



November 28, 2008

STEVEN J. FORTE
VICE PRESIDENT, NEW YORK METRO AREA OPERATIONS

SUBJECT: Audit Report – Fiscal Year 2008 New York Metro Area SmartPay
Purchase Card Program (Report Number FF-AR-09-028)

This report presents the results of our audit of SmartPay Purchase Card purchases by personnel in the New York Metro Area (Project Number 08BD006FF005). This audit is part of the Fiscal Year 2008 Financial Installation Audits we announced on August 14, 2007. [Appendix A](#) presents additional information about this audit.

Conclusion

Generally, cardholders supported their SmartPay purchases and complied with U.S. Postal Service policies and procedures. We examined 336 judgmentally selected transactions¹ (totaling \$463,391) and found issues regarding 54 transactions (16 percent) totaling \$97,450. We identified five expenses where cardholders did not document the business need and 23 purchases where cardholders did not follow proper contracting rules. We consider these transactions (totaling \$63,000) to be unrecoverable unsupported questioned costs.² Additionally, we identified 26 charges (totaling \$34,451) that a cardholder had not verified during reconciliation. We consider the \$34,451 to be disbursements at risk.³ We will report the monetary and non-monetary impacts in our *Semiannual Report to Congress*. [Appendix B](#) presents our calculation of monetary and non-monetary impacts.

Procedures for Justifying Purchases Needed Improvement

Cardholders did not always justify the business need for purchases. When employees make purchases without the required written justification, there is an increased risk the Postal Service could incur unnecessary expenses.

¹ [Appendix A](#) presents our rationale for selecting transactions.

² Unsupported costs are costs that we question because of missing or incomplete documentation or personnel not following required procedures.

³ Disbursements made by employees who did not always follow proper Postal Service internal controls and processes.

Specifically:

- One cardholder did not always justify the business need for providing meals. The cardholder made three meal purchases totaling \$4,652 for meals provided after meetings were adjourned. Managers should schedule business meetings to preclude overlapping meal periods or clearly state in the purchase request the business need for continuing meetings through meal periods.⁴ This occurred because the cardholder assumed that eBuy meal requests with appropriate approvals met Postal Service policy.
- A cardholder made two purchases for 16 professional baseball playoff tickets totaling \$5,628 without documenting the business need for the purchase in the eBuy request. However, the requestor informed us that he bought the tickets to distribute to customers in appreciation for their business. The requestor could not provide information on how many tickets went to specific customers, as he did not keep records of who received the tickets. Postal Service policy requires purchase requests in eBuy to have justifications explaining the specific reason for the purchase⁵ but does not require tracking items such as professional sports tickets. However, a Government Accountability Office (GAO) report⁶ on agency purchase card programs noted that sensitive items and items that are easily pilfered require additional scrutiny to prevent unauthorized use or loss.

We recommend the Vice President, New York Metro Area Operations:

1. Reiterate to cardholders the requirement to document a business need for providing meals when submitting a purchase request on all meal expenditures.

Management's Comments

Management's written response stated they did not agree with the finding. However, during subsequent discussions, management stated they agreed with this finding and recommendation and disagreed only with the finding related to purchase procedures. Management re-issued administrative guidelines, dated November 12, 2008, to New York Metro Area managers reinforcing Postal Service requirements associated with meals and refreshments. Management did not comment on the monetary benefits. We have included management's comments, in their entirety, in [Appendix C](#).

⁴ Management Instruction, FM-640-2001-4, *Payment for Meals and Refreshments*, September 24, 2001. This management instruction was replaced by FM-640-2008-1, *Expenses for Internal and External Events*, effective September 10, 2008. The new management instruction did not change the policy requirements cited in our report.

⁵ *eBuy Requisitions-Payments-Credit Card Statement Reconciliation SOP*, April 1, 2008.

⁶ *Government-Wide Purchase Cards – Actions Needed to Strengthen Internal Controls to Reduce Fraud, Improper and Abusive Purchases* (Report Number GAO-08-333, dated March 2008).

We recommend the Vice President, New York Metro Area Operations:

2. Establish local policies to track sensitive and easy to pilfer items not covered under current Postal Service directives.

Management's Comments

Management's written response stated they did not agree with the finding. However, during subsequent discussions, management stated they agreed with this finding and recommendation and disagreed only with the finding related to purchase procedures. Management implemented a policy, effective November 12, 2008, requiring the Manager, Administrative Support Services, to be the sole purchaser of any item worth \$50 or more and identified as pilferable. The purchase will be recorded in a Pilferable Items Log and maintained for 2 years.

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to recommendations 1 and 2, and the corrective actions should resolve the issues identified in the report. Although management did not agree or disagree with the monetary benefits discussed, we will report them as questioned costs in our *Semiannual Report to Congress* since we identified instances where employees did not follow required procedures.

Purchase Procedures Needed Improvement

A cardholder made 23 separate purchases totaling \$52,720 from a single vendor without establishing a contract.⁷ Postal Service policy requires formal competitive contracts for purchases exceeding \$10,000.⁸ The cardholder and approving official stated that it was an oversight because they overlooked the total dollar volume of purchases with this vendor. When cardholders 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 meet statutory requirements.

We are not making a recommendation because management has ceased making SmartPay purchases with the vendor and has initiated competitive contract procedures for the questioned purchases.

⁷ The cardholder made these purchases for video production services over a 24-month period.

⁸ Handbook AS-709, *Credit Card Policies and Procedures for Local Buying*, Sections 332.21f and 333.6, October 2003 (updated with *Postal Bulletin* revisions through October 26, 2006).

Management's Comments

Management did not agree with the finding or monetary benefit and believed the finding should not be included in the audit report because they initiated immediate corrective action.

Evaluation of Management's Comments

As noted by management, the finding reflects a condition identified and discussed with them during the audit. Consequently, the OIG will retain the finding in the report and claim the monetary benefits, as is customary. However, we commend management for their quick and effective actions taken.

Monthly Reconciliation Procedures Needed Improvement

A cardholder did not verify during monthly reconciliations 26 E-Z Pass⁹ charges totaling \$34,451 to their SmartPay Purchase card over a 12-month period. Postal Service policy requires cardholders to review cardholder statements and verify transactions are valid and for official use.¹⁰ The cardholder did not verify the monthly E-Z Pass charges

[REDACTED], which did not include any guidance on verification of charges. When cardholders do not follow reconciliation procedures, there is an increased risk that unauthorized or inaccurate transactions could go undetected.

We recommend the Vice President, New York Metro Area Operations:

3. Direct SmartPay cardholders to verify their statement transactions are valid and official.

Management's Comments

Management's written response stated they did not agree with the finding. However, during subsequent discussions, management stated they agreed with this finding and recommendation and disagreed only with the finding related to purchase procedures. On November 12, 2008, management re-issued administrative guidelines to the Area staff addressing the subject E-Z Pass tags. Management did not comment on the non-monetary benefits.

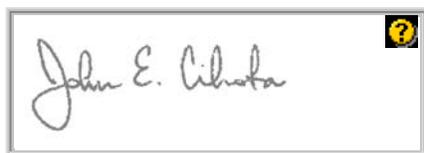
⁹ E-Z Pass uses an electronic tag placed on a vehicle windshield that automatically reduces the tag holder's pre-paid account when the vehicle passes through specially equipped toll lanes.

¹⁰ Handbook AS-709, Section 315.

Evaluation of Management's Comments

The OIG considers management's comments responsive to recommendation 3, and the corrective actions should resolve the issues identified in the report. Although management did not agree or disagree with the non-monetary benefits discussed, we will report them as disbursements at risk in our *Semiannual Report to Congress* since we identified instances where employees did not follow proper Postal Service processes.

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.

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 square icon with a black question mark.

John E. Cihota
Deputy Assistant Inspector General
for Financial Accountability

Attachments

cc: Susan M. Brownell
Lynn Malcolm
Vincent H. DeVito, Jr.
Stephen J. Nickerson
Susan A. Witt
Joseph A. Branco
Terence P. Hayes
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 co-sponsor it. The Postal Service pays no administrative fees for the service 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 the Postal Service set in Handbook AS-709 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.¹¹

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, we selected all transactions made using the IMPAC-Report Builder from the Accounting Data Mart for the New York Metro Area's finance number. This approach resulted in a universe of 744 SmartPay Purchase Card purchase transactions totaling \$656,445. Our transactions included only those of cardholders assigned to the New York Metro Area. We selected the sample of area transactions based on risk factors such as type of purchase (for example, meals and gift cards) and vendors. Specifically, we judgmentally selected transactions that were either over \$9,000, restricted, made on the weekend, or involved pilferable items. Using these risk factors, we selected 336 transactions totaling \$463,391 made from July 2007 through July 2008 by five cardholders.

¹¹ Officer Memorandum of Policy GSA Smart Pay Purchase Card Reconciliation Process Time Change, January 4, 2008.

We conducted this financial audit from July through November 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 finding and conclusions based on our audit objective. We believe the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective. We discussed our observations and conclusions with management on October 30, 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, including 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 Northeast Area SmartPay Purchase Card Program</i>	FF-AR-09-001	10/22/2008	\$36,263	\$13,481	Cardholders made purchases without documenting the business necessity for working meals, and cardholders and approving officials did not follow monthly reconciliation procedures.
<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 and made purchases without documenting the business necessity for working meals. eBay authority was not properly delegated and purchases were not always supported by receipts. Cardholders and approving officials did not follow monthly reconciliation procedures.

<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 completed SmartPay Credit Card Program Cardholder Accountability Acknowledgment forms 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 listed 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	Cardholder purchases: did not include documentation supporting the business necessity for working meals, included payments for state or local sales taxes, and did not document non-cash award transactions in the eAwards system. Further, 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.

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 IMPACT SUMMARY

Monetary Impact – Unrecoverable Unsupported Questioned Costs

Number of Transactions	Description	Amount
3	Meal purchases not justified	\$4,652
2	Purchase of professional baseball playoff tickets without justification	5,628
23	Purchases with a single vendor without a competitive contract	52,720
28	TOTAL	\$63,000

Non-Monetary Impact – Disbursements at Risk

Number of Transactions	Description	Amount
26	E-Z Pass charges not verified	\$34,451

APPENDIX C: MANAGEMENT'S COMMENTS

VICE PRESIDENT, AREA OPERATIONS
NEW YORK METRO AREA



November 17, 2008

LUCINE WILLIS
DIRECTOR, AUDIT OPERATIONS
OFFICE OF INSPECTOR GENERAL

SUBJECT: Transmittal of Draft Audit Report – Fiscal Year 2008 New York Metro Area
SmartPay Purchase Card Program (Report Number FF-AR-09-DRAFT)

The New York Metro Area has reviewed the recommendations cited in audit FF-AR-09-DRAFT and agrees with the recommendations but not with the findings identified. We have taken the following actions with regard to the recommendations offered:

RECOMMENDATION #1: Reiterate to cardholders the requirement to document a business need for providing meals when submitting a purchase request on all meal expenditures.

Response: We agree with this recommendation. On November 12, 2008, the Area Finance Manager reissued administrative guidelines to the Area staff addressing the subject of meals and refreshments. The memorandum states, "All requisitions for meals should be based on the need to continue the meeting through the meal period and the benefit to be derived to the Postal Service." A copy of this memorandum is attached.

RECOMMENDATION #2: Establish local policies to track sensitive and easy to pilfer items which are not covered under current Postal Service directives.

Response: We agree with this recommendation. Effective immediately, any item with a market value greater than \$50.00 and identified as a pilferable item will be purchased solely by the Manager, Administrative Support Services, who will log the item with the date purchased, description, unit cost, and to whom the item was given. The Pilferable Items Log (copy attached) will be maintained for two years.

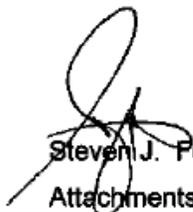
RECOMMENDATION #3: Direct SmartPay cardholders to verify that cardholder statement transactions are valid and official.

Response: We agree with this recommendation. On November 12, 2008, the Area Finance Manager reissued administrative guidelines to the Area staff addressing the subject of EZ Pass tags. The memorandum states, "Drivers are required to complete the EZ Pass Tracker located in the vehicle pouch to log EZ Pass usage." Copies of memorandum and the EZ Pass Tracker are attached.

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We would like to address one of the findings noted in the audit and reported in Appendix B under "Monetary Impact – Unrecoverable Unsupported Questioned Costs." Specifically, \$52,720 is being reported in this category. We feel that since we determined the repetitive buys by the Manager, Field Communications, constituted an unauthorized contract subsequent to the OIG Audit and took immediate corrective action to suspend the activity, this should not be reported as a finding.

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



Steven J. Forte

Attachments

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November 12, 2008

MEMORANDUM FOR AREA PCES MANAGERS

SUBJECT: **Administrative Guidelines**

We have had some recent changes in various administrative procedures and local policy. This memo will update and clarify those guidelines. Please ensure that your staff members receive a copy of these guidelines.

Local approving authority is the authority to approve purchases for daily operational needs. PCES Managers have local approval authority for \$10,000 which may be redelegated. All redelegations must be justified in writing with a copy to the employee and Area Finance Manager. Listed below are the approval authorities by position, function and name.

POSITION/FUNCTION	NAME	AMOUNT
Vice President, Area Operations		\$10,000
Manager, Operations Support		\$10,000
Manager, InPlant Support (A)		\$10,000
Manager, Delivery Programs (A)		\$10,000
Manager, Distribution Networks (A)		\$10,000
Manager, Maintenance Operations		\$10,000
Manager, Human Resources		\$10,000
Manager, Finance		\$10,000
Manager, Accounting		\$10,000
Manager, Budget		\$10,000
Manager, Customer Relations (A)		\$10,000

Approval authority is not buying authority. Local buying authority is outlined below.

Local buying authority is the authority to buy and pay for supplies authorized by a PCES executive or an employee who has been delegated approval authority. Purchases may be made only by employees that have been issued a SmartPay Purchase Card or have been delegated purchasing authority by the Area Finance Manager. Only those listed below have the local buying authority for the Area office:

[Redacted Name] [Redacted Name]

Contractual authority should not be mistaken with local buying/approval authority. Contractual authority is only delegated to the qualified contracting officers in the Purchasing Service Centers. Only contracting officers may contractually bind the US Postal Service. An unauthorized contractual commitment occurs when a Postal Service employee who does not have contracting authority causes another party to deliver or provide goods or services. Unauthorized contractual commitments are considered serious violations of purchasing policies and procedures. In order to avoid this, all

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requisitions for goods or services must have the required approvals and certification of funds **before** they are processed by Administrative Support or the Purchasing Service Center. Any purchase, whether it's \$10.00 or \$20,000, made outside of this process is an **unauthorized** purchase and should be avoided.

Meals and Refreshments - PCES Managers may authorize refreshments and meals for official business meetings. **All requisitions for meals should be based on the need to continue the meeting through the meal period and the benefit to be derived to the Postal Service.** Proper justification and required approvals are mandatory in accordance with the Management Instruction FM-640-2008-1. Payments should be processed through the SmartPay Purchase Card. Imprest fund may be used, **not to exceed \$100**, if the card is not accepted.

Personal Service Contracts and Sponsorships require an Officer's approval. All eBay requisitions for these type requests must be routed to the Area Vice President for approval.

Cellular phones/Blackberry units are no longer controlled by the Finance office. All requests must be made through eAccess. No employee may contract for a cell phone or Blackberry for official use without obtaining the PCES Manager's approval via eAccess.

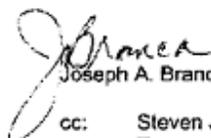
Vehicle Usage must be for official business only. Official business does not include transportation of employees between their residences and places of employment.

EZ Pass tags are to be used only with government vehicles while conducting official government business. **Drivers are required to complete the EZ Pass Tracker located in the vehicle pouch to log EZ Pass usage.** Each department Secretary will collect spreadsheets at end of month and submit to Administrative Support for reconciliation purposes. The EZ Pass tag together with the vehicle pouch should be returned to the department custodian for safekeeping upon return from official government travel. EZ Pass tag and vehicle pouch should never be left in the vehicle.

Voyager Card statements must be verified and reconciled every month by Administrative Support. In order to accomplish this in a timely manner, staff members using a government vehicle must provide all receipts to Eva Martinez within a week of the transaction date.

I would appreciate your informing your staff of the above guidelines. Should you have any questions or concerns, please contact [REDACTED]

Your cooperation will ensure that the Area office complies with all purchasing policies.


Joseph A. Branco

cc: Steven J. Forte
Terence Hayes
Eva Martinez

