE OF INSPECTOR GENERAL

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## Introduction

The Denali Commission Act established the Denali Commission (the Commission) in 1998 as a federal agency with the statutory purpose of providing job training and economic development services, rural power generation and transmission facilities, modern communication systems, water and sewer systems, and other infrastructure needs to rural areas of Alaska. By statute, there are seven members of the Commission, known as commissioners: a federal co-chairperson (Federal Co-Chair)—a federal employee appointed by the Secretary of Commerce who directs Commission staff—and six additional commissioners from the state of Alaska and specific Alaska business, labor, academic, native, and community organizations. The Act requires that the commissioners annually solicit proposals for projects from local governments and other entities and organizations and develop a proposed work plan for projects in Alaska that provide for rural and infrastructure development and necessary job training.

As of April 12, 2016, when we began our review, the Commission had a staff of 14 full-time employees, consisting of the Federal Co-Chair, the general counsel, 5 administrative staff, and 7 program staff employees. The Commission has two purchase cardholders, one convenience check writer, the Agency/Organization Program Coordinator (A/OPC), and the certifying officer. According to Denali Commission's written procedures, to make a purchase, an employee obtains approval for an item (when required) and requests that the purchase cardholder obtain the item. The purchase card holder then obtains approval (when required), purchases the item, and maintains all supporting documentation such as invoices, receipts, and authorizations. Every month, the A/OPC prints the monthly billing statement and sends to the purchase cardholders. The purchase cardholders are then required to verify all the transactions and submit the approved billing statement with supporting documentation to the A/OPC. The A/OPC reviews all supporting documentation, allocates funds based on budget object code, and submits to the certifying officer for approval. Once the certifying officer reviews and approves the monthly transactions and budget allocations, the certifying officer approves the monthly billing statement and sends to the Bureau of Fiscal Services for payment.<sup>1</sup> Between October 1, 2014, and March 31, 2016, the Commission made \$248,988 of purchases using the government purchase card and convenience checks.

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<sup>1</sup> The Bureau of Fiscal Services is a shared service provider within the Department of Treasury that handles much of the Denali Commission's finance activities including government purchase card payments.

## Objective, Findings, and Recommendations

We conducted an audit to determine whether the Denali Commission's internal control over purchase card transactions is sufficient to ensure federal funds are being appropriately managed. The scope of our review included all purchases made by the Commission using the purchase card and convenience checks from October 1, 2014, through March 31, 2016.

### Improvements Are Needed in the Denali Commission's Purchase Card Program

We found that improvements are needed in the Commission's government purchase card program. Specifically, the Commission could improve internal control over (1) purchase card transactions and documentation, and (2) the online purchase card management system.

*The Denali Commission does not have sufficient internal control over purchase card transactions and documentation.*

The Commission needs to strengthen internal control over purchase card transactions and the creation and maintenance of transaction documentation. As shown in Table 1, a review of 100 purchase card and convenience check transactions identified a significant number of transactions with incomplete documentation. Of 100 purchase card transactions reviewed, 72 transactions had multiple instances of incomplete documentation. In addition to incomplete documentation, we also identified an instance of improper use of the purchase card.

*Evidence that mandatory sources were used or considered was not included in purchase card file.*

A significant number of transactions did not include documentation that the cardholder used mandatory sources for the purchase or considered mandatory sources before making the purchase on the open market (see Table 1). Cardholders are subject to the requirements that are contained in Federal Acquisition Regulation (FAR) part 8, "Required Sources of Supplies and Services".<sup>2</sup> The FAR prioritizes mandatory sources of supplies and services that cardholders must use (with some exceptions) to satisfy agency requirements. Purchases could be considered improper if they are made from the open market without first using or considering mandatory sources.

*Evidence of the availability of funds prior to purchase was not included in purchase card file.*

A significant number of transactions did not include documentation that the availability of funds had been verified prior to purchase (see Table 1). The Antideficiency Act prohibits federal employees from making or authorizing an expenditure from, or creating an obligation under, any appropriation or fund in excess of the amount available in the appropriation or fund.<sup>3</sup> According to OMB Circular A-123, Appendix B, purchase cardholders should document availability of funds at the time of each purchase to minimize erroneous and improper purchase.<sup>4</sup> In addition, *Denali Commission Purchase Card Policies &*

<sup>2</sup> The FAR is codified in title 48 of the Code of Federal Regulations.

<sup>3</sup> 31 U.S.C. § 1341(a)(1)(A).

<sup>4</sup> Office of Management and Budget (OMB), January 15, 2009. *Improving the Management of Government Charge Card Programs*, OMB Circular A-123, Appendix B. Washington, DC: OMB, § 4.8. See

*Procedures* states cardholders are responsible for ensuring funds are available prior to making a purchase.<sup>5</sup> If there are insufficient funds available, purchases could be considered improper and could result in violations of the Antideficiency Act.

*Evidence of a legitimate need was not included in purchase card file.*

A significant number of transactions did not include evidence of a legitimate need for the purchase (see Table 1). In order to minimize erroneous and improper purchases, agency personnel requesting a cardholder to acquire items with a purchase card should provide written requests to the purchase cardholder to the maximum extent possible, as stated in OMB Circular A-123, Appendix B.<sup>6</sup> Providing written requests to the purchase cardholder helps minimize erroneous and improper purchases by documenting a legitimate need for the purchase. Without evidence of a legitimate need, there is an increased risk that cardholders will make erroneous or improper purchases.

*Evidence of purchase approval was not included in purchase card file.*

A significant number of transactions did not include evidence that the requestor or cardholder either obtained approval for the purchase or were not required to obtain approval for the purchase (see Table 1). *Denali Commission Purchase Card Policies & Procedures* require cardholders to obtain purchase approval “where appropriate” or “if necessary,” but do not define the circumstances in which it is required, aside from a reference that approvals are not required for an item purchased that is a “Standard Agency Buy,” a term that is also undefined.<sup>7</sup> Based on the available documentation, we were unable to determine whether purchase approvals were not required or were required but not obtained. Without specific guidance as to when approvals are required for purchases, there is an increased risk that cardholders will make erroneous or improper purchases.

*Documentation of the purchase was not maintained in purchase card file.*

Several transactions were not supported by any documentation (see Table 1). As a risk management control, OMB Circular A-123, Appendix B, states that charge card managers are responsible for ensuring that cardholder account statements and supporting documentation are reviewed and utilized to monitor delinquency, misuse, and other transaction activities.<sup>8</sup> In addition, the Commission’s internal guidelines require cardholders to maintain documentation of the transaction in order to reconcile the monthly purchases. Supporting documentation should include merchant invoices, delivery receipts, and

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[https://www.whitehouse.gov/sites/default/files/omb/assets/agencyinformation\\_circulars\\_pdf/a123\\_appendix\\_b.pdf](https://www.whitehouse.gov/sites/default/files/omb/assets/agencyinformation_circulars_pdf/a123_appendix_b.pdf).

<sup>5</sup> Denali Commission, July 13, 2014. *Denali Commission Purchase Card Policies & Procedures*. Anchorage, AK: Denali, § 5, 3–4.

<sup>6</sup> OMB, January 15, 2009. *Improving the Management of Government Charge Card Programs*, OMB Circular A-123, Appendix B. Washington, DC: OMB, § 4.8. See [https://www.whitehouse.gov/sites/default/files/omb/assets/agencyinformation\\_circulars\\_pdf/a123\\_appendix\\_b.pdf](https://www.whitehouse.gov/sites/default/files/omb/assets/agencyinformation_circulars_pdf/a123_appendix_b.pdf).

<sup>7</sup> Denali Commission, July 13, 2014. *Denali Commission Purchase Card Policies & Procedures*. Anchorage, AK: Denali, § 18, App. A, “Purchase Card Transaction Procedure”, and App. C, “Purchase Card Log,” 12, 16, and 24.

<sup>8</sup> OMB, January 15, 2009. *Improving the Management of Government Charge Card Programs*, OMB Circular A-123, Appendix B. Washington, DC: OMB, § 4.3. See [https://www.whitehouse.gov/sites/default/files/omb/assets/agencyinformation\\_circulars\\_pdf/a123\\_appendix\\_b.pdf](https://www.whitehouse.gov/sites/default/files/omb/assets/agencyinformation_circulars_pdf/a123_appendix_b.pdf).

internal records that document prior authorization (where appropriate) of the purchase(s).<sup>9</sup> Without documentation of purchases, there is an increased risk that cardholders will make erroneous or improper purchases.

*Questionable transactions did not include sufficient documentation in purchase card file.*

The Commission uses its government purchase card to purchase meals and refreshments for Commissioner and advisory committee meetings. Although it is generally allowable to purchase meals and refreshments for those away from their duty station, it is generally not allowable to purchase for those who are at their duty station.<sup>10</sup> During the sample review period, 20 purchases were made for meals and refreshments. We were unable to determine whether the purchases were allowable and reasonable for 19 of 20 purchases (valued at \$1,753) because there was no documentation to support: (1) who the meals and refreshments were for, (2) how many people the meals and refreshments were for, and (3) whether those individuals were away from their duty station. Without sufficiently documenting purchases for meals and refreshments, there is an increased risk that cardholders will use appropriated funds for unallowable purposes.

**Table 1. Errors in Purchase Card Documentation**

Type of Error	Number of Transactions with Errors	Value of Transactions with Errors
No evidence that mandatory sources were used or considered	95	\$125,675
No evidence of the availability of funds prior to purchase	61	\$74,339
No evidence of legitimate need	52	\$52,326
No evidence of purchase approval	51	\$49,078
No documentation of the purchase	5	\$7,330

Source: Denali Commission OIG purchase card transaction review.

*We identified an instance of improper use of the purchase card.*

In addition to incomplete documentation, we also identified an instance of improper use of the purchase card where a cardholder admittedly allowed another employee to use the cardholder's purchase card to obtain equipment for the Commission. The *Denali Commission Purchase Card Policies & Procedures* state that the unique purchase card received by a cardholder has the cardholder's name embossed on it and no other individual may use this card.<sup>11</sup> Allowing individuals other than the purchase cardholder to make purchases increases the risk of erroneous or improper purchases.

<sup>9</sup> Denali Commission, July 13, 2014. *Denali Commission Purchase Card Policies & Procedures*. Anchorage, AK: Denali, § 18, 12.

<sup>10</sup> Government Accountability Office, January 27, 2003. *Use of Appropriated Funds to Purchase Light Refreshments at Conferences*, B-288266. Washington, DC: GAO.

<sup>11</sup> Denali Commission, July 13, 2014. *Denali Commission Purchase Card Policies & Procedures*. Anchorage, AK: Denali, § 5, 3.

These deficiencies in purchase card transactions and documentation occurred because *Denali Commission Purchase Card Policies & Procedures* is not always clear. For example, internal guidelines are not clear as to when staff are required to obtain approval for a purchase so cardholders may not be aware that an approval is required for a particular purchase. In addition, OMB Circular A-123, Appendix B, states agency personnel requesting a cardholder to acquire items with a purchase card should provide written requests to the purchase cardholder to the maximum extent possible. However, Denali Commission internal guidelines and general practice do not require requests to be submitted in writing, which is not consistent with federal requirements. Furthermore, there is insufficient evidence to determine whether staff follows internal guidelines. Internal guidelines state cardholders are responsible for ensuring funds are available prior to making a purchase, but over half of the transactions we reviewed had no evidence that availability of funds was verified. Without sufficient internal control over purchase card transactions, the Commission increases the risk of staff making unauthorized purchases and using appropriated funds for unallowable purposes.

*The Denali Commission should improve internal control related to the online purchase card management system.*

The Commission should improve internal control related to the online purchase card management system. Specifically, improvement opportunities exist in internal control over user access, system permissions, and purchase card templates.

*The Commission should improve internal control over user access to the online purchase card management system.*

A review of users with active access to the online purchase card management system identified a former employee of the Commission still has access to the system as both a cardholder and non-cardholder, with permissions to 29 of 30 role dependent entitlement functions (see Appendix C). During the audit, the A/OPC initiated the process to remove the former employee's system access. However, as of the date of this report the former employee still has access.

*The Commission should improve internal control over permissions within the online purchase card management system.*

A review of system permissions granted to all active users within the online purchase card management system identified a current cardholder has access to the system as a backup A/OPC to include permissions to 29 of 30 role dependent entitlement functions (see Appendix C). While the Commission is a small agency, ensuring separation of duties among key functions such as making purchases, authorizing purchases and payments, certifying funding, and reviewing and auditing is a risk management control and a responsibility of government purchase card program managers as stated in OMB Circular A-123, Appendix B.<sup>12</sup> Subsequent to our review, the Commission closed this purchase card

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<sup>12</sup> OMB, January 15, 2009. *Improving the Management of Government Charge Card Programs*, OMB Circular A-123, Appendix B. Washington, DC: OMB, § 4.3. See [https://www.whitehouse.gov/sites/default/files/omb/assets/agencyinformation\\_circulars\\_pdf/a123\\_appendix\\_b.pdf](https://www.whitehouse.gov/sites/default/files/omb/assets/agencyinformation_circulars_pdf/a123_appendix_b.pdf).

account; therefore, we made no recommendation regarding system permissions and separation of duties.

*The Commission should consider revising its list of allowed merchant category codes.*

The Commission has a template of allowed merchant category codes that are added to all new purchase cards. A review of the template identified merchant category codes that could be problematic under federal law, such as political organizations. Generally, agencies are restricted from using appropriated funds for lobbying activities and political purposes.<sup>13</sup> For example, the Anti-Lobbying Act prohibits the use of appropriated funds “to pay for any personal service, advertisement, telegram, telephone, letter, printed or written matter, or other device, intended or designed to influence” Congressmen and other government officials to take certain actions with respect to “any legislation, law, ratification, policy, or appropriation.”<sup>14</sup>

Although we did not find instances of purchases that are not allowable, permitting purchases from organizations with these merchant category codes increases the risk that staff could make purchases with appropriated funds for unallowable purposes.

This condition occurred because the *Denali Commission Purchase Card Policies & Procedures* does not include procedures to routinely verify and update user access, system permissions, and the purchase card merchant category code template. Without verifying and updating access and purchase card templates, the Commission increases the risk of staff making purchases to merchants that are unallowable within federal appropriations law as well as unauthorized purchases and changes in the online purchase card management system.

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<sup>13</sup> See GAO, January 2004. *Principles of Federal Appropriations Law*, Third Edition, GAO-04-261SP. Washington, DC: GAO, Vol. 1, Chap. 4, § 11, 4-188 – 4-218. See <http://www.gao.gov/products/GAO-04-261SP>.

<sup>14</sup> 18 U.S.C. § 1913.

## Recommendations

We recommend that the Commission strengthen internal control in its purchase card program by:

1. updating internal guidance to better reflect federal requirements with regards to purchase card transactions and documentation and emphasizing the importance of following guidance when making purchases.
2. removing access to the online purchase card management system from staff no longer employed by the Denali Commission.
3. including a procedure during the off-boarding process to verify any access to the online purchase card management system is removed.
4. updating the purchase card merchant category code template to reduce risk and revising the allowed merchant category codes for current cardholders.

## Summary of Agency Response and OIG Comments

The OIG received the Commission's response to the draft report, which we included as Appendix B of this final report. The Commission concurs with all findings and recommendations in this report. The Denali Commission is required to submit to OIG within 60 days of this final report the detailed actions it plans to take to implement our recommendations.

## Appendix A: Objective, Scope, and Methodology

Our objective was to determine whether the Denali Commission's internal control over purchase card transactions is sufficient to ensure federal funds are being appropriately managed. We conducted fieldwork from April through August 2016 in Anchorage, Alaska.

To accomplish our audit objective, we did the following:

- Communicated with Denali Commission officials and administrative support personnel to gain an understanding of the purchase card processes and procedures.
- Requested, obtained, and analyzed the Commission's history of purchase card and convenience check transactions between October 1, 2014, and March 31, 2016.
- Worked with Department of Commerce Office of Inspector General Data Analytics staff to obtain a judgmental sample of 57 transactions that comprised half of the total value of transactions between October 1, 2014, and March 31, 2016. We then judgmentally selected an additional 34 transactions to review based on vendor. Finally, we included an additional 9 convenience check transactions for a total of 100 transactions to review.
- Reviewed supporting documentation for the sample of 100 transactions, to include invoices, receipts, purchase requests, purchases approvals, and any other related documentation.
- Obtained and analyzed active cardholders, users, and system permissions for each user from the online purchase card management system.
- Requested, obtained, and analyzed the template of merchant category codes used to initiate all new purchase cards.

For our review of the purchase card program, we relied on computer-generated data from the online purchase card management system. We established data reliability by comparing purchase card transaction supporting documentation to the list of transactions from the online purchase card management system. In addition, we verified active cardholders, account users, and system permissions by discussing with the A/OPC to ensure all cardholders and users are still employed and necessary as well as the validity of system permissions based on job duties. Based on our review, we determined the data used were sufficiently reliable to support our audit conclusions.

During our review, we identified deficiencies in the Commission's internal control that are significant within the context of the audit objectives by interviewing officials, reviewing policies and procedures, reviewing purchase card documentation, and reviewing user access, system permissions, and purchase card templates in the online purchase card management system. As described in our findings, procedural and documentary controls are insufficient to certify that federal funds are being expended as intended. We did not identify any incidents of fraud, illegal acts, violations of laws, or abuse in our audit.

We performed this review under authority of the Inspector General Act of 1978, as amended. We conducted this performance audit 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.

## Appendix B: Agency Response



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September 26, 2016

**MEMORANDUM FOR:** David Sheppard, Inspector General   
**FROM:** Joel Neimeyer, Federal Co-Chair  
**SUBJECT:** Response to the Draft Report *Improvements Are Needed in the Denali Commission Government Purchase Card Program*

The draft report made four recommendations regarding strengthening internal control of the purchase card program and the agency's response to each is below:

1. *Updating internal guidance to better reflect federal requirements with regards to purchase card transactions and documentation and emphasizing the importance of following guidance when making purchases.*  
Response: We concur with this recommendation.
2. *Removing access to the online purchase card management system from staff no longer employed by the Denali Commission.*  
Response: We concur with this recommendation.
3. *Including a procedure during the off-boarding process to verify any access to the online purchase card management system is removed.*  
Response: We concur with this recommendation.
4. *Updating the purchase card merchant category code template to reduce risk and revising the allowed merchant category codes for current card holders.*  
Response: We concur with this recommendation.

The Denali Commission is currently in the process of developing a plan to implement the recommendations listed above into the agency's purchase card program.

## Appendix C: Online Purchase Card Management System Role Dependent Entitlement Functions

Role Dependent Entitlement Function	Former Employee	Cardholder and Back-Up A/OPC
Account Summary	X	X
Add Alternate User (Billing/FA Accts)	X	X
Add Another Account	X	X
Alerts	X	X
Approve Requests	X	X
Assign/Unassign Applications	X	X
Assign/Unassign Companies	X	X
Create User	X	X
Delete Messages	X	X
Delete Pay from Account	X	X
Hierarchy Push Transfer		
Links/Help	X	X
Make Payment	X	X
Message Board	X	X
Payment History	X	X
Pending User Requests	X	X
Profile	X	X
Search	X	X
Set Alerts	X	X
Statements	X	X
Unbilled Transactions	X	X
Update Alerts	X	X
Update Role and Hierarchy	X	X
Update User	X	X
View FAQ	X	X
Card Accounts	X	X
View Hierarchy	X	X
View Linked Accounts	X	X
Users in Unit	X	X
View/Delete Payments	X	X

Source: CitiDirect online purchase card management system.

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