



Pension Benefit Guaranty Corporation

Office of Inspector General

Management Advisory Letter

**PBGC's Use of the Government
Purchase Card for
Micro-Purchases**

August 22, 2001

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Pension Benefit Guaranty Corporation
1200 K Street, N.W., Washington, D.C. 20005-4026

Office of Inspector General

August 22, 2001

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Pension Benefit Guaranty Corporation

Re: Management Advisory Letter –
PBGC's Use of the Government Purchase Card
for Micro-purchases

The Office of Inspector General (OIG) conducted an evaluation of PBGC's micro-purchase program. The Pension Benefit Guaranty Corporation (PBGC) uses the Government's International Merchant Purchase Authorization Card (I.M.P.A.C., hereafter the "Card") for micro-purchases. PBGC contracted on September 22, 1998, with US Bank (Bank) for agency Cards. A micro-purchase is the acquisition of supplies or services that does not exceed \$2,500. At the end of Fiscal Year 2000, the micro-purchase program had thirty-eight (38) Cardholders with the combined authority to purchase \$7.5 million of goods and services. Actual Card expenditures for FY 1999 and 2000 were about \$729,000 and \$1.14 million, respectively.

The Federal Acquisition Regulations (FAR) in Subpart 13.2 encourages agency heads to delegate micro-purchase authority. FAR further states that an agency shall develop procedures for use and control of the Card. Though the Card could be used for a variety of purchase categories, PBGC specifically limits the Card's use to micro-purchases. In addition to the government-wide regulations in FAR, two documents control PBGC employees' Card use:

1. "Pension Benefit Guaranty Corporation Policy for Use of the Government's I.M.P.A.C. Purchase Card" that describes the authority, purpose, and the specific responsibilities covered under the program; and
2. "Government Commercial Purchase Card Service Guidelines/Procedures" that covers implementation of the Policy.

RESULTS IN BRIEF

From our review, we identified weaknesses in PBGC's management of the micro-purchase program and employees' use of the Card, including:

- Controls available to limit Cardholders' expenditures are not consistently used and exceptions are not documented.
- Payment and budgetary controls are not enforced.
- Oversight is lacking, including failure to obtain Bank reports, monitor departments' expenditures, and maintain documentation.

Because the micro-purchase Card program has grown since its inception, we suggest that PBGC reassess the policies and procedures governing card use and strengthen its oversight of the program.

MICRO-PURCHASE PROGRAM OVERVIEW

The Procurement Department (PD) has oversight of the micro-purchase program. PD is responsible for:

- establishing policy for Card use;
- approving department directors' requests for Cardholders;
- informing and forwarding Cardholders' information to the Bank;
- providing written delegation to Cardholders and Approving Officials; and
- approving changes to the Card's limitations for a particular Cardholder.

PD has two Agency/Organization Program Coordinators (A/OPC)¹ who are PBGC's contact with the Bank. Under the program, department directors or their delegated designees contact PD with the names of Cardholders and Approving Officials and their purchase and approval limits. PD submits to the Bank the paperwork setting single purchase limits, 30-day spending limits and acceptable merchant codes.² The Bank issues a Card in the PBGC employee's name. PD sends a confirmation memo to the Cardholder and Approving Official confirming the limits.

The Bank sends a monthly invoice to the designated billing office in the Financial Operations Department (FOD), who then forwards sections of the invoices to the responsible Cardholders and Authorizers. The invoice lists each purchase, amount, date charged, merchant's name and address, and the Approving Official. The Cardholder reviews the invoice, matches purchases to their documentation, and assigns a code to each purchase that directs FOD to the correct departmental obligation. The Cardholder signs the invoice and forwards it with documentation to the Approving Official, who reviews, approves with a signature, and transmits the approved invoice to FOD for payment.

OBJECTIVE, SCOPE AND METHODOLOGY

We reviewed the micro-purchase program and use of the Card during FY 2000 to provide agency management with information concerning possible weaknesses. To obtain an understanding of the process, the OIG interviewed personnel in both PD and FOD, and systematically walked-through the invoice payment process. We reviewed documents maintained in PD generated by the A/OPC. We performed a survey of FOD's FY 2000 I.M.P.A.C. invoice file. We also reviewed the GSA Master Contract for the Card.

OIG FINDINGS

1. Program Controls

In our review of the I.M.P.A.C. contract, we identified various authorization controls available to PBGC to manage the program, among them:

- maximum dollars per transaction;
- maximum dollars per month, quarter or year;
- maximum number of transactions per day or month;
- merchant category codes limitations to specific types of merchants;
- and

¹ A/OPC are defined by contract as the individuals who manage the card program for the agency and have complete responsibility for the program.

² Merchant codes are contractor-assigned categorization of business types. They are used as a control to identify the types of businesses who provide goods and/or services that employees are authorized to purchase with the Card. Cardholders are blocked from using cards at business types that are not authorized (e.g., medical facilities or airports).

- limitations on who can designate Cardholders and authorize Card changes.

During our evaluation, we identified the specific authorizing controls used by PBGC to manage the micro-purchase program. The first control PBGC uses is a dollar limit per purchase and the second control is a maximum 30-day spending limit on each Cardholder. PBGC policy and procedures specifically limits single Card purchases to micro-purchases, i.e., not to exceed \$2,500. We found PD had authorized some Cardholders' single purchase authority in excess of the \$2,500 threshold. In compliance with FAR § 1.603-3(b), PBGC procedures require a written delegation of authority for each Cardholder that provides their spending limits and authorization activity codes. In a search of PD files, we observed that memoranda to delegate authority for all approved Cardholders were not retained. PD must bring spending limits into compliance with policy and procedures and issue a written delegation of authority for every current Cardholder that does not have one on file.

The third control PD uses is the merchant category code limitation that restricts purchases to specific types of merchants. We reviewed five (5) departments Cardholders' merchant codes and invoices. We found two types of control violations:

- some Cardholder's used their Cards at merchants that were not approved; and
- some Cardholder's merchant codes had been changed to allow unrestricted purchases.

We reviewed invoices and found some Cardholders were using their Cards at restaurants to purchase gift certificates for non-monetary awards. Restaurants are not on the list of acceptable merchants. The A/OPC stated that PD over-rode the merchant category code control by calling the Bank and authorizing the Bank to accept the Cardholders' charges. However, we found nothing in the A/OPC files that documented the authorizations. Further, in four of the five departments we reviewed, we found that some Cardholders' three digit merchant codes had been changed to 000, which allows access to all merchant types. PD's files did not document who authorized the change, or why it was changed. The reasons for circumventing the merchant code controls needs to be justified in writing on an individual basis.

The fourth control is that only department directors or their designees are to submit departmental requests for Cards and Card changes. We found that PD accepted requests from individuals who had not been given authority through a written delegation from their department director, as required by PBGC directive. In addition, we found PD negotiating spending limits with individual Cardholders via e-mail. Cardholders do not have authority to change purchase limitations with respect to their Cards. Any changes or negotiations about Cards, including changes in merchant codes, must come from the Cardholder's department director or written designee and not the Cardholder.³ To comply with PBGC directives and FAR, PD must obtain delegations of authority from all department directors stating who may authorize their department's Cards.

The controls established for the Card are important to prevent unauthorized use, excessive purchases, and potential fraud. When PBGC does not document exceptions to the controls, it is vulnerable to misuse and abuse of the Card, and to financial liability.

³ Documentation retained by the A/OPC had only the Cardholder's request. There was no documentation that the request was authorized by the department director or designee.

2. Payment Process

We conducted a survey of I.M.P.A.C. invoices paid in FY 2000 by reviewing the obligation for Card expenditures and tracking one invoice through the payment process. For micro-purchases, funds are obligated prior to expenditure. For example, a department would obligate \$10,000 specifically for supplies purchased using the Card. The department can then charge up to \$10,000 in supplies. We found that some departments charged more than they had obligated. Controls need to be developed to ensure that departments do not use the Card when there is not enough funds obligated to pay for the purchase. Overcharging could cause a delay in the payment of invoices as additional funds, if available, would have to be obligated for Card purchases.

Another payment issue surfaced when we reviewed an invoice to purchase non-monetary award gift certificates. PBGC uses project codes to track some expenditures, including non-monetary awards. We found the department had not obligated funds to purchase non-monetary awards using the micro-purchase Card. When we reviewed the department's budgetary spending we found that no funds had been expended from their non-monetary awards budget, even though the gift certificate micro-purchases totaled 35% of their award budget. If appropriate budgetary project codes are not assigned to micro-purchase Card expenditures, it is possible for departments to exceed their authorized budget amounts in particular categories. Procedures need to be developed to ensure Cardholders and Approving Officials associate Card expenditures with the correct budgetary categories.

In addition, we note that PBGC developed policies and procedures for the micro-purchase program when the purchase Card was first introduced for limited use. Currently, PBGC lists permissible purchases as including, but not limited to:

- goods and services purchased from mandatory government supply schedules;
- repair services not covered by existing maintenance agreements; and
- subscriptions, books, and authorized memberships.

PBGC also lists seven items or services that may not be purchased using the Card, such as telecommunications (telephone) services. The policies and procedures need to be updated to reflect current Card usage which has expanded to essentially all purchases under \$2,500, including training, non-monetary awards, software and IRM purchases. Further, PBGC needs to review other directives and policies to ensure Card use does not undermine other existing controls. For example, PBGC directives require prior approval for IRM purchases but Card procedures do not.

3. Program Oversight

Under PBGC policy and procedures and the I.M.P.A.C. contract, PD is assigned two primary responsibilities for the Card:

1. oversight of the micro-purchase Card program, and
2. PBGC's point of contact with the Bank that issues the Card.

During our fieldwork, PD was unable to provide any historical information on Card use nor obtain basic reports from the sponsoring Bank as requested by the OIG. We understand that the information requested is available on-line from the sponsoring Bank's Master File, but PD has not availed themselves of that capability. To perform effective oversight, PD needs to obtain and review Card reports maintained by the Bank.

After the initial period of limited Card use, authority for micro-purchasing was transferred from PD to the departments. PD was to provide PBGC's centralized control by performing periodic reviews of the departments' purchasing records and providing guidance. Based upon the documentation PD maintains, we were unable to determine the quality of PD's oversight reviews and saw little evidence that the departments were seeking PD's guidance. PD needs to exercise its oversight responsibility and communicate more effectively with the Cardholders, Authorizers, Department Directors, and their designees.

SUGGESTIONS FOR IMPROVEMENT

As the micro-purchase program has significantly grown (*i.e.*, total dollar amount, number of Cardholders, and authorized purchases), PBGC needs to invest in strengthening procedures and oversight of the entire program. The program, as currently operating, is vulnerable to fraud and misuse. We suggest that PBGC review the micro-purchase Card program in light of the weaknesses identified in this Advisory Letter, and revise its written policies and procedures to:

- determine what documentation must be maintained and for how long;
- determine who is responsible for tracking the use of funds;
- reassess who should have day-to-day responsibility for the program;
- reassess who should have oversight; and
- ensure Cardholders have obligated funds prior to expending.

AGENCY COMMENTS

PBGC was provided with a draft of the Management Advisory Letter for review and comment. We met with Procurement officials, during the comment period, to clarify certain reported issues. We received positive comments on the Advisory Letter including a commitment from PBGC management to strengthen control over the micro-purchase program to reduce PBGC's risk exposure.

The full text of PBGC's comments are attached to this report at Tab I.

If you have any questions concerning this letter report, please contact me at (202)326-4030.



Wayne Robert Poll
Inspector General

cc: Robert Herting, PD
Marty Boehm, CCRD

Tab I