

AUDIT REPORT

CREDIT CARD USAGE AT THE OHIO FIELD OFFICE AND THE FERNALD AND MIAMISBURG ENVIRONMENTAL MANAGEMENT PROJECTS

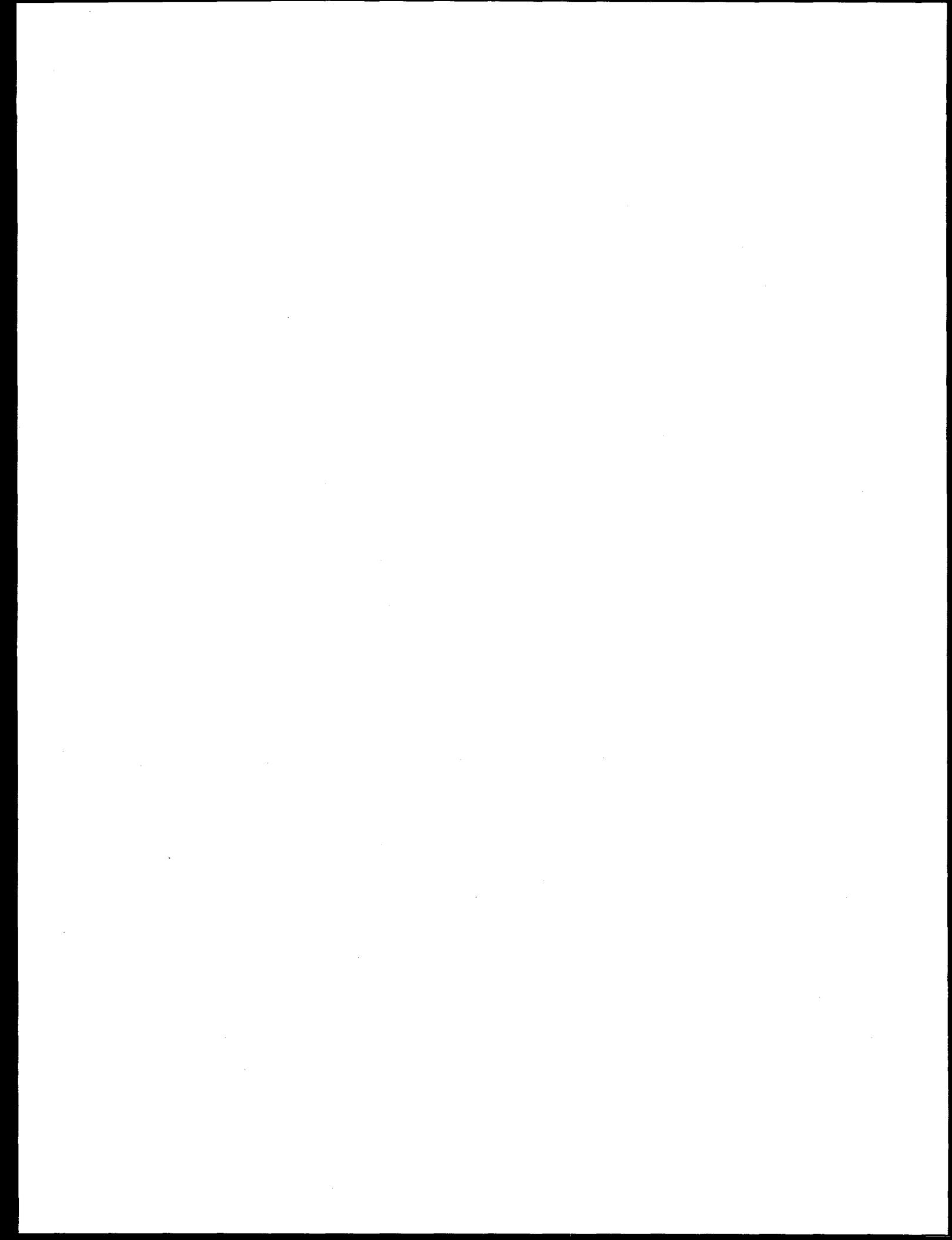


U.S. DEPARTMENT OF ENERGY
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DEPARTMENT OF ENERGY

Washington, DC 20585

March 15, 1999

MEMORANDUM FOR THE MANAGER, OHIO FIELD OFFICE

FROM: Terry L. Brendlinger, Manager *Terry L. Brendlinger*
Eastern Regional Audit Office
Office of Inspector General

SUBJECT: INFORMATION: Audit Report on "Credit Card Usage at the Ohio Field Office and the Fernald and Miamisburg Environmental Management Projects"

BACKGROUND

The Department of Energy (Department) obtained the services of Rocky Mountain BankCard System, through the use of a General Services Administration contract, as a means for the Department and its contractors to make small purchases. The Ohio Field Office (Field Office) uses the credit card system and oversees usage by the Fernald and Miamisburg Environmental Projects. Contractors under the Field Office also use the credit card system to make small purchases. The objective of this audit was to determine whether the Field Office, the Fernald and Miamisburg Environmental Management Projects, Fluor Daniel Fernald (Fluor Daniel), and Babcock and Wilcox of Ohio (B&W) were using credit cards for appropriate purposes and within the limitations established by Federal and Departmental regulations.

RESULTS OF AUDIT

The Field Office, the Fernald and Miamisburg Environmental Management Projects, and B&W appeared to be using credit cards for appropriate purposes and within limitations. However, Fluor Daniel was not. Fluor Daniel incurred and claimed credit card charges that were unallowable and non-reimbursable under the terms of the contract. This occurred because credit cardholders were not provided adequate guidance on items considered unallowable, and managers were not consistently monitoring purchases. As a result, the Department reimbursed Fluor Daniel about \$42,000 in unallowable costs in Fiscal Year (FY) 1998. Therefore, we recommended that the Manager, Ohio Field Office, require Fluor Daniel to: (1) specify unallowable and non-reimbursable items in its credit card policy and cardholder guidelines, (2) require managers to monitor and approve credit card charges, and (3) recover about \$42,000 from Fluor Daniel for the unallowable items invoiced and reimbursed in FY 1998.

MANAGEMENT REACTION

Management agreed with the audit finding and recommendations and stated that appropriate action would be taken to correct the conditions disclosed in the report.

Attachment

CREDIT CARD USAGE AT THE OHIO FIELD OFFICE AND THE FERNALD AND MIAMISBURG ENVIRONMENTAL MANAGEMENT PROJECTS

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Overview

INTRODUCTION AND OBJECTIVE

In 1994 the Department obtained the services of Rocky Mountain BankCard System, through the use of a General Services Administration contract, as a means for the Department and its contractors to make small purchases. The use of credit cards was expected to simplify small purchase procedures and improve cash management. The Field Office uses the credit card system and oversees usage by its area offices. Contractors under the Field Office also use the credit card system to make small purchases. In fact, one of its contractors, Fluor Daniel, has automated its system. With the P-Card system, Fluor Daniel's cardholders enter orders each month, and the bank downloads transactions so the cardholders can reconcile their charges through the software. The P-Card system downloads directly into Fluor Daniel's accounting system.

The Office of Inspector General (OIG) has issued one audit report concerning the use of credit cards. In April 1996, the OIG issued Report WR-B-96-06, *Audit of Bonneville Power Administration's Management of Information Resources*. The audit concluded that improvements could be made in implementing credit card and property procedures in Bonneville's management of computer-related equipment. Specifically, many credit card purchases were made by employees whose authority to buy was not properly documented, and the purchasing files often lacked invoices that would show what was purchased. Additionally, some cardholders split purchases to avoid credit card limits.

The objective of this audit was to determine whether the Field Office, Fernald and Miamisburg Environmental Management Projects, Fluor Daniel, and B&W were using credit cards for the appropriate purposes and within the limitations established by Federal and Departmental regulations.

CONCLUSIONS AND OBSERVATIONS

The Field Office, Fernald and Miamisburg Environmental Management Projects, and B&W appeared to be using credit cards for appropriate purposes and within established limitations. However, Fluor Daniel was not. Fluor Daniel incurred and claimed credit card charges that were unallowable and non-reimbursable under the terms of the contract. This occurred because credit cardholders were not provided adequate guidance on items considered unallowable and managers were not consistently monitoring purchases. As a result, the Department reimbursed Fluor Daniel \$42,000 in unallowable costs in FY 1998.

The audit identified issues that management should consider when preparing its yearend assurance memorandum on internal controls.

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CREDIT CARD CHARGES

Credit Cards Were Not Always Used Appropriately

Fluor Daniel did not always use its credit cards for appropriate purposes. Some cardholders used credit cards to purchase items that were unallowable under the terms of Fluor Daniel's contract. These unallowable items included employee morale and recognition, items given to employees as safety incentives, and photos and memorabilia for community involvement and charitable activities. For example, cardholders charged \$14,000 in employee recognition for award pins for employees' years of service. Also, \$11,900 was charged for safety incentives for employees.

Contract Terms and Internal Policy Identify Unallowable Costs

The contract between the Department and Fluor Daniel specifically disallowed employee morale type items. After a Congressional hearing and public criticism of Fluor Daniel's expenses for employee morale and awards in 1993, Fluor Daniel's contract was modified to specify that employee morale type items were unallowable. Additionally, Fluor Daniel's acquisition practices stated that some public relations activities were unallowable and non-reimbursable. More specifically, Fluor Daniel considered non-reimbursable items to include refreshments for meetings, employee recognition, morale events, safe work hour recognition, personalized items, awards, and community involvement and contributions. These items were normally charged to non-reimbursable accounts. However, Fluor Daniel credit cardholders did not consistently charge these items to non-reimbursable accounts.

Fluor Daniel Cardholders Lacked Guidance and Monitoring

Unallowable costs were incurred and claimed because cardholders were not provided adequate guidance on what is considered non-reimbursable costs. Fluor Daniel's credit card policy states that unallowable credit card purchases include "non-reimbursables: i.e., personalized items, awards (for questions, call Finance)." However, since this policy was not specific, cardholders and managers were not always aware of what Finance considered unallowable and would not necessarily look for unallowable items.

Additionally, approving officials and cost account managers did not consistently monitor card purchases. Close review of credit card purchases could have identified the unallowable items. Further, Fluor Daniel Internal Audit has reported that cost account managers have not consistently approved credit card charges in prior audits.

Costs Were Unallowable

As a result, Fluor Daniel incurred and the Department reimbursed \$42,000 for unallowable and non-reimbursable items in FY 1998.

RECOMMENDATIONS

We recommend that the Manager, Ohio Field Office:

1. Require Fluor Daniel to specify unallowable and non-reimbursable items in its credit card policy and cardholder guidelines,
2. Require managers to monitor and approve credit card charges, per Fluor Daniel's credit card policy, and
3. Recover \$42,000 from Fluor Daniel for the unallowable and non-reimbursable items invoiced to and reimbursed by the Department in FY 1998.

MANAGEMENT REACTION

Management concurred with the finding and recommendations and agreed to take corrective actions and recover any unallowable costs. Management deferred its determination of total unallowable costs to be recovered pending further analysis of additional data provided by Fluor Daniel. Management stated that by March 17, 1999, written direction will be provided to Fluor Daniel to revise its credit card policy and cardholder guidelines to specify unallowable and non-reimbursable items. Further, written direction will be provided by March 17, 1999, to require Fluor Daniel managers to monitor and approve credit card charges, per its own policy. The determination of unallowable costs recovery will be completed within one month after issuance of the final report.

AUDITOR COMMENTS

Management comments are responsive to the finding and recommendations.

Appendix

SCOPE

The audit was performed from November 23, 1998, to February 8, 1999, at the Field Office and the Fernald and Miamisburg Environmental Management Projects. Additionally, we covered two contractors under the Field Office's purview: Fluor Daniel and B&W. The audit covered FY 1998 credit card charges for all sites. During FY 1998, the Field Office and the Fernald and Miamisburg Environmental Management Projects incurred credit card charges of \$238,000, Fluor Daniel incurred \$3.6 million, and B&W incurred \$1.6 million.

METHODOLOGY

To accomplish the audit objective, we:

- Reviewed Federal and Departmental regulations for the use of credit cards for small acquisitions,
- Evaluated contract terms and contractor policies and guidelines for credit card usage,
- Held discussions with Department and contractor staff regarding the effectiveness of credit card usage, and
- Evaluated the appropriateness and allowability of credit card purchases.

The audit was performed in accordance with generally accepted Government auditing standards for performance audits and included tests of internal controls and compliance with laws and regulations to the extent necessary to satisfy the audit objective. Accordingly, the assessment included reviews of Departmental and contractor policies, procedures, and performance measures related to the management and control of credit card usage for small acquisitions. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit.

We relied on computer-generated data in automated purchase card and accounting systems. We assessed the reliability of the data as it pertained to the audit objective, including relevant general and application controls and found them to be adequate. Based on these assessments, we concluded that the data were sufficiently reliable to be used in meeting the audit objective.

An exit conference was waived by the Audit Liaison of the Ohio Field Office.

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