

POSTAL REGULATORY COMMISSION

OFFICE OF INSPECTOR GENERAL



FINAL AUDIT REPORT

USE OF PRC PURCHASE CARDS

Audit Report 12-01-A01

December 10, 2012

Table of Contents

INTRODUCTION	1
Background	1
Objectives, Scope and Methodology	2
Prior Audit Coverage	3
RESULTS	3
Compliance with Purchase Card Policies	4
Recommendation 1	5
Management’s Comments	5
Evaluation of Management’s Comments.....	5
Adequacy of Purchase Card Policies	6
Recommendation 2	7
Management’s Comments	7
Evaluation of Management’s Comments.....	7
Monthly Purchase Card Bank Statement Reconciliations	7
Refreshments.....	8
Recommendation 3	9
Management’s Comments	9
Evaluation of Management’s Comments.....	9
Monthly Purchase Card Limits	9
Recommendation 4	10
Management’s Comments	10
Evaluation of Management’s Comments.....	10
APPENDIX A	11
APPENDIX B	12

Introduction

Background

This report presents the results of a self-initiated audit by the Postal Regulatory Commission (PRC) Office of Inspector General (OIG) of PRC purchase card transactions. Our objective was to determine whether the PRC's purchases complied with policies, were supported, and made for business purposes.

The PRC uses the Postal Service's SmartPay® Purchase Card Program that is part of the General Services Administration's Government-wide Commercial Credit Card Program known as SmartPay®. The program provides charge cards to federal agencies and departments through contracts negotiated with bank providers. The Postal Service refers to this local buying card as the purchase card. The contractor for the card is U.S. Bank in Fargo, North Dakota, and the card company is VISA.

In addition to the Postal Service's eBuy2¹ program, the PRC uses the purchase card² to acquire goods and services in carrying out its functions. Fiscal Year (FY) 2011 was the first year PRC used eBuy2 and during that period made 497 credit card purchases totaling \$493,898. Four PRC employees were authorized and used purchase cards, each with a \$10,000 single purchase limit and a \$50,000 monthly purchase limit. There was also one credit card approving official (CCAO) who managed and monitored purchase card activity. The CCAO reports to the Secretary and Chief Administrative Officer whose duties include procurement.

The purchase card billing cycle closing date is the 18th of each month. The bank generates a statement of account for the cardholder and a report for the CCAO. Monthly, cardholders reconcile their purchase card activity with the statement of account, and the CCAO must verify that each assigned cardholder's reconciliation was correctly performed using the bank-provided account detail and summary report.

¹ eBuy2 is the Postal Service's electronic purchasing tool. eBuy2 allows users to order online from national mandatory and priority source contracts with order status checking, reconciliation, reporting and payment capabilities. All purchases, including those made with the purchase card, must be initiated and approved in eBuy2.

² During FY 2011, the PRC used only the Expense purchase card. See the Postal Service's Handbook AS-709, *Purchase Card Policies and Procedures for Local Buying*, sections 151 through 155 for other types of purchase cards.

Objectives, Scope and Methodology

The objectives of our audit were to determine whether PRC personnel complied with purchase policies, and whether purchases were supported and made for business purposes. To accomplish our objective, we:

- Interviewed PRC management and personnel regarding the processes involved with purchases, in addition to their roles and responsibilities;
- Performed a walk-through of a credit card purchase to understand the processes and internal controls;
- Examined purchase card policies of other organizations, including the Postal Service's Handbook AS-709, *Purchase Card Policies and Procedures for Local Buying*, dated September 2008 and April 2011 and the Federal Trade Commission's policy and procedures for its purchase card dated July 2007;
- Reviewed PRC purchasing policies; and
- Obtained and analyzed PRC universe of purchase card transactions from October 1, 2010 to September 30, 2011.

In addition, we selected a statistical sample of 63 purchases made by the four cardholders in FY 2011.³ Also, we judgmentally selected:

- 24 additional purchases we considered having increased risk for violating sound business practices;
- 6 credit transactions processed by vendors; and
- 8 bank reconciliations among the four cardholders.

The 87 sampled purchases totaled \$114,131, and the 6 sampled credits totaled \$3,074.⁴

We examined supporting documentation and made inquiries as needed regarding purchases, credits and bank reconciliations. We discussed our observations with management.

An audit team on detail from the Postal Service OIG conducted this audit between December 2011 and September 2012 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

³ See Appendix A for sampling methodology.

⁴ For FY 2011, there were 19 credits on the bank statements totaling \$3,514.

objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions. We discussed our observations and conclusions with management on September 19, 2012, and included their comments where appropriate.

We relied on computer-generated data 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 determined the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

There have been no prior PRC OIG or U.S. Government Accountability Office (GAO) audits on this topic.

Results

Although purchases were made for business purposes, PRC personnel did not always comply with purchase card policies. Specifically, on two separate occasions, cardholders made purchases with a single vendor consisting of multiple transactions less than \$10,000, but the total exceeded that amount; thus circumventing the single transaction purchase limit. We also noted internal control issues such as inadequately documented receiving of goods or services, approvals of purchases after the fact and other issues. In addition, current policy is limited regarding purchase card use and does not address bank statement reconciliations, credits and refunds or refreshments. Further, purchase card limits were not commensurate with actual purchase trends. As a result, internal control weaknesses existed, placing the PRC at risk of significant financial loss. As shown in Table 1, from our review of 87 random and judgmentally selected purchases, 65 totaling \$78,400 had one or more internal control issues.

Table 1: Summary of Internal Control Issues

Internal Control Issue	Random Sample – Number of Instances	Judgmental Sample– Number of Instances	Total Number of Instances ⁵	Dollar Amount from Number of Instances ⁵
Evidence of Receiving Missing or Incomplete	34	14	48	\$71,892
Approval After Order or Purchase	20	13	33	\$44,614
Payment Without an Invoice	2	0	2	\$1,391
Actual Price Greater Than Approved Price	3	0	3	\$978
Business Purpose Lacking	0	5	5	\$447
Purchase Card Loaned	0	1	1	\$151

Source: Documentation accompanying purchase card transactions.

Compliance with Purchase Card Policies

On two separate occasions, cardholders made purchases with a single vendor that consisted of multiple transactions less than \$10,000 but the total exceeded that amount; thus circumventing the single transaction purchase limit. Specifically:

- We found six individual purchases to one furniture vendor where the purchase amounts were under \$10,000, the purchase dates were between September 7 and September 12, 2011, and the total spent was \$23,567. While the PRC obtained Chairman approval for the purchase of furniture up to a dollar limit, the PRC did not document Chairman approval of each requisition over \$10,000 as required by PRC policy. Further, four of the purchases were not entered and approved into eBuy until between October 15 and October 26, 2011.⁶

⁵ Some purchases had more than one internal control issue. Thus, the sum of the total number of instances will exceed our random and judgmental sample sizes. Also, the dollar amount of instances will exceed the total dollar amount associated with the random and judgmental samples which includes over \$49,428 of furniture purchases which occurred in September 2011.

⁶ These four purchases are included in Table 1's "Approval after Order or Purchase" in the judgmental sample.

- We also found a purchase from a different furniture vendor consisting of three credit card transactions on September 7, 2011, each for \$8,475, charged by one cardholder for a total purchase of \$25,425. Again, the PRC did not document the required level of approval for this requisition. These purchases were made in this manner in order to execute the transactions quickly, thus applying them to the FY 2011 budget.

The PRC's Requisitions policy dated June 12, 2007⁷ states all requisitions exceeding \$10,000 must be approved by the Chairman prior to procurement. Purchasing policies dated July 15, 2009 and September 8, 2011 state the PRC should operate using good business practices. The latter policy requires Chairman approval for non-recurring purchases exceeding \$10,000.

The GAO defines split purchases as two or more transactions that would have normally been a single transaction but was split to circumvent the purchase limit or other legal or internal control limit.⁸ Splitting purchases to circumvent the \$10,000 single transaction purchase limit may lead to a higher risk for impropriety. Further, not following the proper analysis and approval process may prevent the PRC from obtaining the best value for these purchases.

We recommend the PRC:

- 1. Implement controls to ensure cardholders adhere to the single purchase dollar amount limit.**

Management's Comments

Management agreed with this recommendation and will strengthen their existing policy by September 30, 2013. They will also require all purchase cardholders to participate in refresher training procedures by December 3, 2012. In addition, PRC management will institute disciplinary actions if any employee knowingly splits purchases or circumvents PRC policies.

Evaluation of Management's Comments

Management's comments are responsive to the recommendation, and the action taken or planned should correct the issue identified.

⁷ Requisitions, Section 101, Procedures for Requisitioning Supplies, Furniture, Equipment, Subscriptions, and Services, item III. Policy.

⁸ *Audit Guide – Auditing and Investigating the Internal Control of Government Purchase Card Programs*, report number GAO-04-87G, November 2003, page 48.

Adequacy of Purchase Card Policies

PRC Purchasing Policy, effective September 8, 2011, was limited regarding purchase card use. PRC's prior purchase card policy dated July 15, 2009, was also limited in its guidance. Neither version addressed critical internal controls.

Internal control weaknesses were apparent in our random sample of 63 purchases where we found:

- 34 where there was no evidence or insufficient evidence⁹ of receiving of goods or services.
- 20 where either one or both required supervisory approvals were given after placing orders or making purchases.
- Three where the purchase price exceeded the price shown and approved on the eBuy request.
- Two where there was no invoice supporting payment.

From our judgmental sample of 24 purchases, we found:

- 14 where there was no evidence or insufficient evidence of receiving of goods or services.
- 13 where one or both supervisory approvals were given after placing orders or making purchases.
- Five where a clear business purpose was not included on the eBuy requisition or other documentation.
- One where the purchase card was loaned to another PRC employee to make a business purchase.

The policy states the PRC provides administrative staff with purchase cards. Also, the staff may use them for acquiring supplies and services under \$10,000 with prior approval on two levels, and purchases greater than \$10,000 require prior approval from the Chairman. Finally, the policy states cardholders are required to take purchase card training.

We concluded the current policy lacks appropriate guidance over using the card. As a result, internal control weaknesses existed, placing the PRC at risk of significant financial loss.

⁹ Insufficient evidence of receiving included transactions where the goods or services were marked as received on the supporting documentation, but no identification as to who was the recipient or when receiving occurred.

The Postal Service Handbook AS-709, *Purchase Card Policies and Procedures for Local Buying*, addressed these issues and provided a comprehensive set of policies and procedures governing the use of and safeguarding the purchase card. Further, PRC cardholders' initial purchase card training is based on the AS-709. Since the PRC staff signs an acknowledgement form agreeing to comply with this Handbook, the PRC could use the guide to implement its own comprehensive purchase card policy.

We recommend the PRC:

- 2. Implement comprehensive policies and procedures for purchase card use at the PRC. In the interim, adopt the Postal Service's Handbook AS-709.**

Management's Comments

Management agreed with this recommendation and will adopt the Postal Service's AS-709 Purchase card policy on an interim basis, while developing its own comprehensive policy by September 30, 2013.

Evaluation of Management's Comments

Management's comments are responsive to the recommendation, and the action taken or planned should correct the issue identified.

Monthly Purchase Card Bank Statement Reconciliations

Reconciling and certifying the monthly statements is a critical internal control because the Postal Service automatically pays the bank provider the total amount invoiced. Further, verifying cardholder statements against the bank-provided detail and summary report provides the approving official the opportunity to identify discrepancies between the cardholder statements and information independently provided by the bank. Finally, when the purchase card statement reconciliation procedures are not completed in a timely and accurate manner, billing errors or unauthorized purchases may go undetected.

PRC policy did not address reconciliation of monthly purchase card bank statements. However, using best practices and guidance provided in Postal Service Handbook AS-709, we reviewed eight monthly statements and their corresponding detail and summary reports and found several instances where sound reconciliation procedures were not followed, including:

- One of eight reconciliations was not completed until three days past the Postal Service's suggested completion date¹⁰ because the statements did not arrive on time.
- Three of eight reconciliations where the approving official did not sign and/or date the purchase card statements or detail and summary reports to evidence the completion of the reconciliation process in a timely manner.

In addition, one of the monthly detail and summary reports, not part of our sample testing, was not on file.

Properly documenting and approving purchase card transactions helps ensure proper use of PRC funds provides a basis of support for any disputed charges and ensures receipt of goods and services.

Following our meeting on March 23, 2012, management issued a standard operating procedure (SOP) that addressed reconciliations. The guidance provided is very similar to the requirements of Handbook AS-709, Chapter 4, Cardholder and CCAO Reconciliation Procedures. As a result, we are not making any recommendations at this time.

Refreshments

The PRC did not have a policy for purchasing refreshments. Even if consumed in the course of normal business, refreshments are personal in nature and therefore have a high risk for misuse. Although PRC Form 68, *Request for Refreshments or Meals*, was available on the PRC's intranet, the form was not always used for justification and approval of such purchases. In FY 2011, the PRC spent \$21,473 on food and beverages.

During our audit, management issued an SOP providing limited guidelines for the purchase of refreshments and meals. This SOP is vague regarding the need to purchase food and refreshments and does not address:

- reasonableness of expenses or dollar limits,
- purchase and use of alcohol during events, and
- use of PRC Form 68 to support purchases of refreshments and meals.

¹⁰ Handbook AS-709 states the cardholder and the approving official are responsible for completing reconciliation activities no later than the 18th of the month for the previous month's card activity. Further, the reconciliation deadline is printed on each cardholder's monthly statement.

A more comprehensive policy would help PRC ensure expenditures for refreshments and meals are justified and avoid the appearance of waste.

We recommend the PRC:

- 3. Develop a comprehensive policy and procedures addressing the use and purchase of refreshments to include food, beverages, and alcohol.**

Management's Comments

Management agreed with this recommendation and will consolidate their existing policies and procedures and strengthen the language by September 30, 2013.

Evaluation of Management's Comments

Management's comments are responsive to the recommendation, and the action taken or planned should correct the issue identified.

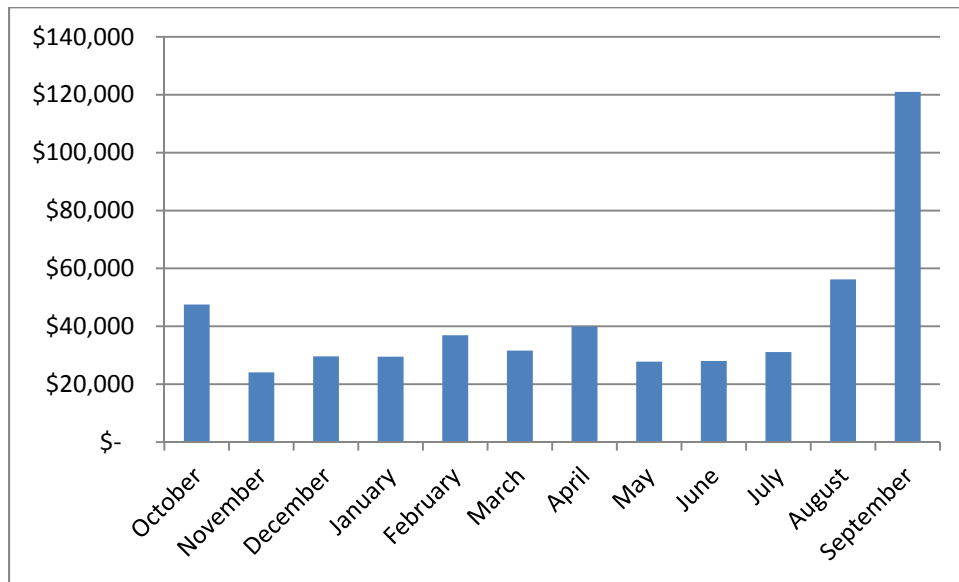
Monthly Purchase Card Limits

During FY 2011, the PRC had four authorized cardholders, each with a \$50,000 monthly purchase limit, for a total monthly limit of \$200,000. During FY 2012, management requested an increase to one cardholder's monthly limit to \$100,000. They also reduced the number of cardholders to three and retained their combined \$200,000 monthly limit. In addition, management informed us the Postal Service mandated retention of a capital purchase card¹¹ with a \$100,000 limit.

The average monthly transactions from all PRC purchase cards in FY 2011 was \$41,941. As shown in Table 2, PRC purchases ranged from \$24,109 in November 2010 to \$120,968 in September 2011.¹²

¹¹ Capital purchase cards are used for the purchase of equipment with a service life of more than one year and costing \$3,000 or more.

¹² A primary reason for the September increase over the average was furniture purchases totaling \$55,481.

Table 2: FY 2011 Actual Purchase Card Transactions in Dollars

Source: Enterprise Data Warehouse System

A monthly purchase limit significantly higher than actual purchases exposes the PRC to increased opportunity for misuse of the purchase card which may result in significant loss of assets.

We recommend the PRC:

- 4. Perform an analysis of historical and projected purchase card transactions on a regular basis and modify monthly purchase limits to commensurate actual cardholder purchase levels.**

Management's Comments

Management agreed with this recommendation and will develop a written procedure to document a monthly review of the cards' purchase limits on or before January 31, 2013.

Evaluation of Management's Comments

Management's comments are responsive to the recommendation, and the action taken or planned should correct the issue identified.

APPENDIX A: STATISTICAL SAMPLING

Purpose of the Sampling

One of the objectives of this audit was to assess compliance with purchase card policies at the PRC. In support of this objective, we employed a simple random sample of PRC purchases. The sample design allows statistical projection of the proportion of purchase policy exceptions in the population.

Definition of the Audit Universe

The audit universe consisted of all 497 PRC purchases, using the purchase card, for FY 2011. We obtained the universe information from the Purchase Credit Card Details report in the Enterprise Data Warehouse.

Sample Design and Modifications

We based the sample size on a simple random sample design.¹³ We calculated the required sample size for a two-sided confidence interval,¹⁴ at the 95 percent confidence level and 7 percent precision¹⁵, assuming the population exception rate was 10% or less. The required sample size was 63.

Statistical Projections of the Sample Data

We did not do a statistical projection as the number of exceptions listed in the report is sufficiently high for the team to argue for the need for management to take action.

¹³ A simple random sample is a set of items taken from a population. Each item is chosen randomly and entirely by chance, such that each individual has the same probability of being chosen at any stage during the sampling process.

¹⁴ Under a 2-sided confidence interval, both the upper bound and the lower bound on the error rate is calculated.

¹⁵ Precision is a measure of the width of the confidence interval. If the best estimate from a sample of the population's value is 100, and 7% precision was achieved at the 95% confidence level, then the width of the 95% confidence interval is 14, from 93 to 107.

APPENDIX B: MANAGEMENT RESPONSE

POSTAL REGULATORY COMMISSION
Washington, DC 20268-0001

DATE: December 7, 2012

TO: Jack Callender, Inspector General

FROM: Shoshana Grove, Secretary and Chief Administrative Officer

RE: Audit Report 12-01-A01: USE OF PRC PURCHASE CARDS

This memo is in response to the Draft Audit Report (Report) received November 5, 2012. The Postal Regulatory Commission (Commission) is committed to compliance with its purchasing policy and procedures. The Commission appreciates the diligence and professionalism exhibited by you and your staff during this audit.

The Commission notes that the Report benchmarks the Commission against the United States Postal Service (USPS). The Commission finds that comparing the purchasing procedures necessary for a \$60 billion dollar agency with the largest civilian workforce in the federal sector is not necessarily suited to the Commission (a micro-agency whose budget is one four-thousandth of the USPS). We believe a more appropriate yardstick for comparison would be a similarly sized professional organization in either the federal or private sector.

The Commission management agrees with the recommendations contained in the Report and provides responses below. The Commission appreciates that the Inspector General found that all purchases were made for business purposes, and the audit covered spending that was proper, justified and necessary to the work of the agency

BACKGROUND

In FY 2010, the Secretary reviewed existing purchasing processes, and determined that the legacy policy and procedures, which were heavily manual and paper dependent, did not provide sufficient transparency, accountability and operational efficiency. As a result of this review, the Secretary considered available options and recommended that the Commission implement the USPS eBuy purchasing system, an online procurement application provided to the Commission at no charge by the USPS. The choice of this system was not intended to presume adoption of USPS policies. The Commission is an independent establishment of the executive branch and is not subject to the policies and procedures of the USPS, although it leverages many of USPS's administrative shared service systems in order to save costs, such as the USPS SmartPay Purchase card.

The eBuy system was implemented for use at the beginning of FY 2011, the year of the subject audit. During the implementation year, Commission staff monitored the new process and fine-tuned policies and procedures to ensure that it continued to manage financial risk while successfully transitioning to the online system.

RECOMMENDATIONS AND RESPONSES

Recommendation 1: Implement controls to ensure cardholders adhere to the single purchase dollar amount limit.

Response:

The Commission management agrees with the recommendation contained in the Report. Faced with the expiration of its current lease, the Commission made a decision to reconfigure its existing space to provide eight new furnished offices. As a result, the Commission was able to remain in its existing lease space, saving an estimated \$350,000 in one time relocation costs and over \$300,000 in annual recurring costs.

For the furniture acquisition, OSA staff obtained bids that were substantially less than those offered by the previously used USPS contract vendor. The Chairman of the Commission approved the furniture expenditures in writing in line with Commission purchasing policy. The Commission had a business need to pay the furniture expense in FY 2011, the year the expense was incurred and the relocation money appropriated. Because the Commission uses the USPS accounting system as its shared service accounting system, it did not have a timely alternate payment vehicle other than to split the purchase. Therefore the Secretary approved the purchase to be split, resulting in a savings of more than \$15,000 over the USPS contracted vendor quoted amount. The Commission has explored alternative systems that would be more responsive to the needs of a micro-agency, including the implementation of its own stand-alone accounting system or moving to an alternate shared service provider. However, migrating to these alternatives would require an additional appropriation of funds.

By September 30, 2013, the Commission will strengthen its existing policy in line with the Inspector General's recommendations. By December 3, 2012, all Commission purchase cardholders will be required to participate in refresher training regarding purchase card procedures. Any Commission employee who knowingly splits a purchase without prior approval to circumvent the controls in place may be subject to disciplinary action. Any adjustments to standard purchasing policy will require written approval from the Chairman or her designee.

Recommendation 2: Implement comprehensive policies and procedures for purchase card use at the PRC. In the interim, adopt the USPS Handbook AS-709.

Response: The Commission management agrees in general with the recommendation contained in the Report. The eBuy system was implemented for official use at the beginning of FY 2011, the year of the subject audit. During the implementation year, the Commission staff monitored the new process and added policies and procedures as needed to ensure that it continued to manage financial risk while successfully transitioning to the online system.

The Commission finds that adoption of USPS policies is not practical, as they are over-broad and unwieldy for a micro-agency to manage. However, as a temporary, interim measure the Commission will utilize USPS Handbook AS-709 (AS-709) until our comprehensive policy is in place. Changes in the policies in the AS-709 will be allowed with written approval from the Secretary. In line with the

Inspector General's recommendations, the Commission management will strengthen the language of and consolidate its existing policies and procedures for purchase card use by September 30, 2013.

Recommendation 3: Develop a comprehensive policy and procedures for addressing the use and purchase of refreshments to include food, beverages and alcohol.

Response: The Commission management agrees with the recommendation contained in the Report. The Commission has the following policies and procedures in place:

- Serving of Alcoholic Beverages Policy at the Commission Facilities, dated 11-16-2000
- On Use of Commission Facilities Policy, dated 11-16-2009
- Standard Operating Procedure on Refreshments, issued March 27, 2012

These documents require that a requester provide the business rationale for the refreshments to the Chairman for approval prior to purchase. The Commission has consistently followed its policy and process.

In line with the Inspector General's recommendations, the Commission management will strengthen the language of and consolidate its existing policies and procedures for refreshments by September 30, 2013.

Recommendation 4: Perform an analysis of historical and projected purchase card transactions on a regular basis and modify monthly purchase limits to commensurate actual cardholder purchase levels.

Response: The Commission management agrees with the recommendation contained in the Report. During the audit year the Secretary and Assistant Secretary instituted a monthly standing meeting to review and reconcile purchase card statements to ensure that the PRC is adhering to policies and procedures associated with purchase card. The purchase limits are reviewed during these monthly meetings. Additionally, during FY 2012, the Commission undertook an analysis of card usage, and determined that there is a need for only 3 purchase cards. A fourth card was cancelled in FY 2012.

The purchase limits in place have been determined to be sufficient for the monthly purchases as well as for business continuity purposes in the Continuity of Operations Plan (COOP). The Financial Specialist is essential personnel for the COOP, and the purchase card authority for this position reflects the role of procurement in the potential reconstitution of the Commission operations under exigent circumstances. The other purchase card holders are the backup designees for the COOP role.

The Commission was required by the USPS to obtain a capital purchase card at the end of FY 2011. The Commission does not believe such a card is necessary, given that it has a cash accounting system and does not capitalize its expenditures. However, the PRC holds the card to be in compliance with its shared service accounting system provider. The Commission will revisit this requirement with the USPS in light of the Inspector General's recommendation.

The Commission will develop a written procedure to document the monthly review of the monthly purchase limits (amount and quantity) on or before January 31, 2013.