

**TREASURY'S GENERAL MANAGEMENT:
Customs Purchase Card Program**

OIG-03-057

February 5, 2003



Office of Inspector General

The Department of the Treasury

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Abbreviations

AAO	Alternate Approving Official
AIMS	Asset Information Management System
AO	Approving Official
BO	Budget Officer
BPC	Bureau Program Coordinator
CH	Cardholder
FAR	Federal Acquisition Regulation
FFS	Federal Financial System
IA	Internal Affairs
LPO	Local Property Officer
MCC	Merchant Category Code
MPO	Management Program Officer
OH	Organization Head
PC	Purchase Card
PCD	Purchase Card Commitment Document
PCS	Purchase Card System
PIMS	Property Information Management System
POL	Purchase Card Order Log
SIP	Self Inspection Program

*The Department of the Treasury
Office of Inspector General*

February 5, 2003

Robert C. Bonner
Commissioner
U.S. Customs Service

As a cost-cutting measure, in December 1993, the Treasury Department directed all bureaus to begin using purchase cards for small purchases. Customs has established a Purchase Card Program that is responsible for administering and maintaining a Purchase Card System. Along with The Department's Directive, Customs has issued its own Directive and a Purchase Card Manual. At the time of our audit, Customs had issued 1,318 cards to its 20,693 employees; 6.37 percent of the Customs workforce.

This audit was included in our annual audit plan and was performed to determine whether government purchase cards are being used for their intended purposes and that Customs is taking advantage of the credit card rebate program. The audit included the review and analysis of purchase card processes and transactions during December 1, 2000 through December 1, 2001. We conducted our work from November 2001 through June 2002 at Customs Headquarters in Washington, D.C.; Customs Accounting Services Division in Indianapolis, Indiana; and Customs field offices in Savannah, Georgia; Charleston, South Carolina; Miami, Florida; and Tucson, Arizona. A more detailed description of our objective, scope, and methodology is provided in Appendix 1.

Results in Brief

We found that, in general, the Customs Purchase Card Program was well planned and well administrated and that purchase cards are being used for their intended purpose. We reviewed 5 percent of a year's transactions and did not find any instances of fraud or abuse in the sample transactions. We also found that Customs had

a system in place to ensure that payments to the contract vendor (Citibank) for the purchase card were on time so as to take advantage of the purchase card rebate. In addition, the Purchase Card Program performs random audits on cardholders and the purchase card is an area in the Self-Inspection Program. Both of these functions contribute to the internal controls of the overall program. However, we found a few areas where the program could be improved.

We found that Approving Officials were not always reviewing supporting documentation (i.e. receipts and invoices) for purchase card transactions in conjunction with the reconciliation statement. This occurred because Customs did not include a formal step for documentation review as part of the approving official's responsibility in the purchase card process.

We also found that cardholders and approving officials were not reconciling statements on time. To implement the Prompt Payment Act, Treasury Directive 76-04, Government Purchase Card Program, requires purchase card invoices be paid in full and in a timely manner prior to reconciliation. To ensure compliance with the Directive, Citibank's invoice is processed through Asset Information Management System, Federal Financial System (AIMS-FFS) 17 days after its receipt. As a result of this process, purchases were paid for even though the cardholder and approving official had not reviewed the monthly transactions.

We made two recommendations to address the deficiencies we found. These recommendations included: 1) revising purchase card guidance regarding the approving official's responsibilities, and 2) timely reconciliation and approval of statement and establishing consequences when time frames are not met.

We also included some observations on training for approving officials, questionable purchases, nontraditional awards, and separation of duties in the "Other Matters" section for your consideration.

Background

Purchase cards are similar to personal credit cards, and are used to buy products and services with less paperwork involved than processing individual requisitions through the traditional procurement process. Credit card limits are issued to a cardholder with a transaction maximum and a maximum for aggregate monthly transactions. The Treasury Department mandated that the bureaus provide their employees the necessary training and written procedures.

For the Treasury Department, guidance for bureaus/offices is given in Treasury Directive 76-04, Government Purchase Card Program. "This Directive sets forth policy for use of the Government purchase card for (a) making micro-purchases and; placing the task or delivery orders, as authorized in the underlying contract or agreement, without additional paperwork, and (b) use as a payment mechanism for procurements above the micro-purchase limit." The Directive incorporates policy from procurement regulations in the Federal Acquisition Regulations (FAR); the Department of Treasury Acquisition Regulation (DTAR); the Javits-Wagner-O'Day (JWOD) Program; the small Business program; and, the environmental affirmative procurement program. The Directive requires purchase card invoices be paid in full and in a timely manner prior to reconciliation. In addition, the Directive gives overall guidance for the program and leaves the specific details of a Bureau's program to the individual Bureau management, stating that Bureau procedures shall not be overly restrictive.

In addition to the Treasury Directive, Customs has issued directive #5220-034A, dated April 21, 2000, for the Purchase Card Program. This directive gives more detailed guidance for the administration of the Customs Purchase Card Program as well as more guidance to cardholders. It also allows for purchases above the micro-purchase threshold of \$2500. The majority of cardholders were given a single purchase limit of \$2500, however, Customs has designated certain cardholders with authority to make larger purchases by supplying them with a higher single purchase limit. These cardholders received additional training. The Purchase Card Program personnel have also written a training manual that is used

as guidance for the bureau's Purchase Card Training Program and is issued to every cardholder.

Finding and Recommendations

Finding 1 **Internal Controls Need Improvement**

During our audit we identified two areas in internal controls that could be improved: 1) review of the monthly statements by the approving official and 2) timely reconciliation and approval by the cardholder and approving official.

Review of Monthly Statements

We identified the review of cardholder transaction documentation as a critical control. In the locations we reviewed, most approving officials were not reviewing actual paper receipts and/or invoices to determine if the amount billed was correct and that the purchase was for a valid need. Although review of transactions by the approving official was the principal means of assuring that transactions were valid, we found the approving officials were relying on the "online review" of the transaction statement in the purchase card system. We noted that several recent reports on purchase card programs issued by the General Accounting Office and other Department OIG's had similar findings in other Departments.

One of the five components of internal controls listed in the *Standards for Internal Control in the Federal Government* is control activities. Control activities are the policies, procedures, techniques, and mechanisms that enforce management directives. They help to ensure that actions are taken to address risks and occur at all levels and include activities such as approvals, authorizations, **verifications**, and reconciliations. Additionally, Customs Purchase Card Manual states that the Approving Official is responsible for ensuring that the statement and authorized purchases are made in accordance with the FAR and agency regulations, policies, and procedures.

The guidance issued by Customs was general in nature and did not contain specific language clarifying that a review of purchase card transactions must include reconciling the actual receipts and/or invoices to the statements and analyzing the charges to ensure that all transactions are legitimate. Guidance from the Department is also general in nature. Treasury Directive 76-04, Government Purchase Card Program, gives overall guidance for the program and leaves the specific details of a Bureau's program to the individual Bureau management, stating that Bureau procedures shall not be overly restrictive. The Directive also states that approving officials are optional. Additionally, the approving official duties were considered "other duties as assigned" and were not considered when evaluations were given. As a consequence, approving officials did not attach a high priority to monitoring and reviewing monthly charge card purchases.

The transaction review process is a critical element of the control environment. Accordingly, the bureau's guidance must contain specific language that requires Approving Officials to reconcile necessary invoices and receipts to the monthly reconciliation statements to ensure that all transactions are for legitimate government purposes. Adequate reviews are essential to detect and deter unauthorized purchases. The publication on purchase cards issued by GSA, Blueprint for Success, states, "Government investigators tell us that in many instances, the approving official would have detected fraud earlier with proper review." Without this key control, potentially fraudulent or improper transactions may not be identified promptly and the integrity of the Purchase Card Program is compromised.

Timely Reconciliation and Approval

Cardholders and approving officials were not reconciling transaction statements on time. According to the Purchase Card Manual, monthly statements are forwarded electronically to the cardholder through the automated PCS. Upon receipt, the cardholder has 10 calendar days to reconcile the charges and forward the statement to their approving official. The approving official then has 7 days to review the statement and give an approval. The statement is sent to AIMS-FFS for payment.

AIMS-FFS receives the statement whether or not it was reconciled by the cardholder or approved by the approving official within the allotted 17 days. Payment is made to Citibank regardless of reconciliation or approval.

To implement the Prompt Payment Act, Treasury Directive 76-04, Government Purchase Card Program, requires purchase card invoices be paid in full and in a timely manner prior to reconciliation. To comply with the Prompt Payment Act, after the allotted 17 days to the cardholder and approving official, payment is made to Citibank on the date that is most advantageous to the government. As a result of this process, purchases were paid for even though the cardholder and approving official had not reviewed the monthly transactions.

The Purchase Card Program has an audit function that reviews delinquent cardholders and approving officials. Two reports are available from the purchase card system (PCS). The first is the N report that lists all cardholders who have not reconciled their statements within the 10-day timeframe. The second is the X report that lists all cardholders whose approving officials have not approved their statements within the 7-day timeframe. We requested these reports for our scope period and performed an analysis to determine the extent of the delinquencies. We identified 148 cardholders who failed to reconcile their statements more than one time and 52 approving officials who failed to approve statements more than one time. We quantified our results for one month out of the twelve using the statement ending January 8, 2001 and determined that Customs paid \$330,483 for charges not reconciled by cardholders and paid \$157,779 for charges not approved by approving officials.

We determined that there are no procedures in place to ensure that cardholders and approving officials are held accountable when the required timeframes for reconciliation and approval of transaction statements are not met. Even though these reports were generated and reviews were done, the results are not tracked and management does not take an active role in their resolution.

It is important for cardholders to reconcile their monthly statements and for approving officials to approve them within the required time frame to ensure their accuracy and to detect any improper purchases. Timely reviews and approvals are essential in ensuring that all transactions are legitimate government purchases.

Recommendations

1. The Commissioner of Customs should ensure that the Purchase Card Program amend the bureau's guidance to contain specific language that requires Approving Officials to reconcile necessary invoices and receipts to the monthly statements to ensure that all transactions are legitimate government purchases.

Management Comment. Customs concurred and has set a completion date of June 2003 to do the following: An addendum will be made to the Purchase Card Manual requiring Approving Officials to reconcile necessary invoices and receipts to the monthly statements to ensure that all transactions are legitimate government purchases.

OIG Comment. We consider this recommendation to have a management decision with a target completion date of June 2003.

2. The Commissioner of Customs should ensure that reconciliation and approval is performed timely and determines what actions should be taken when cardholders and approving officials do not adhere to the timeframes mandated in the purchase card process.

Management Comment. Customs concurred and has set a completion date of September 30, 2003 to do the following: A message will be sent to all cardholders and approving officials reminding them of their responsibility to promptly reconcile and approve monthly statements. In addition, they will be advised that failure to promptly reconcile and approve monthly statements may result in suspension or removal from the program. Further, Customs will initiate a follow-up review to determine compliance with these requirements.

OIG Comment. We consider this recommendation to have a management decision with a target completion date of September 30, 2003. In order to provide better oversight, we would further suggest that in addition to the initial compliance review, Customs conduct regular compliance reviews in subsequent years.

OTHER MATTERS

Training For Approving Officials

The approving official is a critical control in the Purchase Card Program. Currently, approving officials for cardholders with a credit limit below \$2500 are not required to receive training; training is voluntary. However, those approving officials for cardholders with a credit limit above \$2500 are required to attend the Purchase Card Program's training. We believe that training should be mandatory for **all** approving officials.

Questionable Purchases

Through our transaction testing we identified purchases that might be viewed as questionable, such as antique globes and a cordless mouse. Although we found supporting documentation for the transactions, the items purchased did not easily fit within generic government-wide guidelines on purchases that are acceptable for the purchase card program. They might tend to raise questions about their reasonableness at first glance and could be subject to criticism. Customs and the approving officials need to be mindful in reviewing these purchases and the possible impact they could have if made public.

Nontraditional Awards

During the course of our review a peripheral issue was identified. Customs authorized non-traditional awards in a memorandum titled "Expansion of the Honorary Awards Program Policy to Include Non-traditional Awards", dated August 4, 1997, File: PER-13-05:OF:FM:FP GPR. The memorandum states that the dollar limitation for each honorary award may not exceed \$100 per item

per individual, and \$400 per employee per calendar year from any and all Customs sources. Most all non-traditional awards were bought with the purchase card. Whenever we questioned the cardholder or approving official about a non-traditional award, the response was “we obtained a pre-approval number.” After researching the issue, we found that the Purchase Card Program requires the cardholder to call them for a pre-approval number for any non-traditional award purchase. The cardholder is issued a pre-approval number by one of four people on the Purchase Card Program staff. However, these are system-generated numbers and although a record is kept within the Purchase Card System, no log is kept of the phone calls received requesting pre-approval and the numbers are not used to monitor or track the awards issued. The pre-approval process gives the appearance that there is some type of monitoring of the non-traditional awards program.

Most of the Customs offices we visited purchased non-traditional awards such as gift certificates to restaurants and movie theatres in quantity to keep on hand. The purchase card program does not track who receives the award or when the award is presented. In some instances, management at the site actively tracked the awards, but some did not. During our review, we discovered one employee had received an award that exceeded the per-item per-individual limit that is stated in Customs guidelines.

As part of our Audit analysis we requested a listing of all pre-approval numbers issued for our scope. We determined that during December 01, 2000 through December 01, 2001 there were 935 pre-approved transactions for nontraditional awards that totaled \$383,904. These transactions represent 1 percent of the total transactions processed during our scope.

If non-traditional awards are not being monitored for individuals on an annual basis, there is a possibility of exceeding the per item per individual and per calendar year limits. Customs should develop a system to monitor and track these awards. In addition, we feel that there is the potential for abuse since some of the awards are bought in quantity – “to have on hand for employees.” This is an awards program issue and the individual supervisors should monitor this program rather than rely on the purchase card program personnel.

Separation Of Duties

During our review, we determined there were numerous transactions where the purchase cardholder ordered, received and paid for items. We found that the lack of sufficient personnel sometimes played a part in this scenario.

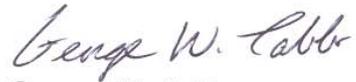
According to the *Standards for Internal Control in the Federal Government*, key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

Customs guidance did not highlight the importance of this separation of duties. The focus of the Purchase Card Manual was on the purchasing of goods, not the receiving of goods. In addition, the purchasing function was often a collateral duty and management did not emphasize the separation of duties.

When separation of duties does not exist there is a risk that fraud and abuse would go undetected. When one individual controls the key aspects of a process it creates an environment for error and fraud. Increased use of the program without a sound control environment could lead to waste and abuse. While Customs cannot eliminate waste and abuse, they are responsible for instituting a strong control environment to limit it.

* * * * *

We would like to extend our appreciation for the cooperation and courtesies extended to our staff during the review. If you have any questions, please contact me at (713) 706-4611, ext. 233 or the Field Audit Manager, at (954) 602-1980, ext. 401.



George W. Tabb
Regional Inspector General for Audit

The objective of this audit was to determine whether government purchase cards are being used for their intended purposes and that Customs is taking advantage of the credit card rebate program. We designed this project as a multi-bureau audit and began with Customs. To accomplish our objective, we reviewed applicable laws, regulations, directives, manuals and records maintained at Customs Headquarters, Customs Accounting Services Division, and various Customs Managements Centers throughout the country. We obtained access to Citibank's data through CitiDirect and tested transactions. We relied on the integrity of Citibank's systems throughout this audit as well as the integrity of Customs Purchase Card System.

Our universe consisted of all Customs Purchase Card Transactions available thru CitiDirect from 12/01/00 thru 12/01/01. The scope consisted of 109,289 transactions that totaled \$32,312,484. We judgmentally selected our samples based on the amount of charge card activity using the number of transactions and the dollar volume. We also used Customs management reports to aid us in our sample selection. Once we selected individual cardholders at a location, we expanded our audit work to include other Customs offices within the immediate vicinity. Our work was designed to look for fraud and illegal or abusive transactions. Through our transaction testing we looked at 5 percent of the dollar value and 6.5 percent of the total transactions. Because of the testing methods adopted, we could not project the results of our findings.

In our work, data mining involved the manual or electronic sorting of purchase card data to identify and select for further follow-up and analysis transactions with unusual or questionable characteristics. We also analyzed purchases made with convenience checks. In addition, the Merchant Category Codes (MCC) were used to identify transactions with certain vendors that had a more likely chance of selling items that would be unauthorized or that would be personal items. We verified the validity of these transactions by contacting the corresponding Approving Officials and obtaining the required receipt documentation. The underlying documentation for each selected transaction was reviewed. Finally, we physically inventoried certain purchases at each location we visited to determine whether

goods and services were received and used for government purposes.

We conducted our audit work from November 2001 through June 2002 in accordance with generally accepted U.S. government auditing standards.

Appendix 2
Management Comments



U.S. Customs Service

Memorandum

DATE: JAN 30 2003

FILE: AUD-1-OP BBS

MEMORANDUM FOR GEORGE W. TABB
OFFICE OF INSPECTOR GENERAL

FROM: Acting Director
Office of Planning

SUBJECT: Comments on Inspector General Draft Report
on Customs Purchase Card Program

Thank you for providing us with a copy of your draft report entitled "**Treasury's General Management: Customs Purchase Card Program**" and the opportunity to discuss the issues in this report.

We believe that this report accurately reflects the state of this program. Customs has taken several steps to address the issues identified during your review. These steps, which respond to the report's recommendations, are outlined in the attached document.

We have determined that the information in the audit does not warrant protection under the Freedom of Information Act.

If you have any questions regarding the comments, please have a member of your staff contact Ms. Brenda Smith at (202) 927-1507.


Kathleen J. Bell

Attachment

TRADITION



SERVICE



HONOR

Appendix 2
Management Comments

Attachment

**Corrective Action Plan
Office of the Inspector General or General Accounting Office
Plan of Corrective Actions**

Report Title: Treasury's General Management: Customs Purchase Card Program

Recommendation	Corrective Action	Primary Office and Division	Point of Contact & Telephone	Due Date
The Commissioner of Customs should ensure that the Purchase Card Program amend the bureau's guidance to contain specific language that requires Approving Officials to reconcile necessary invoices and receipts to the monthly statements to ensure that all transactions are legitimate government purchases.	An addendum will be made to the Purchase Card Manual requiring Approving Officials to reconcile necessary invoices and receipts to the monthly statements to ensure that all transactions are legitimate government purchases.	Office of Finance; Procurement Division	Janice Hill 927-0182	June 2003
The Commissioner of Customs should ensure that reconciliation and approval is performed timely and determines what actions should be taken when cardholders and approving officials do not adhere to the timeframes mandated in the purchase card process.	A message will be sent to all cardholders and approving officials reminding them of their responsibility to promptly reconcile and approve monthly statements. Customs will initiate a follow-up review to determine compliance with these requirements by September 30, 2003. In addition, they will be advised that failure to promptly reconcile and approve monthly statements may result in suspension or removal from the program.	Office of Finance; Procurement Division	Janice Hill 927-0182	September 2003

Appendix 3
Major Contributors To This Report

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Danny M. Helton, Auditor
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The Department of the Treasury

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Director, Evaluations Oversight, Office of Planning
Director, Office of Management Inspection

Office of Management and Budget

OIG Budget Examiner