Office of Inspector General
Corporation for National and Community Service

Internal Review of Selected Management Controls

Report #04-11

Corporation for
NATIONAL & COMMUNITY SERVICE

1201 New York Avenue, NW., Suite 830
Washington, DC 20525
Telephone (202) 606-5000, extension 390
Facsimile (202) 565-2795
Hotline (800) 452-8210

Corporation for
NATIONAL &
COMMUNITY
SERVICE

OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: January 7, 2004

TO: J. Russell George
Inspector General

THRU: Robert D. Shadowens
Deputy Inspector General

FROM: Daniel P. Lybert
Assistant Inspector General for Audit

SUBJECT: Internal Review of Selected Management Controls

This memorandum presents the results of our assessment of selected management controls within the Office of Inspector General (OIG) of the Corporation for National and Community Service (Corporation). Initiated at the request of the Inspector General, this internal review is part of the OIG's self-assessment of controls to provide management with additional assurances that procedures are effectively designed, documented, and operating as intended.

Executive Summary

This review included OIG procedures associated with property management, travel expenses, funds control, and records management. Several opportunities were noted to improve the design and documentation of these controls, including better identification of OIG property, more complete documentation of certain procedures, and a comprehensive update of the OIG records inventory and retention guidelines. Management agreed with these recommendations and has already initiated or completed their implementation.

Objectives, Scope, and Methodology

The objective of this assignment was to provide information to OIG management on controls associated with selected processes within the OIG and, based on observation and analysis, comment on the design, documentation, and operation of these controls. The assessment covered procedures in place during the period of April 1, 2003, through September 30, 2003, and noted changes implemented by OIG management from September 30, 2003, through the date of this report. Methodology included interviews with OIG and Corporation personnel, a review of documented procedures, testing of key systems and processes, and discussion of recommended improvements with OIG

management. This review was not an audit of accounts or financial reports and, accordingly, does not include an opinion on the presentation or accuracy of OIG financial data. Nor does this review consider the overall management control structure or OIG compliance with specific laws and regulations. Instead, it is an internal assessment for use by OIG management in monitoring controls on the administration of appropriated funds.

Discussion of Controls, Analyses, and Recommendations

Because of its separate appropriation and degree of organizational independence, the OIG maintains much of its own procurement authorities, budgetary, and fiscal control. Management control procedures associated with these processes are generally documented in the OIG Policy Manual or in corresponding Corporation policy directives. The OIG's Audit Section reviewed selected management controls within the OIG to comment on the design and operation and, where appropriate, make recommendations to improve OIG procedures. The review included property management, travel expenses, funds control, and records management. Following is a discussion of these procedures and our observations, analyses, and recommendations.

Property Management

The OIG is the custodian of $278,000 of nonexpendable and sensitive property.[1] These assets are subject to Federal Property Management Regulations and internal control procedures for safeguarding against loss, misappropriation and unauthorized use.

In managing these assets, OIG Office Manager maintains an itemized property register for furniture and general equipment, and the Information Technology Specialist maintains a property register for data processing equipment. These registers are updated periodically as new items are purchased and obsolete items are disposed. The integrity of the property registers is verified annually through a physical inventory, which was most recently conducted in September 2003. Since serialized labels are not affixed to OIG property, items that do not have a manufacturer's serial number are identified in inventory records by description and location. The Corporation's property management office disposes of excess and obsolete OIG property.

The OIG Policy Manual does not specifically address property management. Instead, OIG managers follow aspects of Corporation Policy No. 500 in controlling and safeguarding the office's nonexpendable and sensitive property. However, the Corporation's policy, which is not designed to include OIG property, is not formally or consistently adopted by the OIG. There are opportunities to introduce or improve cost-effective controls over OIG property, as follows:

[1] Nonexpendable property has an acquisition value of $500 or more, a useful life of at least one year, is not consumed in use, and does not become part of another item. Sensitive property includes cell phones, cameras, copiers and similar items subject to higher levels of control and safeguarding.

- The OIG Policy Manual does not address property management procedures. Documentation of these procedures, with any applicable references to Corporation policy, will help ensure clear understanding and consistent application of control procedures, roles, and responsibilities.

- Currently, no identifying labels are affixed to OIG property. Such labels, permanently identifying the property by sequential number and indicating U.S. Government ownership, are a cost-effective control that specifically identifies property and facilitates the physical inventory process.

- The property registers should indicate additions and dispositions of nonexpendable and sensitive property during the year, thereby creating independently verifiable documentation of changes from one physical inventory to the next.

- The team that conducted the most recent physical inventory did not consistently include an individual independent of the property custodian, preventing the inventory from providing independent assurance of the integrity of the custodian's property register. This requirement for independent verification should be reiterated in the OIG Policy Manual.

Management agreed with these recommendations and has already begun a revision of the OIG Policy Manual to implement these changes.

Travel Expenses

Office of Inspector General personnel maintain an active travel schedule, and corresponding obligations total approximately $53,000 per year. These costs are subject to standard funds control processes as well as the Federal Travel Regulations. Travelers are provided with Government Travel Cards and are generally required to use these cards for expenses incurred while on temporary duty assignments. Principal control objectives are to provide reasonable assurance that only authorized and necessary travel expenses are paid in accordance with Federal Travel Regulations, and to provide a full and accurate accounting of all official travel expenses.

Controls associated with OIG travel include documented travel authorization for the obligation of funds, supervisory review and approval of travel vouchers, and detailed examination of travel vouchers and supporting receipts by the Office Manager prior to certifying the voucher for payment.

The controls associated with OIG travel are generally documented in Corporation Policy No. 503, with a brief discussion also included in the OIG Policy Manual. The Corporation's policy provides comprehensive guidance on travel procedures and substantially documents the control process. However, the following revisions to the OIG Policy Manual could improve documentation of controls applicable to OIG travelers:

- Specific reference to the applicability of the Corporation's Policy No. 503;

- A statement that OIG supervisors will review travel vouchers to ensure that travel was authorized and that the claimed costs are reasonable and necessary; and

- A statement that the Office Manager (or appropriate staff) will examine the voucher, including supporting documents and per diem calculations, for accuracy and completeness prior to certifying for payment.

Travel card use is subject to additional controls intended to identify and address unauthorized charges or cardholder abuse. All travel card charges by Corporation employees, including OIG personnel, are analyzed and reviewed for potential misuse by OIG investigative staff. Transaction data, downloaded directly from the issuing bank, is sorted by category of transaction, and potential misuse is then assessed through a detailed examination of individual travel authorizations, travel vouchers, and travel card charges. This review has been conducted annually since 2001, and the 2003 review is currently underway. In order to formalize and communicate this procedure, OIG management should consider including in the Policy Manual a statement to the effect that OIG investigative or audit personnel will review all OIG travel card use on an annual basis.

Management agreed with these recommendations and has already taken steps to revise the OIG Policy Manual to incorporate these changes.

Funds Control

Because of its separate appropriation and degree of organizational independence, the OIG maintains much of its own procurement authorities, budgetary control and accounting responsibilities.[2] The Office of Inspector General management team includes a highly trained and experienced Federal contracting officer whose principal responsibilities include the procurement of professional services. These services, such as engaging independent public accounting firms for specific audit assignments, represent the largest portion of OIG procurements and are undertaken, for the most part, through competitive processes. In addition, the OIG uses the Government Purchase Card program for most of its small-dollar procurements. While maintaining these functions in-house, the OIG uses the Corporation's automated Momentum accounting and control system for recording transactions in the general ledger and making payments. The OIG also relies on the Corporation for developing periodic budget execution reports and uses the Corporation's Office of Procurement Services for certain procurements. As a result, OIG procedures associated with funds control are not exclusive of the Corporation's policies and procedures. Following is a discussion of key processes associated with OIG funds control.

[2] Accounting responsibilities performed within the OIG include the entry and approval of transactions in the Corporation's Momentum accounting and control system, as well as retention of original accounting records supporting expenditures of OIG funding.

Momentum – The Corporation's Momentum accounting and control system involves all aspects of the transaction cycle, from requisition through procurement, receipt, and payment. Each step requires the creation and approval of a Momentum document (except for the receiving function, which requires only a single action by one individual). System control objectives include reasonable assurance of compliance with Federal funds control requirements.

The Corporation's separation of duty guidance associated with Momentum actions requires that no individual approve two or more actions related to a single transaction. This guidance is more stringent than would be practicable in a small-office environment such as the OIG. It requires that no individual approve two actions related to a single transaction. As a result, OIG practice deviates from the Corporation's guidance in that an OIG official will sometimes approve two actions related to a single transaction. This assessment noted no instances of incompatible approvals (as defined in the table below), and the OIG's monthly review and reconciliation of all Momentum actions to source documents, subject to two levels of management review, is a significant compensating control. Nevertheless, documentation of these controls could be improved.

Though the OIG Policy Manual clearly documents Momentum approval authorities and dollar thresholds, as well as the monthly reconciliation process, it does not address separation of duties. Inclusion of a statement or table of incompatible roles would assist OIG personnel in consistently adhering to appropriate separation of duties. At a minimum, the following Momentum functions for OIG transactions would be deemed incompatible.

Inconsistent OIG actions within Momentum:	
Approving purchase requisition	Obligating funds
Obligating funds	Receiving goods or services
Preparing payment voucher	Approving payment
Receiving goods or services	Approving payment
Obligating funds	Approving payment

Approvals within the Momentum system are supported by documentation, including the signature of the approving OIG official, and these supporting documents are retained by the OIG. Controls over the payment process could be improved by clarifying the approving official's role and responsibility, as follows:

- For officials administratively approving invoices for payment, a standard statement indicating the basis and scope of the approval should be included in the supporting documentation (e.g., this invoice is administratively approved for payment based on my knowledge and, as appropriate, acceptance of the goods received or services provided).

Management agreed to revise the OIG Policy Manual to include a description of incompatible duties and has already modified its payment procedures to document the basis and scope of administrative approvals.

Purchase Cards – During Fiscal Year 2003, OIG procurements by purchase card totaled $49,300 and involved 240 transactions, a relatively high volume of small-dollar procurements. Control objectives associated with Government Purchase Card programs are reducing administrative costs associated with small-dollar purchases and promptly identifying abuse or noncompliance with program requirements.

Designed to be streamlined and expedient, Government purchase cards also have unique vulnerabilities and separate control procedures. Although they provide efficiency and savings, purchase card programs are generally considered higher risk because they allow the same individual to order, pay for, and receive goods or services. Monthly statements are then paid with Federal funds directly to the bank issuing the card.

Purchase cards are used by OIG personnel for a range of goods and services, including office supplies, subscriptions, reference material, and training. Five OIG employees are currently issued Government purchase cards – two administrative specialists and three investigative personnel. Card purchases are limited to a monthly maximum of $10,000 and an individual purchase ceiling of $2,500. The OIG maintains a system of controls over card use that includes a quarterly commitment of funds based on each cardholder's estimated purchases. Card purchases are then separately recorded in the accounts by object class (e.g., supplies, training) of the individual purchases. Monthly statements are certified by the cardholders and submitted together with supporting receipts for independent reconciliation, review, and approval for payment. These procedures are set forth in Corporation policy and supplemented by the OIG Policy Manual, which reiterates key procedures and OIG-specific guidance.

Items purchased by card are generally received by the cardholder, and controls are not designed to include a separate documentation of receipt and inspection of goods purchased. As a result, receiving responsibility is solely with the cardholder, which is consistent with the intended streamlining of small-dollar purchases. However, it is not uncommon that items purchased by card are, in fact, received by another individual within the OIG. Examples include reference books and other items ordered by a cardholder at the request of an authorized individual within the office. In these instances, charges may be paid prior to receipt of goods, and the assumption that the cardholder will subsequently be aware of receipt of goods is not a reliable control. The following procedure would improve controls over card purchases:

- Where items are procured with a Government purchase card and received and inspected by an individual other than the cardholder, include in the OIG Policy Manual a requirement that documentation of receipt (e.g., annotation by the receiving official on the packing slip) be prepared and forwarded to the cardholder or Office Manager as support for the payment.

Management agreed and has already taken steps to implement this recommendation.

Records Management

Records management and retention guidelines for Federal entities are developed by the National Archives and Records Administration (NARA), and the OIG Policy Manual documents basic guidance for OIG records management. However, the documented procedures are not based on a current inventory of OIG records, resulting in incomplete and unclear guidance. Office of Inspector General administrative personnel are currently performing an inventory of official files as the first step in establishing comprehensive retention guidelines for official OIG records. At the same time, the inventory will serve as a basis for examining the overall records system and creating, eliminating or merging existing files to better meet management needs. As part of this exercise, a member of the administrative staff is scheduled to undergo NARA training. This project should continue to be given priority. In addition, the OIG Policy Manual should be revised to:

- Ensure that original accounting, budget, travel, and leave records within the OIG are retained in accordance with NARA standards and management needs; and

- Provide supervisors with guidance on retention and safeguarding of potentially sensitive personnel information that they may keep on file (e.g., employee performance or health information).

Management agreed with these recommendations and advised that it will continue to give priority to updating its records management process.

Monitoring of Controls

The ongoing consideration of management controls could be formalized by introducing an annual self-assessment of key controls within the OIG. This is strictly an internal process designed to assist management in identifying and addressing any changes during the year that would impact the operation of control procedures or the risk associated with a particular control objective. A standard template can be adapted to facilitate the self-assessment, providing a systematic and cost-effective monitoring of OIG controls.

Management agreed that this process would be beneficial and may direct the OIG Audit Section to lead a self-assessment exercise next year.

Conclusion

Based on our observations and analyses, the OIG control structure is designed to reflect the office's low tolerance of risk in managing its funding and property. While identifying several opportunities to improve the design and documentation of control processes as discussed in the report, this limited review did not identify deficiencies in the operation of these controls.