



United States
CONSUMER PRODUCT SAFETY COMMISSION
Washington, DC 20207

OFFICE OF THE INSPECTOR GENERAL

Audit Report

EVALUATION OF INTERNAL CONTROL PROCEDURES
GOVERNMENT PURCHASE CARDS

Date Issued: September 23, 2002



**United States
Consumer Product Safety Commission
Washington, DC 20207**

Memorandum

Date: September 25, 2002

TO : Harold D. Stratton
Chairman

FROM : Mary B. Wyles
Inspector General

SUBJECT : Evaluation of Internal Control Procedures - Government Purchase
Cards

A copy of the audit report, *Evaluation of Internal Control Procedures - Government Purchase Cards*, is attached for your review. On completion of your review, copies will be distributed to the individuals listed in appendix B of the report.

Office of the Inspector General
U. S. Consumer Product Safety Commission
Bethesda, MD 20207

TABLE OF CONTENTS

	Page
EXECUTIVE SUMMARY	ii
BACKGROUND	1
Internal Controls	1
Federal Acquisition Regulation	1
Treasury Financial Manual	1
SmartPay Program	2
CPSC's Controls	2
OBJECTIVE	3
SCOPE AND METHODOLOGY	3
FINDINGS	3
Summary	3
Program Manager	3
Delegation of Authority	5
Use and Limitation	5
Cardholder Statements	8
Security	9
Disputes	9
Renewal	9
RECOMMENATIONS	10
MANAGEMENT'S RESPONSE	10
APPENDIX A - REPORT DISTRIBUTION	12

EXECUTIVE SUMMARY

Background. Pursuant to Subpart 13.301 of the Federal Acquisition Regulation, the Governmentwide commercial purchase card is authorized for use in making and/or paying for purchases of supplies, services, or construction. The card may be used by contracting officers and other individuals designated in accordance with 1.603-3 of the FAR. Subpart 1.603-3, *Appointment*, encourages agency heads to delegate micro-purchase authority to individuals who are employees of the agency who will be using the supplies or services being purchased. Agencies using the Governmentwide commercial purchase card shall establish procedures for use and control of the card.

CPSC's policies and procedures on the use of the Governmentwide Commercial Purchase Card Program are established in CPSC's Order 1540.1, *Government-wide Commercial Purchase Card Program and CPSC's Government-wide Commercial Purchase Card Handbook*. Pursuant to Order 1540.1, it is the policy of CPSC to utilize the Government-wide commercial purchase card whenever practical, particularly for micropurchases of \$2,500 or less.

Objective. The objective of this audit was to determine the adequacy of CPSC's internal control procedures applicable to the use and control of government purchase cards.

Results and Conclusion. The audit found most internal control procedures to be adequate; although, some were not followed. In order to ensure compliance with the Federal Acquisition Regulation and Treasury Financial Manual, the program manager should: (i) ensure that all cardholders are trained; (ii) maintain a current list of cardholders and approving officials; (iii) conduct annual oversight reviews of the purchase card program; (iv) delegate procurement authority in writing; (v) caution cardholders against splitting purchase requirements in order to stay within the \$2,500 purchase limit; and (vi) close inactive cardholder accounts.

The AED for Administration concurred with the recommendations presented on page 10 of this report. Implementation of the recommendations should result in more effective control over purchase cards.

**Office of the Inspector General
U.S. Consumer Product Safety Commission
Bethesda, MD 20207**

BACKGROUND

Internal Controls. Pursuant to OMB Circular A-123, *Management Accountability and Control*, management controls are the organization, policies, and procedures used by agencies to reasonably ensure that (i) programs achieve their intended results; (ii) resources are used consistent with agency mission; (iii) programs and resources are protected from waste, fraud, and mismanagement; (iv) laws and regulations are followed; and (v) reliable and timely information is obtained, maintained, reported and used for decision making. A subset of management controls are the internal controls used to assure that there is prevention and timely detection of unauthorized acquisition, use, or disposition of the entity's assets. *Standards for Internal Control in the Federal Government*, published by the General Accounting Office states that internal control serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud.

Federal Acquisition Regulation. Part 13 of the Federal Acquisition Regulation (FAR) addresses Simplified Acquisition Procedures. Subpart 13.2, *Actions at or Below the Micro-Purchase Threshold*, the Government-wide commercial purchase card shall be the preferred method to purchase and pay for micro-purchases. Micro-purchase is defined as an acquisition of supplies or services (except construction), the aggregate amount of which does not exceed \$2,500. Construction is limited to \$2,000. Subpart 13.3, *Simplified Acquisition Methods*, 13.301, *Governmentwide Commercial Purchase Card*, the Governmentwide commercial purchase card is authorized for use in making and/or paying for purchases of supplies, services, or construction. The card may be used by contracting officers and other individuals designated in accordance with 1.603-3 of the FAR. Subpart 1.603-3, *Appointment*, encourages agency heads to delegate micro-purchase authority to individuals who are employees of the agency who will be using the supplies or services being purchased. Agencies using the Governmentwide commercial purchase card shall establish procedures for use and control of the card.

Treasury Financial Manual. Treasury Financial Manual (TFM), Volume 1, Part 4, Chapter 4500, prescribes procedures that apply to all departments and agencies that use the Government purchase card. These procedures apply to program controls and invoice payment. Pursuant to TFM, section 4525, each agency will develop its own internal procedures for using the purchase card. Some processing and internal controls that must be in place prior to using the Government purchase cards follows:

- Designate an office (usually the procurement office) to manage the program. Management of the program includes assurance that training is provided, maintenance of a current list of cardholders and approving officials, and an annual oversight review of the program.
- Write a delegation of authority for each cardholder.

- Establish approved uses and limitations on the types of purchases and the dollar amounts.
- Establish procedures for timely submission of cardholder statements to the agency designated billing office.
- Establish procedures for maintaining security of the cards.
- Establish procedures for handling disputes and returned, refused, damaged, or unacceptable items and partial deliveries.
- Establish card renewal procedures.

SmartPay Program. The General Services Administration (GSA) awarded contracts to five service providers for purchase card services on a government-wide basis. The purchase card provides Federal agencies a way to pay for commercial goods and services, as well as, travel and fleet related expenses. Agencies participating in this service, referred to as SmartPay, must select one of the contractors and issue task orders against the master contract. The SmartPay program streamlines the purchase process by (i) eliminating the issuance of purchase orders and receipt of invoices; (ii) reducing administrative costs and improves cash management by eliminating the need for imprest funds; (iii) consolidating purchases from many suppliers into a single invoice; and (iv) using electronic shopping catalogs.

CPSC issued a task order against the Master Contract, GSA SmartPay Program. The Bank of America, N.A. was selected as the service provider. The task order is "for stand alone travel, purchase, and fleet cards with potential integration . . . eventually leading to one card."

One hundred eighty-six CPSC's employees had purchase cards during Fiscal Year 2001. One hundred and seventy-four cardholders had purchase cards at the end of Fiscal Year 2001 (September 30, 2001). Most (120) of the 174 cardholders were telecommuters located in the field.

CPSC's Controls. CPSC's policies and procedures for the use of the Governmentwide Commercial Purchase Card Program are established in CPSC's Order 1540.1, *Government-wide Commercial Purchase Card Program* (Order 1540.1). Pursuant to Order 1540.1, it is the policy of CPSC to utilize the Government-wide commercial purchase card whenever practical, particularly for micro-purchases of \$2,500 or less. Cardholders should use the card for official purchases, if the vendor accepts it, rather than use purchase orders, blanket purchase agreements or imprest fund. Cards cannot be used to purchase personal items or for any of the following: tickets, lodging, meals or other expenses pertaining to travel (except as authorized under unusual circumstances) rental of vehicles, cash advances, telecommunications, or purchase of supplies from non-mandatory sources if they are available from mandatory sources. The Order outlines training requirements, procedures for requesting and approving cards, use of cards, spending controls, and responsibilities. Order 1540.1 is supplemented by CPSC's *Government-wide Commercial Purchase Card Handbook* (The Handbook). The Handbook contains general procedures for cardholders and approving officials.

OBJECTIVE

The objective of the evaluation was to determine the adequacy of internal control procedures applicable to the use and control of government purchase cards.

SCOPE AND METHODOLOGY

The audit was conducted during the months January through March and May 2002, in accordance with Government Auditing Standards, and included test of internal controls as considered necessary. Laws, regulations, policies, and procedures governing the commercial purchase card program were reviewed. Discussions were held with the Associate Executive Director, Directorate for Administration (EXAD), the Director, Division of Financial Services (ADFS), the Director, Division of Procurement Services (ADPS), various cardholders and approving officials who provided information and documents applicable to the audit.

Individual and consolidated cardholder statements of account and purchase logs applicable to purchases during Fiscal Year 2001 were reviewed. A detailed review of the purchases made by cardholders is currently being performed as part of the field inspection.

FINDINGS

Summary. The audit found most internal control procedures to be adequate; although, some were not followed. In order to ensure compliance with the Federal Acquisition Regulation and Treasury Financial Manual, the program manager should: (i) ensure that all cardholders are trained; (ii) maintain a current list of cardholders and approving officials; (iii) conduct annual oversight reviews of the purchase card program; (iv) delegate procurement authority in writing; (v) caution cardholders against splitting purchase requirements in order to stay within the \$2,500 purchase limit; and (vi) close inactive cardholder accounts.

Program Manager. TFM requires each agency to designate an office (usually the procurement office) to manage the program. Management of the program includes assurance that training is provided, maintenance of a current list of cardholders and approving officials, and an annual oversight review of the program.

Designated Office. OMB Circular A-123, *Separation of Duties and Supervision*, states, "Key duties and responsibilities in authorizing, processing, recording, and reviewing official agency transactions should be separated among individuals." *Delegation of Authority and Organization*, states, "Managers should ensure that appropriate authority, responsibility and accountability are defined to accomplish the mission of the organization, and that appropriate organization structure is established to effectively carry out program responsibilities."

CPSC's Purchase Card Program was being managed by the Division of Financial Services. According to Order 1540.1, Section 13, ADFS will: (1) process all requests for new cards; (2) notify the BankCard Center of all cancelled cards and changes; (3) forward "Statements of

Questioned Items" to the BankCard Center; (4) resolve disputes; (5) certify payments based on the cardholder's approving officials' signatures; and (6) process payments on time to the BankCard Center in accordance with the Prompt Payment Act. Order 1540.1 does not address the overall program responsibility.

Order 1540.1, Section 9, Procedures for Requesting and Approving Cards, requires ADFS to send requests for purchase cards to the AED for Administration for approval. After requests are approved, they should be sent to the BankCard Center which issues the cards. This procedure was not being followed. Requests for purchase cards were not approved by the AED for Administration. In effect, ADFS approved requests received from recommending officials (**authorizing**). ADFS then submitted the required documents to the BankCard (**processing**); and paid invoices (**recording and reviewing**). To ensure compliance with OMB Circular A-123, these responsibilities should be separated. The AED for Administration should personally authorize the use of purchase cards or delegate the authority to do so to the Director ADPS. ADPS would be designated day-to-day management of the program; thereby, separating various program functions. This would be consistent with GSA's Blueprint for Success, which is established to help ensure the integrity of the process. The blueprint separates the authorizing official "Agency/Organization Program Coordinator" (A/OPC) from the payment official "Designated Billing Office" (DBO). The blueprint outlines the responsibilities of the A/OPC, DBO, as well as, the cardholder, approving official, transaction dispute office, purchase card contractor, and merchant.

Training. TFM, Section 4535.20, requires that a training program on the Government-wide credit card procedures and small purchase regulations be established by each participating agency. Cardholders, approving officials, and other employees, such as those in the designated billing office, who are involved in the program must attend.

Pursuant to Order 1540.1, Section 8, ADFS and ADPS "will train and provide documentation on responsibilities for use of purchase cards. The review found that training was not being provided. Cardholders are provided a copy of the Handbook for reference.

Cardholders and Approving Officials. TFM, Section 4520 defines approving official as an individual who reviews cardholders' statements. The approving official is responsible for authorizing purchases, insuring that statements are reconciled and submitting statements to the designated billing office in a timely manner. A cardholder is a government employee to whom a government purchase card is issued.

Order 1540.1 requires Assistant and Associate Executive Directors (AEDs), Office Directors and Regional Directors to submit the names of cardholders and approving officials to ADFS for processing. A list of individuals with purchase cards was provided by ADFS. According to the list there were 174 purchase cardholders at September 30, 2001. ADFS did not have a list of all approving officials.

Review Procedures. The TFM requires that annual oversight reviews be performed by the program manager. The *Blueprint for Success: Purchase Card Oversight*, published by GSA provides a guide for A/OPCs

to perform annual reviews of purchase card activities. The purpose of the review is to ensure that cardholders and approving officials are complying with established procurement management practices, operating procedures and established purchase controls. The guide provides an overview of the annual review process, introduces sample forms to be used in the review, and explains the steps involved in conducting the review.

Pursuant to Order 1540.1, Section 14, *Review and Audit*, all purchases are subject to review and audit for compliance with procurement and financial management regulations. Any purchases found to be improper may result in the cardholder and/or approving official being liable and may result in cancellation of the card. The order does not specify the frequency of such reviews or who should perform them. A review had not been performed of the purchase card program.

CPSC should revise its review procedures to be consistent with TFM which requires an annual review by the program manager and include an assessment of the following:

- Compliance with CPSC policies.
- Applicable training requirements.
- Appropriate delegation of authority.
- Integrity of purchase process.
- Compliance with procurement regulations.
- Receipt and acceptance of procedures.
- Record retention.

Delegation of Authority. TFM requires agencies to write a delegation of authority for each cardholder. TFM, 4520 defines delegation of authority as, "A written delegation issued by responsible agency personnel that establishes authorized cardholder(s), specifying spending and usage limitation unique to that cardholder.

Pursuant to Order 1540.1, ADFS will send the request [for purchase card to be issued] to the AED for Administration for approval and signature, notify the Contracting Officer of the new cardholder so that a Letter of Delegation can be prepared, and send approved requests to the BankCard Center which issues the cards. The Contracting Officer determines that the appropriate procurement training has been received, and then issues the delegation letter to the cardholder.

The audit found that letters of delegation were not issued to cardholders. Only one of the 32 cardholders interviewed had been issued a written delegation of authority. The delegation was signed by the prior Director, Division of Procurement Services on September 1997.

Use and Limitation. TFM requires agencies to establish approved uses and limitations on the types of purchases and the dollar amounts.

Government purchase cards should be used only for authorized purposes. Intentional use of the purchase card for other than official government business constitutes misuse, and depending on the facts, may involve fraud. The employing agency of an employee who misuses the card or who participates in fraud may cancel the purchase card and take disciplinary action against the employee, as appropriate. In the case

of misuse, the employee will be held personally liable to the government for the amount of any unauthorized transactions.

Policies and Procedures. Order 1540.1 and the Handbook establishes policy and procedures for the use of the purchase card. The card should be used for official purchases if the vendor accepts it. The card cannot be used to purchase personal items or for any of the following: tickets, lodging, meals or other expenses pertaining to travel (except as authorized under unusual circumstances); rental of vehicles; cash advances; telecommunications; or purchase of supplies from non-mandatory sources if they are available from mandatory sources. The maximum amount to be spent by a cardholder for a single purchase is \$2,500. A single purchase may be comprised of multiple items, but the total cannot exceed the single purchase dollar limit. The purchase of a single item may not be segmented into several purchases to avoid competition requirements for procurements over \$2,500.

CPSC's policy and procedures on the use and limitation of purchase cards are consistent with policy and procedures established by the FAR for micropurchases. On approval of a request for a purchase card, ADFS sends an e-mail to cardholders stating that they have been issued a purchase card with a single purchase limit of \$2,500 and a monthly limit of \$10,000. Attached to the e-mail are copies of Order 1540.1 and the Handbook, which outlines the use of the card.

Purchases. Cardholders' accounts were examined to determine if: (i) the \$2,500 purchase limit was exceeded or repeatedly close to the purchase limit and (ii) purchases were split to avoid the \$2,500 threshold. A review of Fiscal Year 2001 Consolidated Statement of Accounts maintained by ADFS and Individual Cardholder Statements revealed the following:

Purchases Exceeding the \$2,500 Limit

None of the 32 cardholders exceeded the \$2,500 single purchase of \$10,000 monthly limitation.

Purchases close to the \$2,500 Limit

Fifteen of the 4,042 individual purchases were close to the \$2,500 (over \$2,300) limit.

Split Purchases

Some of the cardholders interviewed acknowledged that they were splitting purchases to stay within the \$2,500 limit. They were either: (i) instructed to handle purchases in this manner so that they would not have to use a purchase order or (ii) this was the way they interpreted the use of the card. Ten cardholders' accounts showed what appears to be split purchases. Some examples of split purchases are shown below:

	<u>Date of Purchase</u>	<u>Amount</u>
Vendor A	October 2, 2000	\$1,932
	October 2, 2000	<u>1,349</u>
	Total	<u>\$3,281</u>
Vendor B	November 1, 2000	\$1,692
	November 1, 2000	<u>945</u>
	Total	<u>\$2,637</u>
Vendor C	May 17, 2001	\$1,310
	May 17, 2001	<u>1,309</u>
	Total	<u>\$2,619</u>
Vendor D	June 9, 2001	\$598
	June 9, 2001	1,801
	June 9, 2001	<u>1,801</u>
	Total	<u>\$4,200</u>
Vendor E	June 26, 2001	\$1,764
	June 27, 2001	<u>1,765</u>
	Total	<u>\$3,539</u>
Vendor F	July 24, 2001	\$2,397
	July 25, 2001	<u>125</u>
	Total	<u>\$2,522</u>
Vendor G	August 16, 2001	\$112
	August 16, 2001	607
	August 16, 2001	1,153
	August 16, 2001	<u>756</u>
	Total	<u>\$2,628</u>
Vendor H	August 16, 2001	\$412
	August 16, 2001	<u>2,338</u>
	Total	<u>\$2,750</u>
Vendor I	August 31, 2001	\$718
	August 31, 2001	<u>2,288</u>
	Total	<u>\$3,006</u>
Vendor J	September 27, 2001	\$1,411
	September 28, 2001	<u>1,322</u>
	Total	<u>\$2,733</u>

Cardholders and approving officials should be reminded that split purchases violate procurement regulations and that such actions could lead to their cards being cancelled. Split purchasing should be included in annual reviews.

