Office of the Inspector General

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William A. Halter
Deputy Commissioner
of Social Security

Inspector General

Review of the Social Security Administration's Internal Controls over International Merchant Purchase Authorization Card Payments (A-13-97-91018)

The attached final report presents the results of our audit. Our objective was to determine whether the Social Security Administration's internal controls provided reasonable assurance that International Merchant Purchase Authorization Card purchases were appropriately authorized and the processing and reporting of purchases were complete, accurate, and properly classified.

Please comment within 60 days on corrective action taken or planned on each recommendation. If you wish to discuss the final report, please call me or have your staff contact Steven L. Schaeffer, Assistant Inspector General for Audit, at (410) 965-9700.

James G. Huse, Jr.

Attachment

OFFICE OF
THE INSPECTOR GENERAL

SOCIAL SECURITY ADMINISTRATION

REVIEW OF THE SOCIAL SECURITY ADMINISTRATION'S INTERNAL CONTROLS OVER INTERNATIONAL MERCHANT PURCHASE AUTHORIZATION CARD PAYMENTS

June 2000 **A-13-97-91018**

AUDIT REPORT

Executive Summary

OBJECTIVE

We determined whether the Social Security Administration's (SSA) internal controls provided reasonable assurance that International Merchant Purchase Authorization Card (IMPAC) purchases were appropriately authorized and the processing and reporting of purchases were complete, accurate, and properly classified.

BACKGROUND

The IMPAC, a Federal credit card purchasing program implemented in 1982, was designed to streamline Federal payment procedures, reduce paperwork, and lower the administrative costs of purchasing supplies and services. IMPAC was originally a manual process. However, the Office of Acquisition and Grants (OAG) automated this process in October 1995, developing the Purchase Card Reporting System (PCRS) to capture, process, and report transaction data. In June 1997, OAG developed a system to ensure appropriate use of SSA's IMPAC program. Additionally, SSA's Office of Operations reviews IMPAC transactions during its On-site Security Control and Audit Reviews of field offices.

Since November 1998, the Citibank Corporation, as the contracted financial institution, has issued IMPAC cards and provided related services to Federal cardholders. From September 1, 1996, through November 30, 1997, SSA's 2,356 micro-purchasers (authorized cardholders) made 99,734 IMPAC expenditures, totaling approximately $33.9 million.

We audited 12 SSA cardholders: 4 from Headquarters and 8 from Philadelphia (Region III). These cardholders purchased 2,428 items or services totaling approximately $1.5 million from September 1, 1996, through November 30, 1997. We conducted this audit from July through November 1998 at SSA Headquarters; two field offices in Baltimore, Maryland; and six field offices in Harrisburg, Wilkes-Barre, and Philadelphia, Pennsylvania. In October and November 1999, we revisited selected cardholders to confirm that conditions noted during our initial reviews were still valid.

RESULTS OF REVIEW

Although SSA had established internal controls for IMPAC purchases, we found implementation and adherence weaknesses. Of particular concern were incidences where appropriate records/documentation were not maintained. Our specific findings were as follows.

- *Required Purchase Logs Were Incomplete or Nonexistent*
- *IMPAC Transactions Had Partial or No Required Documentary Evidence*
- *Written Management Approval Was Not Always Obtained for IMPAC Purchases*
- *Automated IMPAC Purchasing Procedures Did Not Provide for Separation of Duties*
- *Unauthorized Individuals Were Allowed IMPAC Access*
- *Split Purchases Were Used to Exceed IMPAC Spending Threshold*
- *The PCRS Contained Insufficient or Inaccurate Information*
- *IMPAC Purchases Were Made Without Evidence of Budget Approval*

CONCLUSION AND RECOMMENDATIONS

To strengthen its internal controls over the IMPAC process, we recommend that SSA:

- Reinforce knowledge of policies and procedures on the maintenance of complete and accurate purchase logs so that IMPAC purchases are processed appropriately.
- Require documentation procedures be incorporated into the Administrative Instructions Manual System in accordance with General Accounting Office (GAO) standards and those described in SSA's Training Course. All cardholders should be required to comply with the established documentation procedures.
- Reinforce knowledge of policies and procedures on the management approval of all purchase requisitions to confirm that purchases are appropriate and are for official Government purposes.
- Require adherence to GAO and SSA micro-purchasing policies and procedures that require separation of duties. For example, reinstitute the requirement for an authorizing official's approval when certifying IMPAC purchases. Incorporate such micro-purchasing procedures in PCRS guidance as well as the Administrative Instructions Manual System.
- Require proper recording and accounting of all expendable purchased items considered sensitive.
- Require that only authorized cardholders be able to process IMPAC transactions.
- Investigate all potential violations of purchase limitations to ensure appropriate IMPAC use.

- Require cardholders to provide adequate descriptions of purchased items to ensure the effectiveness of the PCRS monitoring system.

- Establish an edit process in the PCRS to identify incorrect sub-object class codes.

- Require appropriate budget approval and accounting classification of all IMPAC purchases as a means of maintaining proper fiscal control.

AGENCY COMMENTS

SSA generally agreed with our recommendations. However, SSA only agreed in part with Recommendation 4. SSA plans to incorporate the PCRS process into Citibank's Electronic Access System. The approving official's paper copy of the monthly statement will continue to serve as the final step in the post-review certification process to ensure the validity of the transactions made by his/her cardholders.

Also, SSA did not agree with Recommendation 9. SSA stated it is not possible to build into the PCRS edits for incorrect codes. However, SSA has included an edit in PCRS Version 4.2 to ensure that Common Accounting Numbers and sub-object class codes used for each transaction are valid. Before the end of Fiscal Year 2000, SSA will include in its micro-purchase Acquisition Management Reviews a verification process to ensure the sub-object class code is correct.

OIG RESPONSE

We agree with SSA's plan to incorporate the PCRS process into Citibank's Electronic Access System, which will enable the authorizing officials to review cardholder transactions electronically. However, we continue to recommend that SSA re-emphasize the authorizing official responsibility until the process with Citibank is fully implemented. We also agree with SSA's modification of the PCRS to ensure that only valid sub-object class codes are used for IMPAC transactions.

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Acronyms

FO	Field Office
GSA	General Services Administration
IMPAC	International Merchant Purchase Authorization Card
OAG	Office of Acquisition and Grants
OMB	Office of Management and Budget
PCRS	Purchase Card Reporting System
SOC	Sub-Object Class
SSA	Social Security Administration

Introduction

OBJECTIVE

We determined whether the Social Security Administration's (SSA) internal controls provided reasonable assurance that International Merchant Purchase Authorization Card (IMPAC) purchases were appropriately authorized and the processing and reporting of these purchases were complete, accurate, and properly classified.

BACKGROUND

The IMPAC, a Federal credit card micro-purchasing program implemented in 1982, was designed to streamline Federal payment procedures, reduce paperwork, and lower the administrative costs of purchasing supplies and services.[1] Since November 1998, the General Services Administration (GSA) has contracted with the Citibank Corporation to issue the IMPAC and provide related services to Federal cardholders.[2] From September 1, 1996, through November 30, 1997, SSA's 2,356 micro-purchasers located at Headquarters and field offices (FO) made 99,734 transactions, totaling approximately $33.9 million.

Micro-purchasing was automated in October 1995 by the Purchase Card Reporting System (PCRS) developed by the Office of Acquisition and Grants (OAG). The PCRS enables cardholders nationwide to certify and update acquisition activity within 1 week of notification by the contracted financial institution that a purchase has been posted. The PCRS also allows for additional financial accounting information, including a Common Accounting Number, sub-object class (SOC) code, and purchase description. The PCRS eliminates the requirement that a cardholder send the paper Statement of Account to SSA's Office of Financial Policy and Operations.

In June 1997, OAG developed an oversight system for SSA's micro-purchase card program. The system identifies purchases that appear inconsistent with established regulations and procedures, such as (1) purchase of prohibited or restricted supplies or services,[3] (2) orders split or divided to stay below the micro-purchase or delegated dollar limit, (3) repeat purchases from the same vendor, and (4) inadequate PCRS descriptions. Questionable purchase data are forwarded to the cardholder to verify and to provide supporting documentation.

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[1] The *Federal Acquisition Streamlining Act of 1994,* Public Law 103-355, 108 Stat. 3243 (1994), created a new designation for Federal purchasing entitled "micro-purchasing," an acquisition of supplies or services (except construction), the aggregate amount of which does not exceed $2,500. Micro-purchases for construction-related purchases are limited to $2,000.

[2] Before Citibank Corporation, the GSA contract was with Rocky Mountain Bankcard System, Inc., a subsidiary of U.S. Bancorp.

[3] Prohibited or restricted refers to personal items or items that can be ordered in limited quantities.

SSA's Office of Operations also includes a review of FOs' IMPAC transactions as part of its On-Site Security Control and Audit Review system. This Review system helps determine whether FO managers have implemented internal controls required by SSA's Program Operations Manual System and Administrative Instructions Manual System instructions as well as requirements governing SSA operations.

SCOPE AND METHODOLOGY

We reviewed prior Office of the Inspector General audits and examined IMPAC program policies and procedures. We interviewed 12 SSA cardholders and their authorizing officials and reviewed their internal controls to safeguard IMPAC use. Cardholders at these sites had purchased 2,428 items or services, totaling approximately $1.5 million, from September 1, 1996, through November 30, 1997. We selected the cardholders based on travel proximity to Headquarters. We conducted site visits at SSA Headquarters; two FOs in Baltimore, Maryland; six FOs in Harrisburg, Wilkes-Barre, and Philadelphia, Pennsylvania. We conducted our work from July through November 1998. In October and November 1999, we revisited selected cardholders to confirm that conditions noted during our initial reviews were still valid.

We conducted our audit in accordance with generally accepted government auditing standards.

Results of Review

SSA has established internal controls for IMPAC purchases. However, SSA needs to improve implementation and compliance with these controls, particularly maintenance of appropriate records and documentation.

Required Purchase Logs Were Incomplete or Nonexistent

Cardholders are required to maintain a log of all purchases/services.[4] At a minimum, and regardless of format (electronic or paper), the log should include (1) purchase order number, (2) date of purchase, (3) description of the item purchased, (4) vendor name, (5) expected delivery date, and (6) delivery occurred.[5]

Most Reviewed Cardholders Did Not Fully Meet the Purchase Log Requirements

Although we did find 2 Headquarters cardholders maintained complete purchase logs, the remaining 10 did not include required information. Five cardholders had incomplete purchase logs: two at Headquarters and three at FOs. The remaining 5 FOs had no purchase log, and acquisition activity for approximately 1,160 (48 percent) of 2,428 PCRS entries could not be tracked.

One cardholder at Headquarters who had incomplete purchase logs failed to post 721 (92 percent) of 784 transactions, not complying with the required minimum elements. The other Headquarters cardholder failed to post 63 of 90 (70 percent) transactions because of billing problems with the vendor.

In the 8 FOs with incomplete or no purchase logs, we found 376 of 697 transactions not posted. During interviews, FO cardholders reported being unfamiliar with procedures regarding purchase log maintenance. On average, FOs process relatively few transactions a month, approximately six per office. We believe maintaining a complete and accurate purchase log is neither a burdensome nor a highly complex task relative to the small number of monthly transactions processed.

[4] Administrative Instructions Manual System *Material Resources Handbook of Small Purchases,* section 05.03*, Required Acquisition Documentation.* A purchase log is a sequential list of each micro-purchase by purchase order number.

[5] *SSA's Micro-Purchasing in SSA Field Activities Training Course*, module *8 – Purchase Files and Documentation,* section A*, The Purchase Log,* screen number 12. The cardholder checks off the delivery occurred column when she/he is notified the items have been delivered.

IMPAC Transactions Had Partial or No Required Documentary Evidence

Documentation, whether in paper or electronic form, should be complete, accurate, and facilitate tracing the transactions from inception to completion.[6] In general, documentary evidence should include (1) request documentation;[7] (2) notes of conversation with the vendor;[8] (3) a copy of the payment document, if any, showing a purchase has been made and has a zero balance due; and (4) proof of delivery, if any, such as any delivery tickets and packing slip receipts issued by the vendor and given to an individual other than the requester.

Nearly All Reviewed IMPAC Purchases Had No Available Documentation

For the four Headquarters cardholders, at least 99 percent of all reviewed transactions, totaling $1,182,550, was either partially maintained or not maintained at all (see Table 1). One cardholder accounted for 1,035 (60 percent) of the 1,731 reviewed Headquarters' transactions. Of these, only 2 transactions had complete documentation, 805 contained partial documentation, and the remaining 228 were not documented at all. This cardholder was aware of the required documentation procedures but did not comply with them, believing the procedures were in conflict with the Vice President's initiative on paperless processing.

Table 1. IMPAC Documentation for Four Cardholders at Headquarters

Required Documentation Maintained	*Number of Transactions*	*Percent of Transactions*	*Dollar Amount*
All	6	0.4	$6,783
Partial	1,385	80.0	970,107
None	340	19.6	212,443
Total	**1,731**	**100.0**	**$1,189,333**

The remaining 696 transactions processed by the 3 other Headquarters cardholders also showed a lack of understanding as to what constituted complete documentation. They stated they were unfamiliar with relevant policies and procedures.

[6] General Accounting Office *Policy and Procedures Manual for Guidance of Federal Agencies* requires that documentation be readily available for examination. Module 8 of SSA's micro-purchasing training guide, *Purchase Files and Documentation,* also requires cardholders to keep documentation in support of their IMPAC purchases.

[7] Request documentation may include what the cardholder was asked to purchase, for whom, required delivery date, suggested source, justification, and prior purchase approval.

[8] Notes of conversation with the vendor should include such information as the contacted individual's name, quoted price, and warranty information.

We found the same pattern with the reviewed FO cardholders. As seen in Table 2, only 1 of the 697 transactions had all the required documentation. The remaining 696 transactions, totaling $297,358, had either partial documentation or none at all. FO cardholders had differing viewpoints about the types of documentation they were required to maintain. The lack of required documentation at both Headquarters and FOs limited our ability to determine the validity of the purchase transactions.

Table 2. IMPAC Documentation for Eight Cardholders at FOs

Required Documentation Maintained	Number of Transactions	Percent of Transactions	Dollar Amount
All	1	0.1	$562
Partial	561	80.5	252,691
None	135	19.4	44,667
Total	**697**	**100**	**$297,920**

Written Management Approval Was Not Always Obtained for IMPAC Purchases

Office of Management and Budget (OMB) Circular A-123, *Management Accountability and Control Standard*s, for internal controls requires that supervisors provide their staffs with necessary guidance and training. This instruction helps ensure errors, waste, and wrongful acts are minimized and specific management directives are achieved.

60 Percent of IMPAC Purchases Did Not Have Written Management Approval

Of the 2,428 IMPAC transactions processed by 12 cardholders, 1,448 (60 percent) were not approved by management in writing before the purchases were made. Eleven cardholders accounted for 480 (33 percent) of these transactions not having written management approval, with 1 cardholder accounting for the remaining 968 (67 percent). Cardholders and supervisors told us they had verbal management approval, but they could provide no evidence of the approval. Without written approval, management does not have an opportunity to confirm that purchases are appropriate and for official Government purposes.

Automated IMPAC Purchasing Procedures Did Not Provide for Separation of Duties

Before micro-purchasing was automated, the manual process had provisions for separation of duties[9] and allowed for supervisory review of all purchases,[10] making it more difficult for a cardholder to make unauthorized purchases without detection. There was no provision in the PCRS requiring approving officials to certify the authenticity of purchases. Cardholders were allowed to unilaterally certify their own purchases after retrieving and reviewing the weekly PCRS transactions. According to OAG, the approving official's certification of PCRS transactions was excluded to make IMPAC purchases easier for management use.

We believe this situation increases the potential for cardholders to make unauthorized purchases without detection. For example, while we were tracing the disposition of sensitive items [11] purchased by cardholders (as reflected in the PCRS), we found that one cardholder could not locate a laptop computer listed for $1,340. After reviewing available documents and interviewing staff, we determined the cardholder's manager did not approve the laptop purchase requisition. We also found (1) the description on the purchase requisition did not match the description on either the invoice or the PCRS; (2) the individual for whom the laptop computer was intended and who supposedly made the request did not know about the purchase; (3) the invoice indicated a different laptop computer brand name than was actually requested; and (4) the laptop computer was not noted in the component's custodial official's records of sensitive, expendable items.[12]

This example illustrates what can happen when one individual authorizes, processes, records and reviews a purchase transaction. Without effective checks and balances, there is an increased risk of error, fraud, waste, or abuse when only one person controls all key aspects of a transaction.

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[9] OMB standards for management controls require that key duties and responsibilities be divided or segregated among individuals to ensure they do not exceed or abuse their assigned authority (OMB Circular A -123, II. *Establishing Management Controls, Specific Management Control Standard, Separation of Duties and Supervision*).

[10] *Administrative Instructions Manual System, Material Resources,* chapter 6 – *Acquisition*, instruction number 16, section 12, *Approving Official* (dated July 31, 1992).

[11] Sensitive items are considered those that are expensive and reportable, for example, laptop computers, cellular phones, tape recorders, and cameras.

[12] We met with management to discuss the missing equipment and were told that every effort would be made to recover the laptop computer. The cardholder told management the laptop computer could not be located.

Unauthorized Individuals Were Allowed IMPAC Access

Nearly One-Third of Reviewed FO Cardholders Allowed Others IMPAC Access

SSA's policy states the cardholder is responsible for IMPAC card security and must prevent its use by others.[13] Although we found that 8 of 12 cardholders did not share their micro-purchase cards, 4 cardholders at FOs did. For example, in one FO, the cardholder's responsibilities were inappropriately delegated to an administrative assistant who was asked to assume the role of micro-purchaser. We were told unauthorized individuals were allowed IMPAC access because (1) the cardholder was not aware permitting others to use the cards was problematic and (2) the FO needed to prioritize workloads (for example, having to choose between assigning a person to process claims or make IMPAC purchases).

To further corroborate our findings, we reviewed the IMPAC portion of 33 On-Site Security Control and Audit Review reports conducted by SSA's integrity staff. These reports covered the same time frame as our audit. We found 10 incidences where cards were accessible to individuals other than the cardholders. We also found that unauthorized individuals made IMPAC purchases by telephone.

If a cardholder allows an unauthorized person access to the IMPAC, the authorized cardholder is responsible for any purchases that unauthorized user makes. We believe allowing cards to be used by unauthorized persons can potentially compromise the integrity of the IMPAC process, creating situations for increased incidences of micro-purchasing fraud, waste, and abuse.

Split Purchases Were Used To Exceed IMPAC Spending Threshold

Split purchases are made when procurements exceed a spending threshold and the purchaser intentionally splits the procurement into smaller purchases. To test whether cardholders made split purchases, we used the PCRS to list all transactions made on the same day to the same vendor. From this list, we identified 203 transactions from Headquarters. Of these, we identified eight as split purchases. We determined that these split purchases were made because no SSA oversight existed to identify and resolve them. These purchases were not authorized under IMPAC procedures, and the cardholder should have forwarded them to a contracting officer who had authority to procure above the $2,500 single purchase limit.[14] By splitting purchases, cardholders can exceed the $2,500 micro-purchasing limit, expediting the purchasing process, circumventing the more complicated and laborious competitive bidding process and exemption from *the Federal Acquisition Streamlining Act of 1994*.

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[13] SSA *Administrative Instructions Manual System, Material Resources,* chapter 06 - *Acquisition,* instruction number 16, section 05, *Introduction.* A cardholder may not redelegate his/her authorities or responsibilities, and personnel cannot exercise any cardholder authorities when they are designated in an "acting" position and no one can "sign for" the cardholder (SSA's *Micro-Purchasing in SSA Field Activities Training Course*, module 2 -*Your Authority*, section A, *Nature of Acquisition Delegation*, screen Number 1).

[14] *Federal Acquisition Regulation*, subchapter C, part 13 - *Simplified Acquisition Procedures*, subpart 13.003d.

The PCRS Contained Insufficient or Inaccurate Information

Cardholders are required to update the PCRS with each week's purchase activity by describing the product or service purchased. Also, as part of the certification process, the cardholder inputs the applicable description of the items/services purchased and the appropriate SOC data, as approved.

Over One-Third of Reviewed Transactions Did Not Have Accurate Purchase Descriptions

When we compared 2,428 purchase descriptions entered into the PCRS against the documentation maintained by each cardholder, we found that 350 transactions did not include sufficient information to determine the transaction's validity. In addition, we could not determine the accuracy of descriptions for another 476 transactions because documentation was not available for review. Cardholders informed us the purchase descriptions were not accurate because they did not follow the policy guidance OAG provided.[15]

Because OAG relies on complete purchase descriptions to identify purchases that appear inconsistent with established regulations and procedures, it is imperative that cardholders give correct and accurate purchase descriptions. Without these, OAG's capability to fully monitor IMPAC spending is restricted.

No Edit Processes to Ensure Assignment and Entry of Correct SOCs

We also discovered problems with SOC coding. In our review of one cardholder at Headquarters, we found the same SOC had been charged for all items/services purchased during our review period. Of the cardholder's 1,035 transactions, 417 (40 percent), totaling $253,107, contained incorrect SOC codes. We believe these transactions should have been allocated among 21 other SOC codes rather than charged to the same SOC. Additionally, for the eight FO components, approximately 11 percent of the SOCs did not match the items purchased. There was no edit process to prevent cardholders from either deliberately or accidentally entering incorrect SOCs into the PCRS. By incorrectly recording purchases under the wrong SOC, management's ability to maintain accurate accounting and budgetary data is compromised.

[15] SSA's policy on providing purchase descriptions is found in its training manual, *SSA's Micro-Purchasing in SSA Field Activities Training Course*, module 11 – *Rules on Use of the Purchase Card,* section C, *Statement of Account*, screen number 43. It informs the cardholder that s/he is responsible for providing a brief description of the purchase rather than a general description, such as miscellaneous office supplies.

IMPAC Purchases Were Made Without Evidence of Budget Approval

Nearly Two-Thirds of Sample Did Not Have Appropriate Budgetary Approval

SSA's Micro-Purchasing in SSA Field Activities Training Course states cardholders cannot make a purchase without assurance that funds are available. Although the *Training Course* recommends the use of electronic mail procedures for budget review and approval of micro-purchase requests, we found no evidence that our sampled cardholders were using this process. They did not consistently provide documentary evidence of budget approval for transactions completed during our review period.[16]

At Headquarters, reviewed cardholders were responsible for 1,731 transactions totaling $1.2 million. Of these, 1,099 (63 percent), totaling $582,488, had no evidence of budgetary approval. Cardholders did not obtain approvals because Common Accounting Number and SOC financial data had not been assigned to purchased items.

For the reviewed FOs, we found similar results. Of 697 transactions totaling $297,920, 419 transactions (60 percent), totaling $132,252, did not have appropriate budgetary approval. In contrast to Headquarters cardholders maintaining evidence to support their budgetary approval for purchased items/services, the FOs had no formal budget approval process. FOs confirmed their expenditures by checking against their budget allocations provided by their regional offices. As a result, for the FOs, we could not determine whether there was appropriate budget approval granted or the cardholder had exceeded budget limitations. Regardless of location (Headquarters or FO), we believe cardholders will continue to process micro-purchases without obtaining the required budgetary approval unless management conducts ongoing reviews to ensure documentation for budgetary approval is obtained.

[16] Funding approval should be accomplished by routing the purchase request through the cardholder's budgetary approving official. The budgetary approval process involves checking Common Accounting Number and SOC codes to ensure that funds are available for specific items requested. Headquarters and field components can use various purchase request documents to obtain budgetary approval.

Conclusions and Recommendations

We found numerous internal control weaknesses in the IMPAC micro-purchasing process. These included incidences in which required purchase logs were not always maintained, purchase documentation was insufficient, management approval missing, separation of duties not enforced, supervisory reviews not conducted, unauthorized individuals given IMPAC access, split purchases made, purchase descriptions inaccurate, and budget approval not obtained. We believe these internal control weaknesses increase the potential likelihood for fraud, waste and abuse in connection with IMPAC purchases, as well as hindering SSA's ability to detect such actions.

To strengthen IMPAC internal controls, we recommend that SSA:

1. Reinforce knowledge of policies and procedures on the maintenance of complete and accurate purchase logs so that IMPAC purchases are processed appropriately.

2. Incorporate documentation procedures the Administrative Instructions Manual System in accordance with General Accounting Office standards and those described in SSA's Training Course. All cardholders should be required to comply with the established documentation procedures.

3. Reinforce knowledge of policies and procedures on the management approval of all purchase requisitions to confirm that purchases are appropriate and are for official Government purposes.

4. Require adherence to General Accounting Office and SSA micro-purchasing policies and procedures that require separation of duties. For example, reinstitute the requirement for an authorizing official's approval when certifying IMPAC purchases. Incorporate such micro-purchasing procedures in PCRS guidance as well as the Administrative Instruction Manual System manual.

5. Require proper recording and accounting of all expendable purchased items considered sensitive.

6. Require that only authorized cardholders be able to process IMPAC transactions.

7. Investigate all potential violations of purchase limitations to ensure appropriate IMPAC use.

8. Require cardholders to provide adequate descriptions of purchased items to ensure the effectiveness of the PCRS monitoring system.

9. Establish an edit process in the PCRS to identify incorrect SOC codes.

10. Require appropriate budget approval and accounting classification of all IMPAC purchases as a means of maintaining proper fiscal control.

AGENCY COMMENTS

SSA generally agreed with our recommendations. However, SSA only agreed in part with Recommendation 4. SSA plans to incorporate the PCRS process into Citibank's Electronic Access System. The approving officer's paper copy of the monthly statement will continue to serve as the final step in the post-review certification process to ensure the validity of the transactions made by his/her cardholders.

Also, SSA did not agree with Recommendation 9. SSA stated it is not possible to build into the PCRS edits for incorrect codes. However, SSA has included an edit in PCRS Version 4.2 to ensure that Common Accounting Numbers and SOC codes used for each transaction are valid codes. Before the end of Fiscal Year 2000, SSA will include in its micro-purchase Acquisition Management Reviews a verification process to ensure the SOC code is correct.

SSA also provided other comments that we addressed. See Appendix A for the full text of SSA's comments.

OIG RESPONSE

We agree with SSA's plan to incorporate the PCRS process into Citibank's Electronic Access System, which will enable the authorizing officials to review cardholder transactions electronically. However, we continue to recommend that SSA re-emphasize the authorizing official responsibility until the process with Citibank is fully implemented. We also agree with SSA's modification of the PCRS to ensure that only valid SOCs are used for IMPAC transactions.

Agency Comments

COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL (OIG) DRAFT REPORT, "REVIEW OF THE SOCIAL SECURITY ADMINISTRATION'S (SSA) INTERNAL CONTROLS OVER INTERNATIONAL MERCHANT PURCHASE AUTHORIZATION CARD PAYMENTS" (A-13-97-91018)

Thank you for the opportunity to review and provide comments on this draft report. We agree that SSA should strengthen its International Merchant Purchase Authorization Card (IMPAC) internal controls to ensure that credit purchases are valid; proper and appropriately authorized; controls are in place to prevent and/or discover waste or fraud; and budgetary restraints are observed.

We offer the following comments.

OIG Recommendation 1

Reinforce knowledge of policies and procedures on the maintenance of complete and accurate purchase logs so that IMPAC purchases are processed appropriately.

SSA Comment

We agree. Although our current Administrative Instructions Manual System (AIMS) and the computer-based training course already specify this requirement, we will ensure that all new purchase card related training and policy emphasize the need for purchase logs.

OIG Recommendation 2

Require documentation procedures be incorporated into AIMS in accordance with General Accounting Office (GAO) standards and those described in SSA's Training Course. All cardholders should be required to comply with the established documentation procedures.

SSA Comment

We agree and will incorporate into the appropriate AIMS instruction the required documentation procedures before September 30, 2000.

Cardholders have always been required to comply with these procedures. However, as an improvement to our oversight efforts and to expand the remote purchasing reviews we have conducted

for some time, we implemented on site Acquisition Management Reviews of Headquarters micro-purchasers in April 2000. In addition, as part of the regional office's Acquisition Improvement Plans, some of the regional contracting officers have begun on-site reviews in their respective regions.

OIG Recommendation 3

Reinforce knowledge of policies and procedures on the management approval of all purchase requisitions to confirm that purchases are appropriate and are for official Government purposes.

SSA Comment

We agree and will periodically issue appropriate reminders. The first of these reminders will be issued by August 31, 2000.

OIG Recommendation 4

Require adherence to GAO and SSA micro-purchasing policies and procedures that require separation of duties. For example, reinstitute the requirement for an authorizing official's approval when certifying IMPAC purchases. Incorporate such micro-purchasing procedures in Purchase Card Reporting System (PCRS) guidance as well as the AIMS.

SSA Comment

We agree, in part, with this recommendation. We agree with the need for separation of duties and for approving officials (AO) reviewing the activity of their micro-purchasers. However, we do not agree that this requirement must be in the PCRS.

The AO's paper copy of the monthly statement will continue to serve as the final step of the post-review certification process to ensure the validity of the transactions made by his/her cardholders. In addition, to provide for a system of checks and balances, we require a separation of duties when items are received at the office. See Module 9, Inspection and Acceptance of SSA's Micro-Purchasing in SSA Field Activities training course.

We plan to incorporate the PCRS process into Citibank's Electronic Access System (EAS). This conversion would provide EAS to all cardholders to certify their transactions and to the AOs for the review process. The EAS would then eliminate the "paper" statement of account and business account summary that

the bank is now mailing to the cardholders and AOs.

OIG Recommendation 5

Require proper recording and accounting of all expendable purchased items considered sensitive.

SSA Comment

We agree. Within the next two months SSA will research this issue and send an acquisition alert to all cardholders, which will also include the information in the revised AIMS.

OIG Recommendation 6

Require that only authorized cardholders be able to process IMPAC transactions.

SSA Comment

We agree. This policy is clearly specified in the AIMS as well as training documents. The acquisition alert dated September 1998 reiterates that purchase cards are for the exclusive use of the cardholder and certifications should be conducted by the responsible cardholder only. We will periodically issue acquisition alerts as reminders.

OIG Recommendation 7

Investigate all potential violations of purchase limitations to ensure appropriate IMPAC use.

SSA Comment

We agree. We developed the Purchase Card Information System and continue to use it to identify violations of limits (i.e., order splitting and restricted/prohibited purchases). Also, on August 18, 1999, we revised the Purchase Card Information System, permitting analysts performing acquisition management reviews to more effectively tailor and manipulate data for more efficient and focused remote reviews.

OIG Recommendation 8

Require cardholders to provide adequate descriptions of purchased items to ensure the effectiveness of the PCRS monitoring system.

SSA Comment

We agree. The current micro-purchase computer-based training that was released to FOs in 1994 and to Headquarters in March 1996 requires this kind of documentation. The PCRS online instructions have included this requirement since we released the program in October 1995. Additionally, last year we posted an instruction manual that stresses the same requirement.

We will issue periodic acquisition alerts as a reminder stressing the need for entering adequate purchase descriptions in the PCRS when cardholders purchase multiple items. We will emphasize prioritizing them as to quantity, price or sensitive items.

OIG Recommendation 9

Establish an edit process in the PCRS to identify incorrect sub-object class codes (SOC).

SSA Comment

We disagree. It is not possible to build into PCRS edits for INCORRECT codes. However, we have included in PCRS Version 4.2 an edit to ensure that the common accounting number and sub-object class code used for each transaction are VALID codes.

Before the end of the fiscal year we will include in our micro-purchase AMRs a verification process to ensure the SOC code is correct. We will reemphasize the FACTS guidance in periodic acquisition alerts.

OIG Recommendation 10

Require appropriate budget approval and accounting classification of all IMPAC purchases as a means of maintaining proper fiscal control.

SSA Comment

We agree and will explore possible ways to ensure that budget approval is documented in the file. We believe the perceived lack of budget approval is most likely a documentation deficiency. In the interim, the Agency will emphasize the need for such documentation when reviewing micro-purchase files.

Other Comments

BACKGROUND (Page 1)

We believe the first sentence should read: "…. program **authorized by Executive Order 12352** in 1982 **and** implemented **in SSA in 1988,** was designed to streamline Federal **acquisition and** payment procedures…."

The second sentence and footnote 2 should be reversed, since the OIG audit involved the time period for IMPAC purchases under the General Services Administration (GSA) contract with Rocky Mountain Bankcard System, Inc. and not Citibank Corporation.

We would also like to point out that GSA awarded several contracts to other financial institutions in 1998 for its new GSA SmartPay Program. Agencies could choose, from these contractors, the one who can best meet the agency's needs. SSA chose Citibank Corporation, effective November 30, 1998, to handle our purchase card program.

RESULTS OF REVIEW

Required Purchase Logs Were Incomplete or Nonexistent (Page 3)

The first paragraph states that the actual delivery date should be included in the purchase log according to the micro-purchasing course referred to in footnote 5. The course requires that the purchaser keep a record of the fact that delivery occurred. Therefore, we suggest that number 6 in the second sentence read "delivery occurred" rather than "actual delivery date." Also, in footnote 5, the sentence should say, "The cardholder checks off the "delivery occurred" column …" (not the "delivery date" column).

Paragraph 3, second sentence needs to be clarified as follows: "The other Headquarters cardholder failed to post 63 of 90 (70 percent) transactions because of billing problems with the vendor." Purchases should be recorded in the purchase log as they are made. Each purchase is a transaction. Billing problems are unrelated to the log. The number of billings that result, including incorrect billings, etc., are not reflected in the log. Therefore, billing problems should not justify a cardholders failure to post any transactions.

IMPAC Transactions Had Partial or No Required Documentary Evidence (Page 4)

The report states that "…(3) a copy of the payment document showing a purchase has been made and has a zero balance due; and (4) proof of delivery, such as any delivery tickets and packing slip receipts issued by the vendor and given to an individual other than the requester."

To correctly summarize or quote the documentation requirement, the report should be revised to say: "… (3) a copy of the payment document, if any (this requirement only applies if the purchase was made in person or if payment was made by third party draft rather than by purchase card); and (4) proof of delivery, if any. (This only applies if the vendor provides a packing slip or other proof of delivery.)"

The words "if any" make "requirements" (3) and (4) optional. Since very few purchases are made in person, it would be rare to find any type of payment document in file. Also, the purchaser cannot control whether the vendor provides proof-of-delivery documents. Many vendors may not provide packing slips or, even if provided, the person receiving the package may discard the slip so that it is never provided to the purchaser.

In addition, Footnote 7 could be interpreted to mean that the request documentation must include all the elements listed. We suggest that Footnote 7 be changed to read as follows:

"Request documentation may include such things as what the cardholder was asked to purchase, for whom, required delivery date, suggested source, justification, and any approvals obtained. If the purchaser is the requestor, it need only include what it is that you are going to purchase."

Management Approval Was Not Always Obtained for IMPAC Purchases (Page 5)

At a minimum, we suggest the title of this section be rewritten as: "**Written** Management Approval Was Not Always Obtained for IMPAC Purchases."

Our instructions to micro-purchasers do not state that written management approval is required prior to making a purchase. We only require that management approval be obtained. (Our training says that the purchaser must follow the component's internal

approval rules.) If management approves the items to be purchased, whether verbally or in writing, management has had the opportunity to confirm that the proposed purchases are appropriate for official Government purposes.

Automated IMPAC Purchasing Procedures Did Not Provide for Separation of Duties (Page 6)

Regarding the first paragraph, on February 17, 1995, while purchase card transactions were still processed manually, SSA eliminated the requirement for the paper statement of account to be signed by both the cardholder and the cardholder's approving official (AO). Specifically, we eliminated the requirement for the AO to sign the paper statement of account prior to it being sent to the Office of Finance (OF). However, we retained the requirement for the AO to review all purchases by cardholders. This review was accomplished by reviewing the monthly Business Account Summary. As stated in our February 17, 1995 message (Acquisition Alert #95-2), "The BAS [Business Account Summary] allows the AO [Approving Official] to review purchases by CHs [cardholders] and provides monthly expenditure verification reporting, and is an important part of the SSA system of checks and balances. This report should be used by the AO as part of the SSA system of controls to prevent fraud, waste or abuse."

Prior to this change, FOs rarely used the purchase card. A survey revealed that the requirement to send the paper statement of account (and supporting documentation) to the AO for sign-off prior to forwarding to OF was a major barrier to purchase card use in SSA. The paper process for using the purchase card was so cumbersome and time consuming that using a third party draft or paper requisition was preferable for purchases.

To date, AOs continue to receive monthly statement of accounts directly from the purchase card bank and are required to review these monthly statements. Thus, we cannot agree that the current policy "increases the potential for cardholders to make unauthorized purchases without detection."

Unauthorized Individuals were Allowed IMPAC Access (Page 7)

Prior to May 1999, SSA's policy that third party draft (TPD) cashiers could not have purchase cards prevented them from requesting purchase cards for their administrative assistants and other lower-graded staff whom they called upon to make purchases for the office. (Nearly all FO administrative

assistants have been appointed TPD cashiers along with service representatives and others.)

SSA consulted with the Department of Treasury and on May 11, 1999 issued Acquisition Alert 99-08 to the field. This Alert changed Agency policy allowing SSA TPD cashiers to also have purchase cards. Since then a variety of communications have been sent to the field encouraging managers to get purchase cards for the individuals who are actually doing the purchasing for the office.

Split Purchases Were Used to Exceed IMPAC Spending Threshold (Page 7)

At the time of the audit, we did not have a quick means to identify split purchases. Since then, however, we developed an automated Purchase Card Information System (PIS). The PIS produces a report of apparent split purchases. We use it when we perform acquisition management reviews.

The PCRS Contained Insufficient or Inaccurate Information (Page 8)

Regarding the statement "Over One-Third of Reviewed Transactions Did Not Have Accurate Purchase Descriptions." One of the twelve cardholders who were audited accounted for 60 percent of the headquarters transactions (1,035 transactions reviewed).
It would be helpful if the report included statistics with and without the transactions made by the one purchaser.

IMPAC Purchases Were Made Without Evidence of Budget Approval (Page 9)

As in our comments above concerning page 8 of the report, statistics excluding the one cardholder who accounted for more than 60 percent of the headquarters transactions would prove beneficial.

The second paragraph states that, "Cardholders did not obtain [budgetary] approvals because common accounting number and sub-object codes financial data had not been assigned to purchased items." The report concludes that cardholders did not obtain budgetary approvals because auditors saw no evidence of common accounting number and sub-object class codes assigned to the purchase somewhere in the file. Current training does not require that either of these numbers be assigned at this stage. The training says, "Budget approval involves checking

the CAN and SOC to ensure that the money is available for the specific item or items being requested." Therefore, the manager must check his/her budget and look under the correct common accounting number and object class in the budget.

In general, there are only a few object classes (usually 4) that can apply to a purchase. For example, 2,600 represents supplies. The other classes are printing, advisory and assistance services, and equipment.

Since offices generally have only two common accounting numbers (CAN) that apply to purchases (one for information technology systems (ITS) and one for non-ITS), we see no need to require the CAN to be written on each purchase request. It only needs to be checked for funds sufficiency prior to purchase.

We believe that component budget staffs are following SSA procedures and are providing budgetary approval prior to purchase. Headquarters component budget offices and component managers are not likely to tolerate significant micro-purchase activity that bypasses budgetary controls.

It would be helpful if the report included explanations given by the headquarters micro-purchasers as to when and how the budgetary approval was accomplished. By not providing the headquarters purchasers' explanations of this apparent deficiency, the report does not give a complete picture of the operation of the headquarters micro-purchase program.

Regarding the third sentence: "FOs confirmed their expenditures by checking against their budget allocations provided by their regional offices

If the "confirming of expenditures" was done prior to purchase, then this is a sufficient budget approval process. Based on the above, we believe each statement that budgetary approval was not obtained should be revised to say that there was no documentation reflecting budgetary approval in the file.

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SSA Organizational Chart