



October 22, 2008

TIMOTHY C. HANEY
VICE PRESIDENT, NORTHEAST AREA OPERATIONS

SUBJECT: Audit Report – Fiscal Year 2008 Northeast Area SmartPay Purchase Card Program (Report Number FF-AR-09-001)

This report presents the results of our audit of SmartPay Credit Card purchases by personnel in the Northeast Area Office (Project Number 08BD006FF008). This audit is part of the Fiscal Year 2008 Financial Installation Audits we announced on August 14, 2007. See [Appendix A](#) for additional information about this audit.

Conclusion

Generally, cardholders supported their SmartPay purchases and complied with U.S. Postal Service policies and procedures. We examined all 599 transactions that occurred between July 1, 2007, and June 30, 2008 (totaling \$332,174), and found issues with 28 purchases (5 percent) totaling \$49,744. We identified 27 meal expenses without either proper authorization or sufficient justification included in the purchase request and one transaction that exceeded \$10,000. Additionally, we examined reconciliations for 92 purchase card statements and determined that cardholders and a credit card approving official (CCAO) did not properly review and reconcile 24 (26 percent) of them, worth \$90,333. We identified a monetary impact of \$36,263 for unrecoverable unsupported questioned costs¹ and a non-monetary impact of \$13,481 for disbursements at risk.² We will report the monetary and non-monetary impacts in our *Semiannual Report to Congress*. See [Appendix B](#) for the details of our monetary and non-monetary impacts.

Procedures for Meal Purchases Need Improvement

Three cardholders made 27 meal purchases totaling \$36,263 without either obtaining Postal Career Executive Service (PCES) executive approval or documenting a business need for providing meals after organizers adjourned meetings. Officers and PCES executives should authorize Postal Service funds to purchase and pay for working meals. Additionally, all purchase requests for working meals must clearly indicate the

¹ Unsupported costs are costs that we question because of missing or incomplete documentation or personnel not following required procedures.

² The dollar value of disbursements made when employees did not always follow Postal Service internal controls and processes.

benefit to the Postal Service.³ Cardholders stated they were either unaware of all requirements or neglected to obtain approval. When employees do not make purchases in accordance with procurement policies, the Postal Service has an increased risk of incurring unauthorized purchases or unnecessary expenses.

We recommend the Vice President, Northeast Area Operations:

1. Reiterate to cardholders the requirement to document a business need for providing meals when submitting a purchase request and to obtain Postal Career Executive Service approval on all meal expenditures.

Monthly Reconciliation Procedures Need Improvement

Cardholders and CCAOs did not always follow monthly reconciliation procedures. Specifically, in our review of 92 purchase card bank statements:

- One cardholder did not sign or date five of six bank statements totaling \$1,880.
- One CCAO did not sign and date 19 of 86 bank statements, totaling \$88,453, within 30 days from the statement date.⁴ Additionally, eight cardholders did not date 17 of those 19 statements.

Cardholders and CCAOs must certify the statement of account after review and reconciliation by signing and dating the certification statement.⁵ The policy also requires cardholders and CCAOs to complete all reconciliation activities no later than the 18th of the month for the previous month's card activity.⁶ Cardholders did not date the bank statements because they were unaware of the policy related to modified bank statements.⁷ The CCAO did not reconcile the bank statements in a timely manner due to the late receipt of cardholder documentation. When cardholders and approving officials do not reconcile bank statements, unauthorized or inaccurate transactions could occur and not be detected.

We recommend the Vice President, Northeast Area Operations:

2. Inform cardholders and approving officials of the requirement to sign, date, and reconcile bank statements by the 18th of each month.

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

⁴ The approving official certified the statements in 60 days; therefore, we do not consider the amounts as disbursements at risk.

⁵ Handbook AS 709, *Credit Card Policies and Procedures for Local Buying*, Chapter 4, October 2003 (updated through October 26, 2006).

⁶ *Officer Memorandum of Policy, GSA SmartPay Purchase Card Reconciliation Process Cycle Time Change*, January 4, 2008.

⁷ The modified bank statements did not have a date section for cardholders.

Purchase Procedures Need Improvement

A cardholder and approving official did not follow proper purchasing procedures and exceeded the single transaction dollar limit of \$10,000 by \$3,481. A credit cardholder should not exceed \$10,000 in a single transaction.⁸ Management was aware of this requirement; however, the initial eBuy request was for \$9,300 and, due to unexpected requirements, a management decision to modify the meeting within the same week increased the cost to over \$10,000. While this purchase was valid and authorized, management was advised the vendor could override the bank control not to accept purchases greater than \$10,000 by processing transactions manually. When employees do not make purchases in accordance with procurement policies, the Postal Service has an increased risk of incurring unauthorized purchases or unnecessary expenses.

We recommend the Vice President, Northeast Area Operations:

3. Reiterate the Postal Service policy to cardholders and approving officials not to exceed the single transaction limit of \$10,000.

Management's Comments

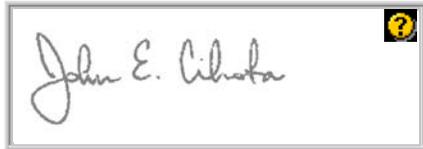
Management agreed with our findings, recommendations, and monetary and non-monetary impacts and issued a memorandum dated October 6, 2008, to Northeast Area executive staff and SmartPay cardholders reinforcing SmartPay Procedures. We have included management's comments, in their entirety, in [Appendix C](#).

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General considers management's comments responsive to all three recommendations, and the corrective action should resolve the issues in the report.

⁸ Handbook AS 709, Section 182.1, Single Transaction Limit.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions or need additional information, please contact Kevin Ellenberger, Director, Field Financial – East, 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.
Susan A. Witt
Stephen J. Nickerson
Elizabeth A. Doell
Daniel P. Pierce
Katherine S. Banks

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

Since November 1991, the Postal Service has used 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 Postal Service calls the program the SmartPay Purchase Card Program and Supply Management and Finance cosponsor it. 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 Postal Service referred to the purchase card 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, *Credit Card Policies and Procedures for Local Buying*, October 2003 (updated through October 26, 2006); 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.⁹

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether SmartPay Purchase Card Program purchases were supported and complied with Postal Service policies and procedures. To accomplish this objective, we selected all transactions made from July 2007 through June 2008 using the IMPAC-Report Builder from the Accounting Data Mart for the Northeast Area's finance number. This approach resulted in a universe of 599 SmartPay Purchase Card purchase transactions totaling \$332,174. Our transactions included only those cardholders assigned to the Northeast Area. Accordingly, we sorted the data by cardholder and reviewed all 599 transactions made by 11 cardholders.

We conducted this financial audit from August through October 2008 in accordance with generally accepted government auditing standards and included such tests of internal

⁹ Officer Memorandum of Policy, GSA SmartPay Purchase Card Reconciliation Process Cycle Time Change, January 4, 2008.

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 that 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 on September 17, 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>Fiscal Year 2008 Eastern Area SmartPay Purchase Card Program</i>	FF-AR-09-002	10/21/2008	\$26,745	\$9,826	Cardholders made purchases from unauthorized vendors, without documenting the business need for working meals or providing supporting receipts, and where eBuy authority was improperly delegated.
<i>Fiscal Year 2008 Great Lakes Area SmartPay Purchase Card Program</i>	FF-AR-08-287	9/26/2008	\$38,412	\$37,808	Cardholders made purchases without documenting the business necessity for working meals and cardholders and approving officials did not follow monthly reconciliation procedures. Finally, cardholders did not have a completed SmartPay Credit Card Program Cardholder Accountability Acknowledgment form on file.
<i>Fiscal Year 2008 Western Area SmartPay Purchase Card Program</i>	FF-AR-08-286	9/25/2008	\$57,712	N/A	Cardholders made purchases without documenting the business necessity for working meals and made purchases from a vendor not on the national contract list.

<i>Fiscal Year 2008 Pacific Area SmartPay Purchase Card Program</i>	FF-AR-08-281	9/12/2008	\$20,215	\$3,360	Cardholders did not always: 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. Additionally, 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 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 2007 Financial Installation Audit – SmartPay Purchase Card Program – Pittsburgh District, Pittsburgh, Pennsylvania</i>	FF-AR-07-019	11/1/2007	\$11,056	\$0	Cardholders made 76 purchases totaling \$31,435 for unauthorized and unsupported purchases, telecommunication invoices paid with the purchase card, gift card purchases not entered into eAwards, and purchases where cardholders provided vendors with the Express Mail corporate account number and business meals.
<i>SmartPay Purchase Card Use by Postal Service Officers</i>	FF-AR-07-014	9/29/2007	\$127,393	\$181,908	Cardholders did not prepare or maintain proper documentation for purchases and did not obtain proper approval for transactions. Also, cardholders and approving officials did not follow monthly reconciliation procedures.

The reports identified various internal control and compliance issues, such as unsupported and unauthorized purchases. Further, as stated in the above table, we identified a common issue related to reconciliation procedures, which we also found in this audit.

APPENDIX B: MONETARY AND NON-MONETARY IMPACTS SUMMARY

Monetary Impact – Unrecoverable Unsupported Questioned Costs

Number of Transactions	Description	Amount
27	Meal purchases without proper authorization or sufficient justification.	\$36,263

Non-Monetary Impact – Disbursements at Risk

Number of Transactions	Description	Amount
1	Purchase exceeded single dollar transaction limit of \$10,000.	\$13,481

APPENDIX C: MANGEMENT'S COMMENTS

TIMOTHY C. HANEY
VICE PRESIDENT, AREA OPERATIONS
NORTHEAST AREA



October 8, 2008

LUCINE M. WILLIS
DIRECTOR, AUDIT OPERATIONS

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

In response to FY 2008 Northeast Area SmartPay Purchase Card Program (Report Number FF-AR-08-DRAFT) management generally agrees with the findings in this report.

The OIG defined unrecoverable unsupported questioned costs during a telecon as costs that were not properly justified on the purchase request or were not approved by the proper official. They are considered unrecoverable since there will be no attempt to collect these costs from individual employees. Based on this definition, management agrees with the monetary impact of \$36,263 for the unrecoverable unsupported questioned costs identified. Although 22 of these transactions totaling \$25,914.90 were approved by the Manager, Administration we agree that they should have been approved by a PCES executive. All of these transactions were supported by the required documentation.

Management agrees with the non-monetary impact of \$13,481 for disbursements at risk. This one time incident was extraordinary in that the initial eBuy did not exceed \$10,000, however a management decision was made to modify the meeting requirements the week of the meeting which put the total cost over \$10,000. This purchase should have gone to contract, however we had no control over the vendor processing the transaction for more than \$10,000. We have serious concerns that vendors can force transactions through the system for more than the maximum single purchase limit of \$10,000. This negates the security of having a single purchase limit on the SmartPay card.

RECOMMENDATION 1

Reiterate to cardholders the requirement to document a business need for providing meals when submitting a purchase request and to obtain a Postal Career Executive Service approval on all meal expenditures.

The attached memo was sent to the NEA AVP direct reports and cardholders on October 6, 2008 reiterating the need to document a business need for providing meals when submitting a purchase request. This memo also reminded the cardholders that all meal purchase requests must be approved by a PCES executive. Further, all meal purchase requests will be approved by the Northeast Area Manager, Finance.

8 GRIFFIN ROAD NORTH
WINDSOR, CT 06096 7010
860-235-7040
FAX 860-285-1253

-2-

RECOMMENDATION 2

Inform cardholders and approving officials of the requirement to sign, date, and reconcile bank statements by the 18th of the month.

The above mentioned memo to AVP direct reports and cardholders required that cardholders and approving officials must sign, date, and reconcile bank statements by the 18th of the month.

As information, the bank statements no longer contain a place for the date next to the cardholders signature. Further the report stated that the CCAO did not reconcile the statements in a timely manner. The CCAO did reconcile the statement timely, however there were transactions that were not fully supported by the proper documentation. The CCAO did not sign the statements as approved at that time since there were unsupported transactions. The CCAO returned the statements to the cardholders until they could supply the required documentation. When the documentation was received the CCAO then signed and dated the bank statements. In the future the CCAO will initial and date the bank statements when they are reviewed if additional documentation is required. Upon receipt of the proper documentation the CCAO will sign, date, and approve the bank statements

RECOMMENDATION 3

Reiterate the Postal Service policy to cardholders and approving officials not to exceed the single transaction limit of \$10,000.

The previously mentioned memo to the AVP direct reports and cardholders reiterated the USPS policy not to exceed single transaction limit of \$10,000. The cardholders have been provided with a Meeting/Event Planner Worksheet to help them determine the final cost of an event. All future purchases exceeding \$10,000 will be sent to Purchasing & Supply Management, Aurora CO for a contract. As previously stated, this one time incident was extraordinary in that the initial eBuy did not exceed \$10,000, however a management decision was made to modify the meeting requirements the week of the meeting which put the total cost over \$10,000.

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


Timothy C. Haney

Attachment

cc: Elizabeth A. Doell
Katherine S. Banks

TIMOTHY C. HANEY
VICE PRESIDENT, AREA OPERATIONS
NORTHEAST AREA



October 6, 2008

MEMORANDUM FOR NEA EXECUTIVE STAFF AND SMARTPAY CARDHOLDERS

SUBJECT: *SmartPay Procedures*

A recent OIG audit of our SmartPay process has identified the following items that need to be complied with immediately:

- Purchase requests must contain a business need for providing meals during a meeting and must also indicate the benefit to the USPS. Purchase requests for meals must comply with Management Instruction FM-640-2008-1 Expenses for Internal and External Events. Exhibit A of the MI identifies the maximum amount that can be spent for each meal.
- New eBuy approval processes have been created for each department. When creating a purchase request for meals the new approval process must be selected.
- All purchase requests for meals must be approved by a Postal Career Executive Service executive and then forwarded to the Area Manager, Finance for final approval.
- All purchase requests must contain a proper justification for the purchase.
- Cardholders are required to sign, date, and reconcile the bank statements by the 4th of the month so that the CCAO has ample time to review and reconcile the purchases by the 18th of the month.
- Purchases are not to exceed the \$10,000 single transaction limit. Purchases greater than \$10,000 should be sent to Purchasing & Supply Management, Aurora, CO for contracting.

The Finance staff will be meeting with the SmartPay cardholders shortly to further clarify these issues and to explain the new process flow for meal purchase requests in eBuy.


Timothy C. Haney

cc: Area Manager, Accounting

T:Finance:SmartPay Procedures JNM

6 GRIFFIN ROAD NORTH
WINDSOR, CT 06006-7010
860-285-7040
FAX 860-285-1253