

Memorandum

Farm Credit Administration
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September 9, 2002



To: Michael M. Reyna
Chairman and Chief Executive Officer

Cheryl Macias
Chief Operating Officer

From: Stephen Smith
Inspector General

Subject: Government Purchase Card Program Inspection (No. 02-07)

Attached is the Office of Inspector General (OIG) inspection report of the Farm Credit Administration's Government Purchase Card Program. We concluded management and staff are effectively and efficiently administering the program. Cardholders are making appropriate use of the program to acquire goods and services for their offices. The goods and services include: office supplies; books and periodicals; computer software; and training and awards for employees. The program continues to expedite the procurement process and controls are generally effective.

A review and analysis of the three months of purchase card documentation as well as communication with cardholders and Agency official's shows that controls over the program are effective. Cardholders use credit cards as often as possible, although checks are necessary for on-the-spot awards. Likewise, there are still some vendors who do not accept credit cards as a form of payment. These vendors are also paid by check.

We did note several areas and made recommendations for management action to further improve the efficiency and effectiveness of the program. Management agreed with our recommendations and we have incorporated them in the report as agreed upon actions. Management did not provide any other comments to the report.

This inspection was conducted according to the President's Counsel on Integrity and Efficiency "Quality Standards for Inspections".

We appreciate the courtesies extended to the OIG. The cardholders were particularly responsive in providing documentation and answers to our questions in a timely manner. If you have any comments or questions, I would be pleased to discuss the report at your convenience.

Copy to: Ann Jorgensen
Douglas Flory
Philip Shebest

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BACKGROUND

The Farm Credit Administration (FCA or Agency) is an independent agency within the executive branch of the United States Government. The FCA's mission is to ensure a dependable source of credit for agriculture and rural America. The Farm Credit System (FCS) is a cooperative system of banks, associations, and other related entities. Chartered under the Farm Credit Act, FCS provides farmers and ranchers across the nation with credit. FCA employs fewer than 300 people.

The Office of Inspector General (OIG) is an independent office within the FCA. This office is responsible for planning, conducting and overseeing inspections, audits, investigations, and reviews of the Agency's programs and operations. Findings and recommendations are made as a result of these reviews in order to gain efficiencies and make improvements.

Purchase Card Program

The Government Purchase Card Program (Program or SmartPay) is one method the FCA uses to acquire a wide variety of goods and services essential to the Agency's operation. By delegation of the Chief Executive Officer through the Chief Administrative Officer, employees are granted contract authority in using the credit card program. The cardholders may make small purchases by using the SmartPay credit cards.

Small purchases, called micro-purchases, are limited to the micro-purchase threshold of \$2,500 per transaction for standard purchases (and \$2,000 per transaction for construction related purchases). Cardholders, except purchase agents, are not to exceed the monthly purchase limit of \$10,000 within the monthly billing cycle.

The cardholders make micro-purchases according to the FCA's guidance, *NationsBank Purchasing Card Program – Operating Manual for Cardholders and Approving Officials 12/8/98*. This manual outlines the roles and responsibilities of participants in the program, basic operating procedures, and guidelines for proper use of the purchase card.

Another group of selected agency officials are Approving Officials (usually the cardholder's supervisor), Agency Program Coordinators, and Designated Billing Officials. These officials oversee the cardholder's purchase activity. They are responsible for ensuring the cardholder is making appropriate purchases, ensuring there are sufficient funds for purchases, settling any disputed transactions, or aiding the cardholder in other ways.

History

The General Services Administration contracted for use of an internationally accepted credit card service for government agencies to use for micro-purchases. This service was to replace system use of purchase orders, to reduce the cost and time consumed. FCA began using purchase cards in 1989, then known as the International Merchant Purchase Authorization Card (IMPAC) Program.

The use of the IMPAC card was initially restricted to procurement personnel and was not in widespread use throughout the government. However, legislation in 1994 modified the way the Federal Government and FCA made purchases. The Federal Acquisition Streamlining Act (FASA) and Executive Order 12931 removed the restriction to procurement personnel and placed micro-purchase authority with program officials.

OIG conducted an audit of the IMPAC Program in 1998 to evaluate its effectiveness at FCA. This audit found: 1) problems with cardholders not using the card to its fullest extent; 2) difficulty in receiving, reporting, and recording purchase activity information; and 3) weaknesses in policies and procedures for individual offices. As a result, OIG made five recommendations as follows: 1) one form should be used to log all purchases made with the IMPAC; 2) the IMPAC should be used to pay for training whenever the vendor accepts this payment method; 3) internal procedures should be developed to ensure that controls are in place to prevent duplicate ordering and

overspending within budget categories; 4) Human and Administrative Resources Division¹ (HARD) should develop and implement procedures to randomly audit cardholders' records; and 5) accounting codes on all IMPAC purchases should be assigned in Fiscal Resources Division² (FRD).

In November 1999, FCA replaced the IMPAC Program with SmartPay. FCA also uses the travel card and the corporate card services. Both of these cards are generally used for travel when employees or contractors travel. While travel cards are assigned individually to employees, the corporate card is an Agency-wide card. Specifically, the corporate card is for travel expenses of temporary employees or others who do not have travel cards. The Administrative Assistant to the CAO is currently the cardholder. If the Administrative Assistant is unavailable, the CAO is also authorized to make charges to the corporate card.

OBJECTIVE AND SCOPE

The objective of this inspection was to determine the effectiveness and efficiency of the Government Purchase Card Program at FCA. This inspection was conducted according to the President's Counsel on Integrity and Efficiency "Quality Standards for Inspections". Our review included: 1) reviewing an interactive CD-Rom training session on how to use the SmartPay purchase card and attending a PCIE training session on how to review, inspect, and investigate government credit card issues; 2) analyzing Purchase Activity Logs, Billing Account Statements, and supporting documentation provided by the cardholders; and 3) communicating with cardholders concerning questionable transactions.

The scope of this inspection was limited to analysis of purchase activities for the months of March, April, and May of 2002. We reviewed the Purchase Activity Logs, Billing Account Statements, and supporting documentation from every cardholder in the Agency who made purchases during these three months.

We held the entrance conference on June 18, 2002 and conducted the fieldwork from June 20 through July 19, 2002. The draft report was forwarded to management for review on August 2, 2002. The exit conference was held on August 1, 2002.

Findings and Results

Summary

The Government Purchase Card Program made significant progress since its inception and has improved since OIG issued the IMPAC Program audit in 1998. The Program is efficient and effective at FCA and continues to streamline the procurement process. Goods and services are acquired more expeditiously with less human resources and paperwork.

A review and analysis of the three months of Purchase Card documentation, as well as interviews, shows that controls over the program are effective. Cardholders are making appropriate use of the cards to acquire goods and services for their offices. The goods and services include: office supplies; books and periodicals; computer software; and training for employees. Checks are used for on-the-spot awards and in instances where vendors do not accept credit cards as a form of payment.

¹ As a result of reorganization, HARD became the Office of the Chief Administrative Officer on October 1, 2000.

² As a result of reorganization, FRD became the Office of the Chief Financial Officer on October 1, 2000

Analysis of Transactions

In addition to its growing efficiency, purchase card use has expanded throughout the Agency. Before May 1998 purchase card usage was limited to only 7 offices. It is now in active use in 11 different offices with 35 cardholders.

- Office of Chief Administrative Officer (OCAO) – 6 cards;
- Office of Secondary Market Oversight (OSMO) – 1 card;
- Office of Chief Information Officer (OCIO) – 2 cards;
- Office of Policy and Analysis (OPA) – 4 cards;
- Office of Chief Financial Officer (OCFO) 2 cards;
- Office of Examination (OE) which includes all field offices – 11 cards;
- Office of Chief Operating Officer (OCOO) – 1 card;
- Office of the Board (OB) – 2 cards;
- Office of Congressional & Public Affairs (OCPA) – 2 cards;
- Office of General Counsel (OGC) – 2 cards; and
- Office of Inspector General (OIG) – 2 cards.

The transactions reviewed for 3 months are categorized in the following chart.

Office	Transactions Reviewed	Transactions Using Credit Cards	Transactions Using Checks	Checks for Awards or Reimbursements ³	Transactions Using Checks that could have used Credit Cards ⁴	Check Fee ⁵
OCAO	71	48 (67.6%)	23 (32.4%)	20 (28.2%)	3 (4.2%)	18
OCIO	25	25 (100%)	0 (0%)	—	—	—
OPA	73	50 (68.5%)	23 (31.5%)	15 (20.5%)	8 (11%)	8
OCFO	20	20 (100%)	0 (0%)	—	—	—
OE	180	69 (38.3%)	111 (61.7%)	110 (61.1%)	1 (0.6%)	28
OCOO	1	1 (100%)	0 (0%)	—	—	—
OB	33	29 (87.9%)	4 (12.1%)	4 (12.1%)	0 (0%)	1
OCPA	56	47 (83.9%)	9 (16.1%)	9 (16.1%)	0 (0%)	—
OGC	7	4 (57.1%)	3 (42.9%)	3 (42.9%)	0 (0%)	—
OSMO	2	1 (50%)	1 (50%)	1 (50%)	0 (0%)	1
OIG	8	7 (87.5%)	1 (12.5%)	1 (12.5%)	0 (0%)	—
TOTAL	476	301 (63.2%)	175 (36.8%)	163 (34.2%)	12 (2.5%)	56

Most cardholders used their purchase card instead of checks when possible. In total, there were 476 transactions over the three-month period (not including convenience check fees as

³ Also includes vendors who don't accept credit cards, and therefore, had to be made by check.

⁴ A transaction that was paid for by check for any reason other than for an award or reimbursement. Checks for awards are considered an acceptable use of checks in lieu of credit card.

⁵ 1.9% surcharge the bank charges for paying by check. Some offices record check fees as separate transactions and others do not.

transactions). Of these 476 transactions, 301 (63.2%) were paid by government purchase card and 175 (36.8%) were paid by check. When a transaction was paid by check or purchase order, it was only for one of a few reasons: 1) an award, 2) a reimbursement, or 3) the vendor did not accept payment by credit card. Out of the 175 transactions made by check or purchase order, 163 (93.1%) were for one of those three reasons.

Despite achieving efficiency in purchases, there are opportunities to further improve the Program. There is still a small percentage of transactions that could have been made by credit card but were not. Also, internal controls and Agency policies should be improved.

Maximizing Use Of Purchase Card

The previous chart shows there were 12 instances where it was possible to pay by credit card, but instead, payment by check was chosen. Since each check used in lieu of a credit card has an accompanying 1.9% service fee, there are efficiencies that would be gained by using the credit card more often.

One cardholder was reluctant to fax the credit card number to vendors or training sources. Out of 11 transactions made during the three-month period by this cardholder, 6 of the transactions could have been paid for in the form of credit card in lieu of check (54.5%). Another cardholder assumed that a training vendor, a large university, did not accept credit cards because it had no space to enter credit card information on the training form.

Agreed Upon Action

- 1. The CAO will provide annual information to cardholders reminding them about key program features and emphasize the use of credit cards in lieu of checks as a form of payment to the maximum extent.**

Monitoring Internal Controls

In one instance a noncredit cardholder used a credit card with the permission of the cardholder. The purchase exceeded micro-purchase limit. In addition, while interviewing the non-cardholder about the issue, the employee stated that he/she knew the cardholder's purchase card account number but did not make any purchases without the cardholder's consent.

Cardholders should safeguard and restrict access to account numbers to avoid fraudulent or unauthorized card use. FCA procedures, *NationsBank Purchasing Card Program – Operating Manual for Cardholders and Approving Officials* prohibit cardholders from allowing anyone to use their credit cards. It also states that cardholders are responsible for all purchases made on their purchase cards. Reminding cardholders about their responsibilities may avoid such improper use.

As a result of the IMPAC Program Audit A98-03, HARD (now OCAO) agreed to develop and implement procedures to conduct random audits of cardholders' records.

HARD developed a comprehensive template and assured the Audit Follow-up Official and the OIG that periodic internal audits would be performed. However, we found the program manager was not performing this task. In fact, the only internal review is periodic "eyeballing" of credit card invoices.

Conducting random audits is essential in ensuring that transactions and practices are consistent with approved procedures. Lack of adherence to an agreement to improve internal controls caused duplication of effort by OIG staff, and wasted effort by staff who developed the template.

Cardholders are required to keep a uniform purchase activity log, providing information on the date, vendor from which purchase was made, cost, and accounting codes for each transaction. In one

instance, a cardholder was under the impression that the log was no longer required because of a change in accounting procedures.

In another instance, a cardholder had inadequate back-up documentation to explain transactions such as "training". Because of this, it was necessary to ask for an explanation of why payment was made. With time elapsing between transaction and explanation, memories dim and it is more difficult and time-consuming to reconstruct the justification. Furthermore, adequate documentation streamlines the review by the approving official and is required by Agency policy.

Agreed Upon Actions

2. **The CAO will require cardholders to sign an accountability reminder when purchase cards come up for renewal or reissuance, including a reminder of the requirement to keep account numbers secure.**
3. **The CAO will reinstitute the internal audits of credit cardholders to include the use of the template developed as follow-up to the OIG IMPAC Program Audit.**
4. **The CAO will ensure all credit cardholders use uniform purchase activity logs and provide sufficient information and documentation for approving officials and anyone conducting a review to understand the purpose of each transaction.**

Adhering to Agency Policy

The FCA's Administrative Handbook contains the "*NationsBank Purchasing Card Program, Operating Manual For Cardholders And Approving Officials.*" This document (Section V (5)) states:

"Prior to placing orders for subscriptions, publications, and printed material from the Government Printing Office, the requestor shall send an e-mail to the Information Center, describing the purchase (including titles). Upon approval by the Information Center, the order may be placed."

During the course of this inspection, it became apparent that often the cardholder did not inform the FCA Information Center of a prospective purchase. In fact, the procedure is rarely followed.

Agreed Upon Action

5. **The CAO will review the Agency administrative procedure, *NationsBank Operating Manual*, to decide whether the procedure concerning the Information Center approval should be enforced, changed, or deleted.**

Using the Corporate Card

Since 1999, the corporate credit card has been used primarily for travel incurred by employees who do not have a government travel card. The existence of a corporate credit card is not widely known within the Agency.

Recently, FCA initiated a new travel system called FEDTRIP. One aspect of the system involves creating profiles for all travelers. Entering profiles simplifies the process of arranging for travel. These profiles include personal information and the account number of the credit card used to charge transportation and lodging. Once information is entered into the database it becomes an automated process to charge travel expenses when a reservation is made.

Several employees (including summer interns) have the corporate card number on file in their profile. As a result, they are able to make charges without pre-approval or notice to the cardholder. When a reservation is made, payment for travel goes directly to the travel agency without going through OCAO for authorization. Since the credit card number was used without the cardholder's

knowledge or authorization, the credit card invoices were difficult to reconcile because the supporting documentation for the transactions was lacking or nonexistent. The cardholder had to piece the relevant information together, which was a time consuming task.

While the OCFO developed procedures for the employees using the corporate card, the procedures were not consistently followed. This is a problem resulting from the transition to FEDTRIP, which should be addressed. Prior to arranging for plane tickets or travel expenses charged to the corporate credit card account, there should be a process or mechanism in place to notify the cardholder. The existing automated process does not provide this type of notification. The reconciliation process is now inefficient and there is potential for uncontrolled use of the corporate card or a mistaken transaction to go undetected.

Agreed Upon Action

6. **The CFO will develop new procedures for use of the corporate credit card to address: 1) which FCA office should be the responsible cardholder; 2) how authorization will take place; and 3) how reconciliation of invoices will take place.**