



September 26, 2008

JO ANN FEINDT
VICE PRESIDENT, GREAT LAKES AREA OPERATIONS

SUBJECT: Audit Report – Fiscal Year 2008 Great Lakes Area SmartPay
Purchase Card Program (Report Number FF-AR-08-287)

This report presents the results of our audit of SmartPay Credit Card purchases by personnel in the Great Lakes Area Office (Project Number 08BD006FF003). 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](#)

Our audit identified internal control and compliance issues with the Great Lakes Area's SmartPay Purchase Card program. Purchases were not always supported with documentation, monthly reconciliation procedures were not always followed, and SmartPay Credit Card Program Cardholder Accountability Acknowledgment forms were not always complete. When purchases are not made in accordance with Postal Service procurement policies, there is an increased risk of unauthorized purchases and loss of funds without detection. As a result, we identified monetary impact of \$38,412 for unrecoverable unsupported questioned costs,¹ and non-monetary impact of \$37,808 for disbursements at risk.² We will report these monetary impact and non-monetary impacts in our *Semiannual Report to Congress*. Click [here](#) to go to Appendix B for our calculation of unrecoverable unsupported questioned costs. Click [here](#) to go to Appendix C for our calculation of disbursements at risk.

Purchases Were Not Always Supported with Documentation

Nine cardholders did not clearly notate the business need for continuing meetings and training through the meal period on purchase requisitions for 62 transactions totaling \$38,412. Postal Service policy requires that all purchase requests for working meals must clearly state the business necessity for continuing the meeting through the meal period and indicate the benefit to be derived by the Postal Service.³ The cardholders stated they were not aware of the policy for including a detailed justification on the requisitions for working meals.

¹ Unrecoverable unsupported questioned costs are unrecoverable costs that are unnecessary, unreasonable, or an alleged violation of law or regulation. These costs are not supported by adequate documentation.

² Disbursements at risk are disbursements made where Postal Service internal controls and processes were not followed.

³ Management Instruction FM-640-2001-4, *Payment for Meals and Refreshments*, September 24, 2001, page 2.

We recommend the Vice President, Great Lakes Area Operations:

1. Instruct cardholders to document the business necessity for working meals on the eBuy requisition.

Management's Comments

Management agreed with this finding and recommendation, and on September 22, 2008, the Vice President, Great Lakes Area Operations, issued a memorandum that gave cardholders specific instructions on purchase requests for working meals and the required documentation. However, they did not agree with the monetary impact of \$38,412 for unrecoverable unsupported questioned costs, stating that this amount was derived from purchase requisitions for working meals that contained incomplete justification, not because of improper expenditures. Management's comments, in their entirety, are included in [Appendix D](#).

Evaluation of Management's Comments

The U.S. Postal Service Office of the Inspector General (OIG) considers management's comments responsive to the recommendation, and the corrective actions should resolve the issue identified in the finding.

With regard to management's disagreement with our unrecoverable unsupported questioned costs, we questioned these costs because Postal Service employees did not provide adequate documentation. Management Instruction FM-640-2001-4 requires that all purchase requests for working meals clearly state the business necessity for continuing the meeting through the meal period and indicate the benefit to the Postal Service.

Although the purchases in question may have been properly authorized and for valid expenditures, the justification on the purchase requisition did not include the required documentation. The OIG's definition of unrecoverable unsupported questioned costs includes costs that are not supported by adequate documentation. Because the purchase requisitions did not include the required documentation in the justification, we classified these purchases as questioned costs.

Monthly Reconciliation Procedures Needed Improvement

Ten cardholders and their approving officials did not follow monthly reconciliation procedures for 31 of 143 credit card statements reviewed. The transactions associated with these statements totaled \$79,453. Specifically, the statements were not reconciled by the 18th of the month for the previous month's card activity.⁴ Thirteen of the 31 statements, with transactions totaling \$37,808, were not signed within 60 days of the

⁴ Officer Memorandum of Policy GSA Smart Pay Purchase Card Reconciliation Process Time Change, January 4, 2008.

statement date. The Postal Service cannot dispute transactions that are more than 60 days from the receipt of the statement of account. Cardholders and approving officials stated the statements were not always reconciled timely because either the cardholders or the approving officials were out of the office for extended periods. In some instances, the cardholder did not provide the documentation to the approving official in a timely manner.

We recommend the Vice President, Great Lakes Area Operations:

2. Reinforce Postal Service policy related to timely reconciliation of bank statements.

Management's Comments

Management agreed with this finding, recommendation, and non-monetary impact. On September 22, 2008, the Vice President, Great Lakes Area Operations, issued a memorandum to reinforce Postal Service policy regarding timely reconciliation of bank statements.

Some SmartPay Credit Card Program Cardholder Accountability Acknowledgment Forms Were Not Complete

Eight out of 16 cardholders reviewed did not have a completed SmartPay Credit Card Program Cardholder Accountability Acknowledgment form on file. Postal Service policy requires that the cardholder must complete and send the original form to the Agency Program Coordinator for retention before using his/her credit card, and the cardholder must maintain a copy in his/her file.⁵ The Agency Program Coordinator for the SmartPay Purchase Card stated she was sure all cardholders had completed the forms but could not locate them and believes they must have been misplaced.

We recommend the Vice President, Great Lakes Area Operations:

3. Instruct the Agency Program Coordinator to ensure all cardholders complete and retain the SmartPay Credit Card Program Cardholder Accountability Acknowledgment forms, as required.

⁵ Handbook AS-709, *Credit Card Policies and Procedures for Local Buying*, October 2003, page 75 (updated through October 26, 2006).

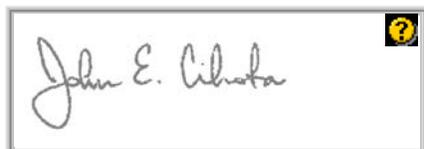
Management's Comments

Management agreed with this finding and recommendation. On September 22, 2008, the SmartPay Purchase Card Program coordinator for the Great Lakes Area was instructed to ensure that SmartPay Credit Card Program Cardholder Accountability Acknowledgment forms were completed and filed as required.

Evaluation of Management's Comments

The OIG considers management's comments responsive to recommendations 2 and 3, and the corrective actions should resolve the issues identified in the findings.

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



John E. Cihota
Deputy Assistant Inspector General
for Financial Accountability

Attachments

cc: Susan M. Brownell
Lynn Malcolm
Vincent H. DeVito, Jr.
Marie K. Martinez
Stephen J. Nickerson
Ron W. McDowell
Katherine S. Banks

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

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

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

Cardholders, approving officials, and program coordinators must follow the purchasing guidelines for approved expenditures set by the Postal Service in Handbook AS-709,¹ and various manuals, handbooks, management instructions, and locally issued guidance. This guidance requires cardholders to maintain documentation, including approved purchasing requests, sales and credit drafts and receipts, and delivery documentation. In addition, guidance issued January 4, 2008, 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 for audit using the IMPAC-Report Builder from the Accounting Data Mart for the Great Lakes Area's finance number. This approach resulted in a universe of 820 SmartPay Purchase Card transactions totaling \$359,656. We selected the sample of transactions based on risk factors such as type of purchases (i.e., meals and communications) and vendors. Specifically, we judgmentally selected transactions that were either restricted, prohibited, weekend purchases, or for purchases of pilferable items. Using these risk factors, we selected 294 transactions totaling \$207,477 made from July 2007 through June 2008 by 16 cardholders.

¹ 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 25, 2008, and included their comments where appropriate.

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

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Monetary Impact	Non-Monetary Impact	Report Results
<i>IMPAC Card Purchases – Chicago District</i>	FF-AR-06-038	12/30/2005	\$480,985	\$0	Cardholders did not maintain supporting documentation for purchases. Purchases for charitable events/sponsorships and memberships did not follow Postal Service policies. Further, we found evidence that district personnel divided purchases in excess of \$10,000 into smaller increments to avoid spending limitations, improperly used money orders, and did not perform required reconciliation procedures. We also identified weaknesses in the district's awards programs.
<i>Fiscal Year 2007 Financial Installation Audit – International Merchant Purchase Authorization Card – Gateway District – St. Louis, Missouri</i>	FF-AR-07-179	6/5/2007	\$8,363	\$68,852	District approving officials and cardholders did not reconcile or certify monthly statements and track purchases, as required. In addition, district management did not monitor and track gift card awards. Cardholders did not use approved vendors to purchase gift cards; did not maintain adequate supporting documentation for purchases; and did not use the post-certify payment system to pay invoices for Postal Service issued cellular phones and home Internet service.

<i>Fiscal Year 2007 Financial Installation Audit – SmartPay Purchase Card Program – Chicago District – Chicago, Illinois</i>	FF-AR-08-021	11/7/2007	\$73,415	\$88,924	Cardholders made purchases that were not supported, approved, or authorized. Also, cardholders and approving officials did not consistently review the accuracy of monthly credit card statements or maintain supporting documentation.
<i>Fiscal Year 2008 Capital Metro Area SmartPay Purchase Card Program</i>	FF-AR-08-270	8/22/2008	N/A	N/A	Cardholders and approving officials did not follow monthly reconciliation procedures.
<i>Fiscal Year 2008 Southeast Area SmartPay Purchase Card Program</i>	FF-AR-08-279	9/8/2008	N/A	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 Pacific Area SmartPay Purchase Card Program</i>	FF-AR-08-281	9/12/08	\$20,215	\$3,360	Cardholders did not always: <ul style="list-style-type: none"> • Document the business necessity for holding separate working meetings after normal business hours. • Seek or receive tax exemptions on purchases. • Enter non-cash award transactions into the eAwards system. <p>Cardholders and approving officials did not follow monthly reconciliation procedures.</p>
<i>Fiscal Year 2008 Western Area SmartPay Purchase Card Program</i>	FF-AR-08-286	9/25/08	\$57,712	N/A	Cardholders did not always clearly note on purchase requisitions the business need for continuing meetings through the meal period. <p>Cardholders made purchases for bottled water from a vendor that was not listed on the national contract list.</p>

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

**APPENDIX B: CALCULATION OF UNRECOVERABLE
UNSUPPORTED QUESTIONED COSTS**

Finding Title	Description	Number of Transactions	Amount
Purchases Were Not Always Supported with Documentation	Nine cardholders did not clearly notate the business need for continuing meetings and training through the meal period.	62	\$38,412

APPENDIX C: CALCULATION OF DISBURSEMENTS AT RISK

Finding Title	Description	Number of Statements	Amount
Monthly Reconciliation Procedures Were Not Followed	Cardholders and approving officials did not review and reconcile bank statements in a timely manner.	13	\$37,808

APPENDIX D: MANAGEMENT'S COMMENTS

JO ANN FEINDT
VICE PRESIDENT, GREAT LAKES AREA OPERATIONS



September 22, 2008

LUCINE M. WILLIS
DIRECTOR, AUDIT OPERATIONS
OFFICE OF INSPECTOR GENERAL

SUBJECT: Management Response - Fiscal Year 2008 Great Lakes Area
SmartPay Purchase Card Program (Report Number FF-AR-08-
DRAFT)

We appreciate your validation that our management of the SmartPay Purchase Card Program is essentially sound, and we acknowledge the existence of a few deficiencies.

We agree with the findings, and the non-monetary impact of \$37,808 for disbursements at risk as stated in the audit report. However, we do not concur with the monetary impact of \$38,412 for unrecoverable unsupported questioned costs. This amount was derived from purchase requisitions for working meals that contained incomplete justification, not because of improper expenditures.

Following is our response to recommendations resulting from the subject audit:

Recommendation 1: Instruct cardholders to document the business necessity for working meals on the eBuy requisition.

Response: We agree with the recommendation. The VP, Great Lakes Area Operations issued very specific instructions to cardholders on September 22, 2008 on working meal purchase requests and the required documentation. USPS headquarters is working on an update to MI FM 640-2001-4. Once we receive the update, any necessary updates to Great Lakes Area procedures will be made to ensure compliance with HQ changes. (see attached memo, subject: Working Meals).

Recommendation 2: Reinforce Postal Service policy related to timely reconciliation of bank statements.

Response: We agree with the recommendation. The VP, Great Lakes Area Operations reinforced this policy via memorandum, dated September 22, 2008 (see attached memo, subject: Monthly Reconciliation Procedures).

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Recommendation 3: Instruct the Agency Program Coordinator to ensure all cardholders complete and retain the SmartPay Credit Card Program Cardholder Accountability Acknowledgement forms, as required.

Response: We agree with the recommendation. The VP, Great Lakes Area Operations instructed the Area Manager, Finance, who instructed the area SmartPay Purchase Card Program coordinator to ensure compliance with this policy September 22, 2008 (see attached email message, subject: SmartPay Credit Card Program Cardholder Accountability Acknowledgment Forms).

This report and management's response do not contain information that may be exempt from disclosure under the FOIA.



Ann Feindt
Vice President, Great Lakes Area Operations

Attachments

cc: Katherine S. Banks, Manager, Corporate Audit and Response Management

JO ANN FEINDT
VICE PRESIDENT, GREAT LAKES AREA OPERATIONS



September 22, 2008

GREAT LAKES AREA EXECUTIVES

SUBJECT: Working Meals

USPS Headquarters is developing a policy regarding payment for meals and refreshments. Until the headquarters instructions are completed, you are to follow the guidelines provided in this letter, and advise all cardholders to adhere to these regulations.

Management Instruction No. FM-640-2001-4, Payment for Meals and Refreshments, page 2, states that the business reason must be included in the narrative of the eBuy whenever a working meal is paid with Postal funds. Approvers must ensure that requests contain this information before they approve the eBuy requisition.

Future eBuy requests for business meals (this excludes meals during recognition meetings) must state the business necessity and benefit to be derived by providing the meal in the eBuy comments section. Below is the applicable MI language for reference.

Working Meals

Definition

Working meals include lunch and dinner served for the purpose of continuing official Postal Service business meetings at the meeting site (on-site or off Postal Service premises) with Postal Service employees or with a mix of Postal Service employees and individuals representing outside organizations (not primarily contractors). When practicable, schedule business meetings to preclude overlapping the normal lunch or dinner period.

Approval

Officers and PCES executives may authorize Postal Service funds to purchase and pay for working meals. All purchase requests (e.g., PS Form 7381, Requisition for Supplies, Services, or Equipment) must clearly state the business necessity for continuing the meeting through the meal period. The benefit to be derived by the Postal Service must be indicated.

Below are some examples of situations where it would be appropriate to schedule a working meal.

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1. Where the material to be presented at a meeting will require using the lunch period in order to complete the material during normal business hours, and providing lunch will permit the meeting to continue while those attending are eating. (This would include a situation where an additional speaker is scheduled to address the attendees during the lunch period.)
2. Any time there is a recognition event scheduled during the meal period.
3. Where a one or more day meeting is being held for participants from out of town and adherence to a one hour lunch period would be problematic without providing lunch because:
The participants will be without transportation, and getting them to and from surrounding restaurants would require additional costs (taxi, rental car, etc.) and

Due to the number of participants, the host facility's cafeteria would be unable to serve them in a timely manner, and there are no reasonably accessible, local restaurants.
4. Where the participants in the meeting are on per diem, the cost of providing lunch is relatively equal to the amount of per diem for the participants.
5. Where meetings, in order to limit the number of overnight stays, are scheduled to permit participants to fly in on the morning of the meeting, and providing lunch will enable the participants to arrive and be fed by the start of the meeting. Conversely, where providing lunch would enable the participants who are flying out at the end of a meeting to finish the meeting, eat, and leave for the airport in time for scheduled flights.

Below are some examples where the purchase of working meals is not authorized.

1. Where meals are in conjunction with routine meetings such as weekly or bi-weekly staff meetings.
2. Where meals are in conjunction with retirement parties, holiday gatherings, or the celebration of employee personal events such as secretary's day, birthdays, and anniversaries.
3. Working meals held at a location different from the meeting site without officer approval.

If you have any questions please contact Vincent M. Rooney, A/Area Accounting Manager, or Patricia A. Williams, Manager, Administrative Support Services.


for Jo Ann Feindt

cc: District Managers

JO ANN FEINDT
VICE PRESIDENT, GREAT LAKES AREA OPERATIONS



September 22, 2008

GREAT LAKES AREA EXECUTIVES
SMARTPAY PURCHASE CARDHOLDERS

SUBJECT: Monthly Reconciliation Procedures

Our recent OIG SmartPay Purchase Card audit revealed a need to reinforce the purchase card account reconciliation policy. Please review the policy for monthly reconciliations below, and ensure you are in compliance.

The monthly billing statement from U. S. Bank shows all charges posted to a cardholder account during that monthly cycle. Cardholders must reconcile the statements. They are required to verify, sign, and date the monthly billing statement, and to give it to their approving official with purchasing documentation for his/her review and verification. Approving Officials have the responsibility of verifying that the charges made to a cardholder's purchase card match the charges the cardholder verified on their monthly statement. All cardholders *and* approving officials must sign and date the monthly billing statements after completing reconciliation by the 18th of the month following receipt of the billing statement.

Timely verification of billing statements is extremely important in detecting and correcting billing discrepancies. These reviews must be completed to avoid billing errors. (Reference AS-709, 422.1, 422.51)


Jo Ann Feindt

cc: District Managers

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