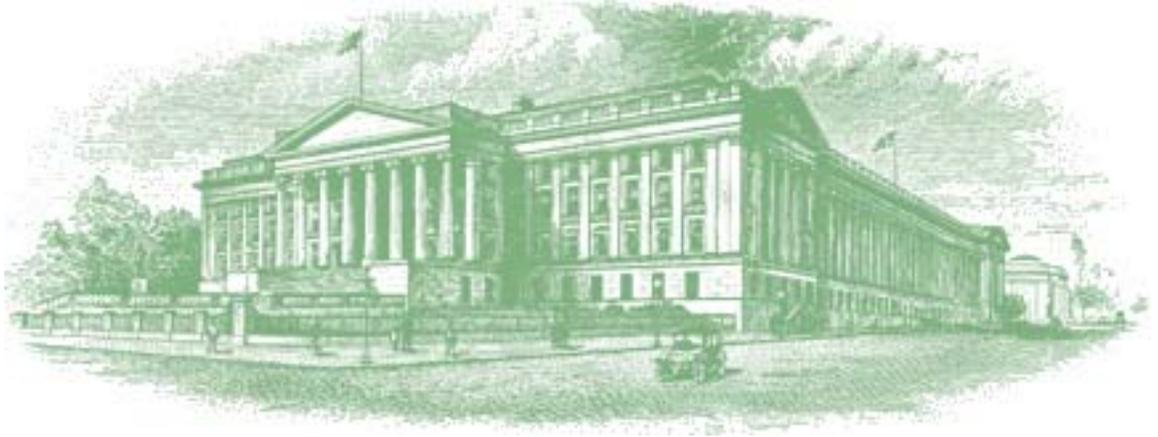




Audit Report



OIG-04-014

FINANCIAL MANAGEMENT:
Purchase Card Internal Control Weaknesses Expose FMS
Headquarters to Improper and Questionable Purchases

December 19, 2003

Office of
Inspector General
Department of the Treasury

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Abbreviations

AO	Approving Official
APC	Agency Program Coordinator
FAR	Federal Acquisition Register
FMS	Financial Management Service
MCC	Merchant Category Code
OIG	Office of Inspector General
TD	Treasury Directive

*The Department of the Treasury
Office of Inspector General*

December 19, 2003

Richard L. Gregg
Commissioner
Financial Management Service

This report covers the use of purchase cards at the Financial Management Service (FMS). The audit was limited to purchase card usage at FMS Headquarters in Washington DC during fiscal year (FY) 2002, as 80% of FMS purchase cards were held by headquarters personnel. Purchase card usage at FMS Regional Financial Centers will be the subject of a separate audit. FMS Headquarters' purchase card activity totaled more than 6,300 transactions for nearly \$4 million in FY 2002. These transactions involved 148 cardholders or about 10% of headquarters employees.

The objective of the audit was to assess whether FMS had adequate internal controls over the Government Purchase Card program to ensure that purchase cards were used in compliance with policy, for their intended purpose, and that FMS was achieving maximum benefit from the program.

From the 6,300 purchases and return transactions, we sampled for testing a total of 226 purchase transactions totaling \$182,000 by 73 cardholders. We tested the sampled transactions for compliance with FMS' purchase card policies and procedures; interviewed the cardholders and some of their approving officials; and also reviewed any required supporting documentation, such as monthly card statements, invoices, and purchase authorizations. In a few instances, sampled transactions were expanded to cover additional transactions due to what appeared to be material deviations from prescribed policies and procedures. A detailed discussion of the audit objectives, scope and methodology is provided in Appendix 1.

Results in Brief

Internal control weaknesses in the Purchase Card program expose FMS to, and in some case resulted in, improper and questionable purchases. For example, FMS lacked fundamental separation of duties to prevent cardholders from performing incompatible functions. Consequently, some cardholders directed all aspects of a purchase card transaction from initiating purchases through approving final payment. We also found extensive deviations from prescribed policies and procedures that occurred throughout the purchase card process, beginning with the authorizing official level and extending to the cardholders and those responsible for post reviews. Specifically, procedural deviations included purchase authorizations, record keeping, monthly statement approvals, account reconciliations and periodic reviews. Of the total 226 sampled purchase card transactions totaling \$182,000, 164 (73%) totaling \$137,000 (75%) contained at least one or more deviations from policies and procedures.

Furthermore, existing controls and procedures that could be reasonably expected to prevent or detect deviations from prescribed policies and procedures were often not followed. In 50% of the transactions that we reviewed the authorizing officials did not adequately oversee or monitor purchases, billing reconciliations, and payment. For example, many did not review monthly reconciliations of card statements; program managers did not sufficiently utilize the issuing bank's commodity and merchant blocking features; purchase limits were seldom if ever reviewed, despite over 31 percent of all cardholders never charging more than half their monthly purchase limit.

While the purchase card facilitates small and recurring purchases, existing controls do not sufficiently mitigate the risk of non-adherence to federal acquisition regulations. We found card purchases of construction services exceeding the \$2,000 limit, employee awards ceremony expenditures exceeding the \$250 limit for food, and split purchases that circumvented the \$2,500 single purchase limit.

Finally, inventory controls over nonexpendable items obtained with purchase cards were not always followed. Out of a sample of 29 nonexpendable items amounting to \$35,000, FMS' inventory system could not account for 2 (7%) items worth approximately \$2,000 (6%). An additional 5 items were not entered in the inventory system until shortly after our inquiry. Contrary to prescribed procedures, the FMS Property Branch had not been made aware of the purchases for entry into the property tracking system.

We attributed these internal control weaknesses and deviations to FMS policies and procedures that were unclear or contained gaps, coupled with insufficient staffing to oversee the Purchase Card program. Staffing has increased since we started the audit, but previously only a single program coordinator had been responsible for overseeing the 148 cardholders and 6,300 transactions.

We make several recommendations to improve FMS' internal control weaknesses, including developing a strategy for achieving compliance with departmental and agency purchase card policies and procedures, clarifying guidance to FMS' policies and procedures, ensuring effective oversight, and providing additional cardholder training on changes to policies and procedures.

In response to our draft report, FMS concurred with the recommendations and had either already implemented most of the recommendations or had planned for the remaining actions to be addressed in a subsequent Corrective Action Plan. These actions included increased staffing; implementing CitiDirect to enhance controls, such as independent supervisory approvals and monitoring; canceling purchase cards for the holders with minimum usage; issuing a revised Purchase Card Policy; reviewing the OIG's reported split purchase transactions and began to take steps to implement new procurement strategies to address split purchases. We believe that FMS' implemented and planned management corrective actions collectively address our findings and recommendations if properly implemented. Indeed, FMS has

committed to and accomplished much to strengthen their Purchase Card Program. The complete text of FMS' response has been incorporated in its entirety in Appendix 3.

Background

The Office of Management and Budget established the Government Purchase Card program in 1989 as a means to acquire goods and services and to streamline the acquisition of small dollar requirements allowing non-procurement personnel to buy goods and services directly. The purchase card operates similar to a personal credit card but can only be used for Official Government business. In 1998, the Department of Treasury selected CitiBank to provide all card services – purchase card, travel card, and fleet card – to all its bureaus.

Treasury issued Treasury Directive (TD) 76-04 to provide bureaus guidance on the use of purchase cards. TD 76-04 states that the card is the preferable method for making micro-purchases up to \$2,500. It also requires agencies, such as FMS, to establish approved uses and limitations on the types of purchases and spending limits. The Directive also requires cardholder training prior to receiving a purchase card.

Along with the Directive, FMS developed a handbook, "FMS Purchase Card Handbook," dated March 5, 2000, outlining the policies and procedures applicable to the Purchase Card program. According to the Handbook, Micro-purchases are exempt from most Federal Acquisition Regulation requirements (FAR), such as obtaining competitive quotes if the cardholder determines that a price is reasonable.

In November 2002 FMS conducted a partial internal review of the Purchase Card program in anticipation of our audit. The problems identified were similar to the control weaknesses we found in our audit. FMS' review included an overview of the program with management interviews and a review of program regulations and internal policies and procedures. However, transaction testing was

limited, as the agency suspended testing when they received notification of our audit. Our audit also covered control activities with an expanded review of transactions and cardholder records. Accordingly, we were able to comment specifically on exceptions to policies and procedures, such as purchases exceeding the single purchase limit and split purchases. We also covered purchase limits relative to card usage and the resulting potential exposure to fraud, waste and abuse.

Findings and Recommendations

Finding 1 **Enhancements to Purchase Card Handbook Needed**

Our transaction testing and review of FMS's prescribed policies and procedures indicated that enhancements are needed, and that management had not sufficiently emphasized internal control activities. Internal control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives.¹ Although the Purchase Card program provides efficiencies in transactions processing for small and recurring purchases, observed procedural and control weaknesses expose FMS to potentially fraudulent, improper, and abusive purchases.

In testing transactions for compliance, we identified internal control weaknesses involving FMS policies and procedures that were unclear or contained gaps. One major control weakness involved the lack of adequate separation of duties to prevent cardholders from performing incompatible functions. We found 50% of the card transactions that we reviewed were approved by an Approving Official (AO) while the other 50% were not. Apparently, some managers saw the need for an approval policy and implemented it informally. Further, 14 of the 148 cardholders directed all aspects of a purchase card transaction from initiating

¹ According to GAO's Standards for Internal Control in the Federal Government (November 1999, GAO/AIMD-00-21.3.1), control activities are one of five standards for internal control. Internal control activities help ensure that employees carry out management directives. The control activities should effectively and efficiently accomplish agency control objectives. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, and performance reviews.

purchases through approving final payment. Separation of duties was not implemented for these cardholders, who also had authority to authorize their own purchases. These cardholders could initiate, approve and place their own orders, pay with the purchase card, ship ordered goods directly to themselves and record receipt of the goods. To reduce the risk of error or abuse, individuals should generally be prohibited from controlling key aspects of a single purchase transaction.

Another observed control weakness involved purchase authorizations made by a funding/budget official rather than the unit manager or a supervisor authorized to approve purchases. Specifically, a budget official would verify that funding was available for the purchase, however a supervisory official's approval was not required before the purchase was made. Hence, in many instances cardholders' purchases were approved based only on budget approvals that funding had been available and not whether it was an authorized or previously planned purchase by the unit manager or supervisor. We attribute this internal control gap to the specific omission within FMS' Purchase Card Handbook. The Handbook did not have a prescribed procedure requiring that purchases be approved by an AO.

Also, the Handbook did not have a requirement for AOs to validate purchases or sign off on the reconciliation process. After the cardholder has verified that all transactions recorded on the Purchase Card Log agree with the items listed on the bank's monthly card statement and that all charges are proper, the billing process should call for an AO to conduct an independent review of the information for propriety before signing the reconciliation and approving payment.

We interviewed 73 cardholders, tested 226 transactions, and as shown in Table 1 we found deviations from prescribed policies and procedures occurring throughout the purchase card process, beginning with the authorizing official level and extending to the cardholders and those responsible for post reviews.

Table 1
Testing of Purchase Card Transactions

Control Activity	What We Looked For in Cardholder Files	Deviations from Policies and Procedures
Date Item Received	Purchase Card Log information and/or packing slips showing that goods ordered were in fact received.	71
Advance Purchase Authorization	Approving Official's signature or email authorizing the purchase.	48
Purchase Log Preparation	Purchase Card Log	24
Purchase Receipt on File	Vendor invoice	38
Bank Statement on File	Bank Statements of Account	1
Bank Statement Approved	Bank Statements of Account with: 1) cardholder's signature verifying that charges were correct and account was reconciled and 2) Approving Official's signature verifying that charges are approved, account is reconciled and invoice is certified for payment.	114
Bank Account Reconciled	Entries on Purchase Card Log agree with charges on bank Statement of Account	25
At Least One Deviation	All of the above	164

Source: Cardholders' Records

The high percentage of deviations, as well as information obtained from cardholder interviews, indicates that the responsible cardholders and managers did not effectively implement internal controls. We found that 164 (73%) of 226 transactions totaling \$137,000 (75%) of \$182,000, contained at least one deviation from FMS' policies and procedures. In terms of cardholders, 60 (82%) of 73 in our sample were responsible for transactions with deviations. We believe the high frequency of deviations was due to a lack of emphasis by unit managers to adhere to purchase card policies and procedures.

The most prevalent deviation entailed the AO or supervisor's review and approval of the monthly bank statement reconciliation prior to payment. We found an inconsistency in the work performed by AOs. In 114 (50%) of 226 transactions we reviewed, AOs did not conduct the necessary review and certification. This involved 43 (59%) of sampled cardholders. We believe this inconsistency can be attributed to FMS' Purchase Card Handbook not clearly spelling out the AO's responsibility for reviewing and approving the relevant documentation prior to payment. It should be noted that 28 AOs took it upon themselves to complete this fundamental control process despite the absence of clear prescribed guidance.

We believe that FMS is vulnerable to error and abuse over the use of purchase cards, given the observed frequency of deviations from FMS policies and procedures, coupled with the internal control gaps within the Purchase Card Handbook.

Recommendations

FMS needs to pay greater attention to processes and controls to reduce the risk of card abuse. Accordingly, the FMS Commissioner needs to:

1. Assess whether the internal controls in the Purchase Card program, such as separation of duties and supervisory reviews, are adequate to prevent and detect fraud, waste and abuse.

Management Response and OIG Comments

FMS concurred, and has undertaken a number of reviews and analysis addressing many of the internal control issues raised in the report. As reflected by either the implemented or planned corrective actions, some control assessments were completed prior to our draft report, and others were ongoing at the time. FMS has also committed to any

remaining ones as part of their plans for a detailed corrective action plan as deemed appropriate.

With respect to the separation of duties and supervisory review issues, FMS has enhanced controls in several ways. Budget officials are no longer permitted to have purchase cards, cardholders can no longer approve their own Blanket Purchase Agreement Calls, and CitiDirect was implemented in October 2003 which amongst other things entails certification and monitoring of transactions online.

Given the breadth of the different areas to be covered, we believe that the scope and timing for completing the control assessments is a management prerogative. Moreover, we believe that the implemented and planned actions sufficiently address the intent of the recommendation if properly completed as noted in FMS' response to the draft report.

2. Reassess the adequacy of the Purchase Card Handbook in terms of any added enhancements, such as prescribed separation of duties to avoid allowing a single individual from controlling the entire purchase transaction, and procedural clarifications, such as the specific supervisory reviews and approvals needed before payments are approved.

Management Response and OIG Comments

FMS concurred and is in the process of finalizing a major rewrite of the FMS Purchase Card Handbook that had just been issued in July 2003. FMS anticipates completing these revisions in late December/early January 2004. Major improvements include areas such as requirements and procedures associated with oversight reviews. We believe the planned management corrective action, in concert with some of the other related corrective actions discussed below, adequately address the recommendation if properly completed.

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3. To address the OIG's observed level of deviations from prescribed policies and procedures, formally communicate and emphasize with unit managers their responsibilities with respect to adherence to policies and procedures. And to that end, also assess the need for periodic training.

Management Response and OIG Comments

FMS concurred and has trained all approving officials, giving special emphasis to requiring reviews of purchase logs and documentation before approving purchase card statements. We believe that FMS' corrective action addresses the intent of the recommendation. Although FMS did not specifically address periodic training, we believe this aspect would be inevitable, given FMS' planned major revisions to the Purchase Card Policy, as well as their commitment to prepare a detailed corrective action plan to address remaining recommendations as subsequently deemed appropriate.

Finding 2

Aspects of the Purchase Card Program Warrant Further Evaluation

In the previous finding, we discussed control weaknesses and vulnerabilities based on our detailed testing of transactions by the 73 individual cardholders. Those results, in turn, surfaced aspects of the card program warranting further review and evaluation. These program aspects include card purchase limits that far exceeded actual monthly usage, the issuing card bank's control feature restricting purchases from certain types of vendors and or commodity type, and controls over expendable property purchases, and post reviews.

Monthly Card Limits Far Exceeded Actual Usage

FMS had not conducted periodic reviews of cardholder monthly credit limits compared to actual usage so that past utilization could be considered in determining appropriate credit limits. We found that most cardholder monthly purchase limits far exceeded actual

usage and FMS could not explain the basis for authorizing a purchase limit of \$10,000. Given the observed extensive deviations from prescribed policies and procedures, as discussed in Finding 1, we believe the large purchase card limits unnecessarily expose FMS to added risks of financial loss should cards be abused or inadvertently lost.

From the CitiBank cardholder listing and interviews with cardholders and program officials, we found that 52 (71%) of 73 cardholders were arbitrarily assigned the \$10,000 monthly purchase limit. The remaining 21 (29%) had even higher assigned limits based on anticipated higher monthly expenditures, such as training and wireless telephone charges. From the issuing card bank's records, we analyzed monthly spending patterns. As shown in the following table, actual usage typically fell far below the purchase limit.

Table 2
Percent of Monthly Limits Used
FY 2002

No. of Cards	Card Limit Used Based on Peak Purchases
23 (31%)	Less than 50%
26 (36%)	50 through 80%
24 (33%)	More than 80%
73 (100%)	Total

Source: CitiDirect® Card Management System

We found that 23 (31%) cardholders used less than 50% of their authorized monthly limit. With over half the cardholders using less than 80% of their purchase limit, actual usage suggests that varying purchase limits rather than an arbitrary setting of \$10,000 would reduce FMS' potential loss exposure.

Furthermore, we found that 23 purchase cards with a credit exposure of \$1,239,999, representing about 13% of the issued

cards had not been used in FY 2002. The number of unused cards seemed excessive and FMS had not reevaluated the need for these cards.

MCC Codes Not Fully Utilized

Another monitoring control issue involves FMS not fully utilizing Merchant Category Codes (MCC) to their advantage in designating certain establishments that are not authorized for card purchases. The credit card company has designated MCCs for all vendors. Agencies can screen questionable vendors before a purchase is approved. When an unauthorized code is used it will cause a purchase to be rejected. While FMS had invoked a limited number of MCCs, many of Treasury Department's recommended MCC blocks had not been implemented. For example, specific hotel codes, automotive repair, health care, restaurant, and fashion apparel codes were not blocked. According to program personnel, MCCs were not used more extensively because of limited personnel resources assigned to the program.

Control of Property Could Be Strengthened

We also found that FMS' inventory controls of nonexpendable items obtained with purchase cards could be strengthened. Areas warranting closer management attention included tracking and safeguarding nonexpendable items in coordination with the Property and Supply Branch. The primary control breakdown was the lack of adherence to FMS prescribed policies and procedures by purchase cardholders and the absence of mitigating controls.

We tested card purchases for nonexpendable items with a stated cost of \$300 or more. Of the 29 items tested with a combined value of \$35,000, we found 7 items worth approximately \$8,000 had not been recorded in FMS' asset management system when we attempted to trace each item to its purchasing unit in March 2003. We determined these 7 items without barcodes had been delivered directly to cardholders between January and July 2002, at least 8 months prior to our inquiry. However, cardholders had not requested barcodes for 5 of the items until May 2003, shortly after we inquired about the items. The 2 (7%) remaining items

worth \$2,000 were still without barcodes when we conducted our on-site inventory. The types of nonexpendable items that had not been recorded in the property system included paper shredders, laserjet printers, digital cameras, monitors and scanners.

We believe that this weakness arose primarily because cardholders frequently bypassed the procedure of shipping nonexpendable property directly to the Property and Supply Branch, as required under FMS' Handbook. As a result, most items were not bar-coded or entered into the inventory system when received. Instead, items were shipped directly to the cardholders' unit location. Out of the 29 items tested, only 7 had been shipped directly to the Property and Supply Branch.

Cardholders were aware of the requirement to notify Property and Supply Branch, but these deviations were attributed to shipping instructions misrouted due to human error or to an urgent need for the equipment by the department. Although some cardholders did adhere to policy, it should be noted that the required procedure regarding accountable items may not be clearly obvious as a footnote in the Handbook under another topic.

Lack of Post Review

The FMS Purchase Card Handbook designates the Agency Program Coordinator (APC) to conduct audits/reviews of cardholder files. The APC would conduct random reviews of cardholders to assess their compliance with program requirements. However, the program guidance did not elaborate on review frequency or compliance standards. Further, it did not require that the results of internal reviews be documented or that corrective actions be monitored to help ensure effective implementation.

According to a program official, five informal reviews were conducted at headquarters in 2002. The frequency of reviews was affected by staffing. A program coordinator had been responsible for overseeing 148 cardholders and reviewing the 6300 transactions at headquarters. We found no substantive documentation supporting that the reviews had been conducted.

We believe that the lack of post reviews contributed to not surfacing the problems identified in findings 1 and 2. Since the start of our audit, FMS had increased the staffing in this area from one to two people.

Recommendations

To further enhance FMS' Purchase Card program, the FMS Commissioner needs to:

4. Ensure purchase card limits are periodically reviewed to better align monthly purchase limits to actual or planned usage.

Management Response and OIG Comments

FMS concurred and conducted an extensive review of cardholders' usage. As a result, purchase cards were cancelled for 32 cardholders with minimum usage. In the coming months, FMS will establish a procedure for reviewing spending patterns with the objective of adjusting monthly spending limits based on usage. We believe FMS' management corrective actions adequately address the recommendation.

5. Give further consideration to assessing the need to make greater use of the issuing card bank's control of blocking certain types of commodities and vendors that would not normally be used by FMS.

Management Response and OIG Comments

FMS concurred and established 8 MCC templates to restrict cardholders' access to those MCC codes designated as "high risk" and to limit cardholder access only to the MCC codes required to meet their needs. Cardholder accounts have also been modified with Citibank to further enforce these restrictions. We believe FMS' management corrective actions adequately address the recommendation.

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6. Revise the Handbook to make more readily apparent the shipment instructions for nonexpendable equipment for inventory control. Also assess the need for added procedures to ensure that the Property and Supply Branch is made aware of when nonexpendable items have been purchased.

Management Response and OIG Comments

FMS concurred and will include in their revised Handbook shipping instructions for accountable property to ensure that property valued at \$1,000 or more is entered into the property system. Additionally, the Property and Supply Branch was provided limited access to CitiDirect in October 2002 to aid in the identification of accountable property items and to facilitate tracking and inclusion into the property system. Procedures will also be developed to provide for periodic reviews to identify and resolve discrepancies between purchase records and property records. We believe FMS' management corrective actions adequately address the recommendation.

7. Improve the internal review process, by clearly spelling out the frequency and extent of internal reviews, the stated frequency based on a documented risk assessment, and establishing minimum documentation requirements supporting these reviews.

Management Response and OIG Comments

FMS concurred and noted that a Purchase Card Review Program had been established in May 2003 to provide internal review of all FMS purchase card actions on a monthly basis. FMS further noted in their response to the draft report that in addition to reviewing various CitiDirect reports each month, the APC is to randomly select at least 14 cardholders each month for documentation reviews. The selected cardholders are required to provide copies of their monthly statement and back-up documentation. Following the review, a written summary is to be prepared to identify

deficiencies or areas requiring improvement. Given the additional staffing under the Purchase Card program added after the start of our audit, we believe the cited internal review procedures are more likely to be accomplished than what we had found during the audit. Accordingly, we believe FMS' management corrective actions adequately address the intent of the recommendation.

Finding 3 Improper Purchases

As previously discussed above, we believe that the extensive level of deviations from prescribed purchase card policy and procedures, coupled with an inadequate internal review function leaves FMS vulnerable to improper use of the government purchase card. Indeed, our detailed testing surfaced several such instances involving split purchases, purchases exceeding spending limits for certain items, and improper purchases.

Split Purchases

The Federal Acquisition Regulation and FMS Purchase Card Handbook policies and procedures prohibit splitting a transaction into more than one segment to avoid exceeding the \$2,500 micro-purchase threshold and the competitive bidding process. For Treasury offices and bureaus, the micro-purchase threshold for construction services is set at \$2,000. Items exceeding the threshold are to be purchased in accordance with the normal procurement process, which involves a minimum of three competitive bids.

We identified split purchases by analyzing cardholder transactions in the CitiDirect® Card Management System by dates, amounts, and vendors. We also reviewed supporting documentation in the cardholders' files to obtain details of the transactions. We found 6 cardholders with purchases reflecting split transactions. This entailed multiple purchases made with the same vendor, within 3 days, that exceeded the micro-purchase limit and would have precluded obtaining competitive bids. One exception to the 3-day

period involved a confirmed split purchase made by a cardholder that took place over 7 days. The following table details the split purchase transactions from our sample.

Table 3
Seven Split Purchases Found in the Sampled Transactions

Card Holder	Date of Transaction	Vendor Name	Description	Transaction Amount	7 Split Purchases
1	1/20/02	B	Installed partitions, doors, ceiling tile, painting Room 135	\$2,325	} \$2,725
1	1/20/02	B	Furnish and install 2 vision panels for rooms 101A and 127	\$400	
1	2/26/02	A	Electrical work	\$2,480	} \$4,790
1	2/26/02	A	Relocated and rewired fixtures	\$2,310	
2	8/29/02	C	6 - 3 drawer lateral file	\$2,500	} \$4,170
2	8/29/02	C	4 - 3 drawer lateral file	\$1,670	
3	8/5/02	D	5 - Windows XP software sets	\$2,419	} \$4,872
3	8/6/02	D	1 - Notebook PC	\$2,453	
4	2/20/02	E	Vendor sent single invoice for \$2,696 for 2-cross cut shredders @ \$1,100 and 78 personal shredders @ \$1,559 plus tax.	\$1,000	} \$2,696
4	2/27/02	E		\$696	
4	2/27/02	E		\$1,000	
5	5/29/02	F	Graphs work on Treasury symbols, used for all trade shows	\$2,485	} \$4,422
5	5/29/02	F	Screen & Setup - 1 color imprint (\$35), 1000 stress balls @ \$1.20 - IPAC (Intergovernmental Payment & Cell system) logo, conference to promote system	\$1,280	
5	5/30/02	F	500 stress balls @ \$1.20 - GOALS (Government Online Accounting Link System) II logo	\$657	
6	7/3/02	E	Supplies	\$101	} \$2,536
6	7/3/02	E	Supplies	\$2,435	
				Total	\$26,211

Source: CitiDirect® Card Management System and Cardholders' Records

As shown above, the purchases included such items as notebook computers, paper shredders, file cabinets, and construction services. We found one vendor invoice stating the full amount of

the goods ordered, yet the payments were divided into 3 smaller amounts.

We expanded our testing for split purchases focusing on construction services and identified at least 26 transactions made by 3 cardholders with 4 vendors totaling nearly \$41,000. As shown below in Table 4, we found a pattern of construction service purchases with the same vendor, within 3 days, with aggregated amounts that exceeded the FMS construction purchase limit had the purchases not been split. To identify split purchases we used the same 3-day guideline that FMS used for its internal reviews.

Table 4
Split Purchases of Construction Services in
FY 2002

Card Holder	Date of Transaction	Frequent Use Construction Service Vendors	7 Exceed \$2,000 Single Purchase Limit	Transaction Amount	9 Split Purchases
1	1/20/02	B	X	\$2,325	\$2,725
1	1/20/02	B		400	
1	2/26/02	A		58	4,848
1	2/26/02	A	X	2,480	
1	2/26/02	A	X	2,310	
1	3/14/02	A	X	2,497	6,503
1	3/14/02	A	X	2,256	
1	3/14/02	A		1,325	
1	3/14/02	A		312	
1	3/14/02	A		113	
1	6/4/02	U	X	2,360	4,088
1	6/4/02	U		432	
1	6/4/02	U		1,296	
1	6/24/02	A		1,920	3,818
1	6/25/02	A		1,898	
1	7/30/02	U		1,950	3,852
1	8/1/02	U		1,902	
13	12/12/01	A		1,767	7,919
13	12/12/01	A		1,786	
13	12/12/01	A	X	2,172	
13	12/12/01	A		1,340	
13	12/12/01	A		854	
13	1/24/02	L		1,800	3,180
13	1/24/02	L		1,380	
28	9/25/02	L		1,982	3,632
28	9/25/02	L		1,650	
				Total	\$40,565

Source: CitiDirect® Card Management System and Cardholders' Records

When aggregated some of the 9 split purchases were the equivalent of 2, 3, or 4 times the single purchase limit. None of the 4 construction service vendors had been subject to normal procurement procedures provided by the FAR to obtain competitive bids.

In addition to split purchase transactions, 18 transactions alone exceeded Treasury's purchase card limit of \$2,000 for construction services. According to one cardholder, FMS observed a construction purchase limit of \$2,500 in FY 2002. However, FMS was unable to provide us with documentation or an explanation as to the basis for FMS' increased limit over Treasury's purchase limit.

As to the cardholders' rationale for splitting the purchases, one cardholder acknowledged breaking down the invoice into several purchases to avoid the single purchase limit. Two other cardholders asserted that their purchases were not split because the vendors preferred to prepare separate invoices for each job segment. As noted before, these transactions had not been subject to management oversight or the internal review process.

Further, the split purchases and the Treasury purchase limit deviations can also be attributed to the perception that the competitive bidding process would cause delays in payment and service. Construction purchase transactions were all made for leasehold improvements at FMS' headquarters facility in Hyattsville, MD. According to cardholders, they used the purchase cards to obtain construction services because processing can be accomplished much more quickly than through the normal acquisition process, partially because the competitive bidding was eliminated.

Although we did not review in detail as with the sampled transactions, we did expand our analysis to gauge the possible extent of other split purchase transactions. We identified a total of 284 transactions involving 44 cardholders amounting to over \$364,000 with the same indicators of split purchases, i.e., a common vendor, transaction dates within a 3-day timeframe, and when aggregated, the amounts exceeded the single purchase limit. This expanded analysis also surfaced 29 single transactions that exceeded the single purchase limit without having to be combined with another purchase. These 29 totaled over \$86,000. See Appendix 2 for a detailed listing of these purchases.

Improper Purchases

Finally, we also identified improper food and decoration purchases totaling \$1,500. Although the amounts were minor and related to official government usage, the identified transactions are not permitted by law, regulation or policy. Moreover, the purchase card files lacked explanation or evidence indicating as to why these deviations were authorized for payment.

According to the Government Employees Incentive Awards Act (5 U.S.C sec 4501 et seq.), agencies generally may not furnish meals or refreshments to employees within their official duty stations. However, the act authorizes agencies to incur necessary expenses for awards ceremonies honoring employees. FMS' awards policy established that an assistant commissioner could approve up to \$250 for light refreshments for each awards ceremony. The assistant commissioner of that office must sign the requisition and obtain the authorization of funds for such purposes from the appropriate contracting official prior to the ceremony. The requisition must show that the refreshments materially enhance the effectiveness of the ceremonial function.

We identified improper transactions from our sample totaling \$1,500. These purchases were for food purchases at FMS internal meetings and ceremonies and for decorations provided at holiday and other celebrations. Under FMS policy, the 6 transactions would not have been authorized, as one exceeded the \$250 limit for food, 4 food purchases were for ceremonies having a principal purpose other than awards, and 2 purchases of decorations were clearly prohibited in FMS' policies and procedures as shown in the following table.

**Table 5
Improper Purchases**

Date	Amount	Description of Purchase	Comment/Criteria
9/18/02	\$636	Food for Combined event: Awards/Ethnic Awareness	1) Exceeded \$250 limit for Awards refreshments 2) Awards must be the principal purpose of the event
9/12/02	\$104	Decorations for Ethnic Awareness Celebration	Decorations not authorized
9/17/02	\$230	Food for Combined event: Awards/Director Retirement	Awards must be the principal purpose of the event
1/9/02	\$89	Food purchase for HRD all-employee breakfast	Refreshments at employee meetings not authorized
3/14/02	\$167	Food purchase for HRD all-employee meeting	Refreshments at employee meetings not authorized
12/7/01	\$260	Holiday decorations	Decorations not authorized
	\$1,486	Total	

Source: CitiDirect® Card Management System and Cardholders' Records

Based on our review of the purchase documentation, we determined that two of the purchases involved events that were combined with an awards presentation. For example, a combined expenditure of \$740 was made for an ethnic awareness celebration that also involved a presentation of awards. Documentation stated that the awards ceremony would provide a rationale for the food purchase. Considering that awards were not the main purpose of the event, the purchases of refreshments and decorations would not have been authorized under FMS' policy for refreshments at awards ceremonies. Another event was listed as an awards ceremony, but a review of the food purchase receipt found indications that certain items had been purchased for other reasons unrelated to awards. Two other purchases totaling \$256 were for

refreshments at Human Resource Department (HRD) employee meetings, an unauthorized expenditure.

Recommendations

To enhance controls preventing improper purchases with the purchase card, the FMS Commissioner needs to:

8. Develop enhanced controls supplementing the Handbook to prevent using purchase cards to effect split purchases. In the interim consideration should be given to assessing the risk of other undetected split purchases and include linking this assessment to recommendation 7 with respect to enhanced internal reviews.

Management Response and OIG Comments

FMS concurred and will add prohibitions against split purchases to their revised Handbook. In addition, FMS will review various CitiDirect reports that are generated monthly to help identify unusual and suspicious purchases, such as split purchases, exceeding the purchase limit, and unauthorized purchases. We believe FMS' planned management corrective actions adequately address the recommendation.

9. Emphasize with cardholders and authorizing officials the prohibition against splitting purchases as required by FAR. One means of possibly addressing the recommendation might be to provide additional training and guidance on the use of the purchase card.

Management Response and OIG Comments

FMS concurred and analyzed the transactions in the draft report observing that some (level not specified) of the transactions were not split purchases, but gave the appearance of a split purchase. Of the transactions determined to be valid instances of split purchases (level not specified), most were associated with purchases of

computer products. Accordingly, FMS has undertaken steps to implement new procurement strategies for these products to minimize the reoccurrence of split purchases.

Additionally, FMS will include in their revised Handbook prohibitions against split purchases. We believe FMS' management corrective actions taken to date as well as those planned adequately address the recommendation.

10. Examine existing purchase card guidance to determine if additional controls and conditions are needed when using the purchase card for acquiring construction services.

Management Response and OIG Comments

FMS concurred and also analyzed the transactions noted in the draft report. FMS indicated that some (amount not specified) were not split purchases but were due to vendor billing practices. FMS also noted that most (level not specified) of the valid instances were associated with purchases of construction services. Accordingly, FMS has undertaken steps to implement new procurement strategies for these services to minimize the reoccurrence of split purchases. Additionally, FMS will include in their revised Handbook emphasis on the \$2,000 limit for construction services. We believe FMS' management corrective actions taken to date, as well as those planned, adequately address the recommendation.

11. Institute enhanced controls either through the Handbook or post reviews to better ensure against the use of the purchase card for prohibited items.

Management Response and OIG Comments

FMS concurred and will include in their revised Handbook a "Don't Buy List" to ensure a clear understanding of purchases that are prohibited. Additionally, FMS' response to recommendation 7 above regarding internal reviews indicated that the reviews might also provide a means for identifying fraud, waste or serious misuse of the purchase

card. We believe FMS' planned management corrective action adequately addresses the recommendation.

To address the improper purchases identified in this report, the FMS Commissioner needs to:

12. Assess the need to pursue administrative action in accordance with the Handbook section XIV, "Penalty for Misuse."

Management Response and OIG Comments

FMS concurred and developed draft guidance regarding administrative action that should be taken for purchase card misuse and violations. Guidance will be finalized in 2004. Additionally, upon receipt of the final report, FMS will prepare a detailed corrective action plan to address the remaining recommendations, as appropriate. We believe FMS' planned management corrective actions adequately address the intent of the recommendation with respect to improper purchases noted in the report.

* * * * *

We would like to extend our appreciation to FMS for its cooperation and courtesies extended to our audit staff during the audit. If you have any questions, please contact me at (415) 977-8810 ext.222 or Garrett Gee, Audit Manager, at (415) 977-8810 ext.227. Major contributors to the report are listed in Appendix 4.

Benny W. Lee /S/
Director, Western Field Audit Office

Appendix 1

Objectives, Scope, and Methodology

Our overall objective was to assess whether FMS' internal controls over the Government Purchase Card program ensure that purchase cards are used in compliance with policy and for their intended purpose and that FMS is achieving maximum benefit from the program. Specifically, we sought to determine if FMS' Purchase Card program management policies and procedures are reasonably effective in preventing FMS from being vulnerable to fraud, waste and abuse.

We visited FMS headquarters facilities in Washington, D.C. and Hyattsville, Maryland between February and May 2002 and obtained program information, such as policies and procedures, regulations, and related information over the Purchase Card program. Our original scope was to cover headquarters in Washington, D.C. and various field locations throughout the country. However, we deferred the field locations until a later date to focus on headquarters where 80% of the purchase cards are based.

We first determined the universe of cardholders at FMS by reconciling a CitiBank purchase card report with a cardholder report maintained by FMS. The CitiBank report, entitled "Statistical Summary Report (CD900)", provides the total number of accounts and the number and total dollar amount of transactions. A CitiBank detail listing shows cardholder names, account numbers and credit limits. The FMS report is the Cardholder's Listing which shows cardholder names, account numbers and credit limits.

We downloaded cardholder transaction files from the bank's CitiDirect® Card Management System for the period September 29, 2001 through September 30, 2002. The download captured 123 active cards at headquarters facilities, and over 6,300 transactions totaling nearly \$4 million. From the universe of 6,300 FMS cardholder transactions, we randomly sampled 147, which exceeded the minimum of 128 needed to attain a 95% confidence level for random statistical sampling. We judgmentally sampled an additional 79 questionable transactions for compliance for a total of 226 transactions.

Appendix 1 Objectives, Scope, and Methodology

We interviewed 73 of the 148 cardholders assigned to headquarters facilities to determine if their responsibilities and authority were in line with FMS' Purchase Card program policies and procedures. We also interviewed approving officials concerning their oversight of the purchases. We reviewed cardholder files comparing the cardholder documentation with the downloaded data from the CitiDirect® database to verify that cardholders accounted for all sampled transactions. We reviewed transaction documentation for purchase requests, the cardholder purchase log, reconciled purchase invoices, unusual vendor transactions, approved packing slips, approved receiving documents, and approved bank statements.

When we identified split purchases and purchases exceeding the single purchase limit, we expanded our testing of transactions to include all fiscal year 2002 purchases and to assess the possible extent of split purchases and over-the-limit purchases. See Appendix 2.

We identified 29 nonexpendable property items (original cost of \$300 or more) that were purchased with the card. We conducted a physical inventory of the items to verify they were physically present at FMS' headquarters. To verify that equipment serial numbers and barcode numbers matched the numbers recorded in FMS' property system, we visited FMS' Property and Supply Branch at Ardmore, interviewed the Manager and reviewed system property records.

To evaluate FMS' exposure to potential loss resulting from unnecessarily high credit limits, we analyzed transaction data for the 73 cardholders in our sample to understand monthly peak spending. We compared monthly peak purchases with cardholders' limits and determined the amount that was unused.

We conducted our audit between February 2003 and October 2003 in accordance with generally accepted government auditing standards.

Appendix 2
Possible Split Purchases and Transactions Exceeding the
Single Purchase Limit for FY 2002

Count	Cardholder	Date	Posted Amount	Split Purchase Amount	Transactions Over Single Purchase Limit*	Vendor	
1	1	1/20/02	\$2,325	}	\$2,325	B	
2	1	1/20/02	400		\$2,725	B	
3	1	2/26/02	58	}		A	
4	1	2/26/02	2,480		2,480	A	
5	1	2/26/02	2,310	}	4,848	2,310	A
6	1	3/14/02	2,497		2,497	A	
7	1	3/14/02	2,256	}		2,256	A
8	1	3/14/02	1,325			A	
9	1	3/14/02	312	}			A
10	1	3/14/02	113		6,503	A	
11	1	4/2/02	518	}			DD
12	1	4/3/02	2,472		2,990	DD	
13	1	6/4/02	2,360	}		2,360	U
14	1	6/4/02	432			U	
15	1	6/4/02	1,296	}	4,088		U
16	1	6/24/02	1,920			A	
17	1	6/25/02	1,898	}	3,818		A
18	1	7/9/02	2,110			2,110	A
19	1	7/30/02	1,950	}			U
20	1	8/1/02	1,902		3,852	U	
21	2	5/17/02	1,544	}			C
22	2	5/17/02	1,039		2,583	C	
23	2	7/17/02	2,498	}			D
24	2	7/17/02	2,498		4,996	D	
25	2	8/29/02	2,500	}			C
26	2	8/29/02	1,670		4,170	C	
27	3	8/5/02	2,419	}			D
28	3	8/6/02	2,453			D	
29	3	8/7/02	484	}	5,356		D
30	4	12/31/01	1,701			S	
31	4	12/31/01	1,852	}			S
32	4	12/31/01	1,020		4,573	S	
33	4	1/14/02	2,376	}			OO
34	4	1/15/02	1,719		4,095	OO	
35	4	7/9/02	2,500	}			T
36	4	7/9/02	263			T	
37	4	7/9/02	2,500	}	5,263		T

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*The single purchase limits are \$2,000 for construction services and \$2,500 for non-construction.

Appendix 2
Possible Split Purchases and Transactions Exceeding the
Single Purchase Limit for FY 2002

Count	Cardholder	Date	Posted Amount	Split Purchase Amount	Transactions Over Single Purchase Limit*	Vendor
38	4	8/14/02	\$2,500	}		T
39	4	8/14/02	2,500			T
40	4	8/14/02	132	}		T
41	4	8/14/02	132			\$5,264
42	4	9/16/02	2,491	}		SS
43	4	9/17/02	225			2,716
44	5	5/29/02	2,485	}		F
45	5	5/29/02	1,280			F
46	5	5/30/02	657	}	4,422	F
47	6	7/3/02	101			E
48	6	7/3/02	2,435	}		E
49	6	7/5/02	160			2,696
50	7	12/28/01	2,065	}		EEE
51	7	12/28/01	1,975			4,040
52	7	9/23/02	1,331	}		G
53	7	9/23/02	1,331			2,662
54	8	4/24/02	304	}		S
55	8	4/24/02	2,480			2,784
56	9	4/26/02	1,246	}		D
57	9	4/26/02	1,246			D
58	9	4/26/02	302	}		D
59	9	4/26/02	302			3,096
60	10	5/7/02	1,470	}		I
61	10	5/7/02	1,677			3,147
62	10	9/23/02	789	}		AAA
63	10	9/23/02	2,221			3,010
64	11	1/28/02	1,455	}		FFF
65	11	1/28/02	1,455			2,910
66	11	3/20/02	1,295	}		EE
67	11	3/21/02	1,295			2,590
68	11	3/26/02	1,295	}		EE
69	11	3/27/02	1,295			2,590
70	11	7/8/02	1,470	}		I
71	11	7/9/02	1,410			2,880

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Appendix 2
Possible Split Purchases and Transactions Exceeding the
Single Purchase Limit for FY 2002

Count	Cardholder	Date	Posted Amount	Split Purchase Amount	Transactions Over Single Purchase Limit*	Vendor
72	12	11/14/01	\$164			J
73	12	11/14/01	360			J
74	12	11/14/01	1,658			J
75	12	11/14/01	610			J
76	12	11/14/01	880	\$3,672		J
77	12	6/18/02	840			OOO
78	12	6/18/02	840			OOO
79	12	6/18/02	840	2,520		OOO
80	12	8/29/02	1,800			GGG
81	12	8/29/02	1,764	3,564		GGG
82	12	9/9/02	1,875			J
83	12	9/9/02	1,178			J
84	12	9/9/02	1,885			J
85	12	9/9/02	1,982			J
86	12	9/9/02	165			J
87	12	9/9/02	650	7,735		J
88	13	11/13/01	1,224			K
89	13	11/13/01	1,469	2,693		K
90	13	12/5/01	1,098			FF
91	13	12/6/01	1,464	2,562		FF
92	13	12/12/01	1,767			A
93	13	12/12/01	1,786			A
94	13	12/12/01	2,172		2,172	A
95	13	12/12/01	1,340			A
96	13	12/12/01	854	7,919		A
97	13	1/24/02	1,800			L
98	13	1/24/02	1,380	3,180		L
99	13	2/19/02	2,150		2,150	M
100	13	4/18/02	2,200		2,200	U
101	14	6/28/02	568			PPP
102	14	6/28/02	664			PPP
103	14	6/28/02	664			PPP
104	14	6/28/02	568			PPP
105	14	6/28/02	568			PPP
106	14	6/28/02	664	3,696		PPP

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Appendix 2
Possible Split Purchases and Transactions Exceeding the
Single Purchase Limit for FY 2002

Count	Cardholder	Date	Posted Amount	Split Purchase Amount	Transactions Over Single Purchase Limit*	Vendor
107	15	8/29/02	\$2,455	}		NN
108	15	8/31/02	1,386			\$3,841
109	16	1/15/02	2,375	}		D
110	16	1/16/02	1,400			D
111	16	1/16/02	36	}		D
112	16	1/16/02	158			3,969
113	16	5/9/02	2,092	}		D
114	16	5/9/02	2,400			4,492
115	16	6/24/02	2,400	}		D
116	16	6/25/02	1,507			3,907
117	16	7/10/02	2,144	}		D
118	16	7/11/02	322			D
119	16	7/12/02	2,146	4,612	D	
120	17	1/30/02	2,400		2,400	GG
121	17	2/26/02	2,400		2,400	GG
122	17	5/14/02	2,035		2,035	M
123	17	6/17/02	2,183		2,183	TT
124	17	6/24/02	2,169		2,169	A
125	17	7/9/02	2,498		2,498	A
126	17	7/26/02	2,493		2,493	A
127	17	7/30/02	2,367		2,367	TT
128	18	1/28/02	2,529		2,529	N
129	19	7/19/02	2,494	}		QQQ
130	19	7/20/02	2,376			4,870
131	19	8/15/02	230	}		QQQ
132	19	8/16/02	2,495			2,725
133	19	8/20/02	1,446	}		QQQ
134	19	8/21/02	1,914			3,360
135	20	2/7/02	1,910	}		D
136	20	2/7/02	1,910			D
137	20	2/7/02	1,910	5,730	D	
138	20	3/27/02	2,500	}		II
139	20	3/28/02	981			3,481
140	21	8/7/02	3,650		3,650	JJ
141	22	7/12/02	2,243	}		Q
142	22	7/13/02	1,500			3,743

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Appendix 2
Possible Split Purchases and Transactions Exceeding the
Single Purchase Limit for FY 2002

Count	Cardholder	Date	Posted Amount	Split Purchase Amount	Transactions Over Single Purchase Limit*	Vendor
143	23	3/5/02	\$995	}		KK
144	23	3/7/02	995			KK
145	23	3/7/02	995			\$2,985
146	24	6/19/02	2,360	}		Q
147	24	6/20/02	2,360			4,720
148	25	11/14/01	2,057	}		LL
149	25	11/14/01	1,962			4,019
150	26	1/28/02	2,488	}		D
151	26	1/28/02	2,472			4,960
152	26	2/6/02	695	}		LLL
153	26	2/7/02	2,500			3,195
154	26	2/26/02	2,381	}		R
155	26	2/26/02	590			R
156	26	2/26/02	190			3,161
157	27	7/17/02	2,498	}		D
158	27	7/17/02	2,498			4,996
159	27	9/27/02	2,441	}		NN
160	27	9/28/02	1,290			3,731
161	28	9/25/02	1,982	}		L
162	28	9/25/02	1,650			3,632
163	28	9/25/02	2,450	}		KKK
164	28	9/25/02	500			2,950
165	29	8/13/02	375	}		LLL
166	29	8/13/02	545			LLL
167	29	8/13/02	545			LLL
168	29	8/15/02	625	}		LLL
169	29	8/15/02	575			LLL
170	29	8/15/02	825	3,490	LLL	
171	30	12/12/01	692	}		PP
172	30	12/12/01	2,076			2,768
173	30	4/9/02	495	}		LLL
174	30	4/9/02	495			LLL
175	30	4/11/02	575	}		LLL
176	30	4/11/02	575			LLL
177	30	4/11/02	575			LLL
178	30	4/11/02	575			3,290

(continued on next page)

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Appendix 2
Possible Split Purchases and Transactions Exceeding the
Single Purchase Limit for FY 2002

Count	Cardholder	Date	Posted Amount	Split Purchase Amount	Transactions Over Single Purchase Limit*	Vendor	
179	30	8/14/02	\$1,323	}		JJJ	
180	30	8/15/02	1,323		\$2,646	JJJ	
181	31	9/4/02	2,500	}		QQ	
182	31	9/5/02	2,500		5,000	QQ	
183	32	3/8/02	975	}		MMM	
184	32	3/8/02	975		MMM		
185	32	3/8/02	975		MMM		
186	32	3/8/02	975		MMM		
187	32	3/8/02	975		MMM		
188	32	3/9/02	975		5,850	MMM	
189	32	9/16/02	662		}		V
190	32	9/17/02	440			V	
191	32	9/17/02	338	V			
192	32	9/17/02	338	V			
193	32	9/17/02	338	V			
194	32	9/17/02	338	V			
195	32	9/17/02	338	V			
196	32	9/17/02	338	V			
197	32	9/17/02	338	V			
198	32	9/17/02	338	V			
199	32	9/17/02	662	V			
200	32	9/17/02	662	V			
201	32	9/17/02	662	V			
202	32	9/17/02	662	V			
203	32	9/17/02	662	V			
204	32	9/17/02	662	V			
205	32	9/17/02	440	8,218	V		
206	33	1/25/02	5,580		5,580	RR	
207	34	9/18/02	2,750	}	2,750	W	
208	34	9/19/02	1,750		4,500	W	
209	35	6/12/02	532	}		E	
210	35	6/12/02	1,950		E		
211	35	6/13/02	435		E		
212	35	6/14/02	65		E		
213	35	6/14/02	368		3,350	E	

(continued on next page)

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Appendix 2
Possible Split Purchases and Transactions Exceeding the
Single Purchase Limit for FY 2002

Count	Cardholder	Date	Posted Amount	Split Purchase Amount	Transactions Over Single Purchase Limit*	Vendor
214	36	8/30/02	\$6,995		6,995	G
215	36	7/21/02	1,880	}		D
216	36	7/22/02	302			D
217	36	7/23/02	535			\$2,717
218	37	12/17/01	624	}		N
219	37	12/18/01	2,230			2,854
220	38	1/28/02	666	}		RRR
221	38	1/28/02	465			RRR
222	38	1/29/02	2,442			3,573
223	38	2/25/02	1,995	}		AAA
224	38	2/25/02	665			2,660
225	39	8/14/02	2,360	}		NNN
226	39	8/16/02	139			2,499
227	40	1/25/02	2,700		2,700	BBB
228	41	4/23/02	2,000	}		Y
229	41	4/23/02	440			Y
230	41	4/23/02	400			Y
231	41	4/23/02	210	3,050		Y
232	42	2/5/02	689	}		DDD
233	42	2/5/02	124			DDD
234	42	2/5/02	27			DDD
235	42	2/6/02	1,409	}		DDD
236	42	2/6/02	250			DDD
237	42	2/7/02	9	2,508		DDD
238	42	9/18/02	2,370	}		ZZ
239	42	9/19/02	237			2,607
240	43	10/3/01	417	}		N
241	43	10/4/01	2,425			N
242	43	10/4/01	2,009			4,851
243	43	12/10/01	1,417	}		N
244	43	12/11/01	1,856			N
245	43	12/12/01	964	4,237		N
246	43	1/17/02	3,758		3,758	III
247	43	1/25/02	319	}		CCC
248	43	1/26/02	1,975			CCC
249	43	1/26/02	439			2,733
250	43	2/26/02	2,700		2,700	Z
251	43	3/25/02	8,750		8,750	Z

(continued on next page)

*The single purchase limits are \$2,000 for construction services and \$2,500 for non-construction.

Appendix 2
Possible Split Purchases and Transactions Exceeding the
Single Purchase Limit for FY 2002

Count	Cardholder	Date	Posted Amount	Split Purchase Amount	Transactions Over Single Purchase Limit*	Vendor			
252	43	5/14/02	\$1,095	}		HHH			
253	43	5/14/02	495			HHH			
254	43	5/14/02	995			HHH			
255	43	5/14/02	1,095			HHH			
256	43	5/14/02	1,095			HHH			
257	43	5/14/02	495			HHH			
258	43	5/14/02	995	\$6,265		HHH			
259	43	9/27/02	2,307	}		BB			
260	43	9/27/02	2,495			BB			
261	43	9/27/02	2,307			7,109	BB		
262	44	9/16/02	662	}		V			
263	44	9/16/02	662			V			
264	44	9/16/02	662			V			
265	44	9/17/02	662			V			
266	44	9/17/02	662			V			
267	44	9/17/02	662			V			
268	44	9/17/02	440			V			
269	44	9/17/02	662			5,074	V		
270	45	4/24/02	2,426			}		E	
271	45	4/25/02	2,440					4,866	E
272	45	7/22/02	2,274					E	
273	45	7/23/02	2,246			4,520	E		
274	46	7/22/02	662			}		V	
275	46	7/22/02	662					V	
276	46	7/22/02	662					V	
277	46	7/22/02	662					V	
278	46	7/22/02	662	V					
279	46	7/22/02	662	V					
280	46	7/22/02	662	V					
281	46	7/22/02	662	5,296	V				
282	46	9/16/02	662	}				V	
283	46	9/17/02	662					V	
284	46	9/17/02	662					V	
285	46	9/17/02	662					V	
286	46	9/17/02	662					V	
287	46	9/17/02	662					V	
288	46	9/17/02	662			4,634	V		

(continued on next page)

*The single purchase limits are \$2,000 for construction services and \$2,500 for non-construction.

Appendix 2
Possible Split Purchases and Transactions Exceeding the
Single Purchase Limit for FY 2002

Count	Cardholder	Date	Posted Amount	Split Purchase Amount	Transactions Over Single Purchase Limit*	Vendor
289	47	2/11/02	\$2,368	}		VV
290	47	2/12/02	2,369			
291	47	2/13/02	39	}	\$4,776	VV
292	47	5/22/02	2,368			
293	47	5/23/02	799	}	3,167	VV
294	47	6/10/02	2,369			
295	47	6/11/02	2,368	}	7,106	VV
296	47	6/12/02	2,369			
297	47	7/29/02	2,369	}		WW
298	47	7/30/02	2,389			
299	47	7/31/02	2,455	}	7,213	WW
300	48	3/25/02	112			
301	48	3/27/02	2,498	}	2,610	D
302	48	8/14/02	2,100			
303	48	9/26/02	3,146		3,146	CC
304	48	12/21/01	1,040	}		JJJ
305	48	12/21/01	2,079			
			Total	\$364,443	\$86,063	
			Number of items	91	29	

Source: CitiDirect® Card Management System

*The single purchase limits are \$2,000 for construction services and \$2,500 for non-construction.

Appendix 3 Management Comments



DEPARTMENT OF THE TREASURY
FINANCIAL MANAGEMENT SERVICE
WASHINGTON, D.C. 20227

December 11, 2003

MEMORANDUM FOR BENNY W. LEE
DIRECTOR, WESTERN FIELD AUDIT OFFICE

FROM:

RICHARD L. GREGG

Handwritten signature of Richard L. Gregg in black ink.

SUBJECT:

FMS Purchase Card: Internal Control Weaknesses
Expose Headquarters to Improper and Questionable
Purchases

Thank you for the opportunity to comment on the November 10, 2003, draft audit report entitled "FMS Purchase Card: Internal Control Weaknesses Expose Headquarters to Improper and Questionable Purchases" (OIG-04-xxx).

We concur with the Inspector General's recommendations in the report. As indicated in your draft report, the Program Integrity Division (PID) reviewed the FMS Purchase Card Program in the fall of 2002. The PID report dated November 22, 2002 included many of the findings and recommendations included in the draft report. In response to PID's report, the Acquisition Management Division prepared and completed a Corrective Action Plan involving approximately 35 separate tasks. We are pleased to report that FMS has already implemented most of the recommendations contained in the draft report. The remaining will be addressed in the Corrective Action Plan.

Specifically, FMS has taken the following corrective actions:

- In November 2002, the new Director of the Acquisition Management Division (AMD) moved purchase card management responsibility from the Electronic Commerce Branch to the Policy and Administration Branch to improve management oversight. AMD also hired an Assistant Purchase Card Coordinator in March 2003 to manage the oversight review functions.
- The concern involving separation of duties was resolved by two actions: 1) Budget Liaisons are no longer permitted to have purchase cards; and 2) on January 29, 2003, the Procurement Desktop System was set-up so that cardholders could not approve their own Blanket Purchase Agreement (BPA) Calls. To provide even stronger controls, FMS implemented the new Citibank Purchase Card System (CitiDirect) in October 2003. CitiDirect is an online system that enables reallocation, certification and monitoring of purchase card transactions on line.

Appendix 3 Management Comments

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- In January 2003, Approving Officials (AO) were established for the purchase card program via Delegation of Authority Memorandums. All AOs were trained, with special emphasis placed on the requirement to review purchase logs and documentation before approving purchase card statements.
- FMS conducted an extensive review and analysis of usage history by individual cardholders. Purchase cards were canceled for 32 cardholders with minimum usage. In addition, eight Merchant Code Category (MCC) templates were established to restrict cardholders' access to those MCC codes that are designated "high risk" and to limit cardholder access only to the MCC codes required to meet their needs. Cardholder accounts have also been modified with Citibank as a means of enforcing these restrictions. This was accomplished in April 2003. In the coming months, we will establish a procedure for reviewing spending patterns with the objective of adjusting monthly spending limits based on usage.
- The Assistant Commissioner for Management published a new Purchase Card Policy on July 16, 2003. The policy addresses several major issues: separation of duties; requirements for approving officials; and clear delineation of roles and responsibilities. FMS is also in the process of finalizing a major rewrite to the FMS Purchase Card Handbook. The new handbook will be published in late December/early January 2004. Major improvements include: 1) revised shipping instructions for accountable property to ensure that property valued \$1,000 or more is entered into the property system; 2) emphasis on prohibitions against split purchases; 3) emphasis on the \$2,000 limit for construction purchases; 4) inclusion of a "Don't Buy List" to ensure clear understanding of purchases that are prohibited; and 5) requirements and procedures associated with oversight reviews.
- The FMS Property and Supply Branch was provided limited access to CitiDirect on October 23, 2002, to aid in the identification of accountable property items (\$1,000 or more) and to facilitate tracking and inclusion into the property system. Procedures will be developed to provide for periodic reviews to identify and resolve discrepancies between purchase records and property records.
- The Purchase Card Review Program was established in May 2003. This program provides internal review of all FMS purchase card actions on a monthly basis. Various CitiDirect reports are generated and reviewed each month to help identify unusual and suspicious purchases (i.e., split purchases, exceeding purchase limits, unauthorized purchases, etc.). In addition, the Agency Program Coordinator (APC) randomly selects at least 14 Cardholders each month for documentation reviews. The selected Cardholders are required to provide copies of their monthly statement and back-up documentation. Following the review, a written summary is prepared to identify deficiencies or areas

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requiring improvement. Appropriate disciplinary or corrective action is taken based on the findings.

Any findings of fraud, waste or serious misuse will be reported to the FMS' PID for further investigation. Hot line numbers have also been included in the revised handbook for PID and Department of the Treasury Inspector General to report suspected cases of fraud, waste or abuse. Since implementation of the Purchase Card Review Program, no cases have been referred to PID for investigation. We believe this is a testament to the effectiveness of the new policies and the many other program improvements that have been made.

- Regarding split purchases, it should be noted that some of the transactions identified in the draft report were not split purchases but gave the appearance of a split purchase due to vendor billing practices (i.e., combining multiple transactions under one invoice). However, we have analyzed the transactions contained in the draft report and determined that most of the valid instances of split purchases are associated with computer products and construction services. The Acquisition Management Division has begun to take steps to implement new procurement strategies for these two categories as another positive means of minimizing the reoccurrence of split purchases.
- AMD has developed draft guidance regarding administrative action that should be taken for purchase card misuse and violations. Guidance will be finalized in 2004.

In summary, a great deal has been accomplished over the past year to strengthen the FMS Purchase Card Program. We are confident that the actions that we have completed or those that are in progress will address the findings and recommendations identified in the draft report. Upon receipt of the final report, we will prepare a detailed corrective action plan to address the remaining recommendations in a manner deemed most appropriate.

cc: Donald V. Hammond

Appendix 4

Major Contributors To This Report

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Appendix 5 Report Distribution

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