



September 12, 2008

MICHAEL J. DALEY
VICE PRESIDENT, PACIFIC AREA OPERATIONS

SUBJECT: Audit Report – Fiscal Year 2008 Pacific Area SmartPay Purchase Card Program (Report Number FF-AR-08-281)

This report presents the results of our audit of the SmartPay Credit Card purchases by personnel in the Pacific Area Office (Project Number 08BD006FF002). This audit is part of the Fiscal Year 2008 Financial Installation Audits we announced on August 14, 2007. Click [here](#) to go to Appendix A for additional information about this audit.

Conclusion

Generally, Pacific Area SmartPay Purchase Card transactions we reviewed were supported and complied with U.S. Postal Service policies and procedures. However, in the 92¹ transactions reviewed totaling \$182,210,² we identified the following issues.

- Three cardholders made 10 purchases totaling \$18,105 for which they did not document the business necessity for working dinner meal purchases.
- Five cardholders made 20 purchases for which they paid \$2,110 in state or local sales taxes.
- Two cardholders did not enter three non-cash award transactions totaling \$1,330 into the eAwards system.
- Four cardholders and their approving officials did not timely reconcile and review seven credit card statements with transactions totaling \$82,441. However, only two statements were greater than 60 days past due, totaling \$3,360.

¹ We selected 92 transactions; however, we were only able to review 91 transactions because one cardholder was out of the country and could not provide any statements or supporting documents.

² These transactions were made by 18 cardholders.

We identified monetary impact of \$18,105 for unrecoverable unsupported questioned costs and \$2,110 for recoverable questioned costs.³ In addition, we identified non-monetary impact of \$3,360 for disbursements at risk.⁴ We will report the monetary and non-monetary impacts in our *Semiannual Report to Congress*. Click [here](#) to go to Appendix B for our calculation of monetary and non-monetary impacts.

Business Necessity of Working Dinner Meals Not Documented

Three cardholders did not clearly notate the business necessity for holding 10 separate working meetings after normal business hours, as required.⁵ The transactions for these meetings totaled \$18,105. For those purchases not adequately supported, there is an increased risk of improper credit card use.

The Pacific Area Finance Manager (AFM) stated when the area plans meetings for its executives, working dinners are often included, and area management does not consider these as routine weekly staff meetings. In addition, the AFM stated that many times these dinners also include recognition for their leadership, a specific exception found in Management Instruction (MI) FM-640-2001-4, *Payment for Meals and Refreshments*. Thus, in their view, the dinners are provided for the purpose of continuing Postal Service business, as defined in the MI. The AFM stated to avoid any future misunderstanding, the area will make reference to the specific topics of discussion and/or recognition or group appreciation in the supporting documentation. Because the area has agreed to address this issue, we are not making a recommendation at this time.

Management's Comments

Management did not agree with the finding and, although management did not comment on the monetary impact, we assume they did not agree on the associated monetary impact. However, management issued a memorandum on September 3, 2008, to cardholders and approving officials requiring a list of attendees, the specific agenda, and a Working Meal Justification Form indicating the reason and date for the working meal be included for each eBuy request for working meals. Management's comments, in their entirety, are included in [Appendix C](#).

³ Questioned costs are costs that are unreasonable, unnecessary, unsupported or an alleged violation of law. Unsupported cost is a questioned cost only because of missing or incomplete documentation or failure to follow required procedures. The U.S. Postal Service Office of Inspector General (OIG) categorizes questioned costs as recoverable or unrecoverable. Recoverable means the Postal Service is able to recoup the cost in question (e.g., if the Postal Service had overpaid a cost).

⁴ Disbursements made where proper Postal Service internal controls and processes were not followed.

⁵ MI FM-640-2001-4, *Payment for Meals and Refreshments*, September 24, 2001.

Cardholders Paid Sales Tax

Five cardholders either did not seek or did not receive \$2,110 in tax exemptions on 20 purchases. Purchases made with the credit card and billed to the Postal Service are entitled to exemptions from state and local taxes.⁶ The cardholders generally stated payment of the sales tax was due to an oversight. By paying state and local taxes, the Postal Service incurred unnecessary expenses. During the audit, the five cardholders requested and received credits for taxes paid totaling \$1,840.

We recommend the Vice President, Pacific Area Operations:

1. Reinforce the policy to seek tax exemptions on SmartPay Purchase Card transactions.

Management's Comments

Management agreed with our finding, recommendation, and monetary impact, and issued a memorandum dated September 3, 2008, to Pacific Area cardholders and approving officials reinforcing the requirements in Handbook AS-709, Section 334.4. In addition, cardholders and approving officials have been given a copy of the form to provide to merchants to request the tax exemption and instructions on how to request a credit if they erroneously pay taxes. Further, the area received credit refunds totaling \$1,883.97 for 12 of the 20 purchases. They were unable to obtain credit refunds for the remaining amount due to the age and/or dollar amount of the individual transactions.

Non-Cash Awards Were Not Entered Into eAwards

Two cardholders did not enter three non-cash awards totaling \$1,330 into eAwards.⁷ The cardholders stated this was an oversight. If non-cash awards are not reported as required, the Postal Service could be in violation of statutory and legislative requirements.

We recommend the Vice President, Pacific Area Operations:

2. Reinforce the policy to enter awards into eAwards.

Management's Comments

Management agreed with our finding and recommendation and issued a memorandum dated September 3, 2008, to Pacific Area cardholders and approving officials that reinforces the Awards and Recognition Program and the *Employee and Labor Relations Manual* Award Policy, Section 470. In addition, the memorandum

⁶ Handbook AS-709, *Credit Card Policies and Procedures for Local Buying*, October 2003 (updated through October 26, 2006), Section 334.3.

⁷ Memorandum of Policy, ERM-01-12-06, *Recognition and Awards Program*, January 12, 2006.

assigns responsibility to the person who requests the purchase through eBuy to ensure the appropriate awards are reported timely into eAwards.

Monthly Reconciliation Procedures Need Strengthening

Four cardholders and their approving officials did not follow monthly reconciliation procedures for seven of 55 credit card statements reviewed. The transactions associated with these statements totaled \$82,441. Specifically, the statements were not signed, dated, and approved within the required 30-day period.⁸ Two of the seven statements (with transactions totaling \$3,360) were not signed within 60 days of the statement date. The Postal Service cannot dispute transactions that occurred more than 60 days from the receipt of the statement of account.

Cardholders and approving officials stated they did not review and reconcile statements or did not do so in a timely manner due to an oversight. When purchases are not completed in accordance with Postal Service procurement policies, there is an increased risk of unauthorized purchases and loss of funds without detection.

We recommend the Vice President, Pacific Area Operations:

3. Reinforce the policy for cardholders and approving officials to review, reconcile, date, and sign credit card statements on a monthly basis.

Management's Comments

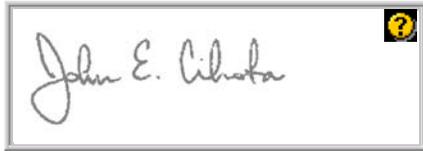
Management agreed with our finding, recommendation, and non-monetary impact, and issued a memorandum dated September 3, 2008, to Pacific Area cardholders and approving officials that reinforces the reconciliation process and retention procedures.

Evaluation of Management's Comments

The OIG considers management's comments responsive to all the recommendations and corrective actions should resolve the issues in the report

⁸ Handbook AS-709, *Frequently Asked Questions*, Chapter 4, page 23.

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.

A rectangular box containing a handwritten signature in cursive that reads "John E. Cihota". In the top right corner of the box, there is a small, square icon with a question mark.

John E. Cihota
Deputy Assistant Inspector General
for Financial Accountability

Attachments

cc: Susan M. Brownell
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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 is cosponsored by Supply Management and Finance. 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 and various manuals, handbooks, MIs, 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.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine if SmartPay Purchase Card Program purchases were supported and complied with Postal Service policies and procedures. To accomplish this objective, we judgmentally selected a sample of transactions using the IMPAC report from the Accounting Data Mart for the three-digit district code related to the Pacific Area. This approach resulted in a universe of 849 purchase card transactions totaling \$395,032. We selected the sample of area transactions based on risk factors such as type of purchases (meals and communications) and vendors. Specifically, we judgmentally selected transactions that were either over \$9,000, restricted, prohibited, made on the weekend, or for purchases of pilferable items. Using these risk factors, we selected 92 transactions totaling \$182,210 made from July 2007 through June 2008 by 18 cardholders.

We conducted this financial audit from July to September 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 August 7, 2008, and included their comments where appropriate.

We relied on data obtained from the Postal Service’s Enterprise Data Warehouse Accounting Data Mart and 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. Finally, we interviewed supervisors and employees and observed operations.

PRIOR AUDIT COVERAGE

The OIG has not conducted any prior audits of the SmartPay Purchase Card Program at the Pacific Area level. However, we issued three district audit reports within the Pacific Area and two area reports, as shown below.

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<i>Fiscal Year 2008 Southeast Area SmartPay Purchase Card Program</i>	FF-AR-08-279	9/8/08	N/A	We did not identify any control and compliance issues with the Southeast Area’s SmartPay Purchase Card program. Purchases were made in accordance with Postal Service procurement policies.
<i>Fiscal Year 2008 Capital Metro Area SmartPay Purchase Card Program</i>	FF-AR-08-270	8/22/2008	N/A	Cardholders and approving officials did not follow monthly reconciliation procedures.
<i>Fiscal Year 2007 Financial Installation Audit – SmartPay Purchase Card – Santa Ana District, Santa Ana, California</i>	FF-AR-08-038	11/30/2007	\$103,694	Cardholders did not always: <ul style="list-style-type: none"> • Make purchases from authorized vendors. • Prepare or maintain proper documentation for purchases and did not obtain proper approval for transactions. • Use proper payment methods and adhere to purchase limits. Cardholders and approving officials did not follow monthly reconciliation procedures.

<p><i>Fiscal Year 2007 Financial Installation Audit – SmartPay Purchase Card – Los Angeles District, Los Angeles, California</i></p>	<p>FF-AR-08-026</p>	<p>11/14/2007</p>	<p>\$166,693</p>	<p>Cardholders did not always:</p> <ul style="list-style-type: none"> • Make purchases for authorized items. • Prepare or maintain proper documentation for purchases. • Obtain proper approval for transactions. • Use proper payment methods, training requirements, and credit card security provisions. <p>Cardholders and approving officials did not follow monthly reconciliation procedures.</p>
<p><i>Fiscal Year 2007 Financial Installation Audit – SmartPay Purchase Card Program – Sacramento District, West Sacramento, California</i></p>	<p>FF-AR-08-015</p>	<p>10/24/2007</p>	<p>\$16,052</p>	<p>Cardholders did not always:</p> <ul style="list-style-type: none"> • Prepare or maintain proper documentation for purchases and did not obtain proper approval for transactions. • Track purchases and follow purchase card policies and procedures. • Enter gift cards into eAwards. <p>Cardholders and approving officials did not follow monthly reconciliation procedures.</p>
<p><i>Fiscal Year 2007 Financial Installation Audit – IMPAC – San Francisco District, San Francisco, California</i></p>	<p>FF-AR-07-202</p>	<p>7/20/2007</p>	<p>\$144,759</p>	<p>The district implemented a local procedure to keep track of expenses that involved charging incorrect finance numbers.</p> <p>Cardholders did not always:</p> <ul style="list-style-type: none"> • Prepare or maintain proper documentation for purchases and did not obtain proper approval for transactions. • Track purchases and follow IMPAC policies and procedures.

APPENDIX B: MONETARY AND NON-MONETARY IMPACT SUMMARY

Monetary Impact – Questioned Costs

Number of Transactions	Description	Questioned Costs	Amount
10	Business necessity of working dinner meals not documented	Unrecoverable Unsupported	\$18,105
20	Sales tax paid on purchases	Recoverable	2,110
	TOTAL		\$20,215

Non-Monetary Impact – Disbursements at Risk

Number of Transactions	Description	Amount
2	Monthly reconciliation procedures need strengthening	\$3,360

APPENDIX C: MANAGEMENT'S COMMENTS

MICHAEL J. DALEY
VICE PRESIDENT, PACIFIC AREA OPERATIONS



September 8, 2008

Lucine Willis
Director, Audit Operations
1735 North Lynn St.
Arlington, VA 22209-2020

SUBJECT: Draft Audit Report - Pacific Area SmartPay Purchase Card Program
(Report Number FF-AR-08-DRAFT)

Attached please find our management response to each of the
recommendations sited in the above subject audit.

Recommendation #1: Reinforce the policy to seek tax exemptions on
SmartPay Purchase Card transactions

Response:

Management agrees with this finding that five cardholders made 20 purchases
for which they paid \$2,110 in state or local sales taxes.

Merchants were contacted regarding these transactions. Credit refunds were
received for 12 of the 20 incidents of tax payments totaling \$1,883.97, of which
\$43.76 was credited after the audit was completed. Credit refunds by merchants
were refused for the remaining \$226.25 due to the age and/or the dollar amount
of the individual transactions.

Pacific Area Office SmartPay cardholders and approvers have received a memo
dated September 3, 2008 which reinforces the requirements in Handbook AS-
709, Section 334.3, regarding exemptions from state and local taxes.
Cardholders and approvers have been given a copy of the tax exemption form
that is to be provided to merchants when purchases are made. Also included
were instructions on the procedures to request a charge credit if taxes are
erroneously paid at the time of purchase.

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Recommendation #2: Reinforce the policy to enter awards into eAwards

Response:

Management agrees with this finding that two cardholders did not enter three non-cash award transactions totaling \$1,330 into the eAwards system.

Pacific Area Office SmartPay cardholders and approvers have received a memo dated September 3, 2008 which includes the Awards and Recognition Program and ELM Award Policy, Section 470. The material reinforces the policy that all gift certificates and gift cards must be reported as the appropriate Spot Gift Certificate or Non-cash Award Type in eAwards. Responsibility is assigned to the person who requests the purchase through eBuy to ensure the appropriate awards are reported timely in eAwards.

Recommendation #3: Reinforce the policy for cardholders and approving officials to review, reconcile, date, and sign credit card statements on a monthly basis

Response:

Management agrees with this finding that four cardholders and their approving officials did not timely reconcile and review seven credit card statements with transactions totaling \$82,441. However, only two statements were greater than 60 days past due, totaling \$3,360.

Pacific Area Office SmartPay cardholders and approvers have received a memo dated September 3, 2008 which includes the January 4, 2008 memo entitled, *Officer Memorandum of Policy, GSA SmartPay Purchase Card Reconciliation Process Cycle Time Change*, the reconciliation process as outlined in Chapter 4 of the AS-709, Section 421, and retention procedures as stated in AS-709, Section 422.7. The Postal Service cannot dispute transactions that occurred more than 60 days from the receipt of the statement of account.

Issue: Business Necessity of Working Dinner Meals Not Documented

Response: Management does agree that three cardholders made 10 purchases totaling \$18,105. However, we respectfully disagree with your interpretation that our business necessity for the dinners was not adequately notated. However, to strengthen our process, we have implemented the following procedure for Working Meals.

Pacific Area Office SmartPay cardholders and approvers received a memo dated September 3, 2008 which establishes all eBuy requests for working meals must be documented to include the business necessity of the meal. The approved eBuy will include a list of all attendees, a copy of specific agenda items to be covered and the completion of the *Working Meal Justification Form* to indicate

the reason and date for the working meal, i.e., recognition, group appreciation meeting, refreshments or meals to recognize a postmaster appointment, working meals held at a location different from the meeting site (with AVP approval) or for the purpose of continuing official Postal Service business meetings at the meeting site.

We do not believe that this report contains any propriety or business information and may be disclosed pursuant to the Freedom of Information Act.

We appreciate the work of the OIG team and thank them for their guidance. If you have any questions, please contact David Stowe, Area Manager Finance/A at 858-674-3150.



Michael J. Daley

Attachments

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