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## PERFORMANCE REVIEW

### THE PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD'S PURCHASE CARD PROGRAM (IOPA-2009-002)

**INTERNAL OVERSIGHT AND PERFORMANCE ASSURANCE**  
**July 30, 2009**

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#### **Objective**

As articulated in the March 2008 Public Company Accounting Oversight Board (PCAOB) Strategic Plan, one of the overarching goals of the PCAOB is to operate in a manner that recognizes its public mission and responsibility to exercise careful stewardship over its resources. The Board outlined a number of objectives in order to achieve this goal. Among them is to continue to align the PCAOB's programs and operations and accountability initiatives with the Board's priorities.

Consistent with Internal Oversight and Performance Assurance's (IOPA) 2008 Risk Assessment and 2008 – 2010 Performance Review Plan, we conducted this review to determine whether PCAOB purchase cards are used consistent with Board policy and good business practices.<sup>1/</sup> This review is one in a series designed to assist the Board in identifying processes and practices that may include inherent reputation risks.

In 2005, IOPA issued a report on the PCAOB's Finance Function.<sup>2/</sup> In that review we found that the Chief Financial Officer and staff had facilitated the development and implementation of a number of important policies, processes, and

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<sup>1/</sup> This is a public summary of the report. The full report, prepared in accordance with Government Auditing Standards, has been issued to the Board. The full report includes a detailed discussion of the review objective, scope, and methodology.

<sup>2/</sup> *Internal Control Review of the Public Company Accounting Oversight Board's Finance Function (IOPA-2005-002), October 27, 2005.*

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other financial-related controls. The report also identified some initiatives and processes that were not in place or were not yet complete. However, purchase card transactions and controls were not tested during that review.

### **Background and Benchmarks**

Section 101 of the Sarbanes-Oxley Act of 2002 established the Board and specified that the PCAOB is not an agency or establishment of the U.S. Government, but that it operates as a non-profit corporation. Other provisions within this title require the Board to establish an annual budget; authorize the allocation, assessment, and collection of accounting support fees from public companies for recoverable expenses; and, authorize the assessment and collection of registration fees from registered public accounting firms to recover the costs of reviewing and processing registration applications. The Board's budget is subject to approval by the Securities and Exchange Commission (SEC). Additionally, the Board is required to submit to the SEC an annual report that includes audited financial statements.

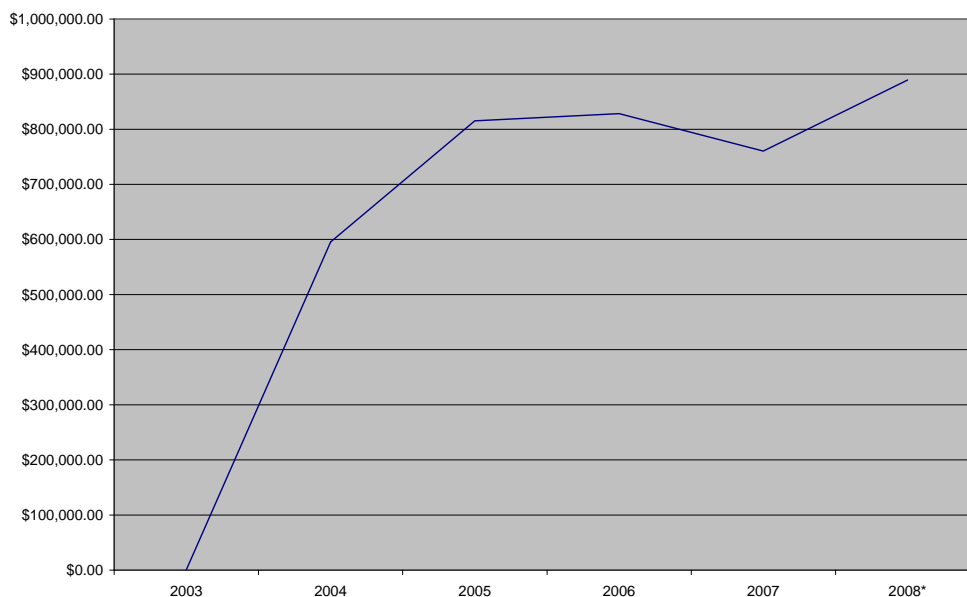
The statutory provisions allowing the Board to assess and collect fees sufficient to fund its operations represent a significant authority. In providing this funding mechanism, the Act helps to ensure that the PCAOB has the resources to carry out its mission to protect investors and further the public interest. At the same time, however, by requiring that the PCAOB's budget be approved by a federal agency and that the Board publish audited financial statements, the statute mandates public accountability for those resources.

Many public and private sector organizations use purchase cards as an acquisition tool. American Express advertises that the purchasing card solution "allows you to streamline your purchasing process with the convenience of a single payment vehicle." PCAOB began using purchase cards (issued through American Express) in 2003. Use of the card has grown over time as the PCAOB has grown and expanded. Figure 1 shows the purchasing card spending history for 2003-2008.

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**Figure 1**

Purchase Card Spending



\*2008 data is annualized based on the first 6 months of billing activity.

At the time of our review, there were nine purchase cardholders. Each regional office has a card in the name of the head of that office. Actual use of the card is frequently delegated to administrative staff in the office. The Washington, DC card is held by the Chief of Staff or Chief Administrative Officer.<sup>3/</sup> A few people and departments have permission to use the DC card without pre-approval for specified charges.

From inception of the program through the first 6 months of 2008, the PCAOB expended about \$3.4 million through use of purchase cards. Our analysis of the electronic data set<sup>4/</sup> provided by American Express, which included transactions from April 24, 2006 – July 25, 2008, identified the following 25 vendors where the most purchasing card dollars were spent, as shown in Figure 2.

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<sup>3/</sup> At the beginning of our review the Chief of Staff was also the Interim Chief Administrative Officer. On April 14, 2009, the then Chief Financial Officer was appointed Chief Administrative Officer.

<sup>4/</sup> The total purchases for this period were \$1,876,970.52.

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**Figure 2**

	<i>Vendor Name</i>	<i>Transactions With Vendor During Review Period</i>	<i>Dollars Spent With Vendor During Review Period</i>
1	FEDERAL EXPRESS	9,282	\$416,026.26
2	CAPITAL HILTON	47	166,749.75
3	CONNECTLIVE COMMUNICATION <sup>5</sup>	15	96,625.00
4	ARMY AND NAVY CLUB	32	84,458.08
5	UNITED AIRLINES <sup>6</sup>	139	73,983.65
6	OMNI SHOREHAM HOTEL	5	61,894.28
7	CATERING BY WINDOWS	20	46,863.75
8	P M HOTEL ASSOC	4	37,119.40
9	MICROSOFT CORPORATION	2	34,265.00
10	HYATT REGENCY ATLANTA	2	30,250.48
11	DELTA AIR LINES	61	30,204.06
12	THE N Y HELMSLEY HOTEL	2	26,467.70
13	US AIRWAYS ARC SALES	68	25,760.28
14	CRESTLINE HOTELS & RESORT	1	20,860.80
15	MONSTER SECURE CC	1	20,460.00
16	SOFITEL HTL AT LAFAYETTE	14	19,209.62
17	THE FAIRMONT MIRAMAR HTL	3	18,995.25
18	HILTON NEW YORK	14	18,852.80
19	SANS INSTITUTE/BETHE	6	18,840.00
20	AMERICAN AIRLINES INC	48	17,246.51
21	CONTINENTAL AIRLINES	10	14,777.79
22	WESTIN GALLERIA	2	14,022.67
23	THE JEFFERSON	28	12,688.52
24	HILTON THE DRAKE HOTEL	3	12,654.68
25	LEARNING TREE INTL USA	3	11,439.00

<sup>5/</sup> This vendor provides webcast services.

<sup>6/</sup> While most airline purchases are made with employees' corporate/travel cards, the purchase cards are used for those employees that do not have a corporate/travel card and for non-employees, such as Standing Advisory Group (SAG) members.

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The majority of transactions on the cards for the review period were for small dollar amounts. Figure 3 below shows the amount and percent of transactions and costs for the data set provided by American Express.

**Figure 3**

Transaction Amount	Number of Transactions	Percent	Cost of Transactions	Percent
Less than \$100	9,593	85.8%	\$253,598.30	13.5%
\$100 – 999.99	1,278	11.5%	406,631.60	21.7%
\$1,000 – 4,999.99	245	2.2%	522,265.72	27.8%
\$5,000 – 9,999.99	44	0.4%	295,259.06	15.7%
\$10,000 – 49,999.99	16	0.1%	300,215.84	16.0%
\$50,000 – \$100,000	1 <sup>7/</sup>	0.0%	99,000.00	5.3%
Totals	11,177	100.0%	\$1,876,970.52	100.0%

Over 85% of the transactions were for less than \$100. Only a few transactions are over or equal to \$5,000 (61 out of 11,177). However, these few larger purchases represent 37% of the costs.

IOPA identified best practices<sup>8/</sup> for using purchase cards by reviewing studies, articles, and other documents from government, academic, and corporate organizations. Guidelines most frequently cited advise that the organization should:

- Ensure strong management support of controls.
- Commit the resources needed to achieve success.
- Clearly delineate responsibilities.
- Document procedures and controls.

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<sup>7/</sup> This transaction was for Inspections Division Training in Washington, DC.

<sup>8/</sup> Best management practices have been described as processes, practices, and systems identified in public and private organizations that perform remarkably well and are widely recognized as improving an organization's performance and efficiency in specific areas.

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- Ensure separation of duties.
- Maintain adequate documentation of transactions.
- Train the users and the approvers.
- Perform periodic reviews of spending and transaction limits.
- Use data mining, merchant category codes, and other tools to detect and prevent misuse and fraud.
- Keep controls reasonable.

This list provides some of the basic principles that should be followed. The specific application of them should be tailored to an entity's situation and needs.

### **Results in Brief**

Based on our analysis of purchase card data for the period of review,<sup>9/</sup> IOPA concluded that the vast majority of purchases made with the cards were consistent with Board policies, approved by appropriate officials, and supported by documentation. However, the review also disclosed the following issues that, in our judgment, represent potential operational or reputation risks:

- While not significant as a percentage of costs, there were a number of purchases that from a public optics perspective may have been questionable in nature. For example, our review identified 43 purchases for flowers, cards, and gift baskets for PCAOB employees or offices. Three of these purchases occurred after a new PCAOB policy, which identified such purchases as non-reimbursable.
- Obtaining a purchase order for transactions over \$1,000 has been a customary practice at PCAOB. However, some transactions in our sample that were over that threshold did not have purchase orders. This

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<sup>9/</sup> Our review scope included about \$3.4 million in costs incurred from inception of the program in late 2003 through July 25, 2008.

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occurred, in part, because there was a phased roll-out of the practice, and the Board groups were not covered by it.

- While most purchases were supported by receipts, about 4% of our sample transactions, or about \$22,000, were not. Exceptions included various airline and hotel charges, the largest of which was over \$5,000.
- Business and office meals were not always supported by a stated business purpose or a list of participants as required by Board policy.
- Membership rewards points earned with the cards are not officially owned by PCAOB. Because of the way the cards are issued, PCAOB cannot directly access the information and must rely on the cardholders to provide information on the balances and to transfer points for use or upon leaving the PCAOB.

We concluded that these issues occurred, in part, because PCAOB does not have a documented policy or procedure for use of the purchase cards. The current controls rely heavily on the judgment of the individuals involved in use of the cards and review of the associated expense reports. These individuals do not have any written guidance, nor have they received any training on use of the cards. Further, the cardholders frequently delegate the use of the card, potentially diluting accountability. During our review, the Interim Chief Administrative Officer articulated a culture shift that had occurred during her tenure that resulted in increased cognizance of reimbursable expenses. She also indicated that there are after the fact controls and that Finance questions some of the expenses as part of its review.

According to the Government Accountability Office (GAO),<sup>10/</sup> the potential for fraudulent, improper, and abusive purchases in a purchase card program “should be viewed by management as a risk of significant financial loss, possibly resulting in operational inefficiency and impairment of mission readiness.” Improper use of the card often results from a lack of adherence to policies, procedures, and control activities. Then, “[a]s program personnel predisposed to misuse the card become aware of such weaknesses, the door opens wider for fraudulent, improper, and abusive purchases.” IOPA did not identify any fraud as part of this review.

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<sup>10/</sup> GAO Audit Guide: Auditing and Investigating the Internal Control of Government Purchase Card Programs, November 2003.

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Based on our analysis, opportunities existed to improve or strengthen controls to prevent fraudulent and questionable spending. As such, the report recommends that the Chief Administrative Officer take steps to improve the controls and documentation of the program. In responding to a draft of the report, the CAO agreed with most of IOPA's recommendations. The response outlined planned actions to strengthen controls over purchase cards including documenting policies and procedures, providing training, reviewing and updating the PCAOB's procurement practices, and evaluating options to the current program. However, the CAO did not agree that use of the card should be limited to the cardholder.