



OFFICE OF  
**INSPECTOR  
GENERAL**  
UNITED STATES POSTAL SERVICE

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# **Purchasing Compliance and Imprudent Purchases Follow-Up Audit**

## **Audit Report**

June 21, 2011

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**Report Number FF-AR-11-010**



OFFICE OF  
**INSPECTOR  
GENERAL**  
UNITED STATES POSTAL SERVICE

## Audit Report – Purchasing Compliance and Imprudent Purchases Follow-Up Audit

Report Number FF-AR-11-010

# HIGHLIGHTS

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### **IMPACT ON:**

Imprudent spending using the SmartPay Purchase Card.

### **WHY OIG DID THE AUDIT:**

Our objective was to determine whether purchases complied with U.S. Postal Service policy and whether imprudent purchases were still occurring related to the SmartPay Purchase Card and select Accounts Payable Excellence system transactions since our last audit.

### **WHAT OIG FOUND:**

The Postal Service improved the effectiveness of local purchasing activities and reduced spending using the SmartPay program since our previous audit. However, our audit identified purchases that did not contain a business meal justification or were not properly authorized, recognition gifts that were not entered into the eAwards system, employees in one district continuing to make imprudent purchases, and an opportunity to further improve the effectiveness of the Purchasing Shared Services Centers. The Postal Service has an increased risk of loss when purchases are made without proper authorization or justification. In addition, purchases that

appear to be imprudent are not in the organization's best interest and could negatively impact the Postal Service's public image and brand.

### **WHAT OIG RECOMMENDED:**

We recommend management clarify and reiterate procedures governing local purchases, eBuy requisitions, and gift reporting responsibilities. Further, we recommend developing a process whereby approving officials acknowledge comments that Purchasing Shared Services Center staff provide.

### **WHAT MANAGEMENT SAID:**

Management generally agreed with the findings, recommendations, and monetary impact in the report. They also indicated they were open to suggestions that might improve the prompt reporting of awards into the eAwards system in a cost-effective manner. We suggested management consider implementing controls such as periodic policy reminders and occasional sample testing of eAward requisitions to ensure prompt reporting. We believe the corrective actions should resolve the issues identified.

[Link to review the entire report](#)

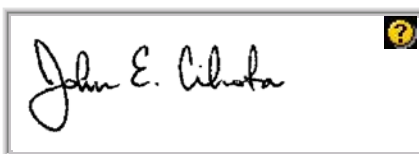


June 21, 2011

**MEMORANDUM FOR:** TIMOTHY F. O'REILLY  
VICE PRESIDENT, CONTROLLER

SUSAN M. BROWNELL  
VICE PRESIDENT, SUPPLY MANAGEMENT

DOUGLAS A. TULINO  
VICE PRESIDENT, LABOR RELATIONS

A rectangular box containing a handwritten signature in black ink that reads "John E. Cihota". In the top right corner of the box, there is a small yellow square icon with a question mark.

**FROM:** John E. Cihota  
Deputy Assistant Inspector General  
for Financial Accountability

**SUBJECT:** Audit Report – Purchasing Compliance and Imprudent  
Purchases Follow-Up Audit (Report Number FF-AR-11-010)

This report presents the results of a follow-up audit we conducted of the U.S. Postal Service's compliance with the Management Instruction (MI) on Expenses for Internal and External Events and imprudent purchases using the SmartPay2<sup>®</sup> Purchase Card (Project Number 10BG007FF000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact William F. Rickett, acting director, Field Financial – Central, or me at 703-248-2100.

Attachments

cc: Joseph Corbett  
Vinay K. Gupta  
Stephen J. Nickerson  
Corporate Audit and Response Management

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## Introduction

This report presents the results of a follow-up audit to determine whether purchases complied with U.S. Postal Service policy<sup>1</sup> and whether imprudent purchases were still occurring related to the SmartPay® Purchase Card and select Accounts Payable Excellence (APEX) system transactions since our last audit.<sup>2</sup> This audit was self-initiated and addressed financial risks. See [Appendix A](#) for additional information about this audit.

The SmartPay program is the primary method for making local purchases needed for day-to-day operations, and the APEX system is used to perform accounts payable voucher processing for purchases such as meals and events. This is the U.S. Postal Service Office of Inspector General's (OIG) third report focusing on purchases that could negatively impact the Postal Service's public image and brand.

## Conclusion

The Postal Service improved the effectiveness of local purchasing activities and reduced spending using the SmartPay program since our previous audit. For example, the Postal Service decreased SmartPay purchases from \$266.7 million in fiscal year (FY) 2009 to \$239.4 million in FY 2010 and recently created two purchasing shared services centers (PSSC) to improve oversight of local purchases and advise field managers on controlling expenditures. However, our audit identified purchases that did not contain a business meal justification or were not properly authorized, recognition gifts that were not entered into the eAwards system, employees in one district who continued to make imprudent purchases, and an opportunity to further improve the effectiveness of the PSSCs. The Postal Service has an increased risk of loss when employees make purchases without proper authorization or justification. In addition, purchases that appear to be imprudent are not in the organization's best interest and could negatively impact the Postal Service's public image and brand.

## Purchases Did Not Comply with Policy

Based on our review of 673<sup>3</sup> judgmentally selected transactions totaling about \$3.4 million,<sup>4</sup> we identified 124 purchases totaling \$401,113 that were not made in accordance with Postal Service policy. Specifically, approving officials did not ensure that eBuy<sup>5</sup> requests contained a business justification for meals served at events, personnel did not obtain officer approval for beer and wine purchases, purchases did

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

<sup>2</sup> *Fiscal Year 2009 Imprudent Spending and Management Instruction on Expenses for Internal and External Events* (Report Number [FF-AR-10-025](#), dated December 3, 2009).

<sup>3</sup> We reviewed 657 SmartPay and 16 APEX transactions.

<sup>4</sup> The judgmentally selected SmartPay transactions totaled about \$2.9 million and the APEX transactions totaled about \$456,000. Transactions were selected if they were either greater than \$10,000, restricted, prohibited, or purchased from a questionable merchant.

<sup>5</sup> eBuy/eBuy2 is the Postal Service's enterprise tool for ordering goods and services. In April 2010, the eBuy2 system replaced the eBuy system.

not have an approved eBuy requisition attached, individuals purchased gift cards from unapproved vendors, and responsible officials did not enter gifts into the eAwards system.<sup>6</sup>

- The business justification was not provided in the requisition of 49 internal and external events where meals totaling \$118,198 were served. Meals provided at eight of these events did not have proper approval from either an officer or a Postal Career Executive Service (PCES) manager. The MI states that the cardholder must provide a justification that includes the business necessity or benefit to be derived for continuing meetings through the meal time.<sup>7</sup> Cardholders provided various reasons for these deficiencies. For example, many cardholders believed the information provided, such as the type of meeting, number of attendees, and the makeup of the group, was sufficient. Others stated they were merely instructed to schedule meals but not given the business justification for the meals.
- Beer and wine purchases totaling \$2,927 were provided at nine events for which the cardholder did not obtain an officer's approval. Beer and wine purchases are allowed when approved by an officer.<sup>8</sup> Cardholders making these purchases stated they forgot to get the approval or the approval was given verbally, and we could not confirm the authorization.
- Cardholders made 32 purchases totaling \$177,462 without submitting an eBuy requisition or without proper eBuy authorization.<sup>9</sup> These purchases consisted of pre-paid car washes, vehicle rentals, auto repairs and parts, and online stamp supplies. Postal Service policy mandates all employees with web-based site access use eBuy when making purchases using the SmartPay Card. Cardholders stated they did not receive proper eBuy approval because they forgot to obtain it, did not have time or resources to get the approval, did not know an eBuy requisition was needed to be submitted for their type of purchase, or did not realize an additional level of approval was required.
- Five cardholders made eight purchases of gift cards from unauthorized vendors totaling \$16,308.<sup>10</sup> Three cardholders stated they purchased the gift cards from unauthorized vendors at their supervisor's emergency request. However, four groups of gift cards were purchased on September 17, 2010, and have yet to be

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<sup>6</sup> A web-based program for reporting cash equivalent and non-cash awards procured by managers locally and supporting the Postal Service's recognition and awards program.

<sup>7</sup> MI FM-640-2008-1, Exhibits A and B, require a justification with details of the business necessity for continuing the business meeting or training through the meal period. Further, an officer or a PCES manager must approve meals provided at meetings/trainings.

<sup>8</sup> The MI states officers may also authorize the use of Postal Service funds to purchase and pay for alcohol (beer and wine only) to be served in conjunction with officer-approved internal and external events when reasonable, customary, and participants are not on duty or not in their assigned postal workplace during scheduled working hours.

<sup>9</sup> *Administrative Support Manual 13*, Section 722, Local Buying Authority (updated with *Postal Bulletin* revisions through January 2011), states that the appropriate authority must review and approve all local buys. Policy also indicates that eBuy use is mandatory for all employees with intranet web access.

<sup>10</sup> *Postal Bulletin* 22192, dated October 26, 2006, provides the list of approved vendors to be used when ordering gift certificates and gift cards valued at \$25 or more for employee recognition. Each of these gift cards was valued over \$25.

completely issued. The other two cardholders were not aware they were purchasing from an unauthorized vendor.

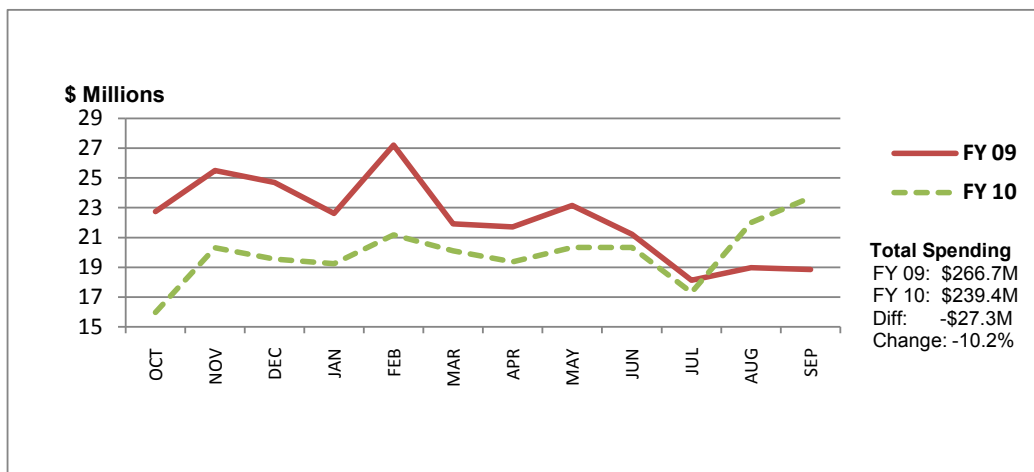
- We identified 17 cardholders who made 26 purchases for recognition gifts totaling \$86,218 that were not entered into eAwards. Cardholders stated they were instructed to order the gifts, but many were not aware that responsible officials were required to enter the recipient information into the eAwards system.<sup>11</sup> Although the policy requires all cash equivalent awards and non-cash tangible awards with an aggregate total of \$50 received by an employee during the calendar year to be entered into eAwards, it does not specify who is responsible for entering the data into the system.<sup>12</sup> The Postal Service could be at risk of violating statutory and legislative requirements related to income tax reporting when gifts are distributed without being reported in eAwards.<sup>13</sup>

See [Appendix B](#) for our calculation of monetary and other impacts.

### Employees Continue to Make Imprudent Purchases

As depicted in Chart 1, spending using SmartPay purchase cards declined in FY 2010 compared to FY 2009 by approximately \$27.3 million (or 10.2 percent).

**Chart 1 – SmartPay Purchase Card Spending**



Source: Enterprise Data Warehouse.

However, we identified one district that continued to make imprudent and unnecessary purchases during a time of severe economic uncertainty for the Postal Service. Specifically, we identified three purchases totaling \$14,778 for season and group tickets to future professional sporting events. These purchases were made for one city's

<sup>11</sup> *Spot Gift Certificate Instructions*, dated February 2011.

<sup>12</sup> *Employee and Labor Relations Manual 24*, Pay Administration, Section 471.3, January 2011.

<sup>13</sup> The Internal Revenue Service requires all gift certificate awards, regardless of their value, to be reported as income. The Postal Service eAwards application is the only authorized method for this reporting (*Postal Bulletin* 22246, dated November 20, 2008).

professional basketball, football, and baseball teams. Although the district purchased these tickets to provide as recognition awards, the recipients were not determined prior to ticket purchase. The following are details regarding these potentially imprudent purchases:

- Six season tickets<sup>14</sup> (264 tickets for 44 games) totaling \$8,448 were purchased on April 21, 2010, for one National Basketball Association team.
- Six personal seat licenses and season tickets<sup>14</sup> (60 tickets for 10 games) totaling \$4,350 were purchased on July 12, 2010, for one National Football League team.
- Six group tickets<sup>14</sup> for 14 games (84 tickets for \$1,980) for one major league baseball team were purchased on March 9, 2010.

PSSC staff reviewed the eBuy requisitions for these purchases and noted the purchases may be considered non-essential. However, the requestor was not required to address the PSSC's comments (see "[Opportunities Exist at the PSSC to Improve Local Purchasing Effectiveness](#)" for further discussion on this topic). Tickets to sporting and other entertainment events are different than gift card purchases because these tickets must be used on a specific date. Although these purchases did not directly violate Postal Service purchasing procedures, we believe the nature of the purchase is in direct conflict with the Postal Service's objective of driving down costs in all operations and processes. In addition, this kind of imprudent spending could damage the Postal Service's public image (goodwill). A memorandum from the former vice president, Controller, issued in February 2010, stated that officers should use due diligence and reduce discretionary spending.<sup>15</sup> Further, we believe the Postal Service should provide clarity in its purchasing policies for sporting and other entertainment events, particularly as they relate to season or partial season tickets when the identity of the awardee is unknown at the time of purchase. See [Appendix B](#) for our calculation of other impacts.

### **[Opportunities Exist at the PSSC to Improve Local Purchasing Effectiveness](#)**

The Postal Service significantly improved oversight of local purchasing expenditures by creating two PSSCs in April 2010.<sup>16</sup> Management created these centers to:

- Improve oversight of local purchases.
- Advise field managers on controlling expenditures.
- Provide opportunities to improve extended supply chains.
- Reduce organizational costs.
- Increase effectiveness through consolidation and standardization.

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<sup>14</sup> We were unable to identify the final recipient for any of these tickets.

<sup>15</sup> *Due Diligence in Spending for Business Events*, dated February 22, 2010.

<sup>16</sup> Although these centers were created in April, they were not fully functional until January 2011.



Nevertheless, we identified an opportunity for the organization to further recognize effectiveness within this process. The PSSC's oversight control process required its staff to review and approve all off-catalog<sup>17</sup> eBuy requisitions of less than \$25,000 and include a comment when the request was not in compliance with Postal Service local purchasing policies. However, current policies and criteria do not require the eBuy requestor to resolve comments provided by the PSSC staff prior to making the actual purchase. Although most compliance issues occurred before creation of the PSSC, we believe implementing such criteria would further reduce similar incidents.

## Recommendations

We recommend the vice president, Controller, in coordination with the vice presidents, Supply Management and Labor Relations:

1. Issue a memorandum emphasizing the importance of complying with local purchasing policies.

We recommend the vice president, Controller, in coordination with the vice president, Supply Management:

2. Issue a memorandum emphasizing the importance of complying with eBuy policies.

We recommend the vice president, Controller, in coordination with the vice president, Labor Relations:

3. Clarify procedures specifically detailing the criteria to be used for purchasing season or partial season tickets when the identity of the awardee is unknown at the time of purchase.

We recommend the vice president, Controller, in coordination with the vice president, Supply Management:

4. Establish a process that requires approving officials to acknowledge the review comments provided by the Purchasing Shared Services Centers' staff for eBuy requisitions.

We recommend the vice president, Labor Relations:

5. Reiterate the criteria for entering data into eAwards and develop controls to ensure the data is entered no later than the last day of the pay period in which the award is presented.

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<sup>17</sup> Purchases made with a vendor not currently under contract with the Postal Service. This also includes eBuy/eBuy2 requests.

## Management's Comments

Management agreed with recommendations 1 through 4 and the related findings and monetary impact. Management agreed to issue a memorandum by September 30, 2011, reminding employees about imprudent spending and the policies and procedures governing local purchase transactions. In addition, the memorandum will emphasize that PSSC comments should be considered before approving purchases. Management also plans to implement a policy by December 31, 2011, prohibiting the purchase of season or partial season tickets and will establish guidelines for purchasing single sporting or other entertainment event tickets.

Management agreed in part with recommendation 5. Management agreed to issue a letter to all officers within 60 days of our final report date reminding employees and management of the process for timely reporting of awards in the eAwards system. Management also noted that they understood the intent of this recommendation but said it would not be practical or cost effective to develop controls nationwide when awards could be presented at any given time. Thus, management indicated that it was open to suggestions that might improve the prompt reporting of awards in a cost-effective manner. See [Appendix C](#) for management's comments in their entirety.

## Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations and corrective actions should resolve the issues identified in the report. In response to recommendation 5, we realize the Postal Service's policy outlines when awards need to be submitted into the eAwards system; however, we suggest that management consider implementing controls such as periodic policy reminders and occasional sample testing of eAward requisitions to ensure prompt reporting. With the Postal Service reinforcing the process for reporting awards in response to our audit, we will not pursue this issue through audit resolution. In addition, at the request of management, we changed the addressees responsible for implementing the recommendations.

## Appendix A: Additional Information

### Background

In November 1991, the Postal Service joined the government-wide Commercial Credit Card Program (SmartPay) administered by the General Services Administration. The program within the Postal Service is known as the SmartPay Purchase Card Program that Supply Management and Finance co-sponsor. In November 2008, the Postal Service began transitioning to the SmartPay2 program and replaced all purchase cards with the new program cards. The Postal Service does not pay any administrative fees for the card services and earns cash refunds based on the aggregate volume of its transactions. The Postal Service pays all credit card charges with a single monthly payment and does not incur any interest penalties.

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, and management instructions. For example, MI FM-640-2008-1 provides policy and procedures for purchases and payment of official Postal Service business internal and external event-related expenses.<sup>18</sup>

In our previous report<sup>19</sup> we noted that, while overall spending using the SmartPay Purchase Card had declined from the prior year, non-compliance with the policy on meals and events and imprudent purchases during this time of economic uncertainty for the Postal Service continued. In response to one of our recommendations, the Postal Service created two PSSCs in April 2010. Although these centers were created in April, they were not fully functional until January 2011. Management envisioned the centers would improve oversight, advise field managers on controlling expenditures, and provide opportunities to improve extended supply chains.

### Objective, Scope, and Methodology

The objective of our review was to determine whether purchases complied with Postal Service policy and whether imprudent purchases were still occurring related to the SmartPay program and select APEX transactions since our last audit.

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<sup>18</sup> Internal events are attended predominately by Postal Service employees but might include individuals representing outside organizations, contractors, and, in limited circumstances, an employee's immediate family members. External events are predominately intended for customers, other external stakeholders, or others with whom the Postal Service conducts official business.

<sup>19</sup> *FY 2009 Imprudent Purchases and Management Instruction on Expenses for Internal and External Events* (Report Number [FF-AR-10-025](#), dated December 3, 2009).

To accomplish our objective, we judgmentally selected 657 of 591,393 SmartPay transactions based on risk factors such as transactions that were either greater than \$10,000, restricted, prohibited, or purchased from a questionable merchant. We also selected and reviewed all 16 manually processed APEX transactions related to meals and conferences that were greater than \$10,000. In all, we audited 673 transactions totaling approximately \$3.4 million that were processed between October 1, 2009, and September 30, 2010. We issued letters to Postal Service employees to obtain supporting documentation for transactions included in our audit sample.

We conducted this performance audit from September 2010 through June 2011 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 findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management on May 11, 2011, and included their comments where appropriate.

We assessed the reliability of computer-generated data by verifying automated records to source documents and determined the data were sufficiently reliable for the purposes of this report. We also used Postal Service instructions, manuals, policies, and procedures as criteria to evaluate purchase transactions and data reliability. Finally, we interviewed PSSC staff, cardholders and approving officials about purchasing processes and observed staff at the PSSC.

**Prior Audit Coverage**

We conducted 11 audits of SmartPay purchases in the past 3 years. Management generally agreed with our findings and recommendations and implemented corrective action.

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<i>Fiscal year 2009 – Imprudent Purchases and Management Instruction on Expenses for Internal and External Events</i>	FF-AR-10-025	12/3/2009	\$792,022	While overall spending using the SmartPay Purchase Card had declined in the past year, our audit disclosed non-compliance with the policy on meals and events and continued imprudent purchases during this time of economic uncertainty for the Postal Service.

<i>Fiscal Year 2009 Imprudent Spending Using the SmartPay® Purchase Card</i>	<a href="#">FF-MA-09-002</a>	1/20/2009	N/A	Employees made, and were continuing to make, imprudent and unnecessary purchases during a time of severe economic uncertainty in the Postal Service. While such purchases were generally not in direct violation of Postal Service policies, they conflicted with the Postal Service's objective of driving down costs in all operations and processes.
<i>Fiscal Year 2009 Postal Service Management Instruction – Expenses for Internal and External Events</i>	<a href="#">FT-MA-09-001</a>	1/13/2009	N/A	We found the draft MI did not address three key areas: the use of personal credit cards, consistent and detailed definitions, and transparency among all Postal Service managers. During our review, we suggested various changes based on best practices and our observations.
<i>Fiscal Year 2008 New York Metro Area SmartPay Purchase Card Program</i>	<a href="#">FF-AR-09-028</a>	11/28/2008	\$63,000	Cardholders did not always document the business need for working meals, follow proper contracting rules, and verify charges during reconciliation.
<i>Fiscal Year 2008 Northeast Area SmartPay Purchase Card Program</i>	<a href="#">FF-AR-09-001</a>	10/22/2008	\$36,263	Cardholders made purchases without documenting the business necessity for working meals. In addition, cardholders and approving officials did not follow monthly reconciliation procedures.
<i>Fiscal Year 2008 Eastern Area SmartPay Purchase Card Program</i>	<a href="#">FF-AR-09-002</a>	10/21/2008	\$26,745	Cardholders made purchases from unauthorized vendors and did not always document the business necessity for working meals. In addition, eBuy authority was not properly delegated and purchases were not always supported by receipts. Cardholders and approving officials also did not follow monthly reconciliation procedures.
<i>Fiscal Year 2008 Great Lakes Area SmartPay Purchase Card Program</i>	<a href="#">FF-AR-08-287</a>	9/25/2008	\$38,412	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 complete.

<i>Fiscal Year 2008 Western Area SmartPay Purchase Card Program</i>	<a href="#">FF-AR-08-286</a>	9/24/2008	\$57,712	Cardholders did not always document the business necessity for working meals or purchase bottled water from the contracted vendor.
<i>Fiscal Year 2008 Pacific Area SmartPay Purchase Card Program</i>	<a href="#">FF-AR-08-281</a>	9/12/2008	\$20,215	Cardholders did not always document the business necessity for holding separate working meetings after normal business hours, seek or receive tax exemptions on purchases, or enter non-cash award transactions into the eAwards system. In addition, cardholders and approving officials did not follow monthly reconciliation procedures.
<i>Fiscal Year 2008 Southeast Area SmartPay Purchase Card Program</i>	<a href="#">FF-AR-08-279</a>	9/8/2008	N/A	We did not identify any control and compliance issues with the Southeast Area's SmartPay Purchase Card Program.
<i>Fiscal Year 2008 Capital Metro Area SmartPay Purchase Card Program</i>	<a href="#">FF-AR-08-270</a>	8/22/2008	N/A	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.

## Appendix B: Monetary and Other Impacts

### Monetary Impacts

Finding	Impact Category	Amount
Justifications were not provided for working meals	Unsupported Questioned Costs <sup>20</sup>	\$118,198
Beer and wine purchases were not authorized	Unsupported Questioned Costs	2,927
eBuy requisitions were not submitted or not properly approved	Unsupported Questioned Costs	177,462
Gift cards purchased from unauthorized vendors	Unsupported Questioned Costs	16,308
<b>Total</b>		<b>\$314,895</b>

### Other Impacts

Finding	Impact Category	Amount
Gifts were not entered into eAwards	Assets at Risk <sup>21</sup>	\$86,218
Non-essential purchases for tickets to professional sporting events	Goodwill Branding <sup>22</sup>	0
<b>Total</b>		<b>\$86,218</b>

<sup>20</sup> A weaker claim and a subset of questioned costs claimed because of failure to follow policy or required procedures, but not necessarily of any real damage to Postal Service.

<sup>21</sup> Assets that are at risk of loss because of inadequate internal controls.

<sup>22</sup> An actual or potential event or problem that could harm the Postal Service's reputation.

## Appendix C: Management's Comments



June 13, 2011

LUCINE M. WILLIS

SUBJECT: Draft Audit Report – Purchasing Compliance and Imprudent Purchases  
Follow-Up Audit (Report Number FF-AR-11-DRAFT)

Thank you for the opportunity to review and comment on the subject draft audit report. We appreciate the continued review by the Office of Inspector General (OIG) in the subject area. As the report finds, the Postal Service has improved the effectiveness of local purchasing activities and reduced spending from fiscal years 2009 to 2010. However, we agree that compliance with our policies and guidance needs to improve. It should be noted that the vast majority of the questioned purchases occurred in one district and that one individual cardholder was responsible for most of those purchases. These isolated situations have been addressed. We will continue our efforts to communicate our policies and emphasize our expectations to adhere to those policies.

Generally, we agree with the findings, monetary impact and the recommendations, except as noted below. We do want to point out that the findings concluded that, in the majority of cases, it was documentary support for expenditures that was lacking and that this should not be construed as evidence that the expenses were unnecessary or imprudent.

In order to respond appropriately to recommendation 3, we have included feedback and action items from the Vice President, Labor Relations, since the subject matter deals with employee awards.

### **AUDIT RECOMMENDATIONS**

**Recommendation 1.** Issue a memorandum emphasizing the importance of complying with local purchasing policies.

**Management Response/Action Plan:** Management agrees with this recommendation. Overall, we believe that our policies are clear. However, this audit noted that there are still non-compliance issues. Therefore, we will issue a memorandum reminding employees where the applicable policy and other related guidance can be found (i.e., specific management instructions, manuals and handbooks) and the particular issues where compliance is a problem. The compliance areas to be covered in the memorandum will be: the necessity to provide the business justification when meals are being provided, the necessity for documented Officer approval when alcohol (beer and wine only) is provided at events, the requirement to use authorized gift card suppliers for gift cards with a



value of \$25 and above, and the requirement to report awards in eAwards in accordance with the Employee and Labor Relations Manual (ELM), Section 471.3. A copy of the issued memorandum will be provided to the OIG.

Since the Postal Service is currently involved in an organizational redesign effort, it would be beneficial to issue communications related to our policies once our new organization is in place. This will ensure that we are addressing the communications to and it is being viewed by the appropriate audience that will have the responsibility for compliance going forward. Our organizational redesign is due to be finalized by the end of this fiscal year.

**Target Implementation Date:** September 2011.

**Responsible Official:** Actions will be completed by the Manager, Travel and Relocation in coordination with the Manager, Supply Management Infrastructure and Director, Compensation and Benefits.

**Recommendation 2.** Issue a memorandum emphasizing the importance of complying with eBuy policies.

**Management Response/Action Plan:** Management agrees with this recommendation and will reiterate the requirements in the Administrative Support Manual that require an approved purchase request for local buys. As noted within the policy, eBuy use is mandatory for all employees with intranet access. Only when the employee does not have intranet access would PS Form 7831, Requisition for Supplies, Services, or Equipment be used. We will issue these communications in conjunction with the efforts under recommendation 1 above.

**Target Implementation Date:** September 2011.

**Responsible Official:** Actions will be completed by the Manager, Supply Management Infrastructure in coordination with the Manager, Travel and Relocation.

**Recommendation 3.** Clarify procedures specifically detailing the criteria to be used for purchasing season or partial season tickets when the identity of the awardee is unknown at the time of purchase.

**Management Response/Action Plan:** Management agrees with this recommendation. We will initially address the issue of imprudent spending in this area within the memorandum discussed in recommendation 1 above. We plan on implementing a policy prohibiting the purchase of season or partial season tickets and will institute a higher-level approval process for the purchase of any single sporting or other entertainment tickets. We will also establish relevant policy on sporting and entertainment events as awards.

**Target Implementation Date:** September 2011 for issuance of memorandum. For establishing the relevant policy, December 2011.

**Responsible Official:** Actions will be completed by the Manager, Travel and Relocation in coordination with the Director, Compensation and Benefits.

**Recommendation 4.** Establish a process that requires approving officials to acknowledge the review comments provided by the Purchasing Shared Services Centers' (PSSCs') staff for eBuy requisitions.

**Management Response/Action Plan:** The PSSCs were established to act as advisors to improve the efficiency of local purchasing activities and implement demand management initiatives. The approving official(s) within the requesting organization have the responsibility to ensure the purchase is prudent and follows all policies. As part of our continuous improvement activities within the PSSCs, we will explore enhancements to our technology to improve the review, comments, acknowledgement, and approval of the eBuy requisition process.

In the meantime, we agree that the PSSCs' comments should be acknowledged during the approval process. We will reiterate the role of the PSSCs to approving officials and inform them that the PSSCs' comments should be taken into consideration and addressed prior to approving the eBuy requisition. To assist with our compliance efforts, we will also ensure that our cardholders are aware of the findings within this report and where to locate the associated policy or guidance. These communications will be issued in conjunction with the above recommendations.

We would like to clarify that the PSSCs did not exist for the entire period of this review. In April 2010, Supply Management implemented organizational changes to open two new PSSCs. In January 2011, the PSSCs began their demand management functions on purchases in the range of \$25,000 and below (local buy is \$10,000 and below). The audit review period included transactions between October 1, 2009 and September 30, 2010, prior to when the PSSCs began their review efforts for these types of purchases.

**Target Implementation Date:** September 2011.

**Responsible Official:** Actions will be completed by the Manager, Supply Management Infrastructure in coordination with the Manager, Travel and Relocation.

**Recommendation 5.** Reiterate the criteria for entering data into eAwards and develop controls to ensure the data is entered no later than the last day of the pay period in which the award is presented.


**Management Response/Action Plan:** Management agrees in part with this recommendation. We recognize that some employees failed to report a number of cash equivalent and noncash tangible awards according to USPS policy. To address this, we plan to reinforce the process for reporting awards by issuing a letter that reminds employees and management of the importance of following USPS awards policy including timely reporting in eAwards. USPS policy already outlines when awards need to be submitted in eAwards through the ELM 475.28 which states "The reporting of these items in eAwards should occur in the same pay period the award is presented to the recipient. Reporting must take place in the same calendar year to avoid tax reporting discrepancies."


Management understands the intent of the recommendation to develop controls to ensure data is entered during the pay period in which the award is presented. At this time it does not appear that it would be practical or cost effective to develop a system or such controls across tens of thousands of locations nationwide where awards could be presented at any given time. However, we welcome any suggestions that would allow us to improve the prompt reporting of awards in a cost effective manner.


**Target Implementation Date:** Management plans to issue this letter to all officers within 60 days of the final report being published.

**Responsible Official:** The Chief Human Resources Officer or Vice President, Labor Relations will issue the letter discussed above.

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 Kathy Banks at 202 268-3592 or Susan Witt at 202 268-4833.

  
Tim O'Reilly  
Vice President, Controller, Finance

  
Susan M. Brownell  
Vice President, Supply Management

  
Doug Tulino  
Vice President, Labor Relations

cc: Joseph Corbett  
Vinay Gupta  
Stephen Nickerson  
Corporate Audit and Response