

**OCC: Purchase Card Usage at
The Western District and Headquarters**

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Office of Inspector General

The Department of the Treasury

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Abbreviations

AO	Approving Official
APC	Agency Program Coordinator
OCC	Office of the Comptroller of the Currency
OIG	Office of Inspector General
TD	Treasury Directive

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*The Department of the Treasury
Office of Inspector General*

December 16, 2002

John D. Hawke, Jr.
Comptroller
Comptroller of the Currency

This report covers the use of purchase cards at the Office of the Comptroller of the Currency's (OCC) Western District, as well as OCC Headquarters. At OCC's request, we expanded the original planned fieldwork to include limited testing covering OCC Headquarters. The audit is part of the OIG's planned series of Treasury bureau wide audits in response to Senator Charles E. Grassely's September 24, 2001 letter addressing his concerns on the use of the government charge cards within the Federal Government.

Our overall audit objective was to determine if OCC has adequate controls over its Government Purchase Card Program to ensure that purchase cards are used for their intended purpose and if OCC's purchase card program policies and procedures were reasonably effective in preventing and detecting improper card usage.

For 16 of the 17 Western District cardholders, we sampled and reviewed 1,487 from a total of 4,034 transactions amounting to \$877,864.54 from September 28, 1999 to February 8, 2002, as well as the supporting documentation. At OCC Headquarters' request during the entrance briefing, we added a limited review of Headquarters cardholder operations. We reviewed transactions for 8 of the 81 cardholders assigned in Washington, D.C. We did not review the five Headquarters cardholders located outside of D.C. Because the Headquarters fieldwork was limited in scope, we did not obtain the same type of detailed financial information from

the issuing card bank as we did for the Western District. We conducted our audit between December 2001 and September 2002 in accordance with generally accepted government auditing standards. For a detailed description of the audit objectives, scope, and methodology see Appendix 1.

Results in Brief

Overall, we believe OCC's prescribed policies and procedures over the use of the Government Purchase Card were adequate and included sufficient internal controls to prevent and detect improper card usage. However, we found that prescribed policies and procedures were frequently and extensively not followed. These exceptions generally did not entail large dollar items and there were no indications the exceptions involved abuse. Nevertheless, we believe the deviations from policies and procedures coupled with the breakdown in controls to detect these deviations cast doubt as to the effectiveness of internal controls. Consequently, we believe the two audited OCC locations are more than moderately vulnerable to fraud, waste, and abuse, as well as erroneous and improper payments.

The noted exceptions from prescribed policies and procedures occurred throughout the purchase card process beginning at the approving official level to the cardholder to those responsible for post reviews. The type of procedural exceptions included purchase authorizations, record keeping, monthly statement approvals, and periodic audits. For example, cardholders approved invoices for payment without proof of receipt of merchandise/service, purchases did not always have proper authorizations, required purchase logs were not maintained or incomplete, and responsible officials did not follow policies and procedures when approving cardholder monthly bank statements. Finally, the required post audit reviews by Headquarters for the District were not performed in over three years.

OCC also uses the purchase card as a primary payment system and does not limit card usage to small purchases as commonly used by other agencies. In some instances, large and reoccurring expenditures are paid using the issuing card bank's check writing

feature. However, this aspect of the card program may not be cost effective given the associated 1.25% fee of the transaction amount compared to issuing a Treasury check at less than a dollar.

Finally, we reviewed several purchased items that are authorized under OCC policies and procedures, but these same items are generally not allowed by other federal agencies. To avoid public misperception of abuse, OCC may wish to reassess and document the business related basis for certain items such as flowers and monthly cake purchases.

In response to our draft report, OCC largely concurred with the reported findings and had either already undertaken or planned corrective actions. In addition, OCC also noted that subsequent to the period of our audit coverage, they had instituted a new automated reconciliation process that provides managers and approving officials a means to review purchase card transactions for adherence to prescribed policies and procedures. OCC also provided additional information related to one of the purchases we discussed in the report and the cost of effecting payment through the card issuing bank's check-writing feature versus a Treasury payment. We believe that OCC's corrective actions collectively address our findings and recommendations if properly implemented. The complete text of OCC's response has been incorporated in its entirety in Appendix 4.

Background

The Office of Management and Budget established the Government Purchase Card Program in 1989 as a means to acquire goods and services and to streamline the acquisition of small dollar requirements by allowing non-procurement personnel to buy goods and services directly. The purchase card operates like a personal credit card but with some differences. The card can only be used for Official Government Business. In 1998, the Department of the Treasury selected CitiBank to provide all purchase card services – purchase card, travel card, and fleet card – to all its bureaus.

Treasury Directive (TD) 76-04, April 13, 2000, *Government Purchase Card Program*, establishes policy for the Department of

the Treasury wide Purchase Card Program. TD 76-04 established a micro-purchase limit of \$2,500 for goods and services purchased outside of procurement offices. It also encourages, with the necessary documentation, the use of the purchase card as a payment method for purchases over the micro-purchases limit. TD 76-04 also requires cardholder training prior to receiving a purchase card.

OCC Purchase Card Program

OCC's prescribed policies and procedures over the use of purchase cards are contained in the *Purchase Card Manual*, April 1999. These policies and procedures collectively form the internal controls needed to provide reasonable assurance against fraud, abuse, and mismanagement. The Purchase Card Manual outlines the responsibilities at each level of the program, including the Cardholder, Approving Officials (AO), Agency Program Coordinator (APC), and Acquisition Services. The following describes some of the fundamental procedures and associated controls at each level:

- The APC in Acquisition Services manages the program. Also Acquisition Services generally conducts District Quality Control Reviews every three years. During that review, the APC or designee performs a purchase card review.
- The APC is responsible for appointing the AO and setting up cardholder accounts with the issuing bank (CitiBank). Also, the APC or the designee will conduct audits of Headquarters cardholder files annually, except for cardholders with purchase limits greater than \$2,500 who will be audited every 6 months.

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- The AO is accountable for the purchase card transactions made by cardholders under his/her supervision. AOs are also responsible for reviewing the monthly statements of each of their cardholders to ensure all purchases were authorized and deemed necessary; transactions are in compliance with internal procedures; and transactions are fully documented.
 - In order to use the purchase card, the cardholder must have written delegation of authority from the APC. Then, in order to purchase goods and services, the cardholder is required to have written authorization to do so.

According to CitiBank records, OCC had a total of 192 cardholders during the audited period, with total transactions amounting to over \$5.6 million for over 9,500 transactions in FY 2001. In 2001, Headquarters had 86 cardholders with total charges of over \$2.2 million and over 4,250 transactions. The Western District had 16 cardholders with over \$900,000 in charges and over 4,400 transactions for 28 months.

Findings and Recommendations

Finding 1 Policies and Procedures Were Not Always Followed and Controls to Detect Exceptions Were Not Working

In reviewing 1,619 transactions for the 24 sampled cardholders, we found extensive exceptions from prescribed policies and procedures¹; and these exceptions occurred at each level of the purchase card process. We found purchases that were not properly supported, approvals being unjustifiably made, and errors going undetected, all of which suggest that the audited locations were vulnerable to fraud, waste, and abuse, as well as erroneous and improper payments. The associated individuals attributed these exceptions to a lack of training, inattention to details, lack of resources, and conflicting requirements.

¹ Appendix 2 shows a summary of the number and dollar amount of transactions for the 16 Western District cardholders.

The type and frequency of exceptions from policies and procedures varied across the different cardholders as well as their locations. To avoid recording isolated incidences, the following two tables summarize only those cardholders with two or more exceptions. Table 1 summarizes the exceptions for the 16 Western District cardholders over a 28-month period, and Table 2 reflects exceptions for the 8 headquarter cardholders over a shorter period of 12 months.

**Table 1: Western District
Policy & Procedural Exceptions and Post Audit Lacking
September 28, 1999 through February 8, 2002**

Cardholder Location	Purchase Log Agreed to Bank Statement		Bank Statements Signed/Dated		Receiving Documents Initialed/Dated		Proof of Service Received		Requisition Signed and Approved		Audit Performed	
	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
Glendale		X		X		X	X		X			X
Denver		X	X			X	X		X			X
District	X			X		X	X			X		X
Seattle		X		X		X		X	X			X
District		X	X			X	X		X			X
Denver	X		X			X	X		X			X
Phoenix		X		X		X		X	X			X
District		X		X		X		X		X		X
District		X		X		X		X	X			X
District	X		X			X		X	X			X
District		X	X			X	X			X		X
District	X			X		X	X			X		X
District	X		X			X		X	X			X
Orange	X		X			X	X		X			X
Glendale	X		X			X		X	X			X
Phoenix	X		X			X		X	X			X
TOTALS	8	8	9	7	16	8	8	12	4	16		

Source: OCC Cardholder Purchase Files & OIG Analysis

**Table 2: Headquarters
Policy & Procedural Exceptions and Post Audit Lacking
Calendar Year 2001**

Cardholder	Purchase Log Agreed to Bank Statement		Bank Statements Signed/ Dated		Receiving Documents Initialed/ Dated		Proof of Service Received		Requisition Signed and Approved		Annual Audit Performed	
	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
1		X		X		X		X		X		X
2	X			X		X	X		X			X
3	X			X		X		X		X		X
4	X		X			X		X	X			X
5	X			X		X	X		X			X
6		X		X	X		X		X			X
7	X			X		X	X		X			X
8	X			X		X	X		X			X
TOTALS	6	2	1	7	1	7	5	3	6	2		8

Source: OCC Cardholder Purchase Files & OIG Analysis

For the Western District, our analysis of the receiving documents found 589 transactions with noted exceptions, amounting to about \$170,776 (ranging from \$1.58 to \$2,200 per transaction). Although seemingly small, this amount is likely understated given our limited sampling methodology, which did not include testing transactions that reoccurred throughout the year such as Federal Express and telephone services. As noted above, we did not aggregate the total amount of exceptions for the Headquarter transactions given the limited testing performed for that location.

Processing Procedures and Prevent Control Exceptions

The most common exception we found entailed all 24 cardholder files containing receipts or invoices with no indication that the merchandise or service had actually been received, but were approved for payment. When asked how they verified receipt of paid purchases, cardholders assumed that the person ordering an item would have contacted them if they had not received the item. Other than this negative assurance, cardholders could not provide proof of receipt for any of the items. It is important to note that all of these were not assets required to be on inventory records.

However, the exceptions do illustrate the vulnerability to erroneous or improper payments.

The tables also show that 8 of 16 District cardholder files and 2 of the 8 Headquarters cardholders contained purchase logs that did not agree with the bank statement or that logs were prepared after the bank statement was received. For example, we found a purchase listed on the purchase log that did not appear on the corresponding month's bank statement or the following months thereafter. These could have been purchases that were cancelled or incorrectly entered. We also found purchase logs that matched the bank statement in the same exact order of when the bank recorded the transaction instead of when the purchase was originally requested, suggesting either coincidental entry errors or post transaction entries based on the bank statement.

Illustrating a breakdown of an internal control designed to prevent unauthorized purchase card usage were the four District and two Headquarters cardholder files that contained purchase records without approved requisitions. For example, an expanded review of several exceptions revealed 878 District requisitions, totaling over \$58,000, were not signed as approved purchases, but all were still processed for payment.

In addition, we identified one unauthorized purchase. However, this appeared to be due to human error rather than abuse. In fact, the cardholder had already notified OCC management about inadvertently using the government purchase card for \$114 in personal items at the local military commissary. The cardholder fully reimbursed OCC for the purchase 11 days after the purchase. Nevertheless, the incident illustrates how unauthorized purchases might occur and go undetected without proper controls. OCC had not invoked the CitiBank feature to disallow using purchases cards at a military commissary. On the other hand, it is questionable whether other controls would have highlighted the unusual purchase if the cardholder had not pointed out the error voluntarily.

Breakdown in Controls to Detect Exceptions

Besides procedures and controls designed to prevent the improper use of the purchase card, OCC also has procedures that serve as controls to detect procedural deviations. The AO is required to review a cardholder's purchase log and the supporting documentation when approving the cardholder's monthly bank statement for payment. This entails verifying the purchase documentation to the bank statement, checking to see the purchase card log is complete and that the log is being filled out as purchases are made and not after the statement is received. However, from the number of exceptions we found, it would appear in some cases the AOs might have been rubber-stamping their monthly reconciliation. Indeed, 2 of the 4 Headquarters AOs interviewed stated they did not completely follow the required reconciliation procedures, such as matching purchase logs, bank statements, or supporting documents. In addition, for 19 transactions totaling about \$500, the cardholder bank statements were approved without the required receiving documentation.

OCC policies and procedures provide that Acquisition Services manages the program, designates the APC, and conducts audits of District cardholder files during its Quality Control Review. The Quality Control Review is generally performed every three years. In addition, the APC or the designee will conduct audits of Headquarters cardholder files annually, except for cardholders with purchase limits greater than \$2,500 who will be audited every six months.

These audits determine cardholder compliance with the requirements of the purchase card program. However, Acquisition Services did not conduct any audits of Western District purchase cardholder files since May 28, 1999 through August 16, 2002 and the APC did not perform any audits within Headquarters in 2001. Given the lack of audits, the AOs were not aware of the reoccurring exceptions as to the purchase card program's policies and procedures.

The vulnerabilities of not having periodic APC audits as required were clearly illustrated for one Headquarters cardholder. The

August 2000 APC audit found uncorrected problems that were identified during the May 1999 audit. Furthermore, there was no follow-up audit to determine whether the problems have been corrected as of December 2001.

During 2001, this same cardholder also made 56 purchases that were not listed in the purchase logs and had a disputed charge that had not been corrected or reported to OCC or bank personnel. The disputed charge involved a restocking charge that resulted from returned merchandise. The cardholder nevertheless allowed the payment to be made to the bank anyway. Had the APC performed an audit during 2001 the cardholder could have improved the monitoring of the purchases to avoid similar problems in the future, or other appropriate supervisory action could have been taken with respect to the cardholder's assigned duties.

As noted previously, the APC or designee did not meet the audit requirements for the purchase card program for Headquarters and the Western District. When asked why, the APC referred to his additional job requirements and him being a one-man operation, suggesting limited resources. Therefore, it appears that adding the requirement to also audit all the District field offices would be impossible. During our audit, an employee was added to the APC's staff.

Aside from the APC staffing constraints, we believe there are no obvious differences in risk exposures that would account for the different audit cycles between Headquarters and the Districts. Both locations have similar, if not identical, functions, processes and purchase thresholds. Yet the District audit coverage of every three years as opposed to annually for Headquarters appears questionable given the level of exceptions we found in the Western District.

We attempted to find why these exceptions occurred and were not corrected. Cardholders and AOs especially in the District field offices repeatedly mentioned the lack of training. OCC's current training program includes an initial video presentation and requires the cardholders and AOs to read the OCC Purchase Card Manual. The cardholders and AOs we interviewed stated they had seen the

video and had read the manual, but most believed additional training would be of value to their daily requirements.

Recommendations

- 1-1. Given the level of exceptions to OCC's purchase card policies and procedures at the Western District, coupled with the apparent breakdown in controls to either prevent or detect exceptions, the Comptroller of the Currency needs to assess whether similar conditions exist at the remaining Districts and their field offices.

Management Comments and the OIG's Response

OCC generally concurred and had already resumed its internal audit program earlier this year covering Headquarters and two other Districts. The remaining Districts and field offices are scheduled to be completed this or next year. In addition, OCC's new automated procedures and reports will assist program managers and approving officials in their review of transactions for propriety. We believe OCC's completed and remaining planned internal audits of the other Districts substantively addresses the recommendation if properly implemented.

- 1-2. Given the comments by cardholders and approving officials regarding the training video and manuals as insufficient training, the Agency Program Coordinator should consider alternative formalized training approaches, including periodic refresher training/supplemental training.

Management Comments and OIG's Response

OCC concurred and committed to develop additional training approaches and requirements. This included assessing training by the Defense Acquisition University, Customs and GSA. We believe OCC's planned management action will address the recommendation. Given that OCC is reviewing all possible options, internal and external, training for cardholders,

approving officials, and others associated with purchase card transactions should improve.

- 1-3. The Agency Program Coordinator should reassess the need to align the audit cycle for Headquarters and District offices and ensure that the required audit cycle is met. In the interim, the APC should consider appointing district personnel to perform more frequent district audits similar to the Headquarters cycle, i.e. semi-annual for above \$2,500 and annually for all other cardholders.

Management Comments and OIG's Response

OCC agreed that the audit protocols for Headquarters and the Districts should be the same, and plans to revise their overall audit approach. OCC plans to concentrate their regularly scheduled audits on cardholders that account for the largest percentage of expenditures and rely upon random audits and reports currently obtained through the improved CitiDirect system. As OCC gains experience with the new audit and control measures, they will evaluate the need to use the District staff for random spot checks. We believe OCC's planned actions will address the recommendation if properly implemented.

- 1-4 The Agency Program Coordinator should commence audits covering any years with lapsed audit coverage to reasonably ensure that prior purchases were proper and payments were not erroneous or improper.

Management Comments and OIG's Response

As management stated in response to recommendation 1-1 above, OCC resumed their audit program earlier this year and, so far, has completed audits of all cardholders in Headquarters and the Northeastern and Central Districts. Additional Districts will be covered this year and next. Their work to date has not revealed any erroneous or improper transactions or payments. We believe ongoing and planned audits will address the recommendation if properly implemented.

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- 1-5. The Agency Program Coordinator needs to better ensure that the required documentation be maintained to verify authorization and receipt of purchases with the purchase card. This would be particularly important for the District APC to verify reoccurring transactions, such as the monthly phone invoices, for accuracy and reasonableness of the charges.

Management Comments and OIG's Response

OCC concurred and committed the APC to provide reminders to cardholders and approving officials of the documentation that must be retained in the purchase card file. OCC will also amend the Purchase Card Manual to more clearly delineate these requirements. We believe OCC's planned management actions will address the recommendation if properly implemented.

- 1-6. In light of the unusual military commissary grocery charge, the Agency Program Coordinator should periodically reassess and update the list of prohibited purchases and types of vendors that the issuing card bank may systematically invoke to reject vendor charges.

Management Comments and OIG's Response

OCC indicated that the APC currently performs periodic reviews. With respect to the commissary charge, OCC indicated that they were not aware of any vendor category that would have automatically blocked only that transaction or that could differentiate between authorized and unauthorized use of a commissary.

We believe that OCC's cited APC's periodic reviews of prohibited purchases and a type of vendors technically addresses the OIG recommendation. However, as a point of further clarification, the OIG suggests that any such future reviews include assessing the specific business circumstances warranting the type grocery items purchased from the military commissary. Moreover, OCC might also consider in such future periodic reviews whether the card-issuing bank could assist

OCC in blocking out specific types of items or vendors beyond the currently available broad categories of items and types of vendors. Again, the OIG believes the OCC's cited reviews addressed the recommendation.

Finding 2 Purchase Card Program Fees and Expenses

OCC does not limit purchase card usage to the micro-purchase (small dollar) requirements of \$2,500 for purchases outside of procurement offices. OCC has expanded the purchase card use as a payment method for purchases over the micro-purchase limit. One aspect of this payment method is a check-writing feature, which the Western District used when vendors did not accept a purchase card. Using the check-writing feature, OCC was charged a 1.25% fee of the face amount of the transaction.

In reviewing several transactions, we noticed that this feature was used for some large reoccurring expenditures. Given the associated fee, this feature might not be the most cost effective payment method. For example, we estimate that the Western District paid approximately \$340 on roughly \$27,000 for phone services from December 2000 to January 2002. These amounts are likely understated because there were gaps in the reported monthly phone bills.

From CitiBank records, we determined that OCC paid nationwide nearly \$900,000 over a 28-month period using the check-writing feature with estimated fees totaling about \$11,000. In comparison, the total transaction cost of issuing a Treasury check is estimated at 42 cents in year 2000, and just 2 cents per Electronic Transfer Account transaction. While a detailed cost comparison was outside the scope of this audit, we believe that the large contrasting costs between using the purchase card check-writing feature versus a Treasury payment raises questions as to the cost effectiveness of the card's check-writing feature.

Finally, in reviewing transactions, we also noticed that several purchased items, while on the surface, may not have seemed to be for official government business. Under 12 U.S.C. 482, the Comptroller of the Currency may impose and collect assessments

that are necessary or appropriate to carry out the responsibilities of the OCC and funds may only be used for OCC operations. Also, the Comptroller may provide benefits to his employees that are or could be provided by any other Federal banking regulatory agency. OCC regulations state the Comptroller of the Currency decides allowable items to be purchased. For a detailed list of OCC prohibited and restricted purchase items, see Appendix 3.

In reviewing the above-mentioned transactions, we found that the items were not listed as a prohibited or restricted item. Nevertheless, some items could be easily perceived as not being for official business. Indeed, some items are generally not allowed by other Federal agencies and would be funded by the individual employees rather than the agency. These items included flowers, bottled water, lunches, and monthly cake purchases.

Although these items were nominal expenditures individually, annual costs could amount in the thousands. For example, we estimate the Western District spent possibly as much as \$825 in monthly cake purchases over the 28-month audited period. We did not attempt to estimate the cost of cake purchases nationwide, however, a senior OCC official told us that this was common purchase throughout the country.

Although authorized under existing regulations and OCC policy, we believe these types of purchases do not appear to be clearly in support of OCC operations or necessary, i.e., for official business.

Recommendations

2-1. The Comptroller of the Currency should direct the Agency Program Coordinator to reassess the cost effectiveness of, and conditions for, the purchase card's check-writing feature as compared to effecting payment through Treasury.

Management Comments and OIG's Response

OCC concurred and has reviewed the use of the check-writing feature and believes that the continued use of convenience checks is appropriate and cost effective. To avoid late payment

charges and to decrease the number of non-EFT payments, the OCC made a policy decision to use the purchase card and its convenience check payment feature for small purchases where there is no specific OCC contract in place for the services. Many of these payments are to utilities that refuse to accept EFT payment. OCC recognizes that the associated check writing fees represent a cost and will continuously evaluate their processes to reduce administrative costs.

We believe that OCC's cited action to continually evaluate the associated costs addresses the intent of the recommendation. In responding to this recommendation, OCC also noted that in using figures from a study by the Purchase Card Council, OCC avoided costs of over \$107,000 as compared to the \$11,000 costs for the convenience checks cited in the report. We believe future OCC cost comparisons will need to reassess the applicability of the cost estimates from the Purchase Card study. Specifically, the transaction cost saving \$53.77 cited by OCC occurs when using a purchase card versus a purchase order. However, this figure appears to implicitly assume that the costs of a purchase order is mutually exclusive from the costs of a purchase card transaction. As a point of clarification to the recommendation, the applicable cost comparison recommended was just the payment process and not the entire procurement process because we recognized that some of OCC's purchase card convenience check payments included items that would have been procured through a purchase order. Accordingly, the \$53.77 figure OCC uses in deriving the \$107,000 cost avoidance likely included costs that would be common to using both purchase orders and purchase cards. While total transactions costs are relevant in these type of cost comparisons, an aspect missing from OCC's approach was to isolate the cost of effecting payment by the purchase card convenience check versus through Treasury. Accordingly, future OCC cost comparisons will need to take into account the fact that there are common costs associated with a purchase order transaction and purchase card transaction, and that the two processes do not have totally mutually exclusive costs.

2-2. In conjunction with recommendation 1-6, the Comptroller of the Currency should also reassess the list of prohibited and restricted items not just for the purchase card but also to ensure the items are necessary and clearly support OCC operations.

Management Comments and OIG's Response

OCC has always had a policy that OCC expenditures had to be related to and in support of OCC operations, including employee work-life and morale. OCC also periodically evaluates policies in these areas and will be doing so in FY 2003. In prior reviews of these policies, OCC has concluded that the small sums involved represent a prudent use of funds, especially when compared to the alternative of direct cash awards to employees, which typically involve larger sums. We believe OCC's planned FY 2003 review addresses the recommendation if properly implemented.

* * * * *

We would like to extend our appreciation to OCC for its cooperation and courtesies extended to our audit staff during the audit. If you have any questions, please contact me at (415) 977-8810 ext.222 or John A. Richards, Supervisory Auditor, at (415) 977-8810 ext.225. Major contributors to the report are listed in Appendix 5.

Benny W. Lee
Regional Inspector General for Audit

Appendix 1 Objectives, Scope, and Methodology

Our overall objective was to determine if the OCC has appropriate controls over its Government Purchase Card Program, to ensure that the purchase cards are used for their intended purpose and that OCC is achieving maximum benefit from the program. Specifically, we sought to determine if OCC's purchase card program management policies and procedures are reasonably effective in preventing OCC from being vulnerable to fraud, waste, and abuse.

We visited OCC Headquarters in Washington, D.C in December 2001 and obtained program information such as policies and procedures, regulations, and related information over the Purchase Card Program. Our original audit scope was to only cover OCC's Western District. During our entrance conference, however, Headquarters personnel asked that we also review their Headquarters procedures and program. We also reviewed the APC's monitoring reports² and sampled cardholder purchases files. Since OCC Headquarters was not part of the original audit plan we did not have the CitiBank data available to select a judgmental sample or the dollar values associated with cardholder transactions like we had for the Western District.

To determine the universe of cardholders and AOs throughout OCC, we reconciled three purchase card program reports maintained by the APC. The three reports maintained by the APC are: 1) the Cardholder List report which lists the card number, cardholder name and address, cardholder single purchase dollar spending limit, and cardholder level; 2) the Approving Official and Purchase Cardholder List which lists the AO, District, alternate approving official (if one is named), applicable cardholder name, and cardholder single purchase dollar spending limit; and 3) the Purchase Card Program Audit Schedule which lists AO, District, cardholder, card issuance date, previous audit dates, and next audit dates that are due or scheduled.

From the universe of OCC cardholder accounts, we judgmentally sampled 10 percent to interview for compliance with OCC policies and procedures. We also performed a 10 percent judgmental sample

² OCC Purchase Card Program Cardholder List, dated 12/4/01; OCC Approving Official and Purchase Cardholder List, Revised as of 12/3/01; and OCC Purchase Card Program Audit Schedule, Updated 12/13/01.

Appendix 1 Objectives, Scope, and Methodology

of cardholder accounts to review for purchase transaction compliance.

For our Headquarters review we looked at 8 out of the 81 cardholders assigned within the Headquarters building. We did not review the five Headquarters cardholders that were located outside of D.C. The review covered Headquarters APC function and responsibilities, AO responsibilities, and Cardholder purchase documentation files for the year 2001.

After familiarization with the purchase card program, we notified OCC that we would review OCC's Western District purchase card program in the San Francisco District and field office and five Western District Field Offices located in Glendale, California; Orange, California; Phoenix, Arizona; Denver, Colorado; and Seattle, Washington to assess the effectiveness of OCC's Government Purchase Card management controls.

We identified 17 cardholders at the OCC Western District. From OCC's CitiDirect database we downloaded cardholder transaction files for the period September 28, 1999 through February 8, 2002. Our downloads included 17 cardholders, 8 in San Francisco and 9 at the Western District field offices, with over 4,400 transactions totaling over \$900,000. From the CitiDirect database purchase card download, we compared bank record transactions to cardholder transaction records for each cardholder.

At each cardholder location, we interviewed the cardholder and the associated AO to determine if their responsibilities and authority were in line with OCC's purchase card program policies and procedures.

In our purchase card file review, we compared the cardholder transaction documentation against the downloaded data from the CitiDirect database. We reviewed transaction documentation for purchase requests, the cardholder purchase log, reconciled purchase invoices, unusual vendor transactions, approved packing slips, approved receiving documents, and approved bank statements. We reviewed 100 percent of the transactions for cardholders with a

Appendix 1 Objectives, Scope, and Methodology

small number of transactions (i.e., less than 250). For cardholders with a large number of transactions (i.e., greater than 250), we selected large dollar transactions and unusual vendor transactions, while judgmentally selected every tenth transaction for review.

We conducted our audit between December 2001 and September 2002 in accordance with generally accepted government auditing standards.

Appendix 2
Western District Cardholder Account Transaction Summary for the
Period September 28, 1999 to February 8, 2002

District Cardholder Location	Total Number of Transactions 9/28/99 through 2/8/02	Transaction Dollar Amount 9/28/99 through 12/31/99	Transaction Dollar Amount for Calendar Year 2000	Transaction Dollar Amount for Calendar Year 2001	Transaction Dollar Amounts for 1/1/ 02 through 2/8/02	Total Dollar Amount for all Transactions from 9/28/99 through 2/8/02
Glendale	204	\$192.51	\$3,692.17	\$6,177.32	\$696.36	\$10,758.36
Denver	310	1,302.17	2,924.31	11,431.85	14.55	15,672.88
District	14	0	793.00	1,567.38	0	2,360.38
Seattle	205	0	12,862.06	7,601.35	835.62	21,299.03
District	58	3,086.43	1,835.15	2,943.69	0	7,865.27
Denver	28	0	0	142.60	561.35	703.95
Phoenix	242	1,481.71	9,231.51	8,467.91	1,546.99	20,728.12
District	39	0	0	2,983.35	27.85	3,011.20
District ³	1764	30,311.10	93,159.27	231,021.20	21,105.50	375,597.07
District	381	(2,499.00) ⁴	70,539.55	118,850.13	15,146.06	202,036.74
District	146	6,592.12	15,639.01	15,261.28	446.84	37,939.25
District	15	396.19	544.62	23.05	0	963.86
District	354	0	17,762.95	106,661.86	32,927.01	157,351.82
Orange	241	375.86	4,097.38	13,655.48	0	18,128.72
Glendale	6	43.00	0	2,000.00	0	2,043.00
Phoenix	27	0	0	1,404.89 ⁵	0	1,404.89
Total	4033	\$41,282.09	\$233,080.98	\$530,193.34	\$73,308.13	\$877,864.54

SOURCE: CitiBank - CitiDirect Cardholder Reports and Cardholder File Review Analysis

³ Cardholder is also the Western District Procurement Officer. Purchases that cannot be made by District field offices are requested through the District procurement office.

⁴ Credit balance is for refunds for training courses cancelled in 1999.

⁵ Cardholder account was opened and closed in 2001.

Appendix 3
List of Prohibited and Restricted Items Per OCC Guidance

Prohibited Items:

- 1) Cash advances
- 2) Rental or lease of land or buildings
- 3) Purchases of telecommunications services (Amended by OCC Purchase Card Alert (PCAL) 01-11, dated 9/24/01)
- 4) Personal travel and travel related expenses
- 5) Purchase of gasoline or oil for GSA Interagency Fleet Management vehicles
- 6) Repair of GSA Interagency Fleet Management vehicles
- 7) Advance payments, except for rent (but not of land or buildings), tuition, insurance, utility connection/extension, subscriptions to publications, and rental leasing of microfilm libraries.
- 8) Construction or renovation
- 9) Purchases from Federal Government employees or from business organizations substantially owned or controlled by Federal employees
- 10) Copying jobs that exceed 5,000 copies of one-page (single-sided) or 25,000 copies total of multiple pages
- 11) Print jobs that exceed \$1,000

Restricted Items:

- 1) Information technology equipment, software, and services, unless approved by the appropriate IT officials. Note: You may not use the card to purchase telephone services under any circumstances. (Amended by OCC PCAL 01-11.)
- 2) Advisory and assistance services, unless approved by the appropriate personnel officials.
- 3) Furniture, unless approved by RE&DS.
- 4) Training, unless in accordance with District policy or approved by the designated training official.
- 5) Office supplies, unless approved by the Supply Manager in Administrative Services (applies to Headquarters personnel only).

Appendix 4 Management Comments

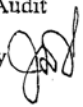


MEMORANDUM

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

To: Benny W. Lee, Regional Inspector General for Audit

From: John D. Hawke, Jr., Comptroller of the Currency 

Date: December 10, 2002

Subject: OIG Draft Audit Report – Purchase Card

We have received and reviewed your draft audit report titled *OCC: Purchase Card Usage at The Western District and Headquarters*. The audit was undertaken as part of a planned series of Treasury bureau wide audits in response to Senator Charles E. Grassley's September 24, 2001 letter addressing his concerns on the use of government charge cards. The objectives of the audit were to determine if OCC has adequate controls over its Government Purchase Card Program to ensure that purchase cards are used for their intended purpose and if OCC's purchase card program policies and procedures were reasonably effective in preventing and detecting improper card usage. The audit found that the OCC had adequate policies and procedures in place but they were not always followed and there was a breakdown in controls to detect exceptions. The audit found no evidence of any purchase card fraud, waste, or abuse and that the exceptions generally did not entail large dollar items. The audit also commented on the purchase card program fees and expenses that the OCC incurs.

Fieldwork was conducted from December 2001 to September 2002, but covered an earlier period that extended only to February 2002. OCC took some actions during the course of the audit that might have affected the outcome of the fieldwork had the auditors reviewed more recent activity. In February 2002, the OCC replaced the reconciliation process that was audited when we implemented the automated CitiDirect statement process, a system that automatically requires reconciliations and provides reports that assist the program manager and approving officials in their review of transactions for propriety. Since February 2002, there have only been four instances out of hundreds of statements where the review by the approving official was not completed as required. When closure requirements are not met, a report is provided to the cognizant manager, the cardholder and the approving official. The second time the review is not completed as required, the purchase card is either suspended or revoked.

OCC resumed its internal audit program earlier this year and, so far, has completed audits of all cardholders in headquarters and the Northeastern and Central districts. Additional districts will be covered this fiscal year and next. The reviews showed similar minor issues regarding completion of the purchase card logs and files, but no evidence of erroneous or improper transactions or payments. In most cases, when the documentation was not in the file, electronic

Appendix 4 Management Comments

documentation was available. Our experience has been that the approval and supporting documentation are available, but the cardholders have simply failed to print out hard copies for their purchase card file. We also believe that this represents one of the processes that may not be adequately addressed in the Purchase Card Program Manual and we will take appropriate steps to clarify our requirements.

For example, your auditors reported to us informally that the reported deficiencies related to proof of receipt are primarily for external training transactions. External training is requested and authorized through an automated SF-182 process and then electronically forwarded to the training officer for ordering of the desired external course. The training officer orders the training course and uses the purchase card for payment. Attendees are then required to complete an electronic evaluation. If the evaluation is not completed, the training officer follows up with the attendee. In keeping with the President's Management Agenda item on e-Government, we believe that requiring the training officer to print out and retain duplicate paper copies would be wasteful. We will evaluate and implement a cost effective approach to documenting training receipt in the purchase card file, perhaps by having the training officer annotate the purchase card log to indicate that completion of the training had occurred.

It appears that most of the reported deficiencies related to signed requisitions are for Federal Express shipping charges and telephone payments. Under our procedures a signed requisition is not required if a signed blanket approval is in place. We will remind all of our managers to use blanket approvals for these types of repetitive transactions.

As described below, further corrective action is planned in response to your recommendations.

Recommendation 1-1: Given the level of exceptions to OCC's purchase card policies and procedures at the Western District, coupled with the apparent breakdown in controls to either prevent or detect exceptions, the Comptroller of the Currency needs to assess whether similar conditions exist at the remaining Districts and their field offices.

As described above, we believe that we have implemented this recommendation.

Recommendation 1-2: Given the comments by cardholders and approving officials regarding the training video and manuals as insufficient training, the Agency Program Coordinator should consider alternative formalized training approaches, including periodic refresher training/supplemental training.

OCC recognizes that training requirements are evolving and vital for an efficient and sound purchase card program. We will develop additional training approaches and requirements. The Defense Acquisition University has just introduced a new on-line purchase card training module and we will also be reviewing the training modules used by Customs and GSA for possible use at the OCC.

Recommendation 1-3: The Agency Program Coordinator should reassess the need to align the audit cycle for Headquarters and District offices and ensure that the required audit cycle is met.

Appendix 4 Management Comments

In the interim, the APC should consider appointing district personnel to perform more frequent district audits similar to the Headquarters cycle, i.e. semi-annual for above \$2,500 and annually for all other cardholders.

OCC agrees that the audit protocols for Headquarters and the Districts should be the same. We have evaluated our purchase card usage and believe basing our audit policy on a combination of risk assessment and random audits makes best use of our audit resources. While 23 of our cardholders spend more than \$100,000 per year and account for 80% of our annual purchases, 125 of our cardholders spend less than \$10,000 per year and represent less than 5% of our annual purchase card expenditures. We plan to concentrate our regularly scheduled audits on those cardholders that represent the largest percentage of our expenditures and rely upon random audits and reports we now obtain through the improved CitiDirect system to monitor the remaining cardholders for potential problems. An additional control is that the purchase card data is now available to managers in monthly financial reports so they will be an additional check for non-authorized transactions. As we gain experience with these improved audit and control measures, we will evaluate the need to use the District staff for random spot checks.

Recommendation 1-4: The Agency Program Coordinator should commence audits covering any years with lapsed audit coverage to reasonably ensure that prior purchases were proper and payments were not erroneous or improper.

As described above, we have implemented this recommendation.

Recommendation 1-5: The Agency Program Coordinator needs to better ensure that the required documentation be maintained to verify authorization and receipt of purchases with the purchase card. This would be particularly important for the District APC to verify recurring transactions such as the monthly phone invoices, to verify for accuracy and reasonableness of the charges.

The APC will provide reminders to cardholders and approving officials of the documentation that must be retained in the purchase card file. As previously stated, we will also amend the purchase card manual to more clearly delineate these requirements.

Recommendation 1-6: In light of the unusual military commissary grocery charge, the Agency Program Coordinator should periodically reassess and update the list of prohibited purchases and types of vendors that the issuing card bank may systematically invoke to reject vendor charges.

The APC does perform such periodic reviews. With respect to the commissary charge, we are not aware of any vendor category that would have automatically blocked only that transaction or that could differentiate between authorized and unauthorized use of a commissary. It is also important to note that the cardholder immediately recognized the error and effected correction before it reached the Approving Official for reconciliation or the manager in a monthly budget report. Accordingly, we do not view the commissary charge as an indication of a failure in the existing control process. Rather, we believe it demonstrates the efficacy of our controls even before the improvements described above.

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Recommendation 2-1: The Comptroller of the Currency should direct the Agency Program Coordinator to reassess the cost effectiveness of, and the conditions for, the purchase card's check-writing features as compared to effecting payment through Treasury.

OCC has reviewed the use of the check-writing feature and believes that the continued use of convenience checks is appropriate and cost effective. To avoid late payment charges and to decrease the number of non-EFT payments, the OCC made a policy decision to use the purchase card and its convenience check payment feature for small purchases where there is no specific OCC contract in place for the services. Many of these payments are to utilities that refuse to accept EFT payment. We do recognize that the associated fees represent a cost and we continuously evaluate our processes to reduce administrative cost and effort. However, your comparison of the fees to 2 cents for an EFT payment and 42 cents for a Treasury check does not appear to take into account the cost that would be incurred to issue a purchase order or other contract form in order to be able to effect the payment. A study by the Purchase Card Council determined that the average savings per transaction from using a purchase card versus a purchase order was \$53.77. Using this number for the 2000 or more convenience checks written by OCC cardholders last year results in an avoided cost of over \$107,000 compared to the \$11,000 of convenience check fees.

Recommendation 2-2: In conjunction with recommendation 1-6, the Comptroller of the Currency should also reassess the list of prohibited and restricted items not just for the purchase card but also to ensure the items are necessary and clearly support OCC operations.

OCC has always had a policy that our expenditures had to be related to and in support of OCC operations, including employee work-life and morale. We periodically evaluate our policies in these areas and will be doing so in FY 2003. In prior reviews of these policies, we have concluded that the small sums involved represent a prudent use of our funds, especially when compared to the alternative of direct cash awards to employees, which typically involve larger sums.

Thank you for the opportunity to review and comment on the draft report.

Appendix 5
Major Contributors To This Report

John A. Richards – Supervisory Auditor
Gale H. Dwyer - Auditor

Appendix 6 Report Distribution

The Department of the Treasury

Assistant Secretary, Office of Financial Institutions
Office of Strategic Planning and Evaluations
Office of Accounting and Internal Control
Office of Budget
Purchase Card Coordinator, Departmental Offices

Office of the Comptroller of the Currency

Comptroller
Deputy Comptroller for Management Services
Western District Deputy Comptroller
Senior Advisor (OIG/GAO Liaison)

Office of Management and Budget

OIG Budget Examiner