



February 4, 2008

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VICE PRESIDENT, CONTROLLER

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VICE PRESIDENT, SUPPLY MANAGEMENT

SUBJECT: Audit Report – Fiscal Year 2007 SmartPay® Purchase Card Program
(Report Number FF-AR-08-094)

This report presents the results of our SmartPay® Purchase Card Program audits of district offices for fiscal year (FY) 2007 (Project Number 07BD005FF000). We conducted this work in support of the audit of the U.S. Postal Service's financial statements. Please refer to Appendix A for additional information about this audit.

Overall Conclusion

We identified various internal control and compliance issues in all 17 judgmentally selected sites, including one policy issue related to monthly reconciliations. Appendix B presents a list of the 17 sites, and Appendix C presents a listing of each issue reported and the number of locations in which the issue occurred.

We made recommendations to district management addressing the control and compliance issues at each district office. District managements' comments were responsive to our findings, recommendations, and \$1.2 million in monetary and \$2.6 million in non-monetary impact.¹ The actions taken or planned should correct the issues identified at these district offices.

[REDACTED]

¹ We claimed monetary and non-monetary impact in each individual site report.

Monthly Reconciliation Policy Is Not Clear and Measurable

The current purchase card monthly reconciliation policy is not clear and measurable. The policy requires cardholders and approving officials to review credit card statements within 5 days of receipt of statements.² Using the date of statement receipt is not measurable or defined, because there is no guidance on recording the date of receipt. We believe the policy for purchase card statement reconciliations and reviews should be clear and measurable for both the cardholder and the approving official. When criteria is not clear and measurable, cardholders and approving officials may not review and reconcile purchase card statements timely, which could result in unauthorized or inaccurate transactions going undetected.

Headquarters Financial Control and Support also identified the need for a policy change regarding the purchase card statement reconciliations and reviews. On January 4, 2008, Postal Service management issued a memorandum changing the requirements for purchase card reconciliation to be performed no later than the 18th day of the month for the previous month's purchase card activity. Management's actions should adequately address our finding. Therefore, we are not making a recommendation regarding the monthly reconciliation policy. As a result, management chose not to respond formally to this report.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions, or need additional information, please contact Linda Libician-Welch, Director, Field Financial West, or me at (703) 248-2100.



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Attachments

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² Handbook AS-709, *Credit Card Policies and Procedures for Local Buying*, Section 421.1.

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

Since November 1991, the Postal Service has utilized the government-wide Commercial Credit Card Program administered by the General Services Administration. The current contractor is U.S. Bank, Minneapolis, Minnesota, and the card company is VISA®. The program within the Postal Service is called the SmartPay Purchase Card Program, which Supply Management and Finance cosponsor. The Postal Service pays no administrative fees for the services U.S. Bank provides and earns refunds based on the aggregate volume of Postal Service transactions. Until recently, the purchase card was commonly referred to as the International Merchant Purchase Authorization Card (IMPAC). This was a registered U.S. Bank trademark name, but the bank no longer uses it.

When eBay or other consolidated Finance-approved payment processes are not an option, the purchase card is the primary delegated local buying authority (the authority to buy and pay for day-to-day operational needs). Generally, a single purchase card transaction may not be greater than \$10,000.

Cardholders, approving officials, and program coordinators must follow the purchasing guidelines for approved expenditures set by the Postal Service in Handbook AS-709, *Credit Card Policies and Procedures for Local Buying*, October 2003 (updated through September 2, 2004), and various manuals, handbooks, management instructions, and locally issued guidance. This guidance requires cardholders to maintain documentation, including approved purchasing requests, sales and credit drafts and receipts, and delivery documentation. In addition, guidance requires cardholders to maintain documentation supporting the timely review of monthly statements by cardholders and approving officials.

Management currently issues five types of purchase cards to Postal Service personnel:

- a. Cards to purchase expense items.
- b. Cards to purchase capital property.
- c. Cards for vehicle maintenance facilities to purchase vehicle parts.
- d. Cards for select Topeka, Kansas, Material Distribution Center employees to purchase inventory parts.
- e. Cards for select Postal Service Engineering employees to purchase research and development equipment and supplies.

At the close of FY2007, there were 40,599 active purchase cardholders. During this fiscal year, these individuals were responsible for managing about 1.3 million transactions valued at almost \$400 million.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine if purchase card purchases were supported and complied with Postal Service policies and procedures. We judgmentally selected 17 district offices for the purchase card program audit. We also judgmentally selected a sample of transactions using the “Credit Card by District and Month” report from the Accounting Data Mart for the three-digit district code related to the districts reviewed. We selected the sample of district transactions based on risk factors such as type of purchases (i.e., meals and communications) and vendors. Specifically, we judgmentally selected cardholders with large volumes of purchases for food, awards, and communication services. Using these risk factors, we selected 14,302 transactions made from September 2005 through June 2007, for 474 cardholders.

We conducted this financial audit from October 2006 through February 2008 in accordance with generally accepted government auditing standards and included such tests of internal controls, as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management officials on January 22, 2008, and included their comments where appropriate.

We relied on data obtained from the Postal Service’s Enterprise Data Warehouse Accounting Data Mart. We performed specific internal control and transaction tests on this system’s data to include tracing selected purchase transactions to supporting documentation. We used Postal Service instructions, manuals, policies, and procedures as criteria to evaluate internal controls and data reliability. We interviewed supervisors and employees and observed operations.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Monetary Impact	Non-monetary
<i>Fiscal Year 2007 Southwest Area SmartPay Purchase Card Program</i>	FF-AR-08-072	January 11, 2008	\$63,511	–
<i>National Review of SmartPay Purchase Card Transactions</i>	CA-AR-08-002	November 8, 2007	\$244,626	\$177,183
<i>SmartPay Purchase Card Use by Postal Service Officers</i>	FT-AR-07-014	September 29, 2007	\$127,393	\$181,908

These reports identified various internal control and compliance issues, such as unapproved, unsupported, and unauthorized purchases. In addition, the reports identified opportunities for strengthening and clarifying current internal controls and policies.

APPENDIX B: DISTRICT SMARTPAY PURCHASE CARD PROGRAMS AUDITED AND REPORTS ISSUED NATIONWIDE

	Report Title	Report Number	Final Report Date	Monetary Impact³	Non-monetary Impact
1	<i>Fiscal Year 2007 Financial Installation Audit – SmartPay Purchase Card – New York District, New York, New York</i>	FF-AR-08-048	December 17, 2007	\$99,157	\$22,362
2	<i>Fiscal Year 2007 Financial Installation Audit – SmartPay Purchase Card – Santa Ana District, Santa Ana, California</i>	FF-AR-08-038	November 30, 2007	\$103,694	\$399,193
3	<i>Fiscal Year 2007 Financial Installation Audit – SmartPay Purchase Card Program – Massachusetts District, North Reading, Massachusetts</i>	FF-AR-08-037	November 30, 2007	\$107,517	\$669,542
4	<i>Fiscal Year 2007 Financial Installation Audit – SmartPay Purchase Card Program for Local Buying – Northern Virginia District – Merrifield, Virginia</i>	FF-AR-08-027	November 15, 2007	\$5,651	\$95,521
5	<i>Fiscal Year 2007 Financial Installation Audit – SmartPay Purchase Card – Los Angeles District, Los Angeles, California</i>	FF-AR-08-026	November 14, 2007	\$166,693	\$380,129
6	<i>Fiscal Year 2007 Financial Installation Audit – Purchase Card Program – Fort Worth District, Fort Worth, Texas</i>	FF-AR-08-025	November 13, 2007	\$31,028	\$46,216
7	<i>Fiscal Year 2007 Financial Installation Audit – SmartPay Purchase Card Program – Richmond District, Richmond, Virginia</i>	FF-AR-08-023	November 7, 2007	\$45,705	\$20,011
8	<i>Fiscal Year 2007 Financial Installation Audit – SmartPay Purchase Card Program for Local Buying – Baltimore District – Baltimore, Maryland</i>	FF-AR-08-022	November 7, 2007	\$70,485	\$85,346
9	<i>Fiscal Year 2007 Financial Installation Audit – SmartPay Purchase Card Program – Chicago District – Chicago, Illinois</i>	FF-AR-08-021	November 7, 2007	\$73,415	\$88,924
10	<i>Fiscal Year 2007 Financial Installation Audit – SmartPay Purchase Card – Pittsburgh District, Pittsburgh, Pennsylvania</i>	FF-AR-08-019	November 7, 2007	\$11,056	–

³ The individual reports identified the type of monetary and non-monetary impact.

	Report Title	Report Number	Final Report Date	Monetary Impact³	Non-monetary Impact
11	<i>Fiscal Year 2007 Financial Installation Audit – SmartPay Purchase Card Program – Sacramento District, West Sacramento, California</i>	FF-AR-08-015	October 24, 2007	\$16,052	\$49,589
12	<i>Fiscal Year 2007 Financial Installation Audit – SmartPay Purchase Card Program – Atlanta District – Atlanta, Georgia</i>	FF-AR-08-012	October 18, 2007	\$2,792	\$71,652
13	<i>Fiscal Year 2007 Financial Installation Audit – SmartPay Purchase Card Program for Local Buying (purchase card) – Capital District – Washington, District of Columbia</i>	FF-AR-07-251	September 27, 2007	\$93,938	–
14	<i>Fiscal Year 2007 Financial Installation Audit – SmartPay Purchase Card Program – Colorado/Wyoming District, Denver, Colorado</i>	FF-AR-07-247	September 19, 2007	\$59,629	\$606,373
15	<i>Fiscal Year 2007 Financial Installation Audit – IMPAC – San Francisco District, San Francisco, California</i>	FF-AR-07-202	July 20, 2007	\$144,759	\$22,513
16	<i>Fiscal Year 2007 Financial Installation Audit – International Merchant Purchase Authorization Card – Gateway District – St. Louis, Missouri</i>	FF-AR-07-179	June 5, 2007	\$8,363	\$68,852
17	<i>Fiscal Year 2007 Financial Installation Audit – IMPAC – Dallas District, Coppell, Texas</i>	FF-AR-07-122	March 19, 2007	\$163,898	–

APPENDIX C: FINDINGS REPORTED FOR THE 17 DISTRICT SMARTPAY PURCHASE CARD PROGRAMS AUDITED

Findings	Number of Districts with Findings	Number of Cardholders	Number of Transactions	Value of Transactions
Documentation Procedures Need Improvement Cardholders did not follow procedures for documenting purchases.	17	262	2,420	\$1,319,174
Monthly Reconciliation Procedures Need Improvement Cardholders and approving officials did not review and reconcile, or review and reconcile timely, purchase card statements.	16	309	987	\$4,018,661
<ul style="list-style-type: none"> • Cardholders and approving officials did not certify statements. 	–	164 ⁴	549	\$2,065,228
<ul style="list-style-type: none"> • Cardholders and approving officials did not timely review and reconcile statements within 30 days of receipt of the last statement. 	–	120 ⁵	287	\$1,296,502
<ul style="list-style-type: none"> • Cardholders and approving officials did not timely review and reconcile statements within 60 days of receipt of the last statement. 	–	24 ⁶	151	\$655,685
Purchase Approval Procedures Were Not Followed Cardholders did not follow purchase approval procedures.	13	151	1,218	\$1,250,287
<ul style="list-style-type: none"> • Cardholders did not create requisitions through the e-Buy online requisition and approval feature prior to making purchases. 	–	77	626	\$405,089

⁴ This number represents 84 cardholders and 80 approving officials.

⁵ This number represents 50 cardholders and 70 approving officials.

⁶ This number represents seven cardholders and 17 approving officials.

Findings	Number of Districts with Findings	Number of Cardholders	Number of Transactions	Value of Transactions
<ul style="list-style-type: none"> • Cardholders purchased restricted items without proper approval. These purchases were for working meals, business meals with customers, and hardware and software items. 	–	39	126	\$42,268
<ul style="list-style-type: none"> • Cardholders purchased items that were either not authorized on the eBuy request, or exceeded the eBuy request or their authorized limit. 	–	20	324	\$614,989
<ul style="list-style-type: none"> • Cardholder split purchases to remain within their authorized limit. 	–	9	61	\$171,972
<ul style="list-style-type: none"> • Cardholders allowed an unauthorized user to make purchases. 	–	4	59	\$10,611
<ul style="list-style-type: none"> • Cardholders approved their own purchases. 	–	2	22	\$5,358
<p>Proper Payment Methods Were Not Followed Cardholders did not follow proper payment methods for purchases. Specifically, cardholders used their purchase card to purchase items requiring another payment method, including: business meals with customers (rather than using their travel card or personal funds and requesting reimbursement), vehicles parts, medical services, janitorial services, environmental services, car rental over 89 days, construction services, service contract items, and utility and telephone bills.</p>	13	28	216	\$234,826
<p>Purchases Were Made For Unauthorized Items Cardholders made purchases for unauthorized items.</p>	12	88	343	\$438,318
<ul style="list-style-type: none"> • Cardholders made purchases from unauthorized vendors without documenting the justifications. 	–	21	122	\$389,739
<ul style="list-style-type: none"> • Cardholders purchased unauthorized or prohibited items such as refreshments and working meals for routine meetings. 	–	18	47	\$39,866

Findings	Number of Districts with Findings	Number of Cardholders	Number of Transactions	Value of Transactions
<ul style="list-style-type: none"> Cardholders did not receive tax exemptions. 	–	49	174	\$8,713
Other				
Personnel purchased and issued gift cards that were not entered in the eAwards system.	6	–	435	\$32,329
Cardholders provided the Postal Service’s Express Mail corporate account number to vendors instead of asking the vendor to include the shipping charges in the invoice.	3	4	–	–
Cardholders had not taken the required training prior to receipt of their purchase cards.	1	5	–	–