

**AUDIT REPORT OF THE GPO
COMMERCIAL CREDIT CARD PROGRAM**

MARCH 2002

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Office of Audits



UNITED STATES GOVERNMENT PRINTING OFFICE
OFFICE OF INSPECTOR GENERAL

memorandum

DATE: March 27, 2002

REPLY TO

ATTN OF: Inspector General

SUBJECT: Audit Report of the Commercial Credit Card Program

TO: Director, Materials Management Service
Superintendent of Documents
Manager, Printing Procurement Department

The Government Printing Office (GPO)'s Commercial Credit (or Purchase) Card Program is an essential tool for prompt and efficient small purchases of goods and services. For Fiscal Year 2001, GPO incurred a combined total of over \$2 million in purchase card charges for its Central Office and the field offices.

The primary objective of this audit was to evaluate the economy and efficiency of purchase card usage and the effectiveness of its oversight by GPO's Materials Management Service (MMS) for field operations at GPO locations throughout the United States. The audit identified 5 findings and 10 recommendations to strengthen GPO's policy on purchase card procurements at the field locations. The Director, MMS, agreed with the recommendations; management comments are included in an Appendix at the end of this report.

Mr. David Schaub, Supervisory Auditor, and Ms. Michele Anderson, Auditor-In-Charge, conducted this audit. If you have any questions or need additional information, please contact me at x31183 or 2-0039.


ROBERT ANDARY
Inspector General

Attachments

REPORT ON THE GPO COMMERCIAL CREDIT CARD PROGRAM

TABLE OF CONTENTS

RESULTS IN BRIEF..... 1

BACKGROUND..... 3

OBJECTIVE, SCOPE, AND METHODOLOGY..... 4

FINDINGS AND RECOMMENDATIONS..... 6

1. Miscommunications Within GPO And With The Bank Led To
Credit Limit Exposure Concerns.....6

2. The Single Purchase Limit Is Not Being Heeded Or Enforced.....10

3. Administration Of The Purchase Card Program Can Be Improved With
Added Oversight.....13

4. Inadequate Evidence Of Statement Review By Approving Officials
Led To Gaps In Accountability.....15

5. Cardholders Were Not Properly Completing The Review And
Reconciliation Process.....18

**APPENDIX I: ANNUAL PURCHASE REQUESTS vs. BANK MONTHLY
STATEMENTS -- COMPARISON OF STATED CREDIT LIMITS
(Bookstores).....21**

**APPENDIX II: ANNUAL PURCHASE REQUESTS vs. BANK MONTHLY
STATEMENTS -- COMPARISON OF STATED CREDIT LIMITS
(RPPOs and SPPOs).....25**

APPENDIX III: GPO MANAGEMENT RESPONSE.....29

**U. S. Government Printing Office
Office of the Inspector General
Office of Audits**

RESULTS IN BRIEF

Materials Management Service's (MMS) General Procurement Division has the responsibility for the Government Printing Office (GPO) Commercial Credit Card Program. The Division monitors the program to ensure that employees adhere to the rules of GPO Instruction 805.27 *Obtaining, Using, and Safeguarding Commercial Credit Cards*.

From January through December 2001, GPO's Office of the Inspector General (OIG) conducted a performance audit to evaluate internal controls, procedures and accountability of the GPO Commercial Credit (or purchase) Card Program at field locations (bookstores and regional printing and procurement offices).¹ The audit focused on micro-purchases, which are low-dollar purchases, not to exceed \$500 per transaction and not to exceed \$5,000 annually.

Opportunities exist to improve internal controls over this program. The OIG identified the following conditions in need of improvement:

1. Automated bank records contained a chronic discrepancy that gave GPO's cardholders authority to charge amounts well in excess of authorized single purchase and annual limits;
2. Approving officials were not being required to provide sufficient evidence to verify their completion of monthly statement reviews;
3. Cardholders and their approving officials were not completing basic minimum training requirements on purchase card use;
4. From January 2000 through July 2001, 40 charges in the GPO bookstores totaling over \$8,300 were deemed "questionable" due to a lack of support, but were approved and paid with little or no evidence of review; and
5. From July through December 2000, only 10 of 41 (24%) of cardholders provided evidence of completing monthly review and reconciliation of their statements.

This report identifies these and other areas still needing attention. The Director, MMS, should:

- (1) Coordinate credit limit corrections on the monthly statements with the bank and improve communications on proposed increases in annual funding limits with Superintendent of Documents' bookstores;

¹ Another OIG audit is ongoing on the same program at Central Office.

- (2) Update GPO Instruction 805.27A on current purchasing limits and provide documentation on monthly statements;
- (3) Ensure basic minimum training requirements are provided and fulfilled;
- (4) Notify employees promptly about questionable use or potential misuse of the purchase card; and
- (5) Verify cardholder receipt, review and reconciliation of all statements.

This audit report contains 10 recommendations directed to the Director, Materials Management Service to strengthen the internal controls over the purchase card program. In several instances, management has responded promptly and has begun to take action to remedy certain conditions that were problematic. GPD (General Procurement Division) management has been examining the program to make any necessary improvements to the internal controls and procedures. Also, the bank agreed to implement changes to inaccurate data on each individual monthly statement for all field locations.

BACKGROUND

The Federal Government has used various methods over the years to accommodate small purchases of goods and services required by employees. To improve mission support and efficiency of operations, the General Services Administration (GSA) initiated and administers the SmartPay Purchase Card Program. The International Merchant Purchase Authorization Card was the initial commercial credit card for use by Government organizations to purchase approved supplies and services costing \$2,500 or less (micro-purchases). In November 1998, this program was superseded by the GSA SmartPay program, whereby the Federal Government made several banks and several credit card companies available for such use.

GPO's Materials Management Service's General Procurement Division administers the Commercial Credit Card Program. GPO Instruction 805.27 *Obtaining, Using, and Safeguarding Commercial Credit Cards* authorizes commercial credit (or purchase) card purchases for supplies or services by all bookstores and regional printing and procurement offices outside the Washington, D.C. metropolitan area. The annual funding for these expenditures should not exceed \$5,000. These cards are issued to Cost Code Managers or designees to obtain only the necessary office supplies, maintenance parts, repairs, or services essential to their mission. Individual charges are also not to exceed \$500 per transaction.

OBJECTIVE, SCOPE, AND METHODOLOGY

The overall objective of this performance audit was to determine whether GPO was adequately managing the commercial credit card program for all Bookstores and Regional Printing and Procurement Offices (RPPOs) outside the Washington, D.C. metropolitan area. The audit objectives were to determine: (1) whether GPO cardholders and approving officials purchase goods and services in compliance with prescribed policies and procedures, and (2) whether the Commercial Credit (Purchase) Card Program controls and infrastructure sufficiently support GPO cardholders' and approving officials' purchase activities.

Our review of purchase card activities covered transactions from January 1 through December 31 of Calendar Year (CY) 2000, with expanded coverage into the first two quarters of CY 2001 (January through June) to analyze specific conditions and trends. For purposes of comparing approved funding limits to monthly credit limits reported on the monthly statements, we also analyzed this data by Fiscal Year (FY) 2000 (January through September 2000). This analysis was expanded into FY 2001 in order to continue our observation of trends. At this point, the available monthly statements varied. Our final scope of review included the period of October 2000 – June 2001 for RPPOs/Satellites (SPPOs), and October 2000 – August 2001 for Bookstores.

This audit was conducted in accordance with generally accepted government auditing standards. It included such tests of the procedures and operations as were considered necessary in the circumstances. The audit approach included:

- Gaining an understanding of the Commercial Credit Card Program system and related internal controls;
- Interviewing selected cardholders, approving officials, program coordinators in GPD and MMS, billing office personnel, and bank personnel;
- Determining if the internal controls are fully operational and adequate;
- Verifying a sample of the amounts and disclosures in the data and records reviewed; and,
- Evaluating the overall program at the Bookstores and RPPOs.

The auditors also consulted the applicable requirements contained in the following policies as the basis for our review:

- GPO Instruction 805.27 *Obtaining, Using, and Safeguarding Commercial Credit Cards*, May 13, 1991;

- Draft GPO Instruction 805.27A, a revised version of GPO Instruction 805.27, November 5, 2001;
- GPO Instruction 825.18A *Internal Control Program*, May 28, 1997;
- GPO Instruction 445.10 *Certifying Officers and Approving Officers for Payment of Vouchers*, February 28, 1995; and
- Federal Acquisition Regulation (FAR), Part 13, "Simplified Acquisition Procedures."

Our audit specifically covered the GPO Commercial Credit Card Program system's internal control procedures associated with the following control objectives:

- Operational controls should ensure that cardholders and approving officials make and approve purchases effectively and efficiently; and,
- Compliance controls should ensure that cardholders and approving officials comply with applicable policies and procedures.

The audit survey was performed between January 9, 2001, and March 31, 2001. The audit commenced on April 1, 2001, and fieldwork concluded on December 12, 2001. A 100 percent review of monthly statements was performed from January 2000 through June 2001 (for RPPOs) and January 2000 – August 2001 (for bookstores). The audit team visited the Philadelphia Bookstore and the Philadelphia RPPO during June 2001. For assistance and additional reference, the auditors prepared a supplemental appendix to the bookstore audit program for use by a second audit team in their audits of the Pittsburgh and Cleveland Bookstores during May 2001. Their results in this area were reviewed and incorporated into our observations and conclusions.

FINDINGS AND RECOMMENDATIONS

1. MISCOMMUNICATIONS WITHIN GPO AND WITH THE BANK LED TO CREDIT LIMIT EXPOSURE CONCERNS

FINDING

The auditors discovered wide variances and consistently inaccurate recording of monthly credit limits for purchase cards in both the bookstore system and the regional field office system when GPO's approved annual funding limits were compared to those of the bank. A consistent discrepancy in the bank's automated records gave GPO cardholders the ability to charge amounts that were far in excess of their authorized annual limits. For example, one Satellite Printing and Procurement Office (SPPO) had an approved annual funding limit of \$1,500. Yet when we examined the stated "Monthly Credit Limit" for this SPPO, it showed a limit of \$95,000 for each month. In theory, if the bank's controls were to allow this level of credit limit every month, this SPPO would have a total potential annual funding limit per the bank of \$1,140,000.

These discrepancies were not exploited by any cardholders in the period reviewed by the auditors. However, due to system-wide exposure that had not been recognized, the potential for abuse continued to exist throughout this time.

At the beginning of each fiscal year, GPO cost code managers in Printing Procurement Department and Superintendent of Documents renew the credit limit for each field location by preparing individual purchase requests for every bookstore, Regional Printing and Procurement Office (RPPO), and SPPO.² These purchase requests assign an estimated annual funding limit, as prescribed by GPO Instruction 805.27. The limit assigned to each location may vary according to usage and need, but the maximum allowable funding is \$5,000 as defined by Paragraph 5a. of GPO Instruction 805.27:

"Each appropriate Cost Code Manager will submit two annual purchase requests to General Procurement Division. One purchase request will be to obtain the credit card; the other purchase request will be to provide annual funding for estimated expenditures, not to exceed \$5,000."

² For purposes of this review, the Pueblo Documents Distribution Center (PuDDC) was grouped with the bookstores.

Monthly credit card statements for each individual card are prepared and sent out to each card user by the issuing bank. Each statement contains information stating the “Monthly Credit Limit” for the individual field location. Although cost code managers do not establish a specific monthly credit limit, it would be contradictory for the bank’s *monthly* credit limit to exceed the authorized *annual* funding estimate for a given location.

Yet when the auditors compared the amounts entered for the “Monthly Credit Limit” on the individual monthly bank statements to the authorized annual funding limits on the corresponding purchase requests, these limits did not reconcile. For the vast majority of locations, the monthly credit limit exceeded the approved annual funding limit, usually by substantial amounts.

- In FY 2000, 19 of 22 bookstore locations (86%) had a monthly credit limit of \$70,000, despite the fact that only 6 locations had the highest annual funding limits of \$5,000 - \$20,000.³ In FY 2001, the total was reduced to 14 of 22 locations (64%) still had a monthly credit limit of \$70,000. (See Appendix I.)
- In FY 2000, 16 of 19 printing procurement offices (84%) had a monthly credit limit of \$90,000 or more, despite the fact that only 2 offices had the highest annual funding limit of \$5,000.⁴ In FY 2001, the monthly credit limit was raised to \$95,000 or more for 17 of 19 offices (89%). One office had their purchase card cancelled and a new one issued during FY 2000. The monthly credit limit increased tenfold (from \$10,000 to \$100,000) while the annual funding limit only increased \$1,000 from \$2,500 to \$3,500. (See Appendix II.)

When the auditors discussed these observations with GPD officials, there was some awareness of the high monthly credit limit amounts per the bank’s monthly statements. However, it had been assumed that these amounts represented the aggregate overall balance for the program. A bank representative explained that the complexities of computerized “hierarchies” in their programming algorithm for GPO had led to the insertion of these high credit limits. Both MMS and the bank officials agree that the high limits could not be exploited. Prior to payment, all statements are given a final review in the Office of Comptroller’s General Examination & Support Section. However, when the audit team dialed the toll-free phone number printed on each bank statement to obtain the current available balance, it reflected an allowable monthly limit of the full amount. As a test, the auditors requested information on a Satellite RPPO that had \$56 in the current month’s charges but showed a \$95,000 monthly credit limit. The bank’s automated system responded that the current available balance was not the expected \$1,444 (annual funding limit minus current charges), but \$94,944. Thus the potential exposure for such abuse was considered high.

³ The remaining 13 bookstore locations’ annual funding limits ranged from \$3,300 to \$4,600.

⁴ The remaining 14 offices’ annual funding limits ranged from \$1,000 to \$2,500.

Furthermore, in three separate instances in the bookstore program, the auditors learned that the annual funding limit had been approved for an amount in excess of the \$5,000 limit prescribed by GPO Instruction 805.27. Two of these funding limits were increased again for FY 2001 (Pueblo Bookstore increased from \$6,000 to \$7,000, while PuDDC was increased from \$20,000 to \$30,000). When these violations of the official limit were discussed, MMS officials were aware of the exception made for PuDDC but were not aware of the others. The auditors obtained November 13 and 14, 2001, written correspondence between MMS' General Procurement Division and SuDocs' Field Operations personnel that indicated how bookstore managers can have their annual funding limit increased simply by contacting Field Operations, without an apparent review or approval from MMS.

Since no supporting documentation could be found to justify these funding increases, the auditors concluded that there are control weaknesses throughout the system in this area. Standard 2 of GPO Instruction 825.18A states:

“... Management controls must provide reasonable assurance and safeguards to protect assets against waste, loss, unauthorized use, and misappropriation. Management controls developed for agency programs should be logical, applicable, reasonably complete, and effective and efficient in accomplishing management objectives.”

In virtually all cases, this lapse in control represents only a potential exposure. No evidence of purchase card charges that approach the erroneous “monthly credit limits” was detected. However, in one instance there was a further problem. The Pueblo Bookstore had an approved annual funding limit of \$7,000 for FY 2001 (or \$2,000 more than the officially authorized maximum). When the auditors reviewed all available monthly statements and documents (from Oct. 2000 through August 2001), Pueblo had already charged a total of \$7,239.51 for the 11-month period. No evidence was found to indicate that either the approving official in SuDocs or the program administrators in MMS were aware that this bookstore had exceeded its official spending limit for the year.

These results identify the need for GPD to be more proactive in its management of the purchase card program for GPO's field locations. Extending oversight over this program will also reduce the possibility of control weaknesses, or the appearance of them. By not ensuring scrutiny of bank statement account summaries to minimize agency exposure, the purchase card program management increases the risk of potential abuse, waste, and even fraud. In a September 12, 2001, conference with the Director, MMS, the audit team pointed out the discrepancies in authorized limit amounts. The Director agreed to review all amounts and have them corrected. Since that time, a draft instruction has been prepared (GPO Instruction 805.27A) dated November 5, 2001, that sets the annual funding limit for each cost code pursuant to a maximum threshold approved in advance by the Director, MMS.

However, the audit team also wanted to confirm that the monthly credit limits had been reduced by the bank to reconcile with annual funding limits. A review of the new funding limits for FY 2002 with the available documentation for the bookstores for October 2001 transactions found that none of the eight statements that were obtained had been changed. In a follow-up meeting with the Chief, GPD, and a bank representative on December 4, 2001, the bank representative agreed to implement these changes promptly.

RECOMMENDATIONS

The Director, Materials Management Service, should ensure that the Chief, General Procurement Division, extends the oversight efforts in order to improve the control environment for the purchase card program. To accomplish this objective, GPD/MMS should:

- Coordinate with the bank to make credit limit corrections to the monthly bank statements, and maintain continuous contact with the bank to ensure that monthly credit limits remain accurate for every cardholder (0204-01); and
- Improve communications with the Superintendent of Documents via their Field Operations Division to ensure that any proposed increases in annual funding limits for bookstores are clearly documented with memoranda to show evidence of review and approval (0204-02).

MANAGEMENT COMMENTS

The Director, MMS, agreed with the finding and the two recommendations. Specific actions are detailed in the Director's response to the draft report. (See Appendix III.)

2. THE SINGLE PURCHASE LIMIT IS NOT BEING HEEDED OR ENFORCED

FINDING

One significant control device used to limit usage of the purchase card to small-dollar purchases is the single purchase limit, or SPL. In order to ensure that charges at the field locations remain at reasonable limits, GPO Instruction 805.27 specifies in Paragraph 5b. that:

“The credit cards will be issued to each designated activity with an annual purchase order that will authorize the Cost Code Manager or designees to obtain only necessary office supplies, maintenance parts, repairs, or services essential to their mission, not to exceed \$500 per transaction.”

This limit has been in effect since the Instruction was issued on May 13, 1991.

The majority of individual charges on purchase cards at field locations in the period reviewed (January 2000 through July-August 2001) continue to be in the authorized range. GPD officials originally informed us that, to their knowledge, the SPL continued to be \$500 without exception. However, the auditors noted several exceptions to this limit. These exceptions included situations where either the SPL was increased for certain locations on a permanent basis or else it was increased to accommodate a specific purchase at a given location on a “one-time” basis.

The audit team’s review of the Pueblo Documents Distribution Center (PuDDC) revealed that charges in excess of the \$500 SPL were transacted at least five times during FY 2000. When the auditors inquired, they learned that the SPL for PuDDC had been increased to \$2,000 and its annual funding limit was increased (several times) to \$40,000. They also examined monthly bookstore statements for CY 2000 and noted that the Detroit Bookstore incurred a single-item charge of \$620 in March 2000. When the auditors discussed this situation with Bookstore Branch personnel in the Central Office, they were informed that three bookstores have SPLs of \$1,000 (they were identified as Atlanta, Detroit, and Milwaukee). If a bookstore needs to have their SPL increased, a memorandum is sent to MMS requesting the increase.

However, the audit team was not provided with documented evidence maintained by GPD and SuDocs officials to note that these changes have been proposed, reviewed, and/or formally approved. When the audit team inquired about this situation with MMS, they acknowledged the increases with PuDDC, but claimed that it was unique and that no bookstores or other locations have higher SPLs. Ensuing correspondence between MMS and SuDocs personnel revealed that the

Central Office's Bookstore Branch had been making independent authorizations of increases to SPLs without the knowledge and approval of MMS.

Also, the purchase card has been used on occasion for amounts that exceed the authorized limit at locations that still have an official SPL of \$500. For example, a review of charges at the Philadelphia Bookstore [now closed but in operation during the audit review period] identified the purchase of a new typewriter in May 2001 for \$685. The auditors also found an SPL violation at the Pueblo Bookstore in May 2000 where a single charge for mailing labels was for \$633.

These procurements should not have been permitted, according to GPD officials, because each charge exceeded the \$500 SPL established for the program. As a result, it was expected by GPD that the issuing bank would not authorize these purchases. However, when this matter was discussed with the Chief, Field Operations, the auditors learned that the SPL could be temporarily raised to accommodate specific purchases.

Furthermore, during research of the bank statements, the auditors noted that in 100 percent of bank statements issued to all field locations during the 20-month period of January 2000 through August 2001 that were provided for review, the amount entered as "SPL" was \$0. Therefore, contrary to the understanding of MMS management, any single amount could be charged by any field location and it would not be denied authorization. In a meeting with the Chief, GPD, and a bank representative on December 4, 2001, this discrepancy was pointed out and the bank representative agreed to make system adjustments promptly.

The fact that SPLs could vary among field locations reveals a breakdown in internal controls that could have had significant implications. Inconsistent adherence to GPO Instruction 805.27 has created several procedural violations. In these situations, a charge of any amount within the monthly credit limit becomes acceptable, as no alarms or alerts are generated whenever a field location exceeds the SPL. Since several bookstores have increased their limit without MMS' knowledge or approval, the SPL becomes arbitrary. Therefore, this condition provides opportunities for waste, abuse, and even potentially fraudulent transactions.

RECOMMENDATION

The Director, Materials Management Service, should ensure that the Chief, General Procurement Division, performs a thorough review of current purchasing limits for all field locations. Once these limits have been reviewed and established on a permanent basis, GPO Instruction 805.27A should be modified to reflect the reality of different Single Purchase Limits. If a decision is reached to allow multiple exceptions to the current SPL, it should be so noted within the language of the Instruction, and the process for initiating a change should be included (0204-03).

MANAGEMENT COMMENTS

The Director, MMS, agreed with the finding and the recommendation. Specific actions are detailed in the Director's response to the draft report. (Refer to Appendix III.)

3. ADMINISTRATION OF THE PURCHASE CARD PROGRAM CAN BE IMPROVED WITH ADDED OVERSIGHT

FINDING

Adherence to program requirements as stated in GPO Instruction 805.27 (and restated in the revised draft Instruction 805.27A) can be better ensured with closer monitoring by MMS's GPD. For example, cardholders and approving officials are not completing the required training in the use of purchase cards. GPO Instruction 805.27 prescribes that every purchase card user should undertake a minimum of two hours of training. The auditors found that GPD does not monitor the training given to cardholders and approving officials or know who has completed the training. As a result, insufficient training contributed to cardholders and approving officials not completing the review process of monthly statements contrary to paragraph 5.d. of GPO Instruction 805.27. (Refer to Finding 5.)

GPD is responsible for overseeing the Purchase Card Program. Periodic reviews are necessary management tools to effectively monitor the progress of the program and to identify problematic trends, such as exceeding dollar limits, split purchases, and other unauthorized uses of the credit card. The auditors found that GPD has not conducted an overall internal control review of the Purchase Card Program, even though they are the Program's official administrators. GPD personnel performed an Internal Control Review in July 2000 on their own Division's usage of the credit cards, but not on the administration of the Program at field locations.

By not ensuring adequate training or performing periodic Internal Control Reviews, GPD is more vulnerable to the risk that cardholders would not be aware of (or adhere to) proper procedures. For example, a lack of cardholder's signatures on monthly statements attesting to the preliminary review and approval process was common within the Bookstore program throughout FY 2000. (For specific information, see Finding 4.)

On the other hand, by GPD drawing attention to compliance with policy, such action will bring about rapid improvement. The audit team notified the Bookstores' Field Operations Division about the missing signatures and the frequent absence of documentation in a meeting on March 26, 2001. On March 27, 2001, the Division's Staff Assistant issued a memorandum referencing the meeting with the OIG and reminding Bookstore Managers to complete these procedures. Subsequent to the memorandum's issuance, the auditors noticed improvement in the general compliance rate of Bookstores' cardholders signing statements and providing document support. The audit team reviewed monthly statements submitted to the approving official in an eight-month period from January through August 2001. The auditors noted that 17 of 21 Bookstores'

cardholders (81%) showed clear evidence of improved compliance with requirements for signing monthly statements and submitting supporting documentation when they had not done so previously on a consistent basis.

RECOMMENDATIONS

The Director, Materials Management Service, should ensure that the Chief, General Procurement Division, extends the oversight efforts in order to improve the internal controls for the Purchase Card Program. To accomplish this objective:

- Prospective cardholders and approving officials are trained on the Purchase Card Program prior to receiving the credit cards, in compliance with GPO Instruction 805.27 (0204-04);
- Cardholders and approving officials receive documentation on the completion of the training (0204-05); and
- Internal Control Reviews of the Purchase Card Program include field locations and their compliance with GPO policy and procedures (0204-06).

MANAGEMENT COMMENTS

The Director, MMS, agreed with the finding and the three recommendations. Specific actions are detailed in the Director's response to the draft report. (See Appendix III.)

4. INADEQUATE EVIDENCE OF STATEMENT REVIEW BY APPROVING OFFICIALS LED TO GAPS IN ACCOUNTABILITY

FINDING

Approving officials are not providing sufficient evidence of having completed the review process of monthly statements contrary to Paragraph 5.d. of GPO Instruction 805.27. The Instruction requires that approving officials review credit card statements, sales draft copies, and other supporting documentation before certifying payment. Approving officials in FY 2000 and FY 2001 did not provide consistent evidence that they had:

- Received all available statements;
- Reviewed the statements;
- Verified the statements;
- Questioned individual transactions; and/or
- Noted to any cardholders that they had not yet signed their original accounting statement and needed to resubmit a signed copy, as required by GPO Instruction 805.27.

A source of this problem is the wording of the current policy. GPO Instruction 805.27, Paragraph 5.d.(2) states:

“At the end of each billing cycle, the approving official will also receive a statement which will be composed of a copy of each card holder statement. This must be reviewed and verified to show that the purchases were made in the best interest of the Government. The approving official must then forward all certified statements to the finance office within 15 working days.”

The auditors noted that there is no provision in the Instruction for the approving official to document that they have reviewed and verified these statements. Therefore, even if these officials have reviewed and verified every transaction, they do not provide complete evidence of their review, because they are not required to do so. The monthly statements reviewed by the auditors from the Bookstore locations throughout the 20-month period of January 2000 – August 2001 showed no documented evidence of review.

The monthly statements from the RPPO/SPPO locations did show evidence of review by the approving official in the form of the official’s signature and date on some statements. However, a detailed review of all available statements for the six-month period January-June 2001 indicated that only 14 of 63 statements (22%) contained this evidence. This same official did not retain copies of supporting documentation submitted by cardholders. Since this approving official

also was unable to access online copies of monthly statements after they were submitted, no audit trail was available to resolve any subsequent questions about individual transactions unless the cardholder maintained copies (which was not required).

By not providing evidence of completing the review process as outlined in GPO Instruction 805.27, approving officials risk authorizing for payment purchases that were not made in the best interests of the Government. Without proof of an approving official's review, the risks increase that the credit card may be abused or used in a wasteful (or even fraudulent) manner. For example, a review of the credit card statements for calendar year 2000 showed only 2 out of 21 Bookstore Managers (10%) signed all their credit card statements. No evidence was provided to indicate that the approving official had ever notified Bookstore Managers that the monthly statements were required to be signed and forwarded. A total of 96 of the 131 monthly statements reviewed (73%) had not been signed or dated. Also, 83 of these 131 monthly statements (63%) contained no supporting documentation either, although GPO Instruction 805.27 requires both of these practices. Implementation has improved since the issuance of the March 27, 2001, memorandum reminding Bookstore Managers of their responsibilities. (See Finding 3.)

The audit team also found numerous instances where questionable charges were paid with little or no evidence of review, questioning, and/or formal approval. For example, at 12 Bookstore locations during a 19-month review period (January 2000 – July 2001), 40 questionable items totaling \$8,354 were charged to monthly statements. These questionable items included:

- Four computers purchased on the same day;
- Three charges that exceeded the \$500 Single Purchase Limit; and
- At least five items that showed inappropriate use of the purchase card. More of these items may have been inappropriate, but documentation was insufficient to verify or disprove this. (See Finding 2.)

This issue was compounded by the fact that not all monthly statements were received in Central Office for review. The auditors were informed that if there was no monthly statement submitted to Central Office by a given Bookstore or RPPO/SPPO, that meant there was no activity (i.e. no purchase card charges) recorded for that month. This claim was tested by comparing monthly statements (submitted by cardholder personnel to the approving officials) to the transaction statements (recorded in the bank's online system) for a six-month time period in CY 2000. It revealed that the approving official did not receive card statements for 8 out of 22 (36%) applicable Bookstores, even though charges actually occurred. The bank's online system indicated that these eight Bookstores made a total of \$11,315 in purchase card charges over this six-month period. Also, no statements were submitted for one RPPO, which had \$135 in purchase card charges over this same period.

Without documented evidence that approving officials have completed proper review and verification, and given the exceptions noted, cardholders' compliance to GPO Instruction 805.27 was either presumed or adherence to the Instruction was overlooked. As a result, purchase card users are either omitting or circumventing the internal controls of the Instruction and approving officials appeared to be unaware of the risks involved.

Also, until the bank can provide complete verification, the absence of a monthly statement from a given Bookstore or RPPO/SPPO should not be construed to mean that there were no charges that month. During the review period, two RPPOs were receiving no statements from the bank. And, although they did submit invoices and supporting documentation, the approving officials did not have complete records to ensure that all charges were properly accounted.

RECOMMENDATIONS

The Director, Materials Management Service, should ensure that the Chief, General Procurement Division, monitors the approving officials in both Printing Procurement Department and Superintendent of Documents and verifies that the approving officials perform a sufficiently thorough review of individual cardholders' activities prior to approval. This review should include:

- Requiring documented evidence of review and verification by approving officials, and incorporating this requirement in greater detail within Draft GPO Instruction 805.27A (0204-07);
- Documenting any questionable individual transactions, ensuring that the cardholder is promptly notified about questionable use of the purchase card, and providing an audit trail via the GPD Contracting Officer to track the remedial action, as specified in GPO Instruction 805.27 and Draft GPO Instruction 805.27A (0204-08); and
- Improving communications with the bank to ensure that approving officials have received all relevant monthly statements submitted from the field offices. In the event that there are some statements in question, the approving officials should be provided an access level to track all statements for a finite period of at least several months (0204-09).

MANAGEMENT COMMENTS

The Director, MMS, agreed with the finding and the three recommendations. Specific actions are detailed in the Director's response to the draft report. (See Appendix III.)

5. CARDHOLDERS WERE NOT PROPERLY COMPLETING THE REVIEW AND RECONCILIATION PROCESS

FINDING

Prior to the audit team's discussions with approving officials, cardholders who were regular users of their purchase cards generally did not comply with several required procedures for review and reconciliation of their monthly statements. Most of these users were not attaching invoices, sales draft copies, and/or other documentation to support the monthly statements as prescribed by GPO Instruction 805.27. In a sample of statements for CY 2000 (July – December), the auditors identified only 10 out of 41 applicable cardholders (24%) incurring charges during the period of review who had invoices, sales draft copies, and/or other documentation attached to support the monthly statements. Within the Printing Procurement Department (PPD), the statements from only 4 of 19 RPPOs/SPPOs (21%) reviewed by the auditors contained attached invoices and/or other documents to support individual charges on their statements as prescribed in GPO Instruction 805.27.

The PPD Printing Specialist who is the approving official for RPPO/SPPO monthly statements claimed that most of their cardholders do attach invoices and supporting documents to statements they submit. However, he acknowledged that he did not retain this supporting documentation. He would review and approve the statement, then discard the attached support. Unless cardholders kept copies, no support remained. The auditors requested backup copies of this support and obtained it from some managers, but not from others. By not attaching or maintaining required documentation, some cardholders were not completing the review and reconciliation process. When RPPO/SPPO Managers do not attach documented support for individual transactions with the monthly statements, then the approving official cannot verify that all purchases were for authorized goods and services, or that the purchases were within the allowable single purchase and/or monthly limits.

The auditors noted that several large and commonly used vendors provided their own itemized description of items purchased within the text of the monthly statements. In interviews with a Bookstore Manager and an RPPO Manager, they explained that they assumed most of the purchases were automatically described in that manner. This built-in internal control was often helpful in explaining many charges, but it did not account for many other charges to smaller vendors or charges that were more unique in nature. Moreover, since part of the intent of the Credit Card Program is rapid processing, the lack of review and reconciliation, combined with the lack of documentation and approval sign-off, increases the likelihood that both errors and intentional misuse will go undetected, contrary to Standard 2 of GPO Instruction 825.18A:

“Management controls must provide reasonable assurance and safeguards to protect assets against waste, loss, unauthorized use, and misappropriation. Management controls developed for agency programs should be logical, applicable, reasonably complete, and effective and efficient in accomplishing management objectives.”

This lack of internal controls by the Manager and approving officials suggests proper usage may have been assumed more than it was verified, thereby increasing the risk of potential card abuse. For example, one RPPO incurred charges to the same vendor on consecutive days during September 2000 for amounts that were near, but not in excess of, the single purchase limit of \$500 (\$448.98 and \$488.41). Also, a Bookstore incurred charges in the same consecutive days pattern during October 2000 (\$403.28 and \$500). Yet without supporting documentation to explain or itemize these charges, it cannot be proven or disproven that order-splitting was committed.

Managers are designated as the first level of control when the bank sends out the monthly statements. The Managers review their own monthly statements first and are self-policing. If a questionable or unauthorized charge is detected at this level, they are expected to report it when submitting the statement to approving officials in Central Office.

This policy is helpful, but it is contrary to Standard 5 of GPO Instruction 825.18A and could lead to potential waste and abuse of the card:

“Key duties and responsibilities in authorizing, processing, recording, and reviewing official agency transactions should be separated among individuals. Managers should exercise appropriate oversight to ensure that individuals do not exceed or abuse their assigned authorities.”

For example, records obtained from PPD indicate that a purchase of \$1,543 for a plain paper facsimile machine with supplies and a maintenance agreement included was split into five different charges over a five-month period. This set of transactions took place between November 2000 and March 2001. In a written agreement between the SPPO and the vendor, charges were to be made in four equal payments of \$350 each and a fifth payment of \$153 to reach the total of \$1,543.

Cardholders are specifically forbidden from splitting purchases in order to avoid exceeding the prescribed Single Purchase Limit of \$500, according to paragraph 6.a. of GPO Instruction 805.27. Not only was this split purchase in violation of the Instruction, a review of this SPPO's authorized annual funding limit indicated that this office was authorized for only \$1,500 for the entire FY 2001. Thus by making this one procurement, the SPPO also exceeded its annual funding limit.

In addition, in December 2000, a Bookstore Manager submitted a credit card statement that included a \$51 purchase of a personal item. The Manager submitted a memorandum with the statement explaining the error, providing documentation, and enclosing a personal check for reimbursement of this amount to GPO. Yet seven months later, in July 2001, this same Bookstore Manager committed the same error of using the purchase card at the same store to make another \$156 purchase of personal items. The Manager submitted another memorandum with their statement explaining the error, providing documentation, and enclosing another personal check for reimbursement of this amount to GPO. Not only was this incident repeated; it also violated specific policy in paragraph 6 of GPO Instruction 805.27 that requires the purchase card to be secured on GPO premises at all times. However, no supporting documentation has been provided to indicate any warnings or sanctions were given to this Manager.

The audit team noted that in general, the lack of adherence to GPO Instructions was a common internal control weakness for the entire group of cardholders in the period reviewed. As the first level of internal control, Managers should be diligent in their compliance with GPO Instructions 805.27 and 825.18A. These results identify an immediate need to improve the internal controls over the cardholders' responsibilities in the review process of the monthly statements.

RECOMMENDATION

The Director, Materials Management Service, should ensure that the Chief, General Procurement Division, makes additional amendments to Draft GPO Instruction 805.27A to expand and emphasize the requirement that cardholders document credit card purchases. The Instruction should be revised to provide adequate guarantees that the cardholders are completing the review and reconciliation process (0204-10).

MANAGEMENT COMMENTS

The Director, MMS, agreed with the finding and the recommendation. Specific actions are detailed in the Director's response to the draft report. (Refer to Appendix III.)

**ANNUAL PURCHASE REQUESTS vs. BANK MONTHLY STATEMENTS
COMPARISON OF STATED CREDIT LIMITS
(Bookstores and PuDDC)
FY 2000 (January -- September 2000)**

	<u>CREDIT LIMIT PER PURCHASE REQUESTS</u>	<u>CREDIT LIMIT PER BANK STATEMENTS</u>
Atlanta	\$7,500	\$70,000
Birmingham	\$3,300	\$70,000
Boston*	\$3,200	\$70,000 (Jan.-Feb.) \$ 5,000 (Apr.-Sep.)
Chicago	\$4,100	\$70,000
Cleveland	\$3,300	\$ 5,000
Columbus	\$3,600	\$70,000 (Jan.-Mar.) \$ 5,000 (Jul.-Sep.)
Dallas	\$3,500	\$70,000
Denver	\$3,600	\$70,000
Detroit	\$3,600	\$70,000
Houston	\$3,400	unknown**
Jacksonville	\$5,000	\$70,000
Kansas City	\$5,000	\$70,000
Los Angeles	\$4,300	\$ 5,000
Milwaukee	\$4,500	\$70,000
New York	\$4,500	\$70,000
Philadelphia*	\$3,500	\$70,000
Pittsburgh	\$3,500	\$70,000

**ANNUAL PURCHASE REQUESTS vs. BANK MONTHLY STATEMENTS
COMPARISON OF STATED CREDIT LIMITS
(Bookstores and PuDDC)
FY 2000 (January -- September 2000)**

	<u>CREDIT LIMIT PER PURCHASE REQUESTS</u>	<u>CREDIT LIMIT PER BANK STATEMENTS</u>
Portland	\$ 4,600	\$70,000
Pueblo Bookstore	\$ 6,000	\$70,000
Pueblo DDC (Distribution Center)	\$20,000	\$70,000
San Francisco*	\$ 4,200	\$70,000 (Jan.-May) \$ 5,000 (Jun.-Sep.)
Seattle	\$ 5,000	\$70,000 (Jan.-July) \$ 5,000 (Sep.)

TOTALS 22 field locations (including Pueblo DDC)

*These three Bookstores were permanently closed during the course of this audit review.

**No monthly statements from the Houston Bookstore were available for review throughout this period. The first available statement was not until April 2001. (See Appendix II.) Without any further documentation, the auditors could not verify or disprove what this Bookstore's credit limits were in FY 2000.

Note: 19 of 22 bookstore locations had a monthly credit limit of \$70,000.

**ANNUAL PURCHASE REQUESTS vs. BANK MONTHLY STATEMENTS
COMPARISON OF STATED CREDIT LIMITS
(Bookstores and PuDDC)
FY 2001 (October 2000 – June 2001)**

	<u>CREDIT LIMIT PER PURCHASE REQUESTS</u>	<u>CREDIT LIMIT PER BANK STATEMENTS</u>
Atlanta	\$7,500	\$70,000
Birmingham	\$3,300	\$ 5,000
Boston*	\$3,200	\$ 5,000
Chicago	\$4,200	\$70,000
Cleveland	\$3,300	\$ 5,000
Columbus	\$3,600	\$ 5,000
Dallas	\$3,500	\$70,000
Denver	\$3,400	\$70,000
Detroit	\$3,600	\$70,000
Houston	\$3,400	\$10,000
Jacksonville	\$5,000	\$70,000
Kansas City	\$5,000	\$70,000
Los Angeles	\$5,000	\$ 5,000
Milwaukee	\$5,000	\$70,000
New York	\$4,500	\$70,000
Philadelphia*	\$3,500	\$70,000
Pittsburgh	\$3,500	\$70,000
Portland	\$4,600	\$70,000

**ANNUAL PURCHASE REQUESTS vs. BANK MONTHLY STATEMENTS
COMPARISON OF STATED CREDIT LIMITS
(Bookstores and PuDDC)
FY 2001 (October 2000 -- June 2001)**

	<u>CREDIT LIMIT PER PURCHASE REQUESTS</u>	<u>CREDIT LIMIT PER BANK STATEMENTS</u>
Pueblo Bookstore	\$ 7,000	\$70,000
Pueblo DDC (Distribution Center)	\$30,000	\$70,000
San Francisco*	\$ 4,200	\$ 5,000
Seattle	\$ 5,000	\$ 5,000
TOTALS		22 field locations (including Pueblo DDC)

*These three Bookstores were permanently closed during the course of this audit review.

During the period reviewed, 14 of 22 Bookstore locations continued to have a monthly credit limit on their bank statements of \$70,000.

**ANNUAL PURCHASE REQUESTS vs. BANK MONTHLY STATEMENTS
COMPARISON of STATED CREDIT LIMITS
(RPPOs and SPPOs)
FY 2000 (January -- September 2000)**

	<u>CREDIT LIMIT PER PURCHASE REQUESTS</u>	<u>CREDIT LIMIT PER BANK STATEMENTS</u>
Atlanta RPPO	\$2,500	\$ 95,000
Boston RPPO	\$2,500	\$ 95,000
Charleston SPPO	\$1,500	\$ 95,000
Chicago RPPO+ (card #1386)	\$2,500	\$ 10,000 (Jan.-Mar.)
(card #1352)	\$2,500	\$100,000 (Apr.-Sep.)
Columbus RPPO	\$2,500	\$ 95,000
Dallas RPPO	\$2,500	\$ 95,000
Denver RPPO	\$1,500	\$ 90,000
Hampton RPPO	\$2,500	\$ 95,000
Los Angeles RPPO	\$2,500	\$ 5,000
New Orleans SPPO	\$1,000	\$ 95,000
New York RPPO	\$1,500	\$ 90,000
Oklahoma City SPPO	\$1,000	\$ 95,000
Philadelphia RPPO	\$5,000	\$ 95,000
St. Louis RPPO	\$2,500	\$ 25,000
San Antonio SPPO	\$1,000	\$ 95,000
San Diego SPPO	\$2,000	\$ 95,000

**ANNUAL PURCHASE REQUESTS vs. BANK MONTHLY STATEMENTS
COMPARISON OF STATED CREDIT LIMITS
(RPPOs and SPPOs)
FY 2000 (January -- September 2000)**

	<u>CREDIT LIMIT PER PURCHASE REQUESTS</u>	<u>CREDIT LIMIT PER BANK STATEMENTS</u>
San Francisco RPPO	\$5,000	\$ 95,000
Seattle RPPO	\$2,500	\$ 95,000
Washington RRC	\$1,500	\$ 95,000

TOTALS 19 field locations (including Washington RRC)

+One RPPO (Chicago) had two purchase cards during the course of this fiscal year. Card #1386 was cancelled and a new card (#1352) was issued in April 2000.

During the period reviewed, 16 of 19 Printing Procurement Offices had a monthly credit limit on their bank statements of \$90,000 or more.

**ANNUAL PURCHASE REQUESTS vs. BANK MONTHLY STATEMENTS
COMPARISON of STATED CREDIT LIMITS
(RPPOs and SPPOs)
FY 2001 (October 2000 – June 2001)**

	<u>CREDIT LIMIT PER PURCHASE REQUESTS</u>	<u>CREDIT LIMIT PER BANK STATEMENTS</u>
Atlanta RPPO	\$2,500	\$ 95,000
Boston RPPO	\$2,500	\$ 95,000
Charleston SPPO	\$1,500	\$ 95,000
Chicago RPPO	\$3,500	\$100,000
Columbus RPPO	\$2,500	\$ 95,000
Dallas RPPO	\$2,500	\$ 95,000
Denver RPPO	\$1,500	\$ 95,000
Hampton RPPO	\$2,500	\$ 95,000
Los Angeles RPPO	\$2,500	\$ 5,000
New Orleans SPPO	\$1,000	\$ 95,000
New York RPPO	\$1,500	\$ 95,000
Oklahoma City SPPO	\$1,000	\$ 95,000
Philadelphia RPPO	\$5,000	\$ 95,000
St. Louis RPPO	\$2,500	\$ 25,000
San Antonio SPPO	\$1,000	\$ 95,000
San Diego SPPO	\$2,000	\$ 95,000
San Francisco RPPO	\$5,000	\$ 95,000

**ANNUAL PURCHASE REQUESTS vs. BANK MONTHLY STATEMENTS
COMPARISON of STATED CREDIT LIMITS
(RPPOs and SPPOs)
FY 2001 (October 2000 – June 2001)**

	<u>CREDIT LIMIT PER PURCHASE REQUESTS</u>	<u>CREDIT LIMIT PER BANK STATEMENTS</u>
Seattle RPPO	\$2,500	\$ 95,000
Washington RRC	\$1,500	\$ 95,000
TOTALS	19 field locations (including Washington RRC)	

During the period reviewed, 17 of 19 printing procurement offices had a monthly credit limit on their bank statements of \$95,000 or more.

UNITED STATES GOVERNMENT

memorandum

DATE: March 21, 2002

REPLY TO
ATTN OF: Director, Materials Management Service

SUBJECT: Response to Draft Report

TO: Inspector General

Your draft report concerning the GPO Commercial Credit Card Program has been reviewed and your ten recommendations appear reasonable. Discussed below are the actions, either taken or planned, that address each recommendation.

1. Recommendation Pg. 15 - Coordinate with the bank to make credit limit corrections to the monthly bank statements and maintain continuous contact with the bank to ensure that monthly credit limits remain accurate for every cardholder.

Response - The bank has been contacted and they are in the process of making the corrections. Information has been submitted to the bank showing the correct single purchase limit and monthly limit as well as the proper hierarchy that each cardholder is a part of. In certain instances, where the field activities have small annual dollar limits, which would result in unrealistically low monthly limits, the monthly limit on the bank statement shall reflect the annual approved budget amount for that field activity. In those instances, an instruction, with a sample bank statement, shall be provided to each cardholder, which will explain the funding limits and how they relate to their approved GPO budget.

The Chief, General Procurement Division (GPD) is in the process of drafting a revised GPO Instruction 805.27A. It will also direct the Approving Official (AO) responsible for the review of each monthly bank statement to verify the accuracy of the monetary limits as they appear on the statement. The AO will also be responsible for ensuring that the cardholder does not exceed the agreed to limits. If there are any discrepancies, the AO shall notify the Chief, GPD in writing or by e-mail. A review, of the credit card limits and merchant category codes, will be done by the Chief, GPD on a quarterly basis.

2. Recommendation Pg. 15 - Improve communications with Field Operations Division (FOD) to ensure any proposed increases in annual funding limits are clearly documented with memoranda to show evidence of review and approval.

Response - This has been discussed and agreed to with the Chief, FOD. It is also stated in the draft revised GPO Instruction 805.27A.

3. Recommendation Pg. 19 - The Chief, GPD should perform a review of current purchasing limits for all field locations. GPO Instruction 805.27A should be modified to reflect exceptions of different monetary limits.

Response - A review of all cardholder accounts has been accomplished and information has been sent to the bank to make the changes in the monetary limits. The Instruction is being changed to allow exceptions and the process to be followed for initiating a change in these limits.

4. Recommendation Pg. 22 - Prospective cardholders and approving officials are trained prior to receiving the credit cards.

Response - Additional written training information pertinent to credit card use and web sites, such as General Services Administration's (GSA) Web Training Site, will also be provided to card holders and approving officials in the field.

5. Recommendation Pg. 22 - Cardholders and approving officials receive documentation on the completion of the training

Response - Training certificates received by the cardholder shall be forwarded to their AO and maintained in a file. Copies shall then be forwarded by the AO to the Chief, GPD. The Chief, GPD shall advise, in writing, that the training requirements have been met and will proceed with obtaining a credit card for the employee.

6. Recommendation Pg. 22 - Internal Control Reviews include field locations and their compliance with GPO policy and procedures

Response - As part of our internal control review, a memorandum shall be issued by the Chief, GPD to the respective field office approving official to review and ensure that all field activities are in compliance with the GPO Instruction 805.27A.

7. Recommendation Pg. 27 - Require documented evidence of review and verification and incorporate in greater detail within GPO Instruction 805.27A.

Response - The draft GPO Instruction is being changed to reflect this requirement.

8. Recommendation Pg. 27 - Documenting questionable transactions, ensuring that the cardholder is promptly notified about questionable use, and provide an audit trail via the GPD Contracting Officer to track the remedial action as specified in the GPO Instruction.

Response - The AO is responsible for counseling the cardholder and ensuring proper documentation and remedial action. The AO shall submit a memorandum to the Chief, GPD explaining fully any improper use of the card and the action to prevent further abuse.

9. Recommendation Pg. 27 - Improve communications with the bank to ensure that the AO receives all monthly statements and has access to their cardholders on line statements.

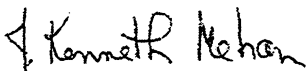
Response - The cardholder shall notify their AO whenever they have not received their statement from the bank. The cardholder shall go on-line and print a copy of the monthly statement and submit it with the supporting documentation to the AO. The AO shall keep all supporting documentation for the statements in a file for a period of three years. The AO shall notify the bank and the Chief, GPD whenever the cardholder has not received an original statement in the mail. It has also been confirmed that the AO has on line access to track statements. The statements remain on line for a period of up to six months.

10. Recommendation Pg. 33 - Chief, GPD should make additional revisions to the draft revised GPO Instruction 805.27A concerning documentation and reconciliation of the credit card purchases.

Response - Additional information will be provided in the revised GPO Instruction 805.27A that will address documentation and reconciliation of the purchases.

In addition, discussions have been held between the Chief, GPD and the Approving Officials (AO) for the respective Document's Bookstores and Regional Printing Procurement Offices and they are in agreement with our response.

I appreciate your bringing these matters to my attention so that we can make every effort to ensure credit cards are used in a responsible manner.



J. KENNETH MEHAN

