

OFFICE OF THE INSPECTOR GENERAL



Acquisition Management: Improvements Needed in Monitoring and Oversight of Purchase Card Use

OIG-A-23-01
November 18, 2022



Smithsonian Institution Building
(The Castle)

In Brief

Acquisition Management: Improvements Needed in Monitoring and Oversight of Purchase Card Use

OIG-A-23-01, November 18, 2022

Background

The Smithsonian Institution's (the Smithsonian) Purchase Card Program involves the use of charge cards to reduce administrative costs and time for purchasing and paying for goods (such as equipment and office supplies) and services (except construction). Although they can be efficient, purchase cards are highly susceptible to misuse, fraud, waste, and abuse. At the Smithsonian, purchase cards are the most common method used to complete purchases of \$3,500 or less. In fiscal year 2021, the Smithsonian's purchase card transactions totaled more than \$18.6 million.

Cardholders have the sole ability to order and receive goods and services. Approving officials are a key control in the program because they approve each cardholder's transactions by verifying that adequate documentation exists and confirming that the purchase was necessary, consistent with requirements of the funding source, and within available funds.

The program has an online web tool that provides standardized reports and facilitates data analytics for monitoring purchase card use to protect against fraud and misuse.

What OIG Found

Approval and Documentation of Purchase Card Transactions.

OIG's analysis showed that only 10 of the 93 sampled transactions had the required written signature for approval and all other documentation to support these purchases. Of the remaining 83 transactions, OIG's analysis showed the following:

- 63 lacked the approving official signatures but had the other required documentation.
- 15 lacked the signatures of approving officials and one or more other required documents. The missing documentation included the Purchase Card Transaction Logs (10), monthly purchase card statements (1), and receipts or order confirmations (9).
- 3 had no documentation. The largest of these transactions was a \$2,454.69 zoo purchase for an unknown item.
- 2 were missing at least one required document but had the approving official's signature.

Therefore, 20 of the 93 sampled transactions were missing one or more documents, such as the Purchase Card Transaction Log that contains critical information for the review and approval of transactions. Incomplete documentation can limit the ability to provide effective oversight of the program and increases the risk that fraud, charge card misuse, and other abusive activity could occur without detection. OIG did not identify any fraudulent purchases in the sampled transactions.

In addition, management said that 92 of the 93 sampled transactions were electronically approved based on a report from Enterprise Resource Planning Financials. However, OIG analyzed the information in this report and identified limitations in its use for monitoring approvals. For example, 11 of the 43 individuals who electronically approved the sampled transactions were not the approving official.

Moreover, management said they changed the two-step approval process (written signature and electronic approval) in 2018 to require only electronic approval but did not revise their written policies and procedures to reflect this change until May 2021. OIG estimates that 13 percent of the transactions from April 1 to June 30, 2020, had a written signature. In a decentralized organization, written and current procedures are important because they inform staff of the program's expectations and practice. Without them, an internal control structure is weaker and increases the risk that procedures are not applied consistently.

What OIG Did

The objective was to determine whether the Smithsonian has effective controls over purchase cards. OIG conducted a multiple scope audit that included a random sample of 93 transactions made by cardholders with a single purchase limit of \$3,500 from April 1 to June 30, 2020; reviewed documents; and interviewed Smithsonian managers and staff.

Monitoring Compliance With Program Requirements.

The program takes an ad hoc approach to monitoring purchase card use. It has no written procedures to identify the standardized reports that will be used, describe how flagged transactions will be addressed, and establish the documentation to be retained. The program was not effectively monitoring high-risk transactions, such as declined transactions and weekend use. The program provided documentation for only 4 of the 21,803 high-risk transactions on 32 sampled reports.

In addition, only 59 percent of cardholders and approving officials responsible for the sampled transactions were in compliance with training requirements to take an introductory training class and then a refresher training every 3 years. This training provides information about the restrictions on the use of cards and awareness of policies and procedures. Management acknowledged that the program had not enforced periodic refresher training, and OIG determined that 41 percent of the cardholders and approving officials responsible for the sampled transactions were not in compliance with refresher training.

In a 2014 report, OIG recommended that the program conduct on-site reviews to confirm compliance with purchase card policies and procedures, such as reviews of the records of approving officials and cardholders that are maintained in the units. The then-Director of OCon&PPM concurred with this recommendation and conducted reviews of three units in 2015 and discontinued them after the recommendation was closed. The lack of monitoring increases the risk that fraudulent activities and card misuse may not be identified in a timely manner.

The program is in the process of implementing a new annual compliance review process that requires all purchase cardholders and approving officials to jointly evaluate their compliance with policies and procedures by completing a self-assessment checklist. OIG believes that this new self-assessment checklist can serve as an effective reminder to purchase cardholders and approving officials of their responsibilities. However, it is unlikely to be an effective tool for monitoring compliance because it relies on self-reporting of policy violations.

Oversight of the Purchase Card Program.

The Director of the Office of Contracting and Personal Property Management is not periodically receiving information on the performance of the Purchase Card Program, which hinders his ability to effectively oversee the program and take timely remedial actions.

What OIG Recommended

OIG made seven recommendations to strengthen the Purchase Card Program. Management concurred with all of the recommendations.

For additional information or a copy of the full report, contact OIG at (202) 633-7050 or visit <http://www.si.edu/oig>.

**OFFICE OF THE
INSPECTOR GENERAL**

Memo



Date: November 18, 2022

To: Meroë Park, Deputy Secretary and Chief Operating Officer

Cc: Ron Cortez, Under Secretary for Administration
Janice Lambert, Chief Financial Officer
Thomas Dempsey, Director, Office of Contracting & Personal Property
Management (OCon&PPM)
Natsha Syre, Deputy Director, OCon&PPM
Greg Graham, Associate Director for Travel and Charge Card Services, OCon&PPM
Catherine Chatfield, Program Manager, Enterprise Risk Management, Office of the
Under Secretary for Administration

From: Cathy L. Helm, Inspector General

DocuSigned by:
Cathy Helm
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Subject: Acquisition Management: Improvements Needed in Monitoring and Oversight of
Purchase Card Use (OIG-A-23-01)

This memorandum transmits our final audit report on the Smithsonian's controls over purchase cards. The objective of this audit was to determine whether the Smithsonian has effective controls over the use of purchase cards.

We made seven recommendations to improve its monitoring and oversight of purchase card use, and management concurred with all seven recommendations.

We appreciate the courtesy and cooperation of all Smithsonian management and staff during this audit. If you have any questions, please call me or Joan Mockeridge, Assistant Inspector General for Audits, at (202) 633-7050.

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Abbreviations

ERP Financials	Enterprise Resource Planning Financials
GSA	General Services Administration
HRMS	Human Resources Management System
OCIO	Office of the Chief Information Officer
OCon&PPM	Office of Contracting and Personal Property Management
OIG	Office of the Inspector General
OMB	Office of Management and Budget
SD	Smithsonian Directive
Smithsonian	Smithsonian Institution

Introduction

The Smithsonian Institution's (the Smithsonian) Purchase Card Program involves the use of charge cards to reduce administrative costs and time for purchasing and paying for goods (such as equipment and office supplies) and services (except construction). Although they can be efficient, purchase cards are highly susceptible to misuse, fraud, waste, and abuse because they give employees the sole ability to order and receive goods and services. At the Smithsonian, purchase cards are the most common method used to complete purchases of \$3,500 or less (also referred to as micropurchases). In fiscal year 2021, the Smithsonian's purchase card transactions totaled more than \$18.6 million.

This audit assessed the extent to which the Smithsonian has effective controls over purchase cards. To understand the management of purchase cards, the Smithsonian Office of the Inspector General (OIG) identified and reviewed applicable policies and procedures, interviewed Smithsonian managers and staff, and communicated with Citibank personnel. To assess the effectiveness of the controls over purchase cards, OIG used a statistical sample of 93 transactions out of 8,837 transactions made by purchase cardholders with a single purchase limit of \$3,500 from April 1 to June 30, 2020. Using this sample, OIG gathered documentation and conducted interviews to determine the following: (1) to what extent purchase card transactions were properly documented and approved, and (2) to what extent purchase cardholders and approving officials complied with training requirements. In addition, OIG reviewed how the charge card program staff monitored overall purchase card activities.¹ For a detailed description of OIG's objectives, scope, and methodology, see Appendix I.

OIG conducted this audit in Washington, D.C., from April 2020 to November 2022 in accordance with generally accepted government auditing standards. Those standards require that OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objective. OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on its audit objective.

Background

The Smithsonian receives and spends federal appropriations and non-appropriated funds referred to as "trust funds." Trust funds come from a number of sources, including transfers from external agencies and organizations, donations, bequests, investment revenue, and Smithsonian revenue-generating activities.

¹ The Charge Card Program is responsible for the application for, issuance, and use of government-sponsored fleet cards (for fuel and supplies for government vehicles), purchase cards (for supplies and services), and travel cards (for airline, hotel, and related travel expenses) by the Smithsonian.

Through a Department of the Interior contract, the Smithsonian participates in a government-wide contract with the General Services Administration (GSA) that facilitates the issuance of purchase cards and other types of charge cards for federal agencies to use in support of their procurement activities. GSA has had several multi-year contracts with financial institutions. Since the award of the GSA SmartPay3 Master Contract on November 30, 2018, the Smithsonian has used Citibank to issue purchase cards to its employees.² Citibank also provides purchase card management and reporting tools to the Smithsonian through an online web tool known as CitiManager. CitiManager is designed to allow program managers to view and download statement information, update and manage accounts, set limits and purchase permissions, perform data analytics, and conduct other online management functions.

For purchase cards, the Smithsonian—not the individual cardholder—is invoiced for purchases and makes payments directly to Citibank through a centrally billed account.³ In addition, the Smithsonian accepts liability for charges made by an authorized account holder but is not liable for any unauthorized use. Unauthorized use means the use of an account by a person other than the account holder who does not have actual, implied, or apparent authority for such use and from which the account holder receives no benefit. When an authorized account holder uses the purchase card to make an unauthorized purchase, the Smithsonian is liable for the charge and is responsible for taking appropriate action against the account holder.

Each cardholder has a single purchase limit, which is the maximum dollar amount for a single purchase. In August 2020, approximately 96 percent of Smithsonian purchase cardholders had single purchase limits of \$3,500. The remaining 4 percent of cardholders had permanently raised single-purchase limits ranging from \$10,000 to \$200,000. These higher limits are needed by the cardholders to address mission-specific needs, such as payments for transportation of zoo animals, utilities, and emergency needs.

Purchase cards can be used to make illegal, improper, or erroneous purchases and payments; therefore, Congress, the Office of Management and Budget (OMB), and GSA have taken steps to ensure that federal agencies have effective internal controls to mitigate the risks of improper use of government charge cards.

In 2014, OIG reported that the Smithsonian generally had effective management and oversight over purchase cards and determined that preventive controls could be improved.⁴ The Smithsonian had implemented policies and procedures that provided sufficient guidance and adequate oversight over purchase card activity. In general, the transactions reviewed were

² The Department of the Interior is part of a multi-agency purchase card contract, which transitioned in November 2018 from J.P. Morgan Chase to Citibank.

³ In contrast, travel cards are issued as individually billed accounts that are invoiced directly to the account holder, and payment is the responsibility of the account holder, who is then reimbursed by the Smithsonian.

⁴ OIG, *Smithsonian Needs to Improve Preventative Controls for the Purchase Card Program* (A-13-04, March 31, 2014).

appropriate for the mission of the purchasing unit. However, OIG said there was a need to strengthen controls in a number of areas, including the oversight of approving officials. Based on corrective actions taken by management, OIG closed all six recommendations made in the report.

Organizational Responsibilities for Purchase Cards

The Director of the Office of Contracting and Personal Property Management (OCon&PPM) is the head of contracting activity and the principal contracting officer for the Smithsonian. The Director is responsible for oversight of the contracting activities Smithsonian-wide and may further delegate contracting authority to Smithsonian employees. The Director establishes, maintains, and enforces policies and procedures to ensure effective and efficient contracting operations and activities. In addition, the Director is required to periodically provide assurance to the Chief Financial Officer, Secretary, and the Board of Regents that the program's internal controls are adequate for ensuring compliance with Smithsonian contracting policies and procedures. This assurance is achieved through reviews of program operations by OCon&PPM and units to verify the following:

- Contracting policies and procedures are current.
- Employees receive delegations of contracting authority with adequate spending limitations.
- Employees with delegated contracting authority complete training to maintain necessary skill levels.
- All personnel involved in the contracting process comply with Smithsonian policies and procedures and delegations of authority.⁵

The Director of OCon&PPM has delegated the authority and responsibility for the management and oversight of purchase cards to the Associate Director for Travel and Charge Card Services (Associate Director). The Associate Director is the **Charge Card Program Manager** and the Agency/Organization Program Coordinator for the Smithsonian. The Charge Card Program Manager is responsible for the following:

- providing day-to-day management and administrative oversight of the program;
- issuing and rescinding delegations of authority to cardholders and approving officials;
- establishing and enforcing spending limits;

⁵ SD 314, *Contracting* (June 12, 2008).

- conducting training for approving officials, cardholders, and other employees on the Purchase Card Program policies and procedures;
- maintaining an up-to-date list of cardholders and approving officials;
- monitoring transactions, disputes, and fraudulent activity, and making reports to the Director, OCon&PPM, and senior management; and
- conducting reviews of the Purchase Card Program and use of purchase cards.

At the unit level, directors, approving officials, and cardholders share the following responsibilities for appropriate purchase card use:

- **Unit directors** are responsible for nominating permanent employees who have completed purchase card training as approving officials and cardholders to support the unit's use of purchase cards.
- **Approving officials** are responsible for approving purchase card transactions for their units by reviewing the Purchase Card Transaction Log for each cardholder monthly and signing the cardholder's paper statement. The reviews are to verify that a reconciliation was performed and that adequate documentation exists for each purchase. Approving officials are also required to confirm that all purchases made by a cardholder were necessary, consistent with requirements of the funding source, and within available funds. In addition, they must change the status of all transactions to approved in the Smithsonian's financial accounting system, Enterprise Resource Planning Financials (ERP Financials)
- **Cardholders** are issued a card in his or her name, and the card may be used only by that cardholder. The cardholder is responsible for safeguarding their assigned cards, adhering to applicable policies and procedures when making purchases with the cards, and maintaining required documentation to support purchase card transactions. For example, on the Purchase Card Transaction Log, they are required to document when each purchase is made and when goods and services are received. To support purchase card transactions, they are also required to retain receipts, shipping/packing lists, invoices, credits for returned items, the Purchase Card Transaction Log, monthly bank statements, and other documentation.

The Office of Finance and Accounting is responsible for receipt and payment of purchase card invoices. The Smithsonian uses ERP Financials to pay for purchase card transactions, monitor purchases, reconcile account information, change accounting codes, and request reports.

Purchase Card Policies and Guidance

Smithsonian Directive 322, *Charge Card Program* (SD 322), provides guidance for the issuance and use of the three types of charge cards used for the necessary expenses associated with conducting Smithsonian business (fleet, purchase, and travelcards).⁶ SD 322, *Charge Card Program Desk Reference Part 2 – Purchase Card Program* (SD 322 Desk Reference), provides information about the program's policies and procedures, including how employees are given authority to be purchase cardholders and approving officials.⁷ It also serves as a training manual for cardholders and approving officials. Purchase card training covers the responsibilities and required duties of cardholders and approving officials. Purchase card issues and problem-solving methodologies are also discussed during the training.

All employees nominated to be purchase cardholders and approving officials are required to take an introductory training class and then a refresher training every 3 years. Purchase cardholders are to complete introductory training prior to receiving a purchase card. The *Introduction to Purchase Cards* course focuses on common purchase card terminology, authorized and unauthorized use of purchase cards, forms and procedures, recordkeeping requirements, and how to review card-provider statements and reallocate charges in ERP Financials. The refresher training is designed to provide updated information about restrictions on the use of purchase cards, risk management procedures, awareness of common problems with the use of purchase cards, in-depth coverage of priority and open-market micro-purchasing, and a review of reconciliation and reallocation of purchase card charges in ERP Financials.

OMB Circular A-123, Appendix B, provides a framework for executive branch agencies to manage government charge card programs.⁸ This document establishes standard minimum requirements and best practices for government charge card programs that may be supplemented by individual agency policies and procedures. Because the Smithsonian is not an executive agency, it is not required to follow OMB Circular A-123, but the Charge Card Program Manager said they use it as a guide.

GSA also lists best practices for management of the GSA SmartPay purchase card program on the GSA SmartPay website. The website features pages outlining regulations relating to the SmartPay program, including links to various policy documents. The website includes overviews of the purchase card program for cardholders, approving officials, and program coordinators with frequently asked questions, best practices, links to program management guides and online interactive communities, and other resources.

⁶ SD 322, *Charge Card Program* (August 7, 2012).

⁷ SD 322, *Charge Card Program Desk Reference Part 2 – Purchase Card Program* (October 1, 2015).

⁸ OMB Circular A-123, Appendix B, *A Risk Management Framework for Government Charge Card Programs* (August 27, 2019).

Results of the Audit

Monitoring and Oversight Did Not Ensure the Effectiveness of Controls for Purchase Cards

Because of the risk associated with purchase cards, approving officials are a key control to ensure that transactions are fully documented and approved. However, OIG estimates that only 11 percent of the purchase card transactions made by cardholders with a single purchase limit of \$3,500 from April 1 to June 30, 2020, had a written signature to document approval and had all other required documentation (such as the monthly cardholder statement, Purchase Card Transaction Log, and receipts).⁹ Two percent had been approved with a written signature but were missing one or more required documents, and 87 percent were not approved with a written signature but most had all other required documentation.

Moreover, while the program had a two-step approval process (written signature and electronic approval), Smithsonian management said they changed this process in 2018 to require only electronic approval but did not revise their written policies and procedures to reflect this change until May 2021. In fact, OIG estimates that 13 percent of the transactions from April 1 to June 30, 2020 had a written signature. However, management provided a report from ERP financials to show that 92 of 93 sampled transactions were electronically approved. In a decentralized organization, clear, written, and current procedures are important because they inform all staff of the program's expectations and practices. Without them, an internal control structure is weaker because practices, controls, guidelines, and processes may not be applied uniformly throughout the organization.

In addition, OIG found that the Purchase Card Program was not effectively monitoring to ensure compliance with program requirements and reduce the risk of card misuse and fraud. For example, the program did not enforce compliance with the training requirements for cardholders and approving officials. The program's training records showed that only 59 percent of cardholders and approving officials were in compliance with initial and refresher training requirements. This training provides information about the restrictions on the use of cards and awareness of policies and procedures. The program lacked documentation to show that they were monitoring high-risk transactions, such as adult entertainment, declined transactions, and weekend use. Therefore, OIG found that the program takes an ad hoc approach to monitoring high-risk transactions, rather than a well-defined and consistent approach. Finally, the program discontinued conducting on-site reviews to monitor units' compliance and assess effectiveness of internal controls, even though OIG had recommended these reviews in a prior audit report.¹⁰ OIG also found that the Director of OCon&PPM had not maintained effective oversight of the program's management of purchase cards and was not receiving information that could have

⁹ For this audit, OIG accepted the written signature as an approval if the approving official signed either the monthly bank statement (as required) or the Purchase Card Transaction Log.

¹⁰ OIG, Smithsonian Needs to Improve Preventative Controls for the Purchase Card Program (A-13-04, March 31, 2014).

helped in overseeing these cards, such as the status of compliance of training requirements and on-site reviews.

Approving Officials and Cardholders Generally Did Not Have Required Approval for Sampled Purchase Card Transactions

Based on a statistical sample, OIG estimates that 11 percent of the purchase card transactions made by cardholders with a single purchase limit of \$3,500 from April 1 to June 30, 2020 had been approved with a written signature and had all other supporting documentation, and 2 percent had been approved but were missing one or more required documents. Another 87 percent of the sampled transactions had not been approved with a written signature but most had all other required documentation. OIG did not identify any fraudulent purchases in its sample. In addition, management said that 92 of the 93 sampled transactions were electronically approved based on a report from ERP financials. However, OIG identified inaccuracies regarding the approval of transactions in the report, such as the approver for 11 transactions was not the approving official.

Moreover, management said they changed the two-step approval (written signature and electronic approval) process in 2018 to require only electronic approval but did not revise their written policies and procedures to reflect this change until May 2021. In a decentralized organization, written and current procedures are important because they inform staff of the program's expectations and practice. Without them, an internal control structure is weaker and increases the risk that procedures are not applied consistently.

Approving officials are required to review the Purchase Card Transaction Log, receipts, and cardholder statement and to sign the statement for each cardholder.¹¹ The approval is intended to ensure that purchases had all the required documentation and the purchases were necessary, within funding requirements, and authorized. However, 20 of the 93 sampled transactions were missing one or more documents, such as the Purchase Card Transaction Log that contains critical information for the review and approval of transactions.

¹¹ The Purchase Card Transaction Log includes the following information: the date of the purchase card order, vendor name and name of person contacted, description of the item purchased, name of the Smithsonian requestor or customer, total amount of the purchase, the amount billed, the date the goods and services are received, and a column to check when reconciliation is done. Each month, the cardholder is to reconcile the transactions on the Purchase Card Transaction Log to the transactions that appear online as well as the transactions on the cardholder's monthly paper statement.

OIG's analysis of the 93 sampled transactions¹² showed the following:

- 10 transactions had the required written signature for approval and other supporting documentation.¹³ They were made by 8 different cardholders from 7 units and ranged from \$8.47 to \$15,773.54.¹⁴ Based on these results, OIG estimates that only 11 percent of the 8,837 transactions made by cardholders with a single purchase limit of \$3,500 from April 1 to June 30, 2020 had all the required approval and supporting documentation.¹⁵
- 81 transactions were missing the approving official signatures on the cardholder monthly bank statement or purchase log. Of the 81 transactions, OIG analysis showed the following:
 - 63 were missing approving official signatures on the cardholder monthly bank statement or purchase logs but had the other required documentation.
 - 15 were missing both the approval and one or more required documents. The missing documentation included Purchase Card Transaction Logs (10), monthly purchase card statements (1), and receipts or order confirmations (9).
 - 3 did not have any documentation that included the signature of the approving official. The largest of these transactions was a \$2,454.69 zoo purchase for an unknown item. According to a zoo official, this transaction was made by a National Zoo cardholder who left Smithsonian employment and whose files were not retained. The two other transactions without documentation were for FedEx fees totaling \$17.36.

Based on these results, OIG estimates that 87 percent of the 8,837 transactions made by cardholders with a single purchase limit of \$3,500 from April 1 to June 30, 2020 had not been approved by the approving official.¹⁶ Table 1 shows the 10 highest dollar

¹² OIG analyzed a statistical sample of 93 of 8,837 transactions made by cardholders with a single purchase limit of \$3,500 from April 1 to June 30, 2020.

¹³ According to the SD 322 Desk Reference, each unit must establish a system of purchase card records and files to maintain an audit trail of all purchasing activities. In addition, it requires that all documentation related to cardholder purchases must be filed together and retained for 3 years after final payment.

¹⁴ Only 1 of the 93 transactions was above the micropurchase limit of \$3,500. This transaction for \$15,773.54 was made by Smithsonian Facilities for janitorial supplies, and it is 1 of the 10 transactions that had the required approval and other supporting documentation.

¹⁵ These estimates are at the 95-percent confidence level and have margins of error of plus or minus 5 percent or less.

¹⁶ These estimates are at the 95-percent confidence level and have margins of error of plus or minus 5 percent or less.

transactions totaling \$11,479.48 that had no documentation or lacked documentation to show that they were approved.

- 2 transactions were approved with a written signature but were missing one or more required documents, even though the approving official's review and approval is to ensure that all required documentation is available. The first transaction for \$49.50 was made by a Smithsonian Environmental Research Center cardholder for a scientific testing fee, and was missing the Purchase Card Transaction Log. The second transaction for \$4.69 was made by a National Museum of American History cardholder for Federal Express shipping charges, and was missing the Purchase Card Transaction Log, and a receipt or invoice. Based on these results, OIG estimates that 2 percent of the total transactions made by cardholders with a single purchase limit of \$3,500 from April 1 to June 30, 2020 had been approved by the approving official but were missing required documentation.¹⁷

¹⁷ These estimates are at the 95-percent confidence level and have margins of error of plus or minus 5 percent or less.

Table 1: The 10 Highest Dollar Sampled Transactions That Were Not Approved with the Approving Officials' Written Signature

Date of Transaction	Responsible Unit	Amount of Transaction	Item Purchased	Missing Documentation
6/29/2020	National Zoological Park	\$2,454.69	Unknown	All documentation and the Approving Official Signature
4/9/2020	Office of Advancement	\$1,950.00	Brochure design payment	Approving Official Signature
4/9/2020	Smithsonian Astrophysical Observatory	\$1,587.00	X-ray scaling relations for a sample	Approving Official Signature
6/18/2020	Office of Facilities Management Reliability	\$1,275.36	Wiring and components	Approving Official Signature
5/1/2020	Office of Facilities Management Reliability	\$923.30	Paint tape and rollers	Approving Official Signature
6/29/2020	National Museum of Natural History	\$888.13	Annual maintenance for two outboard engines	Approving Official Signature
6/10/2020	Cooper Hewitt, National Design Museum	\$756.00	Paper incense	Approving Official Signature
5/31/2020	National Air & Space Museum	\$750.00	Advertisements	Approving Official Signature
5/26/2020	National Museum for American Indian	\$470.00	AAM Virtual Annual Meeting & Museum Expo for 2 people	Approving Official Signature
6/16/2020	Office of the Chief Information Officer	\$425.00	Annual subscription	Approving Official Signature and Purchase Card Transaction Log

Source: OIG analysis of 93 transactions for purchase cardholders with a single purchase limit of \$3,500 made from April 1 to June 30, 2020.

In addition, incomplete documentation hinders oversight of purchase card transactions to ensure that the purchases were appropriate, within funding requirements, and authorized. Approving officials are to review the required documentation to verify that reconciliation was performed and that adequate documentation exists for each purchase. The lack of approval increases the risk that fraud, charge card misuse, and other abusive activity could occur without detection. Moreover, with the move to a hybrid work environment, the risk of fraud has been heightened because purchases can now be sent directly to employees' residences.

Smithsonian management acknowledged that their written procedures for the sampled transactions required a two-step approval process, but they said they changed this process to require only electronic approvals in 2018 because the SmartPay3 financial institution did not issue paper cardholder statements. However, they did not issue revised written procedures to reflect this change until May 2021.¹⁸ In a decentralized organizational structure, clear, written, and current procedures are critical to inform all staff of the program's expectations and practices. According to internal control standards, effective documentation assists in management's design of internal control by providing a means to mitigate the risk of limiting knowledge to a few personnel and to communicate that knowledge to others, such as auditors. Without written procedures, an internal control structure is weaker because practices, controls, guidelines, and processes may not be applied appropriately and uniformly throughout the organization.

Furthermore, management provided a report from ERP financials to show that 92 of 93 sampled transactions were electronically approved, but OIG determined that this report is not accurate for certain transactions. For electronic approvals, approving officials have approximately two weeks after the end of the billing cycle to review and approve purchase card transactions in ERP Financials. At the end of the two-week period, purchase card transactions are submitted for payment—regardless of whether transactions have been reviewed and electronically approved—because the Smithsonian is liable for charges made on the centrally billed purchase cards. During the two-week period, the approving official can change the status of each purchase card transaction from staged to verified or approved. However, if the approving official approves the transaction, and tries to revert the status back to verified, the system will maintain the original approval status and date. In addition, OIG analysis showed that 11 of 43 individuals who approved the sampled transactions in ERP financials were not the approving official. As a result, the program may be hindered in its ability to effectively monitor approving officials' implementation of this key control.

Because of the risk associated with purchase cards, approving officials are a key control to ensure that transactions are fully documented and approved. However, OIG found that this key control was not effectively implemented because 21 percent of the transactions from April 1 to June 30, 2020 did not have complete documentation, 87 percent were not approved with a written signature, and 18 percent were electronically approved by someone other than the approving official.

[The Purchase Card Program Was Not Effectively Monitoring Purchase Cards to Ensure Compliance and Reduce Risk](#)

OIG found that the purchase card program was not effectively monitoring the purchase cards to ensure compliance with program requirements and to oversee purchase card use. For example, the program has not enforced training requirements for purchase cardholders and approving officials, did not have documentation of its monitoring for potentially fraudulent

¹⁸ Smithsonian Directive 322, SD 322, Charge Card Program Desk Reference Part 2 – Purchase Card Program (May 25, 2021).

transactions, and had not conducted on-site reviews to ensure that purchase card transactions were properly documented and approved. These activities are necessary to detect potential misuse and fraud and to ensure that purchase cardholders and approving officials are following policies and procedures.

Internal control standards require management to perform ongoing monitoring activities and evaluate the effectiveness of the monitoring to ensure that the internal control system is functioning effectively, and that the organization's objectives are being achieved.¹⁹ During normal operations, ongoing monitoring provides management with a means of identifying and mitigating risks before they result in serious noncompliance issues. Separate evaluations, such as this program's on-site reviews, are to be used periodically to provide feedback on the effectiveness of ongoing monitoring and to monitor the effectiveness of the internal control system. In addition, these standards state that effective information and communication are vital for an entity to achieve its objectives. The SD 322 Desk Reference also requires the program to track training for cardholders and approving officials, monitor purchase card transactions to ensure that they are appropriate, and periodically review cardholder and approving official records.

Incomplete Training Records and Lack of Enforcement Hinders Compliance with Purchase Card Training Requirements for Cardholders and Approving Officials

OIG found that the Purchase Card Program does not have effective controls to ensure that cardholders and approving officials comply with initial and refresher training requirements that are integral to the integrity of the program. For the 93 sampled transactions made from April 1 to June 30, 2020, the program's training records showed that only 59 percent of cardholders and approving officials were in compliance with initial and refresher training requirements.²⁰ Smithsonian management acknowledges that the program did not maintain training records during the transition to SmartPay3 because of other higher priority work, even though such data is critical to enforce initial and periodic refresher training requirements. In addition, OIG found that the program staff did not take any actions to enforce training requirements for cardholders and approving officials, such as sending follow-up emails or suspending or canceling purchase card privileges.²¹

For the purchase card program, initial training is required before a cardholder is issued a card or an approving official can verify or approve a cardholder's purchases. Refresher training is required every 3 years thereafter to provide updated information about restrictions on the use of purchase cards, risk management procedures, awareness of common problems with the use of

¹⁹ GAO, *Standards for Internal Control in the Federal Government* (GAO-14-704G, September 2014).

²⁰ For cardholders and approving officials to be considered as compliant with training requirements, they had records for both initial and refresher training, had completed initial training but had not yet met the time requirement for refresher training, or had taken refresher training within 3 years but had no record for taking initial training.

²¹ SD 322 Desk Reference states that failure to attend purchase card refresher training may result in suspension or cancellation of purchase cards and revocation of approval authority.

purchase cards, in-depth coverage of priority and open-market micropurchasing, and a review of reconciliation and reallocation of purchase card charges in ERP Financials.

According to the program’s training records, the cardholders responsible for the sampled transactions took initial training from July 2000 to October 2019 and refresher training from May 2017 to March 2020. Table 2 shows that 34 of the 58 (59 percent) cardholders were determined to be compliant with training requirements. Of these 34 cardholders, 21 had records for both initial and refresher training, 10 had completed initial training but had not yet met the time requirement for refresher training, and 3 were compliant with refresher training but had no record for taking initial training.

For the 24 cardholders who were not in compliance with training requirements, the program did not have any initial or refresher training records for 5 cardholders, had initial training records for 17 who were not current with their refresher training requirement, and for 2 cardholders had no record of initial training and had not taken refresher training in 3 years.

Table 2: Status of Initial and Refresher Training Requirements for 58 Purchase Cardholders for Sampled Transactions

Status of Cardholder’s Initial and Refresher Training	Number of Cardholders	Percentage of Cardholders	Number of Sampled Transactions
Compliant with Training Requirements			
Completed required training ^a	34	59%	64
Not Compliant with Training Requirements			
No record of initial or refresher training	5	9%	6
Completed initial training but not current with refresher training	17	29%	21
No record of initial training and not current with refresher training	2	3%	2
Subtotal	24	41%	29
Total	58	100%	93

Source: OIG analysis of data provided by the Purchase Card Program (GSA SmartPay completion reports, HRMS training reports, and Microsoft Access training database covering 2001 to 2003) for the 58 purchase cardholders who made the 93 transactions in OIG’s sample. The transactions occurred from April 1 to June 30, 2020.

Note:

^a Of the 34 purchase cardholders who were considered to be compliant with training requirements, 21 had records for both initial and refresher training, 10 had completed initial training but had not yet met the time requirement for refresher training, and 3 had taken refresher training within 3 years but had no record of taking initial training.

According to the program’s training records, approving officials responsible for the sampled transactions took initial training from July 2000 to May 2019 and refresher training from May 2017 to March 2020. Table 3 shows that 26 of the 44 (59 percent) approving officials were determined to be compliant with training requirements. Of these 26 approving officials, 23 took both initial and refresher training, 2 took only the initial training because they were not yet

required to take refresher training, and 1 had taken refresher training within 3 years but had no record of taking initial training.

For the 18 approving officials who were not in compliance with training requirements, the program did not have any initial or refresher training records for 1 approving official, had initial training records for 15 who were not current with their refresher training requirement, and 2 had no record of initial training and had not taken refresher training in 3 years.

Table 3: Status of Initial and Refresher Training Requirements for 44 Approving Officials for Sampled Transactions

Status of Approving Official's Initial and Refresher Training	Number of Approving Officials	Percentage of Approving Officials	Number of Sampled Transactions
Compliant with Training Requirements			
Completed required training ^a	26	59%	54
Not Compliant with Training Requirements			
No record of initial or refresher training	1	2%	1
Completed initial training but not current with refresher training	15	34%	35
No record of initial training and not current with refresher training	2	5%	3
Subtotal	18	41%	39
Total	44	100%	93

Source: OIG analysis of data provided by the Purchase Card Program (GSA SmartPay completion reports, HRMS training reports, and Microsoft Access training database covering 2001 to 2003) for the 44 approving officials who approved the 93 transactions in OIG's sample. The transactions occurred from April 1 to June 30, 2020.

Note:

^a Of the 26 approving officials who were considered to be compliant with training requirements, 23 had records for both initial and refresher training, 2 had completed initial training but had not yet met the time requirement for refresher training, and 1 had taken refresher training within 3 years but had no record for taking initial training.

Based on OIG's analysis, lack of compliance with periodic refresher training for cardholders and approving officials was the primary cause for noncompliance with the program's training requirements. Smithsonian management acknowledges that the Purchase Card Program did not enforce periodic refresher training and did not maintain the training records for cardholders and approving officials during the transitional period to SmartPay3 (November 2018 to April 2019) because of the increased work required for the transition, even though such data is critical to enforcing initial and periodic refresher training requirements. OIG determined that 41 percent of the cardholders and approving officials responsible for the sampled transactions were not in compliance with refresher training. As a result, Human Resource Management System's (HRMS) official training records for cardholders and approving officials are incomplete and hinder the program's ability to enforce periodic training requirements.

In addition, the program stopped providing the required internal training for 10 months starting in July 2018 and resuming in April 2019. During this period, the Charge Card Program Manager told OIG that he allowed individuals on a case-by-case basis to take GSA's purchase card training, but the program did not maintain a list of the individuals granted this exception or update their training records to reflect the GSA training. In OIG's sample of 93 purchase card transactions, 1 of the 102 cardholders and approving officials had taken the GSA training during this period.

Moreover, during this 10-month gap in the required training, the program did not update the training manual to reflect the changes to a new financial institution with the SmartPay3 contract. The manual was not made final until May 2021—about 2½ years after the contract was awarded. Under OMB guidance, executive branch agencies are to develop and issue written purchase charge card policies and procedures within 12 months after a new GSA SmartPay contract is awarded.²² However, the Smithsonian does not have to comply with this 12-month timeframe because it is not an executive branch agency.

Past OIG audits have found ineffective procedures for enforcing other contract training requirements. For example, OIG reported that OCon&PPM did not have effective procedures to ensure that contract specialists and unit procurement delegates²³ who are involved with processing purchase orders met their training requirements.²⁴ In addition, OIG reported that training requirements for contracting officer's representatives of revenue-generating contracts had not been developed although a management review had recommended such training. Therefore, OIG recommended that a training program for these contracting officer's representatives be completed and implemented.²⁵

Without enforcement of purchase card training requirements, the Smithsonian does not have assurance that purchase cardholders and approving officials understand their purchase card responsibilities, which increases the risk of improper purchases. Without complete data on training compliance, new cards may be issued without initial training, cards may be retained without refresher training, and purchases may be improperly approved. In addition, periodic training reinforces existing policies and procedures and raises awareness of any changes to these requirements. If individuals do not take the required periodic training, the Smithsonian runs the risk that its purchase cardholders and approving officials may not be aware of current Smithsonian policies and procedures, laws, and regulations related to procurement.

²² OMB Circular A-123, Appendix B (August 27, 2019).

²³ Unit procurement delegates are employees in each unit who have been delegated a certain amount of procurement authority, generally ranging from \$10,000 to \$25,000.

²⁴ OIG, *Acquisition Management: Oversight and Monitoring Would Improve Compliance with Policies for Sole-Source Purchases* (A-16-10, September 28, 2016).

²⁵ OIG, *Contract Management: Smithsonian Needs to Enhance Controls for Managing and Monitoring Revenue-Generating Contracts* (A-20-01, October 22, 2019).

The Purchase Card Program Does Not Have an Effective Process to Monitor High-risk Transactions

OIG found that the program does not have an effective process to use standardized reports for monitoring purchase card transactions that may indicate cardholder misuse or fraudulent activity. The Charge Card Program Manager told OIG the following:

- The program uses 26 different types of system-generated reports to monitor charge card use and detect potential fraud.
- The reports are run and reviewed on a regular schedule.
- Issues are identified judgmentally and informally resolved.

However, he was not able to provide any documentation showing that the program was reviewing these reports and resolving any issues with identified high-risk transactions on a timely basis. In addition, the program did not have procedures that define which reports are used, how transactions are reviewed, how issues are addressed, or what documentation should be retained.

According to the SD 322 Desk Reference, the program staff are to use Smithsonian's financial accounting system and the purchase card bank's electronic systems to monitor and manage overall purchase card activities.²⁶ In addition, they are to conduct various data-mining techniques every month to monitor purchase card transactions. Internal control standards state that effective information and communication are vital for an entity to achieve its objectives.²⁷ Management can select the appropriate methods to communicate internally, such as a written document or a face-to-face meeting, and it needs to periodically evaluate the method of communication to ensure that it has the appropriate tools to communicate quality information on a timely basis. These procedures were not changed when the SD 322 Desk Reference was updated in 2021.²⁸

In accordance with the internal control standards, management should establish and operate activities to monitor the internal control system and evaluate the results. Monitoring is essential in aligning internal controls with changing objectives and risks. Management evaluates and documents the results of ongoing monitoring and separate evaluations to identify internal control issues. Management uses this evaluation to determine the effectiveness of the internal control system.²⁹

²⁶ SD 322, *Charge Card Program Desk Reference Part 2—Purchase Card Program* (October 1, 2015).

²⁷ GAO, *Standards for Internal Control in the Federal Government* (GAO-14-704G, September 2014).

²⁸ SD 322, *Charge Card Program Desk Reference Part 2 – Purchase Card Program* (May 25, 2021).

²⁹ GAO, *Standards for Internal Control in the Federal Government* (GAO-14-704G, September 2014).

To assess the program's monitoring of high-risk transactions, OIG selected a sample of 32 reports for 7 different types of standard reports that included transactions from October 1, 2019, to June 30, 2020, which program staff told us they used to monitor purchase card activity. OIG then asked the Charge Card Program Manager to provide these reports and any related documentation. Table 4 summarizes the 7 different types of monitoring reports that OIG reviewed, the 32 reports in OIG's sample, the number of transactions identified in these reports, and the number of individual transactions with documentation provided by the Charge Card Program Manager.

Table 4: The 32 Sampled CitiManager Reports with 21,803 Transactions and the Four Transactions with Documented Follow-up Actions

Name of Report ^a	Frequency of Report	Number of Reports Available from October 1, 2019 to June 30, 2020	Number of Reports in OIG Sample	Number of Transactions Identified in Sampled Reports	Number of Transactions with Documentation Showing Follow-up Actions
Adult Entertainment	Quarterly	3	2	0	0
Unexpected Posted Transactions Report	Quarterly	3	3	15,792	0
Gasoline Transactions	Monthly	9	3	7	0
Highest Transactions	Monthly	9	3	4	4
Declined Transactions	Weekly	40	7	3,932	0
Weekend Transactions	Weekly	40	7	1,109	0
Split Transactions	Weekly	40	7	959	0
Total		144	32	21,803	4

Source: OIG analysis of 32 sampled CitiManager reports for transactions made from October 1, 2019, to June 30, 2020, and the Purchase Card Program documentation related to them.

Note:

^a **Adult Entertainment Report** is used to identify transactions related to specific unauthorized businesses. These purchases would be made under one of the blocked Merchant Category Codes (MCC), which are established by the banks or associations to identify different types of businesses. Merchants work with their acquiring banks to select the codes best describing their businesses. A purchase card program may limit the types of businesses that will accept the card by limiting the MCCs available to the account holder.

Unexpected Posted Transactions Report is used in conjunction with the Lost/Stolen Card report to identify canceled cards; lost, stolen, or invalid cards; declined transactions; and unusual spending activity.

Gasoline Report is used to identify vehicle fuel purchases that are not allowed on purchase cards. A GSA SmartPay Fleet Account card is to be used only for obtaining fuel and services from commercial service stations.

Highest Transaction Report is used to identify the highest dollar-value transactions in a month.

Declined Transactions Report is used to identify cardholders who have attempted to buy an item they are not authorized to purchase because it exceeds their single or monthly purchase limits or the merchant has a blocked Merchant Category Code.

Weekend Report is used to identify purchases made outside the standard weekday timeframe.

Split Transactions Report is used to help detect any purchase that may have been separated into smaller transactions to avoid exceeding the \$3,500 single-purchase limit.

However, the program has no procedures that require the retention of copies of reports used for monitoring or related emails, even though the retention of documentation is critical to verify that the appropriate processes and controls are being used. Consequently, the Charge Card Program Manager had to reproduce the requested reports and provided emails related to only 4 of the 21,803 transactions listed on these 32 reports. These four transactions were identified on

three sampled Highest Transaction Reports: October 2019, January 2020, and February 2020. Two of the transactions were advance payments totaling \$180,000 to hold conference space for a National Docent Symposium; the program staff granted the cardholder a temporary purchase limit increase for this purpose. The other two transactions were for the payment of utilities totaling \$40,055; they were made by a cardholder with a single purchase limit of \$50,000, specific to this vendor, which allowed for the payment of this recurring expense.

Therefore, OIG found that the program takes an ad hoc approach to monitoring high-risk transactions, rather than a well-defined and consistent approach. Program officials do not have written procedures that (1) identify the specific system-generated reports to be used for monitoring, (2) establish the actions or steps to be taken for transactions flagged in these reports, including follow-up emails with cardholders and approving officials, and (3) retain documentation to show that the appropriate processes and controls are being used. OIG's review of the SD 322 Desk Reference updated in May 2021 shows that it does not contain any of these specific procedures.

Written procedures serve the following functions:

- providing written notice to all staff of the program's expectations and practice,
- providing direction in the correct way of processing flagged transactions,
- serving as reference material, and
- providing a training tool for new program staff.

Written procedures also provide a source of continuity and a basis for uniformity. Without clear, written, and current procedures, an internal control structure is weaker because practices, controls, guidelines, and processes may not be applied consistently, correctly, and uniformly throughout the agency. In addition, adequate supporting documentation provides the hard evidence to properly verify that the appropriate processes and controls are being used.

The Purchase Charge Card Program Was Not Monitoring to Identify Inactive Cards

OIG found that 2 of the 17 purchase cardholders who either left the Smithsonian or transferred to another unit from October 1, 2019, through June 30, 2020, did not have their purchase card accounts closed in a timely manner. In both cases, the cardholders and approving officials failed to notify the Charge Card Program Manager in advance of the cardholder's separation from employment or transfer to another unit, as required. In addition, the program did not identify that an account had been open with no activity for 391 days because it had not been reviewing accounts for inactivity. OIG notified the program staff about this card on January 27, 2021, and the purchase card account was closed the next day. Without timely closure of accounts, there is an increased risk of fraud or misuse of purchase cards.

Two purchase cards were improperly left open for 18 and 391 days after the cardholders left Smithsonian employment or transferred units, as shown in Table 5. One of the cards was used for transactions for up to 12 days after the employee left the Smithsonian, and it was used for 3 purchases that totaled \$22,050.71. OIG did not find any of these transactions to be fraudulent.

- **Card 1** was closed on November 18, 2019, on notice from the Smithsonian Astrophysical Observatory, 18 days after the employee retired from Smithsonian. According to the program staff, the cardholder initiated three purchases totaling \$22,050.71 prior to their retirement, but the transactions did not post until after the cardholder retired.
- **Card 2** remained open for 391 days after an employee transferred from the Archives of American Art to another Smithsonian unit. The notification of the cardholder’s transfer was not made because the Archives of American Art submitted a Conversion Checklist form instead of a Transfer Clearance form to the Charge Card Program Manager. The Conversion Checklist form is used when converting a federal employee to a Trust employee within the same unit, in which case the employee could have retained the charge card. If the unit had submitted a Transfer Clearance form, the purchase card would have been collected and destroyed as part of the transfer process. OIG notified the program staff about this card on January 27, 2021, and the purchase card account was closed the next day.

Table 5: Two Purchase Card Accounts That Improperly Remained Open

	Date of Cardholder’s Separation or Transfer	Date Cardholder Account Was Closed	Number of Days Account Improperly Remained Open	Date of Transaction	Number of Days the Transaction Occurred after Cardholder’s Departure	Dollar Value of Improper Purchase
Card 1	10/31/2019	11/18/2019	18	11/5/2019	5 Days	\$85.00
				11/5/2019	5 Days	\$12,126.51
				11/12/2019	12 Days	\$9,839.20
Card 2	1/3/2020	1/28/2021	391	None	0 Days	\$0.00

Source: OIG analysis of 17 purchase cardholders who left the Smithsonian from October 1, 2019, to June 30, 2020.

Under the SD 322 Desk Reference, cardholders or approving officials should notify the Charge Card Program manager in advance of a cardholder’s separation from employment to prevent fraud and possible card misuse, and to ensure that the card account is closed in a timely manner. In addition, the approving official is required to obtain the purchase card from the cardholder who is separating or transferring, destroy it, and then arrange to appoint a new cardholder if needed.³⁰ Unit personnel are also expected to access and update the Smithsonian Automated Exit Clearance Process in the ERP Human Resources Management System to

³⁰ SD 322, *Charge Card Program Desk Reference Part 2—Purchase Card Program* (October 1, 2015).

confirm that the card was collected and destroyed. In addition, the departing cardholder must do the following:

- review with the approving official the status of any unreconciled, questionable, partially approved, unresolved, or disputed transactions, and
- identify any supplies and services that have been ordered but not received so appropriate action can be taken to complete these activities.

The cardholder should also coordinate with the approving official and merchants to terminate any recurring transactions. If the unit's recurring charges need to continue, another unit cardholder will need to provide their purchase card number to the merchant for that card to be used.

The Purchase Card Program Discontinued Conducting On-site Reviews to Monitor Units' Compliance and Assess Effectiveness of Internal Controls

In the prior 2014 OIG purchase card audit, OIG found that program staff were not conducting on-site reviews to confirm compliance with purchase card policies and procedures, such as reviews of approving officials and cardholders records maintained in the units.³¹ In response to OIG's recommendation, the then-Director of OCon&PPM provided documentation to show that on-site reviews of purchase card transactions logs and credit card statements for three units were conducted and that they will continue to periodically conduct these reviews at other units. However, these reviews were discontinued after the recommendation was closed in 2015. SD-322 Desk Reference requires these reviews to assist in determining if Purchase Card Program duties and responsibilities are performed effectively, procedures are being followed, and internal controls are adequate. The lack of monitoring increases the risk that fraudulent activities and card misuse may not be identified in a timely manner.

The program is in the process of implementing a new annual compliance review process. This process requires all purchase cardholders and approving officials to jointly evaluate their compliance with policies and procedures by completing a self-assessment checklist. The checklist was sent to all purchase cardholders and approving officials in the first quarter of fiscal year 2022, and program staff are currently reviewing the completed checklists and will notify those units selected for further review, which will be conducted virtually. They will also determine how frequently purchase cardholders and approving officials will be required to self-assess their compliance.

OIG believes that this new self-assessment checklist can serve as an effective reminder to purchase cardholders and approving officials of their responsibilities. However, because it relies on self-reporting of policy violations, it is unlikely to be an effective tool for monitoring

³¹ OIG, *Smithsonian Needs to Improve Preventative Controls for the Purchase Card Program* (A-13-04, March 31, 2014).

compliance. Therefore, OIG believes that the self-assessment checklist cannot be a substitute for compliance reviews, which may be conducted virtually or on-site. In addition, the compliance reviews can be used to verify the accuracy of the self-reported information.

The program staff have initiated this new process, but this requirement or procedures for it are not in the recent update to the SD-322 Desk Reference. As previously mentioned, written procedures serve various functions, such as written notice to all staff of the program's expectations and practices. Without clear, written procedures, an internal control structure is weaker because practices, controls, guidelines, and processes may not be applied consistently, correctly, and uniformly throughout the agency.

Ineffective Oversight Failed to Identify Significant Weaknesses in the Monitoring of the Purchase Card Program

The Director of OCon&PPM is responsible for the oversight of all Smithsonian contracting activities and is required to periodically provide assurance to the Chief Financial Officer, Secretary, and the Board of Regents that the program's internal controls are adequate for ensuring compliance with Smithsonian contracting policies and procedures. However, OIG found that the Director of OCon&PPM had not maintained effective oversight of the purchase cards.

Moreover, OIG found that the Director of OCon&PPM is not periodically receiving information on the Purchase Card Program's performance, which hinders his ability to effectively oversee and monitor purchase card activities and take timely remedial actions. For example, under OMB Circular A-123, Appendix B, executive branch agencies have a periodic reporting requirement that helps in overseeing this program.³² Because the Smithsonian is not an executive agency, it is not required to follow OMB Circular A-123. The Charge Card Program Manager said they use it as a guide, but they have not adopted this reporting requirement. This guidance states that each program must (1) maintain and report performance metric data to identify areas where increased management attention is needed and (2) maintain statistical and narrative information for their own use and management of their charge card program. OIG believes that the Director could have benefited from receiving periodic reports on program activities such as the following:

- compliance with training requirements for cardholders and approving officials,
- status and results of on-site reviews, and
- areas of concern and planned corrective actions.

Since 2015, the Charge Card Program Manager has been required to submit quarterly reports to senior management only for serious and egregious misuse or abuse of purchase cards. The Charge Card Program Manager said he has never submitted a quarterly report.

³² OMB Circular A-123, Appendix B (August 27, 2019).

Internal control standards state that effective information and communication, such as periodic reports on compliance, are vital for an entity to achieve its objectives. These standards require management to obtain and evaluate quality information on a timely basis so it can be used for effective monitoring. Quality information is appropriate, current, complete, accurate, accessible, and provided on a timely basis. Management is to use this information to make informed decisions and evaluate the program's performance in achieving key objectives and addressing risks. In addition, separate evaluations, such as on-site reviews, may be used periodically to provide feedback on the effectiveness of ongoing monitoring.

The lack of quality information on the performance of the Purchase Card Program hinders the Director's ability to effectively oversee and monitor purchase card use and to ensure timely remedial actions are taken. As a result, the Smithsonian faced an increased and unnecessary risk of potential misuse or fraudulent activity on purchase cards.

Conclusions

Purchase cards play a vital role in reducing the Smithsonian's administrative costs and burdens in purchasing goods and services, but they are highly susceptible to misuse and fraud. Yet, ineffective program management, monitoring, and oversight have created a weak control environment that unnecessarily increases the risk of fraudulent purchases and card misuse. For example, the lack of compliance reviews to monitor cardholders' and approving officials' implementation of purchase card policies and procedures hindered the program's timely identification and remediation of issues that were identified in this audit. The program also lacks effective controls to ensure that cardholders and approving officials are receiving the required training that protects the integrity of the program, and it has taken an ad hoc approach to monitoring high-risk purchase card transactions for misuse and fraud. Moreover, the program's recent change to solely relying on electronic approvals for documenting approving officials' reviews has left the program without a process to ensure that a key control is operating effectively. Management has taken steps to implement a new annual compliance review process, but the reinstatement of compliance reviews does not replace the need for effective monitoring and oversight and the closing of gaps in the program's written policies and procedures that are needed to establish a well-defined and consistent approach.

Recommendations

To strengthen the management and oversight of purchase cards, OIG recommends that the Director of the OCon&PPM take the following actions:

1. Develop and implement procedures to ensure that purchase card transactions are only approved by the approving officials and that all transactions are fully documented.

2. Develop and implement procedures to ensure that training records are complete and accurate so initial and refresher training can be effectively and efficiently enforced.
3. Develop and implement procedures to enforce compliance with initial and refresher training requirements for purchase cardholders and approving officials, such as (1) following up with individuals who are not in compliance, (2) suspending or canceling purchase cards, or (3) revoking delegated authority for approving officials who did not comply with refresher training requirements.
4. Develop and implement procedures to monitor inactive cardholder accounts that may need to be closed because cardholders have separated from employment or transferred to another unit.
5. Demonstrate a sustained and effective compliance review process to monitor whether Purchase Card Program duties and responsibilities are performed effectively, procedures are being followed, and internal controls continue to be effective.
6. Develop and implement procedures that identify the specific reports that will be used for monitoring purchase card use, describe how flagged transactions will be evaluated and addressed, and establish the documentation that needs to be retained.
7. Develop and implement a requirement for periodically reporting information to the Director of OCon&PPM that will assist in the oversight of the purchase cards. The report should provide statistical and narrative information on the use and management of the Purchase Card Program, such as compliance with training requirements, the results of compliance reviews and the monitoring of purchase card transactions. In addition, the report should determine whether the program's internal controls continue to be effective.

Management Response and OIG Evaluation

OIG provided the Smithsonian a draft of this report for review and comment, and Smithsonian management provided written comments, which are reproduced in their entirety along with our responses in Appendix II. In its written comments, management concurred with all the recommendations and outlined actions planned to address them. OIG incorporated management's technical comments into the report, as appropriate.

Objective, Scope, and Methodology

The objective of this audit was to determine whether the Smithsonian Institution (the Smithsonian) has effective controls over purchase cards.

To accomplish the objective, OIG conducted interviews with Smithsonian managers and staff; reviewed policies, procedures, laws, regulations, and leading practices; examined the design and implementation of controls in place; and reviewed documents supporting sample purchase card transactions (such as Citi Card monthly statements, emails, ERP financials transaction data, invoices, Purchase Card Transaction Logs, and receipts). To assess compliance with applicable guidance for purchase card transactions, OIG conducted a multiple scope audit.

To assess purchase cardholders' and approving officials' compliance with program requirements, OIG used a probability sample of 93 transactions out of 8,837 transactions made by cardholders with a single purchase limit of \$3,500 from April 1 to June 30, 2020. This sample is only one of a large number of samples that OIG might have drawn. Because each sample could have provided different estimates, OIG expresses its confidence in the precision of this particular sample's precision estimates as 95-percent confidence intervals (for example, plus or minus 5 percentage points). These intervals would contain the actual population value for 95 percent of the samples OIG could have drawn. OIG is 95-percent confident that each of the confidence intervals in this report will include the true values in the study population. All percentage estimates from the sample of purchase card transactions have sampling errors (confidence interval widths) of plus or minus 5 percentage points or less.

For each sampled transaction, OIG obtained supporting documentation for these transactions from the cardholder. OIG assessed the completeness of the supporting documentation and the approving officials' monthly review of cardholders' documentation. We also reviewed whether the approving official approved the cardholder charges within the appropriate time period (generally within two weeks of end of billing cycle). OIG accepted the written signature as an approval if the approving official signed either the monthly bank statement (as required) or the Purchase Card Transaction Log. In addition, OIG assessed whether the approver of the sampled transactions in ERP financials was the approving official for those transactions.

To evaluate cardholders' and approving officials' compliance with training requirements, OIG obtained initial and refresher training records for the 58 cardholders and 44 approving officials who were responsible for the 93 sampled transactions. These training records came from the following sources:

- GSA SmartPay purchase card training reports from July 2018 to April 2019 when the Purchase Card Program did not provide the required internal purchase card training;
- The Human Resource Management System, which is the application that retains the official training records for Smithsonian employees; and

- The program's Microsoft Access training database, which covers training records for cardholders and approving officials for 2001 to 2003.

To assess the effectiveness of the program's monitoring of high-risk purchase card transactions, OIG selected 7 of 26 different types of reports generated by the Citibank system that program staff said they used to monitor purchase card activity. OIG then used guidance from the American Institute of Certified Public Accountants (AICPA) for sampling small populations, which determines sample sizes based on how frequently a control is performed, to determine sample sizes for each monitoring report. The following are AICPA's sample size recommendations and OIG's selected sample:

- 5 to 9 weekly reports (OIG selected 7 because it was the middle of the range);
- 2 to 4 monthly reports (OIG selected 3 because it was the middle of the range); and
- 2 quarterly reports (OIG selected 2).

These reports included purchase card transactions from October 1, 2019, through June 30, 2020. OIG then asked the Charge Card Program Manager to provide these reports and any related documentation that would indicate (1) when the report was reviewed and by whom and (2) any follow-up actions or resolution of any issues related to transactions flagged in the reports (such as notations on the reports or emails with the cardholder or approving official).

To determine if the cards for separated cardholders were closed in a timely manner, OIG compared a list of Smithsonian hiring actions from the Human Resource Management System with a population of purchase card transactions from October 1, 2019, through June 30, 2020. OIG removed any promotions and separations of Woodrow Wilson International Center for Scholars and OIG staff. We identified 17 cardholders who had separated or transferred during our scope period and assessed whether these 17 cards had transactions posted after the employees' separation date.

In planning and performing this audit, OIG identified the following internal control components and underlying principles as significant to the audit objective and described in Table 6:

Table 6: Internal Control Components and Principles Significant to the Audit Objective

Internal Control Component	Internal Control Principle
Control Activities	
	Design Control Activities
	Implement Control Activities
Information and Communication	
	Use of Quality Information
	Communicate Internally
Monitoring	
	Perform Monitoring Activities
	Evaluate Issues and Remediate Deficiencies

Source: OIG analysis of internal control components and principles.

OIG conducted this audit in Washington, D.C., from April 2020 to November 2022 in accordance with generally accepted government auditing standards. Those standards require that OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on the audit objective. OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on its audit objective.

Management Comments and OIG Evaluation



Smithsonian Institution

Office of Contracting and Personal Property Management

Memo

Date October 26, 2022

To Cathy Helm, Inspector General

Attn: Joan Mockeridge, Assistant Inspector General for Audits

cc Ron Cortez, Under Secretary for Administration
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From *Janice Lambert*
Janice Lambert, Chief Financial Officer

Subject Response to the Formal Draft Report, Contract Management: Purchase Card Program

Thank you for providing a copy of the Office of the Inspector General (OIG) draft audit report on the Contract Management: Purchase Card Program and providing an opportunity to comment before the issuance of the report. We want to express our appreciation for the dedication and hard work performed by the OIG staff.

We reviewed the formal draft report and are pleased that there were no findings of improper or potentially fraudulent purchases among the transactions the OIG auditors examined. We believe that the Smithsonian Institution's (SI) transition to electronic approvals provides a more efficient means to manage and monitor approvals of purchase card transactions. We also recognize and agree that the internal controls are essential procedures intended to mitigate improper and fraudulent purchases, and without them, abuse could occur. Accordingly, we concur with the IG recommendations that there are areas of improvement in monitoring.

The following summarizes our comments for clarification pertaining to the findings reported in the Results of the Audit section in the draft report, as well as our planned actions that address the OIG recommendations.

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RESULTS OF THE AUDIT

Issue 1 Approving Officials and Cardholders Generally Did Not Have Required Approval and Documentation for Sampled Purchase Card Transactions.

OIG
Comment
1

Comment: Although only 10 of the 93 sampled transaction had written signature approvals, our records indicate all but 1 of the 93 sampled transactions were approved electronically. OCon&PPM implemented a new electronic review and approval process in 2018. In November 2018, SI revised the requirement for approving officials to sign the monthly cardholder paper statements as verification that the transactions were reviewed and approved to an electronic process. This change was necessary because Citi, the new SI charge card provider contracted by the General Services Administration (GSA), did not issue paper cardholder statements.

OCon&PPM notified cardholders and approving officials of the new electronic procedures in advance and during the transition of implementation via several Council of Administrator and Travel Charge Card informational briefings. OCon&PPM relied on its draft version of the desk reference as training material for all cardholders to educate them on the new financial institution and electronic approval processes; however, the draft copy was not made available online for all staff to reference until it was finalized in May 2021. The revised procedures require cardholders to verify through the Enterprise Resource Planning (ERP) that the authorized transactions are correct prior to approving officials validating the verified transactions in the ERP. This approval process also requires reviewing the purchase log and supporting documentation.

Issue 2 Units Did Not Inform the Charge Card Program Manager to Close Two Purchase Card Accounts when Cardholders Left the Smithsonian or Transferred to Another Unit.

OIG
Comment
2

Comment: The CCP receives notifications of employees leaving the Smithsonian or being reassigned to different SI positions or organizations via the Smithsonian Electronic Employee Clearance System (SEECs), and thus must rely on Unit staff to properly and timely enter the required clearance request in SEECs. Upon the Units' staff completing the necessary actions in SEECs enabling notification to OCon&PPM for the two employees' status, both purchase card accounts were closed immediately by CCP staff. As noted in our planned actions to Recommendation #1 below, the CCP plans to implement procedures to ascertain cardholder accounts inactive for greater than 90 days and proactively verify with the unit whether the cardholder's employment status has changed and determine if the card should be closed or temporarily suspended.

Issue 3 The Charge Card Program Manager Was Not Effectively Monitoring to Ensure Compliance with Purchase Card Program Requirements.

OIG
Comment
3

Comment: The CCP closely monitors high-risk transactions through several means to detect misuse of or fraudulent purchases with purchase cards. Consistent with the OIG recommendations, the CCP plans to enhance our oversight procedures and documentation to include information on how potential problems may be identified and addressed.

Issue 4 The Charge Card Program Manager is Not Enforcing Training Requirements for Purchase Cardholders and Approving Officials.

OIG
Comment
4

Comment: For all newly issued purchase cards, the CCP verifies that nominated employees have completed the required training prior to delegating authority. During the transitional period to SmartPay3, from November 2018 to April 2019, cardholder and approving official training were completed via GSA's cardholder training modules. The CCP has access and the ability to verify the training certifications of SI employees that completed the training through the GSA training modules. However,

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due to increased CCP workload to address other priority matters, SI employees' training histories during that time were not transcribed from the GSA system into SI's Human Resource Management System (HRMS), the official application for recording training at SI. We did not prioritize this activity because CCP staff were focused on ensuring the successful implementation of SmartPay 3 and the development and refinement of the procedural guides. Separately, periodic refresher training verification did not occur during this period. In addition, training records prior to 2003 and before the implementation of HRMS were housed in a standalone Access database, but not yet documented in the HRMS. Consequently, the data training record data from HRMS reviewed by the IG did not report the complete training records of all the cardholders and Approving Officials who completed the required training.

Issue 5 The Purchase Card Program Does Not Have an Effective Process to Monitor High-Risk Transactions

OIG
Comment
5

Comment: The CCP reviews information from the various reports available from Citi and SI systems to assist with monitoring purchase card utilization and compliance with program administrative requirements, both centrally and at the units. However, the CCP did not centrally maintain copies of these reports. We have addressed the steps we plan to take to strengthen this process in action items of this response.

Issue 6 The Purchase Charge Card Discontinued On-site Reviews to Monitor Units' Compliance and Assess Effectiveness of Internal Controls.

OIG
Comment
6

Comment: The planned subsequent purchase card program compliance review cycle (FY 2016) did not commence due to the departure of the Program Analyst responsible for leading the purchase card program reviews and the unanticipated retirement of the Associate Director, T&CCSD. Additionally, challenges following the launch of the new purchase card program persisted government-wide for several months; consequently, the new Associate Director, T&CCSD, and his staff were focused on ensuring that implementation of the new procedures at SI were implemented effectively. In FY 2022, the Associate Director, T&CCSD, implemented a new compliance review methodology and processes that engage all purchase cardholders and approving officials in self-assessing their compliance with program policies and procedures. The CCP is working to document these procedures.

Issue 7 The Charge Card Program Does Not Have a Process to Monitor Electronic Approvals of Purchase Card Transactions.

Comment: As noted in our aforementioned comments responding to each OIG-identified audit issue, the CCP staff does monitor cardholder verifications of transactions in ERP, as well as the required validations of the cardholders' verifications in ERP by the approving officials. However, we agree with the IG recommendations that need to strengthen those processes. Accordingly, the CCP is working to enhance and document these procedures.

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RECOMMENDATIONS

To strengthen the purchase card program, OIG recommends that the Director, OCon&PPM take the following actions:

1. Develop and implement procedures to ensure compliance with initial and refresher training requirements for purchase cardholders and approving officials, such as (1) following up with individuals who are not in compliance, (2) suspending or canceling purchase cards, or (3) revoking delegated authority for approving officials who did not comply with refresher training requirements.

Comment: Concur

Actions Planned:

1. OCon&PPM and the CCP shall establish an HRMS learning path and implement procedures whereby cardholders and approving officials will be notified 90 days, 60 days, and 30 days in advance of required refresher training due dates. These automated training reminders will include language that reiterates training compliance, suspension or cancellation of a charge card, and possible revocation of a delegation if training lapses. HRMS records will be updated when the required training is completed. These learning path procedures, with the requirement that cardholders and approving officials comply with the advance notifications of training due, shall be incorporated into Section 1.3 of the updated Desk Reference 2 (SD 322), Purchase Card Program.
2. OCon&PPM shall consult the Office of Human Resources (OHR) and Office of the General Counsel (OGC) staff when developing policy and procedures for permissible non-adversary employee action and expand on policy for suspending or canceling cardholder authority cited in Sec. 4.6.3 of the updated Desk Reference 2 (SD 322).
3. OCon&PPM will consult OHR and OGC to develop specific actions and procedures we can implement and what courses of action CCP can take when instances of training non-compliance by approving officials persists.

Target Date for Completion: September 30, 2023

2. Develop and implement procedures to ensure that training records are complete and accurate so initial and refresher training can be effectively and efficiently enforced.

Comment: Concur

Action Planned:

The CCP staff shall extract the certification completion data from the GSA purchase card training system records and the formerly used OCon&PPM Access training database records for those cardholders and approving officials whose completed required training is recorded in those applications and update those individuals' training records in the SI HRMS.

Target Date for Completion: September 30, 2023

3. Develop and implement procedures to monitor inactive cardholder accounts that may need to be closed because cardholders have separated from employment or transferred to another unit.

Comment: Concur

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Action Planned:

CCP shall implement procedures to ascertain cardholder accounts that have been inactive for greater than 90 days and proactively verify with the unit whether the cardholder's employment status has changed and determine if the card should be closed or temporarily suspended. The procedures will be documented in a CCP Standard Operating Procedures (SOP), and monitored through the target completion date.

Target Date for Completion: April 30, 2023

4. Reinstate compliance reviews to monitor whether purchase card program duties and responsibilities are performed effectively, procedures are followed, and internal controls remain effective.

Comment: Concur

Action Completed: The Associate Director, T&CCSD implemented a new annual compliance review process during FY 2022 in the desk reference guide. Given that purchase card records are now maintained electronically, the CCP has the ability to virtually conduct the purchase card program compliance reviews to validate that the necessary documentation and approvals are complete. The new annual compliance review process also requires that all purchase cardholders and approving officials jointly evaluate their compliance with purchase card program policies and procedures by completing and submitting to CCP a self-assessment checklist.

Action Planned: The CCP staff shall conduct random virtual or on-site reviews to assess unit compliance. An internal process document will be developed and posted to the OCon&PPM online SOP.

Target Date for Completion: January 31, 2023

5. Develop and implement procedures that identify the specific reports that will be used for monitoring purchase card use, describe how flagged transactions will be evaluated and addressed, and establish what documentation needs to be retained.

Comment: Concur

Action Planned: The CCP shall document its procedures for monitoring, analyzing, and addressing potential issues identified from its review of compiled compendium of reports that includes information regarding: purposes for the use of each report; when copies should or may be downloaded, and saved, at least electronically; special instructions for safeguarding the information that each report contains; how long a report may be retained; instructions for disposal of no longer useful/necessary reports; and procedures for addressing potential issues identified from the review of the reports. An internal process document will be developed and posted to the OCon&PPM online SOP.

Target Date for Completion: June 30, 2023

6. Expeditiously develop and implement procedures to ensure that the purchase card transactions are approved and fully documented before they are paid.

Comment: Concur

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Actions Planned:

1. The CCP shall review its current procedures for ascertaining that purchase cardholders and approving officials are reviewing and approving purchase card transactions in ERP each month, and how cardholders and approving officials who don't comply with required procedures are notified.
2. The procedures regarding ERP review included in Section 3.1.3 in the [Desk Reference 2 - Purchase Card Program \(SD 322\)](#) shall also be reviewed and updated as necessary.
3. The CCP will work with the Office of the Chief Information Officer (OCIO) to implement enhanced system features to include: (1) electronic notifications to remind cardholders and approvers that have outstanding transactions that need to be verified and approved prior to the close of the statement billing cycle deadline; and (2) a new status selection to demark transaction as fraudulent or a billing error.
4. For circumstances in which a transaction is not approved prior to the close of the billing cycle, the CCP will require and maintain signed transaction statements from the approving official for any card transaction. The CCP, OCIO, and OCFO will evaluate whether the ERP system and process should be modified to 1) allow CCP to change the status of unapproved transactions as "approved" upon receipt of the email and signed statement validation of the transaction(s) from the approving official, and 2) append the signed statement to the ERP approval record.

Target Date for Completion: March 31, 2023

7. Develop and implement a requirement for periodically reporting information to the Director of OCon&PPM that will assist in the oversight of the purchase card program. The report should provide statistical and narrative information on the use and management of the charge card program, such as compliance with training requirements, the results of compliance reviews, and the monitoring of purchase card transactions. In addition, the report should provide a determination on whether the charge card program's internal controls continue to be effective.

Comment: Concur

Action Planned: The Associate Director, T&CCSD, and Director, OCon&PPM shall evaluate what information about the CCP should be included in reports about the CCP, the structure of reports, and the frequency of the reports. An internal process document will be developed and posted to the OCon&PPM online SOP.

Target Date for Completion: June 30, 2023

Thank you for the opportunity to review and comment prior to the issuance of the final report.

1. Smithsonian management provided a report from ERP financials to show that 92 of 93 sampled transactions were electronically approved, but OIG determined that this report is not accurate for certain transactions. For example, OIG analysis showed that 11 of 43 individuals who approved the sampled transactions in ERP financials were not the approving official. In addition, 20 of the 93 sampled transactions were missing one or more documents, such as the Purchase Card Transaction Log that contains critical information for the review and approval of transactions.

Management also states that OCon&PPM implemented a new electronic review and approval process for purchase card transactions in 2018. Management said they communicated this change in advance and during the transition to SmartPay3, but the written procedures were not revised to reflect this change until May 2021. And yet, OIG estimates that 13 percent of the transactions made from April 1 to June 30, 2020 were approved with written signatures. In a decentralized organization, clear, written, and current procedures are important because they inform all staff of the program's expectations and practice. Without them, an internal control structure is weaker because practices, controls, guidelines, and processes may not be applied uniformly throughout the organization.

2. Management states that, once the units' staff notified the program about two employees' departures, the program immediately closed the accounts. However, only one of the two units notified the program, although not as required before the cardholder separated from employment. In the second case, OIG notified the program that an account had been open with no activity for 391 days. After receiving notification from OIG, the program closed the account the next day. This illustrates the importance of monitoring to ensure control activities are operating effectively. Without timely closure of accounts, there is an increased risk of fraud or misuse of purchase cards.
3. Management states that the Purchase Card Program closely monitors high-risk transactions. However, OIG found that the program does not have an effective process to use standardized reports for monitoring purchase card transactions that may indicate cardholder misuse or fraudulent activity. For example, the Charge Card Program Manager told OIG that the program uses 26 different types of system-generated reports to monitor charge card use and detect potential fraud and that Issues are identified judgmentally and informally resolved. Yet, he was not able to provide any documentation showing that the program was reviewing these reports and resolving any issues with identified high-risk transactions on a timely basis. In addition, the program did not have procedures that define which reports are used, how transactions are reviewed, how issues are addressed, or what documentation should be retained. Moreover, the program could provide documentation for only 4 of the 21,803 high-risk transactions on 32 sampled reports.
4. Management says that the program verifies that employees have completed initial training prior to delegating them authority, but OIG's analysis showed that 14 percent of

cardholders and approving officials responsible for the sampled transactions did not have records of taking initial training. OIG considered that some of these individuals were compliant with training requirements even though they had no record of receiving initial training but had recently taken periodic refresher training. In addition, OIG's analysis of training records included GSA training, Human Resource Management System report, and the program's Microsoft Access database. Therefore, OIG's analysis was based on the available data, which management recognizes to be incomplete. Incomplete data hinders the ability to enforce initial and periodic training requirements.

In addition, management said that the program staff did not take any actions to enforce periodic training requirements for cardholders and approving officials during the transition period; and OIG found that 41 percent of cardholders and approving officials who were responsible for the sampled transactions were not in compliance with refresher training requirements. Without enforcement of training requirements, the Smithsonian does not have assurance that purchase cardholders and approving officials understand their purchase card responsibilities, which increases the risk of improper purchases.

5. See OIG response to comment 3.
6. Management states that the program ceased conducting compliance reviews for six years because of the departure of two staff and additional workload associated with the transition to SmarPay3. However, monitoring is an essential component of internal control that is necessary to assess the implementation of controls and promptly resolve all issues. In a 2014 report, OIG recommended that the program conduct on-site reviews to confirm compliance with purchase card policies and procedures, such as reviews of approving officials and cardholders records maintained in the units. The then-Director of OCon&PPM concurred with this recommendation and conducted reviews of three units in 2015 but discontinued them after the recommendation was closed.

The program is in the process of implementing a new annual compliance review process that requires all purchase cardholders and approving officials to jointly evaluate their compliance with policies and procedures by completing a self-assessment checklist. OIG believes that this new self-assessment checklist can serve as an effective reminder to purchase cardholders and approving officials of their responsibilities. However, because it relies on self-reporting of policy violations, it is unlikely to be an effective tool for monitoring compliance.

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