



September 25, 2008

SYLVESTER BLACK  
VICE PRESIDENT, WESTERN AREA OPERATIONS

SUBJECT: Audit Report – Fiscal Year 2008 Western Area SmartPay  
Purchase Card Program (Report Number FF-AR-08-286)

This report presents the results of our audit of the SmartPay Credit Card purchases by personnel in the Western Area Office (Project Number 08BD006FF004). 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, Western Area SmartPay Purchase Card transactions we reviewed were supported and complied with U.S. Postal Service policies and procedures. However, of the 122 transactions totaling \$249,130,<sup>1</sup> we identified the following issues:

- Eleven cardholders made 44 working meal purchases totaling \$55,162 for which they did not document the business necessity.
- Five cardholders made 37 purchases totaling \$2,550 for bottled water from a vendor that was not listed on the national contract.

We identified a monetary impact of \$57,712 for unsupported questioned costs.<sup>2</sup> We will report the monetary impact in our *Semiannual Report to Congress*. Click [here](#) to go to Appendix B for our calculation of monetary impact.

### **Business Necessity for Payment of Meals Not Properly Documented**

Eleven cardholders made 44 meal purchases totaling \$55,162 for which they did not clearly note on purchase requisitions the business need for continuing meetings through the meal period. Officers and Postal Career Executive Service executives may authorize Postal Service funds to purchase and pay for working meals, but all purchase

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<sup>1</sup> Sixteen cardholders made these transactions.

<sup>2</sup> Questioned costs are costs that are unreasonable, unnecessary, unsupported, or an alleged violation of law. Unsupported costs are questioned costs only because of missing or incomplete documentation or failure to follow required procedures.

requests must clearly state the business necessity for continuing meetings through the meal period.<sup>3</sup> Cardholders stated they were unaware of the requirement to provide a business reason on the requisition for continuing meetings through the meal period. For those purchases not adequately supported, there is increased risk of improper credit card use.

We recommend the Vice President, Western Area Operations:

1. Reinforce the policy for cardholders to clearly document in the purchase requisitions the business necessity for continuing meetings during meal periods.

### Management's Comments

Management agreed with our finding, recommendation, and monetary impact and issued a memorandum dated September 16, 2008, to Area Office Executives, District Managers, Senior Plant Managers, and District Finance Managers reinforcing the requirements in MI FM-640-2001-4, *Payment for Meals and Refreshments*. Management's comments, in their entirety, are included in [Appendix C](#).

### Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendation and the corrective action should resolve the issues in the report.

### Purchases Made from a Noncontract Vendor

Five cardholders made 37 purchases totaling \$2,550<sup>4</sup> for bottled water from a vendor that was not listed on the national contract list. Postal Service policy does not permit local buying authority when area contracts or ordering agreements are in place.<sup>5</sup> The Area Finance Manager stated the national contract went into effect in November 2007, but some cardholders were not informed of the contract until April 2008.<sup>6</sup> Once the cardholders were informed, there were no further purchases from the non-contract vendor. When employees do not follow procurement policies, the Postal Service has reduced assurance that it has received the best value for the products and services purchased and that purchases met statutory requirements. Because the area has already corrected this issue, we are not making a recommendation at this time.

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<sup>3</sup> Management Instruction (MI) FM-640-2001-4, *Payment for Meals and Refreshments*, September 24, 2001, page 2.

<sup>4</sup> These 37 transactions, completed between November 2007 and May 2008, were not part of our original scope. During the audit, we noted purchases for bottled water from an unauthorized vendor.

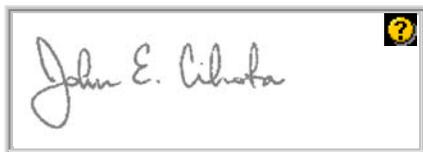
<sup>5</sup> *Administrative Support Manual* 13, Section 722, Local Buying Authority, July 1999 (updated with *Postal Bulletin* revisions through September 27, 2007).

<sup>6</sup> There was one purchase in May. The cardholders had to give 30 days' notice to the company to cease providing water for the Western Area. The one transaction in May was from the billing cycle in April.

### Management's Comments

Management agreed with the finding and monetary impact.

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 yellow circular icon with a question mark.

John E. Cihota  
Deputy Assistant Inspector General  
for Financial Accountability

### Attachments

cc: Susan M. Brownell  
Lynn Malcolm  
Vincent H. DeVito, Jr.  
Marie Martinez  
Stephen J. Nickerson  
Steven J. Juhl  
Douglas G. Germer  
Linda R. Wheeler  
Katherine S. Banks

## APPENDIX A: ADDITIONAL INFORMATION

### BACKGROUND

Since November 1991, the Postal Service has used the government-wide Commercial Credit Card Program the General Services Administration administers. 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 co-sponsored by Supply Management and Finance. The Postal Service pays no administrative fee 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,<sup>7</sup> 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 Western Area. This approach resulted in a universe of 818 purchase card transactions totaling \$493,321. We selected the sample of area transactions based on risk factors such as type of purchase (meals, hotels, computer, and transportation) 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 122 transactions totaling \$249,130 made from July 2007 through June 2008 by 16 cardholders. In addition, during our audit, we identified 37 transactions for bottled water which we included because we noted they were from an unauthorized vendor.

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<sup>7</sup> Handbook AS-709, *Credit Card Policies and Procedures for Local Buying*, October 2003 (updated through September 2, 2004).

We conducted this financial audit from July through 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 11, 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 Western Area level. However, we issued one district audit report within the Western Area and three area reports, as shown below.

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<i>Fiscal Year 2008 Pacific Area SmartPay Purchase Card Program</i>	FF-AR-08-281	9/12/08	\$20,215	<p>Cardholders did not always:</p> <ul style="list-style-type: none"> <li>• Document the business necessity for holding separate working meetings after normal business hours.</li> <li>• Seek or receive tax exemptions on purchases.</li> <li>• Enter non-cash award transactions into the eAwards system.</li> </ul> <p>Cardholders and approving officials did not follow monthly reconciliation procedures.</p>

<p><i>Fiscal Year 2008 Southeast Area SmartPay Purchase Card Program</i></p>	<p>FF-AR-08-279</p>	<p>9/8/2008</p>	<p>N/A</p>	<p>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.</p>
<p><i>Fiscal Year 2008 Capital Metro Area SmartPay Purchase Card Program</i></p>	<p>FF-AR-08-270</p>	<p>8/22/2008</p>	<p>N/A</p>	<p>Cardholders and approving officials did not follow monthly reconciliation procedures.</p>
<p><i>Fiscal Year 2007 Financial Installation Audit – SmartPay Purchase Card Program – Colorado/ Wyoming District – Denver, Colorado</i></p>	<p>FF-AR-07-247</p>	<p>9/19/2007</p>	<p>\$59,629</p>	<p>Cardholders did not always:</p> <ul style="list-style-type: none"> <li>• Make purchases from authorized vendors.</li> <li>• Prepare or maintain proper documentation for purchases.</li> <li>• Obtain proper approval for transactions.</li> </ul> <p>Cardholders and approving officials did not follow monthly reconciliation procedures.</p>

**APPENDIX B: MONETARY IMPACT SUMMARY**

<b>Finding Description</b>	<b>Number of Transactions</b>	<b>Unsupported Unrecoverable Questioned Cost</b>
Business necessity of working meals not documented.	44	\$55,162
Purchases made from a non-contract vendor.	37	2,550
	<b>TOTAL</b>	<b>\$57,712</b>

## APPENDIX C: MANAGEMENT'S COMMENTS

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SYLVESTER BLACK  
VICE PRESIDENT, WESTERN AREA OPERATIONS



September 18, 2008

LUCINE M. WILLIS  
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Response to Draft Audit Report – FY 2008 Western Area  
SmartPay Purchase Card Program  
(Report Number FF-AR-08-DRAFT)

We have reviewed the subject report and are in agreement with the findings and monetary impact. Following is our response to your recommendation.

**Recommendation #1:** Reinforce the policy for cardholders to clearly document in the purchase requisitions the business necessity for continuing meetings during meal periods.

**Response:** We recognize the importance of documenting this justification. The attached memo reinforcing this requirement was sent out to all Western Area Office Executives, District Managers, Senior Plant Managers and District Finance Managers.

We do not believe there is any Freedom of Information Act exempt information in the draft report or our response.

  
Sylvester Black

Attachment

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WWW.USPS.COM

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FINANCE

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September 16, 2008

AREA OFFICE EXECUTIVES  
DISTRICT MANAGERS  
SENIOR PLANT MANAGERS

SUBJECT: SmartPay Reviews

There have been numerous changes to procurement and payment systems and processes over the past few years leaving some ambiguity regarding reconciliations, controls and oversight. This memo is intended to provide clarification as well as a new Western Area process for reviewing SmartPay activity using risk-based analysis. This process replaces the mandatory annual review of all cardholders' activity and is further explained later in this document.

As a reminder, eBay is the web-based mechanism for purchase approval and its use is mandatory for all requisitions. Form 7381 is still used by offices without computer access.

#### **General Information**

The SmartPay Purchase Card Program is subject to oversight review by the Office of Inspector General, Finance and Supply Management. The Agency Program Coordinators (APC) have responsibility for managing the SmartPay program and should monitor card use within their areas of responsibility, to include periodic cardholder and Credit Card Approving Official (CCAO) reviews.

The new deadline, effective January 2, 2008, for the monthly reconciliation by cardholders and CCAOs is the 18<sup>th</sup> of the month for the previous month's activity.

#### **Working Meals**

Working meals continue to be a major finding in OIG SmartPay audits. All purchase requisitions for working meals must be supported by written justification of the business need to continue a meeting through the meal period. We recommend you use the following language when appropriate: 'Due to time constraints and the logistics of having to leave from and return to the facility for lunch (or dinner), this meal is deemed necessary'. Approval authority, which may not be redelegated, may only be an officer or PCES executive.

#### **Credit Cardholder Reconciliation Responsibilities**

Credit cardholders must review, sign and date the monthly statement, attach supporting purchase documentation and forward to the CCAO. Purchase documentation includes purchase requests, charge/credit drafts, delivery documentation and the credit card buying log.

#### **Credit Card Approving Official Reconciliation Responsibilities**

The CCAO reconciliation is a comparison of a cardholder's statement to the monthly U.S. Bank Summary report and the San Mateo ASC Credit Card Payment Report. Sign and date the

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- 2 -

cardholder's statement and return it and the U.S. Bank Summary report and the San Mateo ASC Credit Card Payment Report (or copy of the San Mateo report) to the cardholder

**Waiver for Postmasters**

The Postal Service requires all cardholders to reconcile the statements on a monthly basis. CCAOs with more than 25 credit cardholders have been given a waiver that requires reconciliation to occur quarterly. (This is a Western Area policy.) This quarterly reconciliation is a 100 percent reconciliation of all SmartPay activity for the prior three months. Therefore, the waiver reduces the frequency of reconciliations so that they may be spread out over time, but still maintains quality control.

**Finance Review Activity**

Creating meaningful reports for risk-based analysis is the key to maintaining adequate controls and oversight that will meet our Sarbanes-Oxley (SOX) requirements. Rather than performing a 100 percent verification of activity, our new strategy is to let a focused analysis of activity drive the reviews.

The primary source for comprehensive credit card data is the Accounting Data Mart (ADM). There are numerous ways to filter, sort and create pivot tables to allow easy examination and analysis of the SmartPay activity reported in ADM. Once the analysis is complete, the need for more comprehensive reviews can be determined and scheduled. The attachment is provided as a guideline for performing this analysis.

We believe this streamlined approach to be a solid methodology by which districts can quickly identify potential card misuse as well as process and control breakdowns. Monthly analysis by District Finance is requested to ensure SmartPay activity is continuously monitored and controlled.



Steven J. Juhl  
Manager, Western Area

Attachment

cc: Sylvester Black  
District Finance Managers

Redacted