



January 20, 2009

LYNN MALCOLM  
VICE PRESIDENT, CONTROLLER

SUBJECT: Management Advisory – Imprudent Spending Using the SmartPay®  
Purchase Card (Report Number FF-MA-09-002)

This report presents the results for our fiscal year (FY) 2008 review of U.S. Postal Service imprudent spending using the SmartPay Purchase Card (Project Number 08BO007FF002). The report is self-initiated and addresses financial risks. See [Appendix A](#) for additional information about this review.

### **Conclusion**

Employees have made, and are continuing to make, imprudent and unnecessary purchases during a time of severe economic uncertainty in the Postal Service. While such purchases are generally not in direct violation of Postal Service policies, they conflict with the Postal Service's objective of driving down costs in all operations and processes.<sup>1</sup> Moreover, the public's view of such imprudent purchases could have a detrimental effect on the Postal Service's public image due to the perception that the agency is using funds from sales of stamps to purchase expensive items.

### **Imprudent Purchases Made by Postal Service Employees**

Employees have made purchases, primarily gifts and items for meetings, which we believe are imprudent and unnecessary during a time of severe economic uncertainty in the Postal Service. In a recent report on the Postal Service's progress in the areas of network strength, realignment planning, accountability, and improved communication, the Government Accountability Office (GAO) stated the Postal Service "must increase efficiency and decrease costs across all its operations" in order to respond to declining mail volumes.<sup>2</sup> In addition, the Vice President, Controller, has directed employees to "continue efforts to control expenses" by making "prudent choices and deferring or eliminating non-critical activity."<sup>3</sup> Some examples of imprudent purchases we identified follow.

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<sup>1</sup> *Postal Bulletin* 22238, FY 2008 Closing Guidance: Message from the Controller, July 31, 2008.

<sup>2</sup> GAO Report: *U.S. Postal Service: USPS Has Taken Steps to Strengthen Network Realignment Planning and Accountability and Improve Communication*, July 24, 2008.

<sup>3</sup> FY 2008 Closing Guidance: Message from the Controller.

Employees put these purchases into the eAwards System (eAwards):

1. Electronic and household items such as Global Positioning Systems (GPS), navigational systems, video game consoles, camcorders, digital cameras, personal computers, printers, an espresso machine, and a TiVo® system given as employee awards/recognition, purchased in late fall 2007, and costing a total of \$93,234.
2. Thirteen 23-inch high-definition televisions given as employee awards, purchased in fall 2007, and costing \$6,435.
3. Three designer watches given as employee awards, purchased in fall 2007, and costing \$4,370.

Employees did not put these purchases into eAwards:

4. Carnival type games and amusements for an employee appreciation and family day event, purchased in fall 2007, and costing \$7,995. Cardholders are not required to put purchases related to employee appreciation into eAwards.<sup>4</sup>
5. A 2-day year-end meeting held in November 2007 by one area costing \$26,884, including the cost of breakfast, lunch, and dinner; meeting rooms; audio-visual equipment; and incidentals such as baggage handling and gratuities for 60 people.<sup>5</sup> The purchase included lodging for 14 attendees whose duty station was less than 50 miles from the meeting place. Cardholders were not required to put these purchases into eAwards since this was a business meeting and not an employee recognition award event.
6. Tickets for sporting events, purchased in late fall 2007 and winter 2008, costing a total of \$28,498. These purchases included a professional basketball game that 450 employees attended and where they received food and hats, and season tickets<sup>6</sup> for a major league baseball team. Cardholders were not required to put these purchases into eAwards because the per ticket cost was less than \$50.<sup>7</sup>

We found the documentation supporting the purchases listed above and others did not always provide sufficient detail to identify the number of items purchased, the number of people attending events or recognized for awards, or the specific purpose or reason for the purchase. Without extensive testing, it is not possible for management or the U.S. Postal Service Office of Inspector General (OIG) to determine the extent to which some of these purchases (i.e., events) occur because they are not always tracked separately. Items of value – such as GPS and navigational systems, electronic appliances, watches

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<sup>4</sup> All employee recognition awards, except Certificates of Appreciation, Ben Franklin Awards, non-cash tangible awards valued at less than \$50, and Quality Step Increases, must be processed or reported via eAwards. Employee appreciation days do not fall into any of these categories.

<sup>5</sup> \$17,148 of the \$26,884 was for meals.

<sup>6</sup> We were unable to determine attendees by name.

<sup>7</sup> Memorandum of Policy ERM-12-12-06, *Recognition and Awards Program*, January 12, 2006.

and gift cards – are captured in eAwards.<sup>8</sup> Some of the purchases we identified – tickets to sporting events, business meetings and appreciation days – are associated with recognition or events; therefore, they are not required to be put into eAwards. As cited in a recent OIG report, expenses associated with internal and external events (meals, refreshments, employee recognition gifts, gift cards, et cetera) should be separately tracked to facilitate transparency and accountability.<sup>9</sup>

In addition to the types of purchases noted above, we identified spending for food and meals made using Purchase Cards totaling over \$7 million in FY 2008. However, we did not include specific examples in our report, as the Postal Service recognized the need to strengthen its policy in this area and recently issued a management instruction that provides additional guidance.<sup>10</sup> The Postal Service travel policy states that anyone in travel status must deduct all meals provided from their per diem expense.<sup>11</sup> Managers told us that meals are provided only under specific circumstances, often to ensure that people in travel status are available for a meeting for the maximum amount of productive time. We plan to continue to monitor these purchases throughout FY 2009 to determine whether the new management advisory is effective.

Although most of the purchases we tested were not in violation of Postal Service purchasing procedures, the nature of the purchases is in direct conflict with the Postal Service's objective of driving down costs in all operations and processes. In addition, due to the perception that the Postal Service is using funds from stamp sales to purchase expensive items, this kind of imprudent spending could damage the Postal Service's public image (goodwill). Both managers and those with awards approval authority should consider the costs of the awards and the perception of these awards to outside individuals. The imprudent purchases we identified represent items of value that are above and beyond employee salaries and bonuses.

We believe a reduction in purchases is feasible based on our analysis of Purchase Card data from October 2006 through September 2008. In fact, chart 1 shows that in Quarter 4, FY 2008, purchases decreased to an average of \$24 million per month, down from an average of nearly \$32 million per month for the first 9 months of FY 2008. We believe this is due to a recent emphasis on cost cutting, and further reductions are possible to realize additional cost savings by emphasizing the need to limit the amount of spending on non-cash items.

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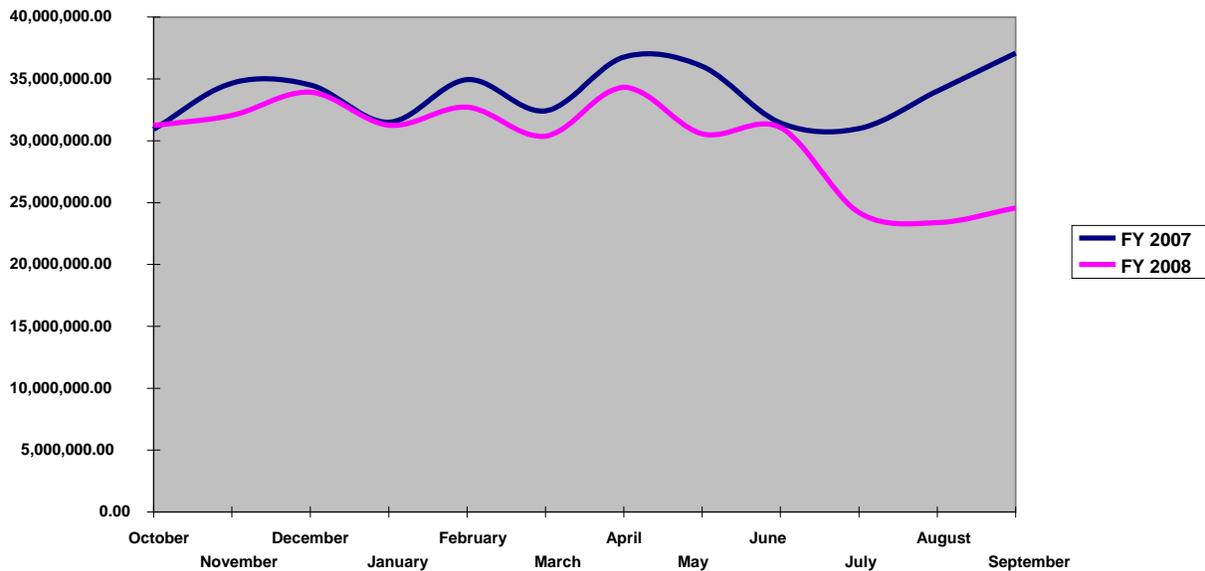
<sup>8</sup> There were 183,208 award transactions and \$43,633,292 recorded in eAwards for 183,208 career and non-career employees during FY 2008, compared with a total of 765,088 career and non-career employees.

<sup>9</sup> *Postal Service Management Instruction – Expenses for Internal and External Events* (Report Number FT-MA-09-001, dated January 13, 2009).

<sup>10</sup> Management Instruction FM-640-2008-1, *Expenses for Internal and External Events*, September 10, 2008.

<sup>11</sup> Handbook F-15, *Travel and Relocation*, Section A-2.5 February 2004 (updated with *Postal Bulletin* revisions through December 2007).

Chart 1. Purchase Card Spending - Fiscal Years 2007 and 2008



Although the total amount spent using SmartPay cards is decreasing, our continuous auditing of SmartPay purchases is showing that employees are continuing to make imprudent and unnecessary purchases. For example, we identified a recent purchase of tickets for 220 employees and their guests to attend a professional basketball game in April 2009.<sup>12</sup> The total cost was \$9,920. These purchases have not been put into eAwards because they have not yet been provided to specific employees.

We provided a discussion draft of this report to management and met with them on October 29, 2008, to discuss their questions and observations. Subsequently, the Postmaster General (PMG) issued a memorandum to all officers on reducing costs (see [Appendix B](#)). In his memorandum, dated December 1, 2008, the PMG referenced our audit, noting that the purchases we identified — although within the authority of the approving officials — were imprudent and unnecessary during a time of severe economic uncertainty. Further, he provided officers additional guidance on the importance of using their approval authority to consider the amount, type, and purpose of the purchase, as well as its business value and potential public perception of the purchase. Because of the actions the PMG took, we are not making any recommendations in this report. However, we will continue to assess these expenditures and plan to issue a follow up report in late spring 2009.

<sup>12</sup> The tickets were purchased in advance to recognize Postal Service employees for improvements in safety, productivity, and revenue. However, the tickets are also given to guests of the employees who may or may not be Postal Service personnel.

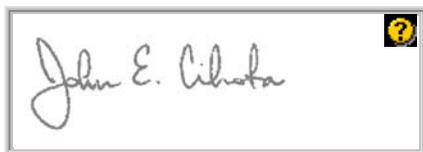
## Management's Comments

Management agreed with our finding and non-monetary impact and stated they need to properly manage costs. Management further stated they held discussions with Postal Service executives regarding the need to control costs throughout the year and emphasized the need to communicate this objective to all employees. Management also stated that a limited number of expenditures that could be perceived as questionable might still occur as they recognize employees for their extraordinary contributions to the organization. See [Appendix C](#) for management's comments in their entirety.

## Evaluation of Management's Comments

The OIG considers management's comments responsive to our issues and corrective actions should reduce the amount of imprudent spending identified in the report. We will continue to monitor SmartPay transactions as part of our continuous auditing efforts and will report imprudent spending if identified as part of that testing. We will report the non-monetary impact for goodwill branding in our *Semiannual Report to Congress*.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact John G. Wiethop, Director, Field Financial Central, 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: Anthony J. Vegliante  
H. Glen Walker  
Susan M. Brownell  
Vincent H. DeVito, Jr.  
Stephen J. Nickerson  
Susan A. Witt  
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, MN, 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, *Credit Card Policies and Procedures for Local Buying*, September 2008, 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.<sup>13</sup>

### OBJECTIVE, SCOPE, METHODOLOGY

The objective of our review is to report extravagant and excessive purchases we identified during our testing of SmartPay Purchase Card transactions to management. We did not include expenditures related to business meals or other food purchases as examples, as the Postal Service recently issued guidance regarding these types of purchases.<sup>14</sup> To accomplish our objective, we reviewed judgmentally selected SmartPay Purchase Card transactions for FY 2008. We selected the transactions based on Standard Industrial Classification codes and the dollar amount of the transaction. We sent letters of inquiry to cardholders requesting supporting documentation and evaluated the supporting documentation they provided. In addition,

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<sup>13</sup> Officer Memorandum of Policy GSA SmartPay Purchase Card Reconciliation Process Time Change, January 4, 2008.

<sup>14</sup> Management Instruction FM-640-2008-1, *Expenses for Internal and External Events*, September 10, 2008.

we included data from fieldwork conducted by the OIG as part of its FY 2008 SmartPay Purchase Card Program audits.<sup>15</sup>

We conducted this review from December 2007 through January 2009 in accordance with the President’s Council on Integrity and Efficiency, *Quality Standards for Inspections*. We discussed our observations and conclusions with management officials on October 29, 2008, and included their comments where appropriate. Although we relied on data obtained from the Enterprise Data Warehouse, we did not test the validity of the data and controls over the system.

**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	N/A	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>SmartPay Purchase Card Use by Postal Service Officers</i>	FT-AR-07-014	9/29/2007	\$127,393	\$181,908	Internal controls over SmartPay Purchase Card use by Postal Service officers were generally adequate, including authorization and subsequent review. However, the Postal Service did not always maintain adequate purchase documentation or use the Purchase Card for authorized purposes. In addition, the Postal Service could strengthen existing SmartPay Purchase Card policies to further enhance controls over the Purchase Card program.

<sup>15</sup> Project Number 08BD006FF000.

<p><i>National Review of SmartPay Purchase Card Transactions</i></p>	<p>CA-AR-08-002</p>	<p>11/8/2007</p>	<p>\$244,626</p>	<p>\$177,183</p>	<p>Our audit disclosed 25 of 42 cardholders had 37 transactions, totaling \$45,474, which did not have an approved purchase request or proper written justifications. One of these 25 cardholders also paid \$1,443 for meals and refreshments that did not comply with Postal Service policy. Sixteen of 42 cardholders had 35 transactions, totaling \$115,885, in which they either acted in the capacity of the credit card approving official, had missing credit card logs, or had missing or unreconciled monthly bank statements. In addition, four cardholders improperly split purchases to avoid the \$10,000 per transaction spending limit.</p>
<p><i>Fiscal Year 2007 Southwest Area SmartPay Purchase Card Program</i></p>	<p>FF-AR-08-072</p>	<p>1/11/2008</p>	<p>\$63,511</p>	<p>N/A</p>	<p>SmartPay Purchase Card cardholders had 105 transactions totaling \$95,589 that either were not supported with documentation or were for unauthorized items. In addition, cardholders did not always enter gift cards into the eAwards system.</p>
<p><i>Fiscal Year 2007 SmartPay Purchase Card Program</i></p>	<p>FF-AR-08-094</p>	<p>2/4/2008</p>	<p>\$1.2 million</p>	<p>\$2.6 million</p>	<p>We identified various internal control and compliance issues in all 17 judgmentally selected sites, including one policy issue related to monthly reconciliations.</p>
<p><i>Fiscal Year 2008 Capital Metro Area SmartPay Purchase Card Program</i></p>	<p>FF-AR-08-270</p>	<p>8/22/2008</p>	<p>N/A</p>	<p>N/A</p>	<p>Generally, cardholders supported Capital Metro Area SmartPay Purchase Card Program purchases and complied with Postal Service policies and procedures. However, the credit card reconciliation process needed improvement.</p>
<p><i>Fiscal Year 2008 Southeast Area SmartPay Purchase Card Program</i></p>	<p>FF-AR-08-279</p>	<p>9/8/2008</p>	<p>N/A</p>	<p>N/A</p>	<p>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.</p>

<i>Fiscal Year 2008 Pacific Area SmartPay Purchase Card Program</i>	FF-AR-08-281	9/12/08	\$20,215	\$3,360	<p>Cardholders did not always:</p> <ul style="list-style-type: none"> <li>• Document the business necessity for holding separate working meetings after normal business hours.</li> <li>• Seek or receive tax exemptions on purchases.</li> <li>• Enter non-cash award transactions into the eAwards system.</li> </ul> <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	9/24/08	\$57,712	N/A	<p>Cardholders did not always document the business necessity for working meals or purchase bottled water from the contracted vendor.</p>
<i>Fiscal Year 2008 Great Lakes Area SmartPay Purchase Card Program</i>	FF-AR-08-287	9/26/08	\$38,412	\$37,808	<p>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 completed.</p>
<i>Fiscal Year 2008 Eastern Area SmartPay Purchase Card Program</i>	FF-AR-09-002	10/21/2008	\$26,745	\$9,826	<p>Cardholders made purchases from unauthorized vendors and did not always document the business necessity for working meals. eBuy authority was not properly delegated and purchases were not always supported by receipts. Cardholders and approving officials did not follow monthly reconciliation procedures.</p>
<i>Fiscal Year 2008 Northeast Area SmartPay Purchase Card Program</i>	FF-AR-09-001	10/22/2008	\$36,263	\$13,481	<p>Cardholders made purchases without documenting the business necessity for working meals, and cardholders and approving officials did not follow monthly reconciliation procedures.</p>
<i>Fiscal Year 2008 New York Metro Area SmartPay Purchase Card Program</i>	FF-AR-09-028	11/28/08	\$63,000	\$34,451	<p>Cardholders did not always document the business need for working meals, follow proper contracting rules, and verify charges during reconciliation.</p>

**APPENDIX B: POSTMASTER GENERAL MEMORANDUM  
ON REDUCING COSTS**

JOHN E. POTTER  
POSTMASTER GENERAL, OED



December 1, 2008

OFFICERS

SUBJECT: Reducing Costs

As stressed at the recent Leadership meetings, we must capture every opportunity to reduce costs without negatively affecting service to our customers. We have initiated more than \$4 billion in cost reduction efforts this year.

Besides the cost reductions related to staffing and workhour usage, we must continue to take a fresh look at any and all discretionary expenditures to see what can be reduced. These items include, but are not limited to, higher-level pay and detail assignments, purchases of administrative furniture and equipment, program-related expenditures (especially involving contractors), as well as requests for travel and training.

Finally, please use your best judgment when reviewing requests involving gift recognition and other types of expenses such as meeting costs, including catering expenses. The Office of Inspector General will soon issue a report concluding some purchases in this category, although within the authority of the approving officials, were imprudent and unnecessary during a time of severe economic uncertainty.

Although we are not modifying our policy on awards or employee recognition, it is important to use your approval authority wisely and consider the amount, type of award, and purpose of recognition. It is critical to consider whether the appearance of an event and type of recognition will raise questions as to its business value and whether it can be readily justified to the public or oversight constituencies.

This is both a challenging time and an opportunity to make our organization even more competitive. By making prudent spending decisions, we can emerge from the current economic downturn stronger than ever. Please share this communication with your leadership teams.

  
John E. Potter

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## APPENDIX C: MANAGEMENT'S COMMENTS

LYNN MALCOLM  
VICE PRESIDENT, CONTROLLER



January 9, 2009

LUCINE M. WILLIS

SUBJECT: Draft Management Advisory—Imprudent Spending Using the SmartPay® Purchase Card (Report Number FF-MA-09-DRAFT)

Thank you for the opportunity to review and comment on the subject draft audit report. We agree with the finding and non-monetary impact.

The report focuses on purchases which could be deemed as imprudent by the public, however, do not violate any postal policies. To put the information contained in this audit report into perspective, most of the perceived unnecessary purchases occurred in the fall of 2007 when the full impact of the economic downturn had not yet been felt and the Postal Service's extensive messaging about strict cost controls had not been launched.

Even so, we agree that especially in light of these difficult economic times, we need to properly manage costs. A memorandum issued December 1, 2008, by the Postmaster General to all Officers highlights these concerns and was initiated in part as a result of the information provided to the Postal Service in this report. Additionally, senior management has discussed the need to control costs with its executives throughout the year and has emphasized the need to communicate this objective to all employees. As a result, an unprecedented level of cost reduction opportunities have been identified by management throughout the organization and diligent efforts are being made to capture these opportunities without negatively affecting service to our customers. To accomplish these reductions, we need to ensure that every expense is necessary. However, we must also ensure that we continue to provide proper compensation and recognition to our employees, especially as we ask them to do more with less.

The Office of Inspector General's (OIG) audits have played an essential role in enhancing the SmartPay® Purchase Card Program. In late FY2008, improvements were made to several policy-related documents to address issues concerning the use of the purchase card (i.e., documentation). A new web-based training course was also established with a requirement for program participants to take refresher training every three years. These improvements to the program should allow us to better evaluate purchase card use.

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Our commitment is to continue to aggressively reduce expenses wherever practical during this time of economic uncertainty. However, a limited number of expenditures that could be perceived as questionable might still occur as employees are recognized for their extraordinary contributions to the organization. We appreciate that the OIG will continue to monitor our progress.

We do not believe that this report contains any propriety or business information and may be disclosed pursuant to the Freedom of Information Act

  
Lynn Malcolm