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and the Broadcasting Board of Governors
Office of Inspector General

Report of Audit

Review of the Department of State's Overseas Purchase Card Program

Report Number AUD/PPA-05-01, December 2004

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SUMMARY

In support of the Office of Inspector General's (OIG) continuing responsibility to assist management through independent reviews of Department of State (Department) operations, OIG's Office of Audits conducted a review of the Department's overseas commercial purchase card program. The purpose of the review was to evaluate overseas posts' compliance with established federal and Department purchase card policies and procedures.

OIG determined that the Bureau of Administration, Office of the Procurement Executive (A/OPE) has established program requirements for the management and use of the purchase card. For example, A/OPE's *Worldwide Purchase Card Program Manual,* Department Notices, and cables offer policies and procedures on acquiring goods and services, conducting monthly reconciliations and annual reviews, managing records, and training. A/OPE's standardized annual review procedures promote accountability at all program levels. Also, A/OPE has standardized forms and procedures in an electronic format for program participant use worldwide.

Post program participants, however, did not always follow established policies and procedures. Only 60 percent (11 of 18) of the annual reviews that OIG examined were completed, and the majority of program coordinators interviewed were not fully aware of their annual review duties. Program coordinators generally delegated annual reviews to subordinates. OIG's examination of 3,537 purchase card transactions indicated that both approving officials and cardholders did not approve bank statements, buying logs, and reconciliations, and cardholders allowed unauthorized personnel to use cards. Strengthening the training program could help alleviate the control weaknesses discussed in this report.

In addition, although A/OPE has taken steps to permit purchase card use for higher dollar procurements, the Department used the card for only 30 percent of its overseas small purchases (55,079 of 183,112) in FY 2003. If post program participants had used the card on all overseas small purchases, OIG estimated that the Department would have earned about $910,000 in additional volume rebates from Citibank, its purchase card provider. Also, the Department's untimely purchase card payments negatively affected the amount of rebates received in FY 2003. Had all overseas invoices been paid within 30 days, the Department could have earned an estimated $20,000 in additional productivity rebates.

OIG concluded that opportunities exist for the Department to enhance the program's effectiveness and improve controls. In this report, OIG recommended that the Department strengthen the process for conducting annual reviews, improve daily administrative oversight, enhance training, and take steps to maximize rebates by expanding policy on use of cards for higher dollar procurements and issuing guidance on the importance of timely payment performance.

OIG discussed its findings with, and provided a draft version of this report to, officials from the A and the Bureau of Resource Management (RM). OIG received combined written comments on the draft version of this report from these offices and incorporated the comments throughout this report as appropriate, and in their entirety as Appendix C. These offices agreed with OIG's recommendations.

BACKGROUND

The purchase card is a streamlined procurement method federal agencies use to buy goods and services. Unlike other procurements methods, the purchase card empowers both procurement and nonprocurement staff with the authority to make official purchases directly with vendors.

In 2001, OIG conducted a review of the Department's domestic purchase card operations.[1] Since 2001, A/OPE has introduced a number of program initiatives, including:

- updating the *Worldwide Purchase Card Program Manual*, Sept. 2002 and Feb. 2004 editions;
- establishing annual review procedures to promote accountability;
- enhancing the A/OPE purchase card Intranet web site with card manage ment tools, such as standardized forms and training;
- piloting a Citibank program to access purchase card invoices and monthly statements online; and
- initiating the automation of purchase card processes to increase oversight and compliance.

The A/OPE program manual includes guidelines on acquiring goods and services, conducting monthly reconciliations and annual reviews, management and control of records, and purchase card training. A/OPE has also issued additional purchase card policy and guidance in Department Notices and cables. A/OPE has posted a variety of guidance material on its Intranet site, which covers procedures for the day-to-day administration of the program, including card setup, maintenance, and cancellation.

[1] *Survey of the Worldwide Purchase Card Program - Domestic Operations* (01-FMA-M-081, Sept. 2001).

The annual review process consists of reviewing random samples of cardholder records and completing three standardized forms: (1) checklist, (2) summary of findings, and (3) certification. The purpose for conducting annual reviews is to "continually improve program operations while ensuring cardholders and approving officials comply with established procurement management practices, operating procedures, and purchase card controls."[2] Although Department guidance designates program coordinators with the responsibility for conducting annual reviews, approving officials are permitted to assist them. According to the program manual, annual reviews should be conducted during the first quarter of every fiscal year, and overseas posts and domestic offices are required to retain completed reviews (the annual review forms and supporting documentation) for three years.

Citibank has been the Department's purchase card provider since November 1998 under the General Services Administration's (GSA) SmartPay master contract.[3] The Citibank purchase card has built-in safeguards and management controls to minimize misuse. For example, single and monthly purchase thresholds limit cardholders' expenditures, and merchant code blocks prevent purchases from unauthorized vendors. A/OPE's purchase card program manager and the Office of Logistics Management's (A/LM) operations manager and key program administrators share responsibility for administering the Department's card program. Overseas post and domestic office program participants include program coordinators, approving officials, designated billing officials, and cardholders. (See Appendix A for their roles and responsibilities.) The Federal Acquisition Regulation (FAR) 13.301 and Treasury Financial Manual (TFM) Vol. I, Part 4, Chap. 4500, indicate that agencies using the purchase card are required to establish controls to ensure that their respective card programs comply with federal laws and regulations.

The GSA SmartPay master contract includes incentives that give the Department the opportunity to earn rebates directly from Citibank. The rebates are based on factors such as sales volume and payment performance. In FY 2003, the Department earned more than $205,000 in rebates. A/OPE uses the rebates to fund the purchase card program's operating expenses and to make program enhancements. For example, A/OPE and A/LM plan to use rebates to fund future program automation initiatives.

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[2] *Worldwide Purchase Card Program Manual*, September 2002, Section VI.

[3] GSA SmartPay Contract No. GS-23F-98006, Task Order No. 02-0001.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this review was to evaluate overseas posts' compliance with established federal and Department purchase card policies and procedures. OIG conducted field work from September 2003 to January 2004 at Embassies Port of Spain, Lima, Cairo, and Madrid; Consulate General Frankfurt; and the Regional Procurement Support Office Frankfurt. Embassy Lima had two separate and distinct purchase card programs, one for post and the second for the narcotics affairs section. Also, OIG obtained and reviewed purchase card data from Consulate General Barcelona.

OIG obtained Citibank's FY 2003 overseas purchase card data, including 55,079 transactions totaling $26 million. To identify potential trends and anomalies, OIG judgmentally reviewed a sample of 3,537 of the 55,079 transactions (6 percent) accounting for $2.1 million of the $26 million (8 percent). OIG assessed the transactions for incidences of purchase card program abuse, such as use of prohibited vendor merchant codes, split purchases, and duplicate billings. OIG examined FYs 2000-02 annual reviews conducted at six posts. To expand the review universe, OIG surveyed Department purchase card participants using a questionnaire administered in coordination with OIG inspections at Embassies Pretoria and Bangkok. Also, OIG developed and administered a separate questionnaire to an additional 41 posts that did not have purchase card transactions during FY 2003. Twenty-two of those posts responded to the survey. The results of the questionnaires are discussed in the body of the report.

OIG's Office of Audits, Procurement, Property and Administrative Support Division conducted this review in accordance with government auditing standards. OIG met with and interviewed officials from the A, RM, and the Bureaus of European, Western Hemisphere, and African Affairs; GSA; Citibank (the Department's purchase card provider); and purchase card officials and participants. OIG reviewed federal and Department regulations, policy guidance, external federal agency reports, and OIG audit reports. Also, OIG analyzed contract documents for Citibank services and posts purchase card invoices, monthly statements, cardholder files, procurement logs, and annual reviews.

FINDINGS

Strengthening Internal Control Activities

OIG determined that overseas program participants were not fully complying with established program requirements. For example, annual reviews were either not completed or contained inaccurate or missing information; monthly reconciliation documents, such as buying logs and bank statements, were not used or were not signed and dated; and program participants did not update maintenance forms when they departed post, retired, or no longer participated in the card program. Program coordinators' lack of adequate administration of the program contributed to these deficiencies. Unless corrected, these shortcomings could increase the Department's risk of intentional or accidental misuse of the purchase card. OIG's 2001 review found similar cases of noncompliance with A/OPE policy. Despite identifying control weaknesses, OIG did not find any fraudulent misuse of the purchase card.

OIG found that 50 percent of annual reviews from FYs 2000-02 were incomplete, and program coordinators could neither explain the procedures nor identify the cardholder records they used to conduct the reviews. OIG requested copies of the reviews at each of the six posts visited; OIG anticipated obtaining 18, but only received 11. Only one post had copies of the review for the required three-year retention period. Only two of the 11 reviews examined were conducted during the first quarter of the new fiscal year as required. Program coordinators signed seven of 11 review certifications, but only one program coordinator actually conducted the review. Approving officials conducted seven of 11 reviews, and a financial management officer conducted one review. OIG could not determine who had conducted the three remaining reviews because the required documentation was missing. Moreover, in one case an approving official inappropriately used a copy of a review from a previous year, thereby circumventing the intent of the annual review and Department policy. According to A/OPE's program manual, program coordinators are responsible for ensuring that annual reviews are conducted.

OIG's examination of 3,537 of 55,079 purchase card transactions from FY 2003 identified systemic weaknesses in the monthly reconciliation process. Table 1 summarizes these shortcomings, two of which were also reported in OIG's 2001 review.

Table 1: Purchase Card Program Areas of Noncompliance

OIG's Findings	Purchase Card Participants		
	Program Coordinator	Approving Officials	Cardholders
Required documentation was not always present, including signed bank statements, buying logs, signed and dated reconciliations, and supporting documentation.[a]	✔	✔	✔
Purchase cards were not safeguarded.	✔	✔	✔
Procurement requests were prepared and submitted without supervisory approval.		✔	✔
Cardholders allowed unauthorized personnel to use purchase cards.[a]	✔	✔	✔
Program participants did not always complete purchase card maintenance forms to modify and cancel accounts.	✔	✔	

[a] Weakness also identified in the 2001 domestic review.
Source: OIG analysis of posts' purchase card records.

OIG's review of the reconciliation process found that cardholders were not maintaining accurate and complete records of all purchase card transactions for reconciliation purposes as required by A/OPE's program manual. OIG also found instances where the approving officials did not review, approve, sign, and date cardholder monthly statements and supporting documentation, all of which are also program manual requirements. OIG identified cases at each post involving unsigned bank statements and buying logs that either were missing or were not signed and dated. One post did not use buying logs until OIG asked for the logs for this review. In addition, cardholders allowed unauthorized personnel to use their purchase card on more than one occasion at two of the five posts visited. For example, in one case, a supervisor loaned his card to two subordinates because the subordinates' cards had not yet arrived. Only the cardholder is authorized to use the purchase card. A/OPE's program manual states that the program coordinator is responsible for the day-to-day administration of the card program.

OIG found that A/LM does not have a system that provides a full accounting for cardholder's names, account numbers, cardholder status, and spending limitations. Such a system is vital to establishing program accountability. OIG's comparison of A/LM and post records identified discrepancies. For example, A/LM's records, which are maintained in multiple, nonintegrated systems, differed from the information posts provided to us for program and card setup and maintenance.

OIG determined that post program coordinators caused the discrepancies by not adhering to program requirements; that is, failing to provide A/LM with updated maintenance forms when program participants departed post, retired, or no longer participated in the program. The processing of routine account changes, such as addresses and cancellations, require that posts complete a maintenance or change form located on the purchase card program web site. Nonroutine changes, such as increasing or decreasing purchase limits, require posts to complete other forms.

Without accurate information, the purchase card program loses accountability, and the Department faces vulnerability to fraud or cardholder misuse. The out-dated information also increases the time it takes A/LM to process a post's request for an account change. According to the GSA SmartPay master contract,[4] the agency or organization program manager is responsible for overall administration of the purchase card program, which includes "maintaining an up-to-date list of account names, account numbers, mail addresses, e-mail addresses, telephone numbers, etc., of all current cardholders and accounts." The TFM also requires agencies to maintain a current list of cardholders and approving officials. Both A/LM and A/OPE are aware of the problem and are working toward automating program administration and management.

OIG concluded that the Department should take additional steps to ensure that overseas program participants comply with program requirements on conducting annual reviews and maintaining adequate administrative oversight. Additional overseas purchase card program oversight, including the conduct of annual reviews, could be done by the approving officials. Policy on conducting annual reviews and purchase card internal controls could be reinforced by means of additional guidance. Also, program coordinators could use the annual review as a vehicle for updating overseas program participants' profile information.

Recommendation 1: OIG recommends that the Bureau of Administration, Office of Procurement Executive revise the *Worldwide Purchase Card Program Manual* to clarify the roles and responsibilities of approving officials in the day-to-day administration of the purchase card program and annual reviews.

As part of its response to the draft report, A/OPE said that it would revise the manual.

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[4]In 1998, GSA awarded contracts for the purchase card, travel card, and fleet card programs under the umbrella of the GSA SmartPay Program.

Recommendation 2: OIG recommends that the Bureau of Administration, Office of Procurement Executive issue a Department Notice or other appropriate guidance reiterating the Department's policy for conducting annual reviews and following established purchase card internal controls.

As part of its response to the draft report, A/OPE said that it would issue appropriate guidance.

Recommendation 3: OIG recommends that the Bureau of Administration, Office of Procurement Executive require purchase card officials to verify active purchase card program participants' profile information as part of the annual review process.

As part of its response to the draft report, A/OPE said that it would revise annual review procedures.

Expanding Purchase Card Training

OIG determined that overseas program participants had not received refresher training and designated billing officials had not received initial training. Although the Department has enhanced its purchase card training curriculum, as shown in Appendix B, additional steps are needed to reinforce controls over the card program. The TFM indicates that cardholders, approving officials, and others involved in the card program are required to obtain purchase card training.

OIG found that the Department verifies the need for program participant refresher training only when a participant requests either a one-time or permanent single-purchase limit increase or other nonroutine maintenance change. Refresher training is needed to keep abreast of purchase card program changes.
During OIG's review, some purchase card participants indicated additional training would be beneficial. One participant needed refresher training because he was not aware of policy updates made since receiving initial card training. According to the Government Accountability Office, "At a minimum, a cardholder should receive the standard purchase cardholder training provided by the organization and/or GSA, before receiving a purchase card, and periodic (biannual) refresher training thereafter."[5] In addition, although all the cardholders and approving officials OIG

[5] *Auditing and Investing the Internal Control of Government Purchase Card Programs* (GAO-03-678G, May 2003)

interviewed had received initial purchase card training, only 40 percent of designated billing officials had received training. The Department's card training program does not adequately cover designated billing officials.

In preparation for OIG's visit, purchase card officials at one post met to identify potential weaknesses in their purchase card program. According to the designated billing official, as a result of sharing information and thereby educating one another, they established more efficient procedures, which shaved one day off the funding process and several days off the reconciliation and payment process.

OIG concluded that requiring initial and refresher training for all program participants would strengthen the card program and that the Department should review the card training program and develop a requirement that all participants involved in the program, including designated billing officials, must receive initial and refresher training. Strengthening the training program could help alleviate the control weaknesses discussed in this report.

Recommendation 4: OIG recommends that the Bureau of Administration, Office of the Procurement Executive, in coordination with the Office of Logistics Management and Bureau of Resource Management, ensure that all purchase card participants receive initial and refresher training and establish appropriate purchase card training for designated billing officials.

As part of its response to the draft report, A/OPE said that it would coordinate with A/LM and RM to enhance the purchase card training program.

Expanding Purchase Card Use

OIG determined that the Department has taken steps to permit purchase card use for higher dollar procurements, but additional initiatives are needed to achieve compliance with FAR and TFM policies. Also, OIG determined that invoices for overseas purchases were not always paid in a timely manner as required by both the GSA SmartPay master contract and the Prompt Payment Act. Also, in FY 2003, both additional procurements and timely payments could have potentially increased the Department's annual overseas purchase card rebates by an estimated $910,000 and $20,000, respectively.

Promoting Greater Purchase Card Use

Although the Department has issued guidance detailing the procedures for obtaining higher purchase limits, OIG found that program participants used the purchase card to complete only 55,079 of 183,112[6] overseas small purchases (30 percent) for FY 2003. (See Table 2.) As a result, the Department earned approximately $83,000 in overseas volume rebates from Citibank. Had program participants made all overseas small purchases with the purchase card, OIG estimated that the Department could have earned about $910,000 in additional volume rebates.

Table 2: Department of State Overseas Small Purchases for FY 2003

Location	Task/Delivery Orders		Purchase Card Orders	
	Transactions	Purchases	Transactions	Purchases
Overseas	128,033	$310,348,454	55,079	$26,086,829
Domestic	17,232	$83,807,383	55,676	$34,406,122
Total	**145,265**	**$394,155,837**	**110,755**	**$60,492,951**

Source: Citibank and A/OPE.

The FAR requires agencies to use simplified acquisition procedures, such as purchase cards, to the maximum extent practicable. Moreover, FAR 13.301(b) states that agency procedures should not limit the use of purchase cards to micro-purchases (up to $2,500), but should encourage use of purchase cards in greater dollar amounts. FAR 13.301(c) also encourages agencies to expand the use of their purchase card programs for micro-purchases, task or delivery orders authorized in basic contracts, ordering agreements, or blanket purchase agreements, and payments to contractors, where the contractor agrees to accept payment by purchase card.

Furthermore, TFM Vol. I, Part 4, Chap. 4500, also requires agencies not to limit purchase cards to micro-purchases and states, "small purchases up to $25,000 should be made using the Government purchase card. Other small purchase methods . . . may only be used in lieu of the Government purchase card when it is more cost-effective, practicable, or required by existing statutes."

[6]Calculation arrived at by adding 55,079 purchase card orders and 128,033 task and delivery orders.

To encourage agencies to expand use of purchase cards, the Procurement Executives Council established a governmentwide goal for civilian agencies to process at least 75 percent of procurement transactions up to $25,000 on purchase cards. In addition, A/OPE's purchase card web site offers guidance on making purchases up to $25,000. In recent years, the Department has taken steps to permit purchase card use for higher dollar procurements by establishing policy and controls. However, the Department has not incorporated this guidance into its regulations, which continue to restrict routine purchase card use to $2,500.

OIG's review of posts' procurement logs and interviews with program participants confirmed that the purchase card could have been used more extensively on overseas purchases completed in FY 2003. For example, both the cardholders and procurement logs indicated that procurement mechanisms other than the purchase card were used to acquire goods valued in excess of $2,500. However, because of the single-purchase spending limits placed on the purchase cards, cardholders completed task or delivery orders for procurements that exceeded the $2,500 single-purchase limit.

Finally, both purchase card program participants and posts' procurement logs pointed to a lack of purchase card use for requisitioning under the GSA wholesale supply program. According to GSA, during FY 2003, the Department had 699 purchase card transactions, with domestic cardholders completing the majority of the transactions. An additional 8,758 transactions totaling $9.5 million were made using Federal Standard Requisitioning and Issue Procedures.[7] Procurement staff at overseas posts completed most of these transactions. The Department lost an estimated $30,000 in monetary rebates because they used the purchase card on just 7 percent of all transactions for GSA wholesale stock. A/OPE officials explained that posts experienced shipping problems associated with card use for GSA goods, which could have contributed to the small percentage of overseas purchase card transactions. However, A/OPE agreed that it would be beneficial to issue appropriate guidance on card use for GSA goods.

Table 3 illustrates the growth in cardholders with single purchase limits exceeding $2,500 since 1999. At the end of FY 2003, only 169 of the Department's 1,363 overseas and domestic cardholder accounts (12 percent) had the authorization to exceed $2,500. Specifically, 119 of 1,019 overseas accounts and 50 of 344 domestic accounts had single-purchase limits that exceeded the micro-purchase level.

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[7]FEDSTRIP is a governmentwide system used by federal agencies to obtain supplies and equipment from GSA.

Table 3: Cardholder Accounts With Single-Purchase Limits Exceeding $2,500

Fiscal Year	Cardholders		
	Overseas	Domestic	Total
1999	38	24	**62**
2000	69	38	**107**
2001	89	44	**133**
2002	107	47	**154**
2003	119	50	**169**

Note: According to A/OPE, the data include cardholder accounts that were closed at the end of each fiscal year. Therefore, they are representative of an approximate number of cardholder accounts with single-purchase limits exceeding $2,500 that were active at the end of each fiscal year.
Source: A/OPE.

OIG recognizes that there are factors that limit purchase card use worldwide and acknowledges A/OPE and A/LM efforts to ensure that cardholders adhere to procurement regulations and documentation requirements for transactions above the micro-purchase level. Officials surveyed at two regional bureaus said, "Some regions of the world are highly susceptible to purchase card fraud." One of the bureau officials added that, within such regions, alternative procurement vehicles, such as purchase orders, were preferable to purchase cards. Applying higher single-purchase spending limits to cards within these regions would be impractical. Other bureau officials added that local vendors did not routinely accept the purchase card. Furthermore, in response to OIG's questionnaire, post officials noted additional purchase card limitations, such as the lack of stability in host countries, financial management officials who discourage purchase card use, the lack of procurement expertise, staff shortages, high turnover, and inexperienced general services officers.

In recent years, the Department has taken steps to permit purchase card use for higher dollar procurements by establishing policy and controls. However, OIG determined that the Department could further promote card use for higher dollar procurements by revising the Department of State Acquisition Regulations (DOSAR), which currently does not offer policy guidance on this matter. OIG also concluded that purchase card limits should be established based on a cardholder's historical and projected monthly purchases. This would require an objective effort by overseas and domestic purchase card participants, with assistance from purchase card officials, to evaluate the historical and continuing needs of operations and cardholders. The purchase card annual review checklist would be a logical medium for periodically evaluating cardholder requirements.

Recommendation 5: OIG recommends that the Bureau of Administration, Office of the Procurement Executive revise the Department of State Acquisition Regulations to authorize the routine use of purchase cards above the micro-purchase level.

As part of its response to the draft report, A/OPE said that it would revise the DOSAR.

Recommendation 6: OIG recommends that the Bureau of Administration, Office of the Procurement Executive issue guidance on purchase card use for the General Services Administration wholesale stock.

As part of its response to the draft report, A/OPE said that it would issue appropriate guidance.

Recommendation 7: OIG recommends that the Bureau of Administration, Office of the Procurement Executive revise the annual review procedures and require purchase card officials to assess purchase card usage requirements and base a cardholder's single and monthly purchase card limits on historical and projected monthly procurements.

As part of its response to the draft report, A/OPE said that it would revise its annual review policy.

Improving Payment Performance

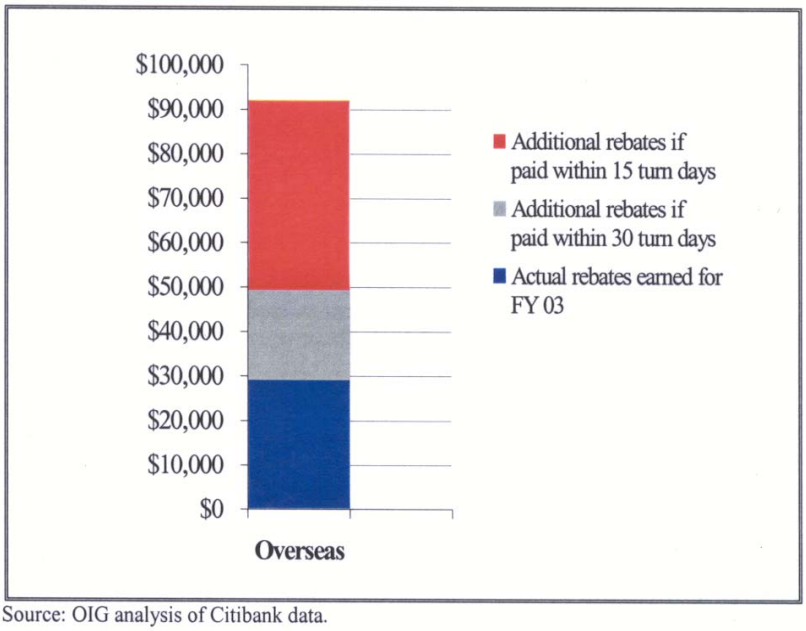
OIG's examination of cardholder transactions and files revealed that posts did not pay invoices in a timely manner. Designated billing officials waited for cardholders and approving officials to perform monthly reconciliation, and invoices arrived late. Timely payment of the monthly purchase card invoices is the key to good cash management and is required by the GSA SmartPay master contract and the Prompt Payment Act.

To encourage improved payment performance, Citibank offers a productivity rebate for invoices paid within 30 days. The productivity rebate increases incrementally for each day earlier that payment is received, thus rewarding faster payment. Late invoice payments meant that the Department did not earn the maximum amount of rebates available from Citibank. OIG's FY 2001 review of

domestic operations also found that "some posts had problems making timely reconciliations of their purchase card payments, which caused the Department to lose some of its rebates."

In FY 2003, the Department earned over $29,000 in overseas productivity rebates. Yet only 29 percent of overseas invoices earned productivity rebates. Had the Department paid all invoices within 30 days, OIG estimated that the productivity rebates could have increased to $49,000 for overseas posts.[8] This equates to about $20,000 in additional productivity rebates. Furthermore, OIG estimated that overseas productivity rebates could have increased to $92,000 if invoices were paid within a shorter period, for example 15 days, because faster payment of invoices increases the Department's rebates. The potential for increased productivity rebates is illustrated in Chart 1.

Chart 1: Potential for Increased Productivity Rebates



Source: OIG analysis of Citibank data.

[8]The SmartPay master contract requires that payment of end-of-year rebates allow sufficient time for agencies to take advantage of the funds before the end of the fiscal year. To meet this requirement, Citibank estimates the September rebates for the fourth-quarter payment. Any difference between the actual rebate earned and estimated amount is adjusted in the first-quarter rebate for the following fiscal year. For the purposes of projecting potential cost-savings, OIG reviewed actual billed amounts and payment performance for September 2003.

TFM Vol. I, Part 4, Chap. 4500, waives the requirement that goods and services be received and accepted before making payments. In addition, the Department' s program manual encourages posts to pay the purchase card invoice payments in full, immediately upon receipt, and to reconcile later; waiting for reconciliation results unnecessarily delays payments. TFM Vol. I, Part 4, Chap. 4535.10, addresses internal control and payment policies for purchase cards. It directs the designated billing official to pay purchase card invoices in a timely manner, regardless of whether all cardholder statements are received. Additionally, the regulations governing the Prompt Payment Act require agencies to pay invoices in full within 30 days of receipt, or sooner if the agency determines that earlier payment would result in an overall benefit to the government.

One factor that contributed to poor payment performance occurred when posts received invoices late, owing to the 2001 anthrax mail attacks. RM receives both purchase card invoices and reports and travel card program data on CD-ROM from Citibank. Consequently, RM has an assigned official responsible for separating the data for each program by post and then distributing the purchase card invoices and reports to the post's financial management official, program coordinator, or other designated official by e-mail. Cardholders informed us that monthly statement of accounts, which are sent by mail, often arrive late.

The consensus among purchase card participants was that they want access to the monthly cardholder statements and invoices online. A post official stated, "monthly statements should be available in real time, with easy access to view charges like in the private sector." OIG concluded that payment processing could improve at overseas posts if purchase card participants could access invoices and monthly cardholder statements online. This would aid in reconciling invoices and cardholder statements more promptly.

A/OPE is moving in the direction of providing purchase card participants with online access to purchase card information, and from June 2002 to December 2003, the office piloted a Citibank program that provides online access to electronic invoices and statements. In addition to the pilot users, several other purchase card program participants requested and were granted online access during the pilot period. A/OPE anticipated fully deploying the Citibank system during the fourth quarter of FY 2004.

In summary, the Department should strive to improve overseas payment performance.

Recommendation 8: OIG recommends that the Bureau of Administration, Office of the Procurement Executive, in coordination with the Bureau of Resource Management, issue guidance reminding designated billing officials that they are authorized to pay purchase card invoices upon receipt.

As part of its response to the draft report, A/OPE, in coordination with RM, said that it would issue guidance.

Recommendation 9: OIG recommends that the Bureau of Resource Management, in coordination with the Bureau of Administration, Office of the Procurement Executive, reiterate program guidance to pay purchase card invoices in accordance with the federal regulations that govern the Prompt Payment Act.

As part of its response to the draft report, A/OPE, in coordination with RM, said that it would issue guidance.

RECOMMENDATIONS

Recommendation 1: OIG recommends that the Bureau of Administration, Office of Procurement Executive revise the Worldwide Purchase Card Program Manual to clarify the roles and responsibilities of approving officials in the day-to-day administration of the purchase card program and annual reviews.

Recommendation 2: OIG recommends that the Bureau of Administration, Office of Procurement Executive issue a Department Notice or other appropriate guidance reiterating the Department's policy for conducting annual reviews and following established purchase card internal controls.

Recommendation 3: OIG recommends that the Bureau of Administration, Office of Procurement Executive require purchase card officials to verify active purchase card program participants' profile information as part of the annual review process.

Recommendation 4: OIG recommends that the Bureau of Administration, Office of the Procurement Executive, in coordination with the Office of Logistics Management and Bureau of Resource Management, ensure that all purchase card participants receive initial and refresher training and establish appropriate purchase card training for designated billing officials.

Recommendation 5: OIG recommends that the Bureau of Administration, Office of the Procurement Executive revise the Department of State Acquisition Regulations to authorize the routine use of purchase cards above the micro-purchase level.

Recommendation 6: OIG recommends that the Bureau of Administration, Office of the Procurement Executive issue guidance on purchase card use for the General Services Administration wholesale stock.

Recommendation 7: OIG recommends that the Bureau of Administration, Office of the Procurement Executive revise the annual review procedures and require purchase card officials to assess purchase card usage requirements and base a cardholder's single and monthly purchase card limits on historical and projected monthly procurements.

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Recommendation 9: OIG recommends that the Bureau of Resource Management, in coordination with the Bureau of Administration, Office of the Procurement Executive, reiterate program guidance to pay purchase card invoices in accordance with the federal regulations that govern the Prompt Payment Act.

ABBREVIATIONS

A	Bureau of Administration
A/LM	Bureau of Administration, Office of Logistics Management
A/OPE	Bureau of Administration, Office of the Procurement Executive
DOSAR	Department of State Acquisition Regulations
FAR	Federal Acquisition Regulation
GSA	General Services Administration
OIG	Office of Inspector General
RM	Bureau of Resource Management
TFM	Treasury Financial Manual

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APPENDIX A

Summary of the Department's Overseas Purchase Card Program Hierarchy

Role	Hierarchy	Description of Responsibilities
Program Manager	A/OPE	Purchase card policy, development of training, monitoring program performance, and overall program oversight.
Key Program Administrator	A/LM	Manage changes to individual account information, add new program participants (program coordinators, approving officials, and cardholders), cancel accounts, coordinate training, process temporary account changes, and provide policy guidance.
Program Coordinator	Management Officer[a]	Overall management of the program, including designating approving officials, establishing internal controls, and performing an annual review of purchase card activity.
Approving Officials	Immediate Supervisor or Higher Level Official	Review and approve cardholder purchases and monthly account statements, ensure that adequate funding is available for all purchase, and assist cardholders in resolving disputes.
Designated Billing Official	Financial Management Officer	Pay and reconcile the monthly invoice and manage funds for the purchase card accounts.
Cardholder	Department Employees[b]	Make purchases for official use, not splitting purchase requirements (i.e., paying for a good or service that exceeds the cardholder's single-purchase limit by splitting payment into two or more transactions), purchase supplies and services from U.S. government-required sources, maintain a purchase log with supporting documentation, and reconcile the monthly account statement.

[a]Although typically the management officer, any sufficiently high-level official may be the program coordinator.

[b]Employees hired under Personal Service Agreements (PSA), WAE agreements (While Actually Employed), and PIT (Part-time Intermittent or Temporary) appointments are also eligible to become cardholders. Contractors not under personal services contracts cannot be cardholders.

Source: Data from A/OPE.

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APPENDIX B

Department of State's Purchase Card Training Curriculm

Dates	A/OPE's Training Developments
June 1998	A/OPE developed and implemented an online training guide and test available through both the Intranet and Internet.
September 1999	The Foreign Service Institute began offering quarterly purchase card training workshops.
August 2000	A/OPE issued a major update to the online training guide and test to reflect policy and operational changes to the purchase card program.
July 2001	A/OPE revised the online training guide and test by implementing a multiple-choice format to replace the narrative test format.
July 2001	The Frankfurt Regional Financial Center began offering two-day purchase card regional training workshops.
December 2003	A/OPE issued an update to the online training guide and test to reflect policy and operational changes to the purchase card program.
May 2004	A/OPE issued an updated training guide to reflect policy and operational changes to the purchase card program.

Source: Data from A/OPE.

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APPENDIX C

Department Comments

United States Department of State

Washington, D.C. 20520

August 30, 2004

MEMORANDUM

TO: OIG – Warrington E. Brown, Acting Deputy Inspector General

THROUGH: A/EX – Peggy Philbin

FROM: A/OPE – Corey Rindner

SUBJECT: Draft Audit Report on the Review of the Department of State's Overseas Purchase Card Program

In response to your memorandum of August 6, 2004, attached are our comments on the draft audit report on the Department's Overseas Purchase Card Program. Although we agree overall with the recommendations, we have several suggested changes that we believe will strengthen the report.

Please contact Margaret Colaianni on (703) 516-1688 if there are any questions.

Attachment (as stated)

cc: A/LM – Frank Coulter
RM – Christopher H. Flaggs

Recommendation 1: OIG recommends that the Bureau of Administration, Office of Procurement Executive revise the *Worldwide Purchase Card Program Manual* to require that approving official assume the day-to-day administration of the purchase card program and annual reviews.

A/OPE suggests that the proposed recommendation be revised as follows:

"Recommendation 1: OIG recommends that the Bureau of Administration, Office of Procurement Executive revise the *Worldwide Purchase Card Program Manual* to authorize greater latitude for approving officials in the day-to-day administration of the purchase card program and annual reviews."

A/OPE agrees with the OIG recommendation. Under the current program, Approving Officials play a central role in the management, administration, and oversight of the program including reviewing/approving all cardholder purchases and signing monthly statements. Approving Officials are also authorized to assist the Program Coordinator in the performance of the annual review. A/OPE will clarify the language in the Purchase Card Program Manual to authorize greater latitude for approving officials in the day-to-day administration of the purchase card program, including assisting Program Coordinators in performing the annual review.

Recommendation 2: OIG recommends that the Bureau of Administration, Office of Procurement Executive issue a Department Notice or other appropriate guidance to purchase card officials and participants reiterating the Department's policy for conducting annual reviews and following established purchase card internal controls.

A/OPE agrees with the OIG recommendation and will issue appropriate guidance to purchase card officials and participants reiterating the Department's policy for conducting annual reviews and following established internal controls.

Recommendation 3: OIG recommends that the Bureau of Administration, Office of Procurement Executive require purchase card officials to verify purchase card program participants profile information as part of the annual review process.

A/OPE agrees with the OIG recommendation and will revise the annual review process to incorporate the requirement for the Program Coordinator to verify purchase card program participants' profile information to ensure that it is current.

Recommendation 4: OIG recommends that the Bureau of Administration, Office of the Procurement Executive, in coordination with the Bureau of Resource Management: a) ensure all purchase card participants receive initial and refresher training, b) establish appropriate purchase card training for designated billing officials, and c) develop a refresher training curriculum and cycles for all program participants.

A/OPE suggests that the proposed recommendation be revised as follows:

"**Recommendation 4**: OIG recommends that the Bureau of Administration, Office of the Procurement Executive, in coordination with the Bureau of Resource Management and Office of Logistics Management, Purchase Card Team: a) ensure all purchase card participants receive initial and refresher training, b) establish appropriate purchase card training for designated billing officials, and c) develop a refresher training curriculum and cycles for all program participants."

A/OPE agrees with the OIG recommendation. Under the current program, all Cardholders and Approving Officials are required to take both initial and refresher training. As part of the account setup process, all Program Coordinators are required to certify that they have reviewed and understand the purchase card program guidance contained in the on-line guide and acknowledge their specific responsibilities under the program. To further enhance our training program, A/OPE, in coordination with the Bureau of Resource Management and Office of Logistics Management, Purchase Card Team, will: a) revise the Purchase Card annual review to require the Program Coordinator to certify that all purchase card participants have received initial and refresher training, b) establish appropriate purchase card training for designated billing officials, and c) develop a refresher training curriculum tailored to the individual needs of the participants in the program and cycles for all program participants. Plans such as these are tied in with our ongoing automation project.

Recommendation 5: OIG recommends that the Bureau of Administration, Office of the Procurement Executive revise the Department of State Acquisition Regulations [sic] to authorize the routine use of purchase cards above the micro-purchase level.

A/OPE agrees with the recommendation of the OIG and will revise the Department of State Acquisition Regulation (DOSAR) to authorize the routine use of purchase cards above the micro-purchase level in accordance with Purchase Card policies and procedures. Both the on-line Purchase Card guide and the Program Manual contain guidance for obtaining a Purchase Card with a spending limit above $2,500 per transaction. The DOSAR will be revised to reference this guidance for purchases above the micro-purchase threshold. The audit report should note that DOSAR 613.307-70 already contains coverage on this issue, as it mandates the use of DS-3014 to document purchase card transactions over $2,500.

Recommendation 6: OIG recommends that the Bureau of Administration, Office of the Procurement Executive issue guidance to encourage purchase card use for the General Services Administration wholesale stock.

A/OPE suggests that the proposed recommendation be revised as follows:

"**Recommendation 6**: OIG recommends that the Bureau of Administration, Office of the Procurement Executive issue guidance to encourage purchase card use for the General Services Administration wholesale stock (including GSA Advantage), if GSA can assure proper delivery."

The Purchase Card on-line guide and Purchase Card Manual both encourage use of General Service Administration's (GSA) stock program as a source of supply and contain guidance on ordering products and services from GSA and other sources of supplies and services. However, there is a concern regarding proper delivery. There have been difficulties in tracing shipments for orders placed through the web-based GSA Advantage system using the purchase card, especially for overseas posts. (GSA Advantage includes both wholesale stock and GSA schedule contract items.) A typical GSA Advantage shipment will not identify the destination Embassy or Consulate, so problems have arisen at the Despatch Agents. A/OPE can issue a Procurement Information Bulletin with further guidance on use of the Purchase Card for GSA ordering, but delivery problems will have to be addressed by GSA.

Recommendation 7: OIG recommends that the Bureau of Administration, Office of the Procurement Executive revise the annual review procedures and require purchase card officials to assess purchase card usage requirements and base a cardholder's single and monthly purchase card limits on expected monthly procurements.

A/OPE agrees with the thrust of OIG's recommendation but suggests that the proposed recommendation be revised as follows:

"**Recommendation 7**: OIG recommends that the Bureau of Administration, Office of the Procurement Executive revise the annual review procedures and require purchase card officials to assess purchase card usage requirements and base a cardholder's single and monthly purchase card limits on historical and projected monthly procurement requirements."

It is crucial that both past and expected future purchases be considered when setting card limits. A/OPE will revise the Annual Review policy and checklist accordingly.

Recommendation 8: OIG recommends that the Bureau of Administration, Office of the Procurement Executive, in coordination with the Bureau of Resource Management, maximize rebates by issuing a reminder to designated billing officials to pay purchase card invoices upon receipt.

A/OPE suggests that the proposed recommendation be revised as follows:

"**Recommendation 8:** OIG recommends that the Bureau of Administration, Office of the Procurement Executive, in coordination with the Bureau of Resource Management, maximize rebates by issuing a reminder to designated billing officials that Treasury has authorized the payment of purchase card invoices upon receipt."

A/OPE agrees with the OIG recommendation and in coordination with the Bureau of Resource Management, will issue guidance to Designated Billing Officials worldwide of the Department's preference, based on the Treasury's authorization to pay invoices upon receipt and reconcile afterwards in order to maximize rebates and reduce delinquencies.

Recommendation 9: OIG recommends that the Bureau of Resource Management in coordination with the Bureau of Administration, Office of the Procurement Executive, establish guidance to pay purchase card invoices in accordance with the federal regulations that govern the Prompt Payment Act.

The Bureau of Resource Management and A/OPE suggest that the proposed recommendation be revised as follows:

"**Recommendation 9**: OIG recommends that the Bureau of Resource Management, in coordination with the Bureau of Administration, Office of the Procurement Executive, reiterate purchase card program guidance to pay purchase card invoices in accordance with the federal regulations that govern the Prompt Payment Act."

The Bureau of Resource Management agrees with the recommendation of the OIG. Both the Purchase Card on-line guide and Purchase Card Manual provide specific guidance on payment of the centrally billed invoice in accordance with purchase card policies and procedures and with the federal regulations that govern the Prompt Payment Act. In coordination with A/OPE, the Bureau of Resource Management will reiterate purchase card program guidance to pay purchase card invoices in accordance with the federal regulations that govern the Prompt Payment Act.