



October 21, 2008

MEGAN J. BRENNAN
VICE PRESIDENT, EASTERN AREA OPERATIONS

SUBJECT: Audit Report – Fiscal Year 2008 Eastern Area SmartPay Purchase Card Program (Report Number FF-AR-09-002)

This report presents the results of our audit of the SmartPay Credit Card purchases by personnel in the Eastern Area Office (Project Number 08BD006FF006). 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 Postal Service policies and procedures. We examined 184 judgmentally selected transactions¹ totaling \$174,132 and identified issues with 25 purchases (13 percent) totaling \$26,745. We identified 13 purchases from unauthorized vendors, six meal expenses where the business need was not documented, five purchases where eBuy authority was improperly delegated, and \$1,538 of charges not supported by receipts. These transactions are considered unrecoverable unsupported questioned costs.² Additionally, we examined reconciliations for 73 purchase card statements and identified that cardholders did not properly review and reconcile 14 (19 percent) of them, worth \$30,575. Of that \$30,575, we consider \$9,826 as disbursements at risk.³ We will report these monetary and non-monetary impacts in our *Semiannual Report to Congress*. See [Appendix B](#) for our calculation of monetary and non-monetary impacts.

¹ See [Appendix A](#) for a discussion of our rationale for selecting transactions.

² Unsupported costs are costs we question only because of missing or incomplete documentation or failure to follow required procedures.

³ Dollar value of disbursements made where employees did not always follow Postal Service internal controls and processes.

Procedures for Selecting Vendors Need Improvement

Cardholders did not always purchase Postal Service-licensed merchandise. Three cardholders made 13 purchases totaling \$13,342 from unlicensed vendors and did not have sufficient justification for using unlicensed vendors. Employees should confirm⁴ that merchandise that has a trademark, stamp, design, or other image owned by the Postal Service purchased for use in their office or otherwise as part of their employment is the Postal Service's "officially licensed merchandise." In addition, cardholders should purchase merchandise featuring Postal Service trademarks from officially licensed vendors.⁵ Cardholders misunderstood the requirements and, generally, were not fully aware of the requirements to use approved vendors and justify exceptions. The Postal Service cannot safeguard the value of its trademarks, stamp images, and other pictorial images when using unlicensed vendors.

We recommend the Vice President, Eastern Area Operations:

1. Reinforce to and clarify for cardholders the requirement to use officially licensed product manufacturers or distributors, or to document justifications for exceptions.

Procedures for Justifying Meal Purchases Need Improvement

Cardholders did not always justify the business need for providing meals. Two cardholders made six purchases worth \$10,057 for meals provided either before managers scheduled meetings to begin or after they adjourned the meetings. Managers should schedule business meetings to preclude overlapping meal periods, or clearly state in the purchase request the business necessity for continuing meetings through meal periods.⁶ Cardholders stated they were unaware of the requirement to provide a business reason on the requisition for continuing meetings through the meal period. When employees do not follow policies, there is an increased risk the Postal Service could incur unnecessary expenses.

We recommend the Vice President, Eastern Area Operations:

2. Inform cardholders of the requirement to justify the business need for continuing meetings through the meal period in the purchase request.

⁴ *Administrative Support Manual*, Issue 13, Section 662.1, July 1999 (updated with *Postal Bulletin* revisions through March 29, 2007).

⁵ *Postal Bulletin* 22082, August 8, 2002, pages 4-6.

⁶ Management Instruction FM-640-2001-4, *Payment for Meals and Refreshments*, page 2, September 24, 2001.

Monthly Reconciliation Procedures Need Improvement

Cardholders and approving officials did not always follow monthly reconciliation procedures. Specifically:

- Four cardholders signed, but did not date, 11 purchase card statements totaling \$17,026.⁷
- Two approving officials did not sign and date two statements totaling \$1,953 within 30 days from the statement date.⁸
- One cardholder submitted a statement for \$11,595 on the last day of the reconciliation period and the statement was not reconciled within 60 days. The cardholder was missing \$1,538 in receipts and did not properly reconcile the statement. The approving official appropriately refused to sign the statement until the cardholder provided the missing receipts and reconciled the statement. The Postal Service cannot dispute transactions that are more than 60 days from receipt of the statement of account. As a result, we consider \$9,826 of the statement to be disbursements at risk⁹ and the missing receipts represent \$1,538 in unrecoverable unsupported questioned costs.

Cardholders should certify the statement of account after review and reconciliation by signing and dating the certification statement.¹⁰ Cardholders and approving officials should also complete all reconciliation activities no later than the 18th of the month for the previous month's card activity.¹¹ Cardholders stated they did not date the bank statements because they were not aware of policy related to the modified bank statements.¹² The approving officials did not timely reconcile the bank statement due to untimely receipt of cardholder documentation. Unauthorized or inaccurate transactions could go undetected when cardholders and approving officials do not reconcile bank statements.

We recommend the Vice President, Eastern Area Operations:

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

⁷ Approving officials certified the statements in 60 days; therefore, we do not consider the amounts disbursements at risk.

⁸ Handbook AS-709, *Credit Card Policies and Procedures for Local Buying*, Section 421.d, October 2003 (updated through October 26, 2006).

⁹ Statement value net of unrecoverable unsupported questioned costs for delegated eBuy approval and missing receipts.

¹⁰ Handbook AS-709, Section 421.d.

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

¹² The modified bank statements did not have a date section for cardholders to complete.

Management's Comments

Management agreed with our findings, recommendations, and monetary and non-monetary impacts and issued a memorandum dated October 8, 2008, to SmartPay cardholders and approving officials reinforcing Postal Service requirements. See [Appendix C](#) for management's comments, in their entirety.

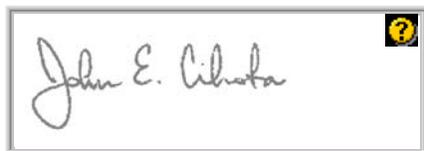
Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General considers management's comments responsive to recommendations 1, 2, and 3, and the corrective actions should resolve the issues identified in the report.

Procedures for Delegating eBuy Authority Need Improvement

In an effort to expedite the eBuy process, an officer delegated their authority to approve purchases in the eBuy system. Specifically, two cardholders made five purchases for alcohol totaling \$1,808 that were not approved by an officer in eBuy. An officer can delegate their authority for certain types of purchases, but Postal Service policy is specific in limiting the approval of alcohol purchases to officers only.¹³ Even though there was no intent to misrepresent the officer's approval authority, the eBuy system did not contain adequate documented evidence to support policy compliance. Although the officer attended the events and verbally approved the purchase in advance, the responsible officer delegated the eBuy authority to another manager so purchase requests would be completed more timely. Cardholders should state in their purchase requests that the request includes beer and wine. During the audit, the officer took immediate corrective action by removing the delegation in eBuy. Accordingly, we are not including a recommendation for this finding.

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 question mark.

John E. Cihota
Deputy Assistant Inspector General
for Financial Accountability

Attachments

¹³ *Supply Management Infrastructure Purchase Card Frequently Asked Questions*, July 2008.

cc: Susan M. Brownell
Lynn Malcolm
Vincent H. DeVito, Jr.
Stephen J. Nickerson
Susan A. Witt
Eric R. Faber
Mark F. Tappe
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 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 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.¹⁴

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 selected all transactions using the IMPAC-Report Builder from the Accounting Data Mart for the Eastern Area's finance numbers. This approach resulted in a universe of 541 SmartPay Purchase Card purchase transactions totaling \$283,897. Our transactions included only those cardholders assigned to the Eastern Area. We selected the sample of area transactions based on risk factors such as type of purchases (i.e., meals and gift cards) and vendors. Specifically, we judgmentally selected transactions that were either over \$9,000, restricted, made on the weekend, or for purchases of pilferable items. Using these risk factors, we selected 184

¹⁴ Officer Memorandum of Policy GSA Smart Pay Purchase Card Reconciliation Process Time Change, January 4, 2008.

transactions totaling \$174,132 made from July 2007 through July 2008 by 14 cardholders.

We conducted this financial audit from July through October 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 officials on September 4, 2008, and included their comments where appropriate.

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

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Monetary Impact	Non-Monetary Impact	Report Results
<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 that was not listed on the national contract list.

<i>Fiscal Year 2008 Pacific Area SmartPay Purchase Card Program</i>	FF-AR-08-281	9/12/08	\$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	9/8/08	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, 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.

These reports identified various internal control and compliance issues, such as unapproved, unsupported, or 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
13	Licensed merchandise from unauthorized vendors.	\$13,342
6	Meals provided before meetings commenced and after meetings adjourned.	10,057
5	Procedures for delegating eBuy authority.	1,808
1	Unsupported conference expenses (missing receipts).	1,538
	TOTAL	\$26,745

Non-Monetary Impact – Disbursements at Risk

Number of Statements	Description	Amount
1	Monthly reconciliation procedures need strengthening.	\$9,826

APPENDIX C: MANAGEMENT'S COMMENTS

MEGAN J. BRENNAN
VICE PRESIDENT, AREA OPERATIONS
EASTERN AREA



October 8, 2008

MEMORANDUM FOR LUCINE WILLIS
DIRECTOR, AUDIT OPERATIONS

Subject: SmartPay Purchase Card Program (Report Number FF-AR-08-Draft)

The Eastern Area has reviewed the subject Draft Audit Report (Report Number FF-AR-08-Draft) and is in agreement with the findings and recommendations. Additionally, we agree with the monetary and non-monetary calculations and have no Freedom of Information Act (FOIA) issues related to this audit.

Recommendation #1 – Reinforce to cardholders to use officially licensed product manufacturers or distributors or document justifications for exceptions.

Response:

The Eastern Area Vice President issued a memorandum on October 8, 2008, reinforcing this policy.

Recommendation #2 – Reiterate that cardholders justify the business need for continuing meetings through the meal period in the purchase request.

Response:

The Eastern Area Vice President issued a memorandum on October 8, 2008, reinforcing this policy.

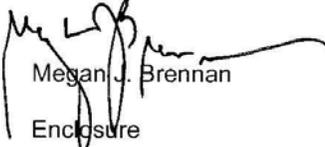
Recommendation #3 – Inform cardholders and approving officials to sign, date, and reconcile bank statements by the 18th of the month.

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Response:

The Eastern Area Vice President issued a memorandum on October 8, 2008, reinforcing this policy.

If you have any questions regarding this response please contact Mark Tappe, Manager of Accounting, at (412) 494-2574.



Megan J. Brennan
Enclosure

FINANCE
EASTERN AREA OFFICE



October 8, 2008

MEMORANDUM FOR: SMARTPAY CARDHOLDERS
APPROVING OFFICIALS/SMARTPAY

SUBJECT: OIG Audit – SmartPay Credit Card

The results of a recent Office of Inspector General (OIG) Audit were favorable as it relates to the SmartPay Credit Card process. There are many good internal controls in place, however, the OIG did identify deficiencies that need additional focus when making credit card purchases and reconciling statements.

1. Postal policy requires cardholders and approving officials to reconcile all statements no later than the 18th of the month for the previous month's activity. I am requiring cardholders and approving officials to reconcile statements upon receipt; this will ensure you meet the policy requirement. As evidence of your reconciliation being completed, you must enter a date beside your signature. At one time there was a line for the date and that was removed by US Bank. It has been requested to have the line to document the date reinstated, however until such time enter the date beside your signature.
2. When completing ebuy requests for meals (breakfast, lunch, or dinner), the justification must clearly state the business need for continuation of the meeting through the meal period. Additionally, the benefit derived by the Postal Service must be indicated. If the meeting includes the purchase of beer and wine that must be indicated in the justification. (Management Instruction FM-640-2008-1 *Expenses for Internal and External Events* is attached).
3. Cardholders must purchase merchandise featuring Postal Service trademarks from officially license vendors (list attached). This would include plaques, trophies, and other employee recognition that utilizes a Postal Service trademark. In the event you have a very last minute purchase and a local vendor is used, it should state in your ebuy justification the need to purchase locally. This should clearly be on an exception basis.

I appreciate your compliance with the above issues. If you have any questions regarding these items please contact Mark Tappe, Manager Accounting, at (412) 494-2574.



Megan J. Brennan

Attachment

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