



December 22, 2008

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VICE PRESIDENT, SUPPLY MANAGEMENT

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SUBJECT: Audit Report – Fiscal Year 2008 SmartPay® Purchase Card Program  
(Report Number FF-AR-09-051)

This report presents the results of our audit of the SmartPay Purchase Card Program in area offices for fiscal year (FY) 2008 (Project Number 08BD006FF000). We conducted this work in support of the audit of the U.S. Postal Service's financial statements. See [Appendix A](#) for additional information about this audit.

## Conclusion

Based on the items we reviewed, SmartPay purchase card transactions were generally supported and complied with Postal Service policies and procedures. We examined 2,481 transactions totaling \$2.3 million in all nine area offices and identified issues regarding 346 transactions totaling \$339,690 in seven of them. These issues were related to inadequately documented justifications for working meals and various other internal control and compliance issues. In addition, we identified issues with monthly reconciliation procedures. In this report, we discuss two conditions that occurred most frequently at area offices. See [Appendix C](#) for a summary of the issues identified for each area.

We made recommendations to area managers addressing the findings at each area office. Area management's comments were responsive to our findings, recommendations, and \$305,858 in monetary and \$98,926 in non-monetary impact.<sup>1</sup> See [Appendix B](#) for the monetary and non-monetary amounts reported in each area. The actions taken or planned should correct the issues identified at the area offices; therefore, we are not making recommendations in this report.

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<sup>1</sup> We claimed monetary and non-monetary impacts in each individual site report.

## Business Necessity for Working Meals Not Documented

In seven areas, requisitions for working meals did not always document the business necessity or benefit derived for continuing meetings through the meal time. Additionally, in one area, the working meals did not receive Postal Career Executive Service (PCES) level approval, as required.<sup>2</sup> Employees generally stated this occurred because they were not aware of or did not fully understand the requirements or neglected to obtain the 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.

## Monthly Reconciliation Procedures Were Not Followed

Cardholders and/or Credit Card Approving Officials (CCAO) did not always follow purchase card reconciliation procedures. Specifically, in seven areas, purchase card personnel did not properly reconcile 135 purchase card statements with transactions totaling \$416,158. Employees stated various reasons for not following the prescribed procedures.

- CCAOs stated they had not timely received all the supporting documentation or statements from the cardholder (three areas).
- Cardholders stated they overlooked or forgot to perform the reconciliation (two areas).
- Cardholders were unaware or did not fully understand the requirements (two areas).
- Employees stated they did not always reconcile timely because either the cardholder or the CCAOs were out of the office for extended periods of time (one area).

Postal Service policy<sup>3</sup> requires the cardholder and the CCAO to complete reconciliation activities and certifying statements no later than the 18<sup>th</sup> of the month for the previous month's card activity. When employees do not follow purchase card procedures, there is an increased risk the Postal Service could incur a loss without detection.

In November 2008, the Postal Service began implementing SmartPay2®. In anticipation of SmartPay2, the Postal Service updated Handbook AS-709. The update included a new requirement that all on-roll cardholders, CCAOs, and area program coordinators complete refresher training prior to March 31, 2009. We believe the new required refresher training for all purchase card employees will address the issues identified. Therefore, we are not making recommendations in this report.

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<sup>2</sup> Management Instruction (MI) FM-640-2008-1, *Expenses for Internal and External Events*.

<sup>3</sup> Handbook AS-709, *Purchase Card Policies and Procedures for Local Buying*, Section 411, September 2008.

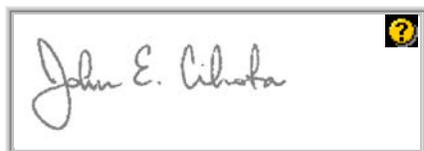
## Management's Comments

Management agreed with our report's conclusion that the two conditions which occur most frequently with program compliance are documenting working meals and proper monthly reconciliation. During FY 2008, management made several program improvements and will continue efforts to address the issues in our report. We have included management's comments, in their entirety, in [Appendix E](#).

## Evaluation of Management's Comments

The OIG considers management's comments responsive to the issues in our report.

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 square icon with a black question mark.

John E. Cihota  
Deputy Assistant Inspector General  
for Financial Accountability

## Attachments

cc: H. Glen Walker  
Vincent H. DeVito, Jr.  
Stephen J. Nickerson  
Susan A. Witt  
Katherine S. Banks

## APPENDIX A: ADDITIONAL INFORMATION

### BACKGROUND

In November 1991, the Postal Service joined the government-wide Commercial Credit Card Program administered by the General Services Administration called SmartPay. The program within the Postal Service is known as the SmartPay Purchase Card Program, which Supply Management and Finance co-sponsor. In November 2008, the Postal Service began transitioning to SmartPay2 and will replace all purchase cards. The Postal Service pays no administrative fees for the card services and earns cash refunds based on the aggregate volume of its transactions. There are no interest penalties and the Postal Service pays all credit card charges with a single monthly payment.

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 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. In September 2008, the Postal Service updated Handbook AS-709 and included new refresher training requirements for cardholders, credit card approving officials, and area program coordinators. In addition, the Postal Service issued MI FM-640-2008-1, which provides policies and procedures for official business event-related expenses.

The five types of purchase cards are currently used to purchase:

- Expense items.
- Capital property.
- Vehicle parts at vehicle maintenance facilities.
- Inventory parts at the Topeka, Kansas, Material Distribution Center.
- Research and development equipment and supplies for Postal Service Engineering use.

We limited our audit to the expense purchase card transactions.

## OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine if SmartPay Purchase Card Program purchases of expense items were supported and complied with Postal Service policies and procedures. To accomplish this objective, we judgmentally selected a sample of expense purchase card transactions for each Postal Service area using the Accounting Data Mart. We selected the sample of area transactions based on risk factors such as 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 2,481 transactions totaling \$2.3 million made from July 2006 through July 2008 by 109 cardholders.

We conducted this financial audit from September 2007 through December 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 limit audit risk to a low level that is, in our professional judgment, appropriate for supporting the overall audit opinion on the financial statements. Those standards also require that we consider the results of previous engagements and follow up on known significant findings and recommendations that directly relate to the objective of the audit. An audit also includes obtaining a sufficient understanding of internal controls to plan the audit and to determine the nature, timing, and extent of audit procedures to be performed.

We supported the external auditors in obtaining reasonable assurance about whether the financial statements are free of material misstatement (whether caused by error or fraud). Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Therefore, an audit conducted in accordance with generally accepted government auditing standards may not detect a material misstatement. However, the external auditors and the OIG are responsible for ensuring that appropriate Postal Service officials are aware of any significant deficiencies that come to our attention. We discussed our observations and conclusions with management on November 13, 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.

In addition to our area SmartPay audits, as part of the OIG's continuous auditing efforts, we conducted judgmental testing of SmartPay purchases in five Postal Service areas and 55 districts from December 2007 through September 2008. See [Appendix D](#) for additional details related to this work.

**PRIOR AUDIT COVERAGE**

<b>Report Title</b>	<b>Report Number</b>	<b>Final Report Date</b>	<b>Monetary Impact</b>	<b>Non-Monetary Impact</b>	<b>Report Results</b>
<i>SmartPay Purchase Card Use By Postal Service Officers</i>	FT-AR-07-014	9/29/2007	\$127,393	\$133,458	The Postal Service did not always maintain adequate purchase documentation or use the purchase card for authorized purposes. We made five recommendations. Although management did not agree with two of the recommendations, they agreed with the intent of all five recommendations and took corrective action.
<i>National Review of SmartPay Purchase Card Transactions</i>	CA-AR-08-002	11/8/2007	\$244,626	\$177,183	The audit disclosed weaknesses in internal controls over purchases. Of 355 transactions made by 138 cardholders, 79 transactions made by 42 cardholders were not supported or allowable. We made five recommendations. Management agreed with the recommendations and implemented corrective action.
<i>Fiscal Year 2007 SmartPay Purchase Card Program</i>	FF-AR-08-094	2/4/2008	\$1,203,832	\$2,626,223	This report summarized various internal control and compliance issues related to reconciliations of purchase card statements and unapproved, unsupported, and unauthorized purchases. Because we made recommendations in the individual reports summarized in this report, we did not make any additional recommendations.

**APPENDIX B: AREA SMARTPAY PURCHASE CARD PROGRAMS AUDITED AND REPORTS ISSUED NATIONWIDE**

<b>Report Title</b>	<b>Report Number</b>	<b>Final Report Date</b>	<b>Monetary Impact<sup>4</sup></b>	<b>Non-Monetary Impact</b>
<i>Fiscal Year 2008 Southwest Area SmartPay Purchase Card Program</i>	FF-AR-08-072	1/11/08	\$63,511	\$0
<i>Fiscal Year 2008 Capital Metro Area SmartPay Purchase Card Program</i>	FF-AR-08-270	8/22/08	\$0	\$0
<i>Fiscal Year 2008 Southeast Area SmartPay Purchase Card Program</i>	FF-AR-08-279	9/8/08	\$0	\$0
<i>Fiscal Year 2008 Pacific Area SmartPay Purchase Card Program</i>	FF-AR-08-281	9/12/08	\$20,215	\$3,360
<i>Fiscal Year 2008 Western Area SmartPay Purchase Card Program</i>	FF-AR-08-286	9/25/08	\$57,712	\$0
<i>Fiscal Year 2008 Great Lakes Area SmartPay Purchase Card Program</i>	FF-AR-08-287	9/26/08	\$38,412	\$37,808
<i>Fiscal Year 2008 Eastern Area SmartPay Purchase Card Program</i>	FF-AR-09-002	10/21/08	\$26,745	\$9,826
<i>Fiscal Year 2008 Northeast Area SmartPay Purchase Card Program</i>	FF-AR-09-001	10/22/08	\$36,263	\$13,481
<i>Fiscal Year 2008 New York Metro Area SmartPay Purchase Card Program</i>	FF-AR-09-028	11/28/08	\$63,000	\$34,451

<sup>4</sup> The individual reports identified the type of monetary and non-monetary impacts.

**APPENDIX C: FINDINGS REPORTED FOR AREA SMARTPAY PURCHASE CARD PROGRAMS AUDITED**

<b>Findings</b>	<b>Number of Areas with Findings</b>	<b>Number of Cardholders</b>	<b>Number of Transactions/ Statements</b>	<b>Value of Transactions/ Statements</b>
<b>Most Frequent Issues:</b> Requisitions for working meals did not state the business necessity for continuing a meeting through the meal period and/or were not properly approved.	7	41	214	<b>\$236,912</b>
Monthly reconciliation procedures were not followed. <sup>5</sup> Cardholders and/or approving officials did not:	7	41	135	<b>\$416,158</b>
<ul style="list-style-type: none"> <li>• Reconcile monthly purchase card statements timely.</li> </ul>	4	16	58	\$251,072
<ul style="list-style-type: none"> <li>• Certify and/or date monthly purchase card statements.</li> </ul>	3	13	46	\$104,796
<ul style="list-style-type: none"> <li>• Properly reconcile or provide all receipts to support purchase card transactions.</li> </ul>	3	12	31	\$60,290
<b>Other Issues:</b> Cardholders:				
Did not seek or receive sales tax exemptions on purchases.	2	7	23	<b>\$2,463</b>
Made purchases from a non-contract vendor when a national contract was in place or from an unauthorized vendor for Postal Service-licensed merchandise.	2	8	50	<b>\$15,892</b>

<sup>5</sup> Monthly reconciliation procedure totals are not transactions but relate to the number and value of statements reviewed.

<b>Findings</b>	<b>Number of Areas with Findings</b>	<b>Number of Cardholders</b>	<b>Number of Transactions/ Statements</b>	<b>Value of Transactions/ Statements</b>
Made purchases that exceeded \$10,000 from a single vendor without seeking a formal contract or deviation.	2	2	24	<b>\$66,201</b>
Requisitioned 16 professional baseball play-off tickets without providing the business need to support the purchase.	1	1	2	<b>\$5,628</b>
Purchased alcohol based on an officer improperly delegating his eBuy System authority to purchase alcohol to another manager who then authorized the purchase.	1	2	5	<b>\$1,808</b>
Made prohibited purchases that included gifts (graduation and retirement), a holiday celebration, greeting cards (birthday, thank you, and sympathy), and breakfast meals.	1	8	22	<b>\$6,731</b>
Did not maintain purchase card Accountability Acknowledgement forms.	1	8	N/A	<b>N/A</b>
Did not enter issued gift cards into the eAwards System.	2	4	6	<b>\$4,055</b>

## APPENDIX D: SMARTPAY CONTINUOUS AUDITING

As part of the OIG's continuous auditing efforts, we conducted testing of SmartPay purchases from five Postal Service areas and 55 districts from December 2007 through September 2008. To conduct our testing, we judgmentally selected 513 transactions representing \$1.7 million in expenses from 148 cardholders based on risk factors that included purchase amount and Standardized Industry Classification Codes.

We requested supporting documentation, including invoices, approved purchase requests, receipts and delivery documentation, declining balance logs for bulk funded items, credit card logs, bank statements, and written justification for the purchases. We analyzed the supporting documentation and made referrals to the OIG's Office of Investigations as deemed necessary.

Overall, our judgmental testing identified issues very similar to the results identified in our area SmartPay audit work summarized in this report. Specifically, our continuous auditing efforts identified questions and concerns related to purchases that were:

- Not supported with bona fide receipts.
- Not properly authorized.
- Not supported with the identification of the business need for working meals.
- For prohibited items.
- Split to remain under the \$10,000 spending limit.
- Made and approved by the same person.

In addition, we identified reconciliation issues in which cardholders/approving officials did not sign and date the monthly bank statements.

Since the issues have been sufficiently identified and addressed in the area financial audits, we are not including any additional recommendations in this report. However, we will continue to audit SmartPay purchases in FY 2009, to include purchases associated with events and restricted and prohibited items.

## APPENDIX E: MANAGEMENT'S COMMENTS



December 17, 2008

LUCINE M. WILLIS

SUBJECT: Draft Audit Report – Fiscal Year 2008 SmartPay® Purchase Card Program  
(Report Number FF-AR-09-DRAFT)

Thank you for the opportunity to review and comment on the subject audit report. We agree with the report's conclusion that two conditions which occur most frequently with program compliance are issues with documenting working meals and proper monthly reconciliation. We will continue our efforts in addressing these issues.

The Postal Service is committed in achieving and maintaining an efficient, effective, and economical purchase card program. The Office of Inspector General's (OIG) fiscal year financial audits on our SmartPay® Purchase Card Program has been of value in assisting us in our efforts for continued program improvement and education. During fiscal year 2008, we had several efforts planned for completion that would enhance the program. Below is an overview of those improvements.

- A new Management Instruction on *Expenses for Internal and External Events* was published and communicated through a Postal Bulletin article in September 2008. It provides policy and procedures for the purchase and payment of official Postal Service business internal and external event-related expenses.
- In October 2008, an update to Handbook AS-709, *Purchase Card Policies and Procedures for Local Buying* was published and communicated through a Postal Bulletin article. Working meals and monthly reconciliation procedures are clarified, and a requirement that program participants take refresher training every three years was established.
- Chapter 7 of the *Administrative Support Manual 13* was updated and communicated in October 2008; it reiterates policy on prohibited and restricted purchases, and reconciliation requirements.
- A new SmartPay® Purchase Card Web-Based Training course was effective October 2008 and describes the policy and procedures in the AS-709 Handbook.

And, based on the results of the Area audits, additional communications were developed.

- A November 2008 Postal Bulletin article provided an update on the policy for purchasing and reporting employee awards and proper purchase card use.
- A memorandum of December 1, 2008, from the Postmaster General to all Officers highlighted the need to properly manage costs, especially in these difficult economic times, and to use their best judgment and approval authority wisely when considering purchases.

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The purchase card program is a valuable asset to the Postal Service and assists us in managing our day-to-day operations. The OIG's audits, along with our internal reviews, allow us to assess our policies and procedures to determine their effectiveness and make improvements where necessary. Your continued review and assistance with this program is appreciated.

We do not believe that this report contains any proprietary or business information and may be disclosed pursuant to the Freedom of Information Act. If you have any questions about this response, please contact Susan Witt at (202) 268-4833.



Lynn Malcolm  
Vice President  
Controller



Susan M. Brownell  
Vice President  
Supply Management

cc: H. Glen Walker  
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