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March 2019

**Audit of the Department of State
Purchase Card Program**

CONTRACTS, GRANTS, AND INFRASTRUCTURE DIVISION



HIGHLIGHTS

Office of Inspector General
United States Department of State

AUD-CGI-19-24

What OIG Audited

The Government Purchase Card Program was created in the late 1980s as a way for Federal agencies to streamline the acquisition process by providing a low-cost, efficient way to obtain goods and services directly from vendors. As of September 30, 2017, the Department of State (Department) Purchase Card Program had 1,950 cardholders, and spending in FY 2017 was approximately \$110 million.

The Office of Inspector General (OIG) conducted this audit to determine whether (1) Department purchase cardholders used their Government card only for purchases allowed by laws and regulations; (2) Department purchase cardholders recorded purchases, documented purchases, and reconciled monthly statements, as required by Department policy; and (3) the Department administered the Purchase Card Program in accordance with established policies.

What OIG Recommends

OIG made five recommendations to the Bureau of Administration that are intended to strengthen internal controls over the Purchase Card Program.

On the basis of the Bureau of Administration's response to a draft of this report, OIG considers two of the recommendations closed and three recommendations resolved pending further action. A synopsis of the Bureau of Administration's comments to the recommendations and OIG's reply follow each recommendation in the Audit Results section of this report. The Bureau of Administration's response to the draft report is reprinted in Appendix B.

March 2019

OFFICE OF AUDITS

CONTRACTS, GRANTS, AND INFRASTRUCTURE DIVISION

Audit of the Department of State Purchase Card Program

What OIG Found

OIG found that Department purchase cardholders generally used their Government card for purchases allowed by laws and regulations. OIG selected 580 transactions for review from FY 2016 and FY 2017 and noted 17 exceptions. Specifically, OIG found that three purchases had been split into six separate transactions to circumvent micro-purchase limitations. In addition, OIG found 11 transactions in which convenience checks were inappropriately used to purchase catering services. The exceptions occurred, in part, because of a need to procure items quickly or confusion about Department policy. The typically appropriate use of the purchase card by Department cardholders can be attributed to internal controls established by the Purchase Card Program Office to monitor purchases, and OIG did not find any instances of cardholder fraud, waste, or abuse.

However, OIG found that purchase cardholders did not always record and document purchases or reconcile monthly statements in accordance with Department policy. OIG found that 157 of 580 (27 percent) transactions selected for review were missing 1 or more required documents. OIG also found 52 of 580 (9 percent) transactions in which cardholders did not provide evidence that monthly statements were reconciled. OIG concluded that the missing documentation and lack of evidence that monthly statements were reconciled were due, in part, to the fact that cardholders did not maintain required documents or did not document reconciliation efforts. Properly recording purchases and reconciling statements are important in detecting errors.

Lastly, OIG found that the Department generally administered the Purchase Card Program in accordance with policies. OIG found that cardholders and approving officials were properly trained and authorized to make purchases. In addition, 90 percent of the bureaus and posts had completed and certified their Annual Reviews, which is a new requirement introduced in FY 2017. As for the remaining 10 percent, failure to comply with the annual review and certification was generally attributed to the fact that the requirement had been implemented only recently. Nevertheless, it is important that all purchase card Program Coordinators certify that annual reviews are completed to ensure purchase card standards are consistently followed.

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OBJECTIVE

The Office of Inspector General (OIG) conducted this audit to determine whether (1) Department of State (Department) purchase cardholders used their Government card only for purchases allowed by laws and regulations; (2) Department purchase cardholders recorded purchases, documented purchases, and reconciled monthly statements, as required by Department policy; and (3) the Department administered the Purchase Card Program in accordance with established policies.

BACKGROUND

The Government Purchase Card Program was created in the late 1980s as a way for Federal agencies to streamline the acquisition process by providing a low-cost, efficient way to obtain goods and services directly from vendors. According to the Federal Acquisition Regulation (FAR),¹ the Government-wide commercial purchase card is authorized for use in making and paying for purchases of supplies, services, or construction. Purchase cards may be used by Contracting Officers and other designated individuals to make micro-purchases,² place a task or delivery order, or make payments when a vendor agrees to accept payment using a purchase card.

The General Services Administration (GSA), the Office of Management and Budget (OMB), and individual Federal agencies all have some responsibility for the Purchase Card Program. GSA administers the Federal Government's Purchase Card Program and maintains contracts with three private banks that issue purchase cards. OMB is responsible for issuing Government-wide policy on purchase card use. Individual agencies decide which bank to use to support their purchase card requirements and are responsible for monitoring the actions of their cardholders as well as for issuing agency-specific policies and procedures on the appropriate use of purchase cards.

GSA SmartPay Purchase Program

The GSA SmartPay purchase program, established in 1998, is the largest charge card program in the world, serving more than 350 Federal agencies, organizations, and Native American tribal governments. The program provides payment solutions to Federal employees to make official Government purchases for supplies, goods, and services under the micro-purchase threshold. All purchase accounts are centrally billed, and the liability for transactions made by authorized account holders is borne by the Federal Government. Account holders may purchase any commercially available supply or service that is within their spending limits and that is not prohibited by either Federal or agency-specific procurement regulations. Purchases that are strictly prohibited include the following:

¹ FAR Subpart 13.301(a), "Governmentwide commercial purchase card."

² FAR Subpart 2.101, "Definitions," states that a micro-purchase is an acquisition of supplies or services using simplified acquisition procedures, the aggregate amount of which does not exceed the micro-purchase threshold of \$3,500 (\$2,000 for construction, \$2,500 for services). *See also* FAR Subpart 13.301 (c).

- Long-term rental or lease of land or buildings.
- Travel or travel-related expenses (not including conference rooms, meeting spaces, and local transportation services).
- Cash advances (unless permitted by the organization).³

In 2007, GSA contracted with three banks to provide purchase, travel, fleet, and integrated payment solutions. Collectively, these contracts are known as the GSA SmartPay2 Master Contract. The Department uses one of these banks, Citibank, to provide purchase card services for its bureaus and offices.

Department Merchant Category Code Templates

In addition to the purchase prohibitions established within SmartPay, certain types of merchants can be blocked on the basis of Merchant Category Codes (MCC). Such codes are used to classify merchants and businesses by the type of goods or services provided. At the discretion of the Department's Purchase Card Program Manager, individual cardholders can have particular MCCs blocked or have those blocks removed, depending on the circumstances. For example, the MCC for "Dating and Escort Services" is blocked for all cardholders, while the MCC for "Fines," which is normally blocked, can be unblocked for offices that need to pay late registration fees on Government vehicles. The Department has created 18 domestic and 7 overseas MCC "templates" that are implemented to limit the use of certain MCCs on the basis of the needs of the cardholder.

OMB Charge Card Policies

OMB Circular A-123, Appendix B,⁴ addresses controls, policies, and practices for the Purchase Card Program. Risk management controls, policies, and practices are critical tools for ensuring the efficiency and integrity of Charge Card Programs.⁵ These controls, policies, and practices are put in place with the intention of eliminating payment delinquencies, charge card misuse, fraud, and other forms of waste and abuse.⁶ The OMB Circular provides definitions of misuse, fraud, waste, and abuse.⁷ Specifically, misuse is the use of a Federal charge card for other than the official Government purpose for which it is intended. Fraud is any felonious act of corruption or attempt to cheat the Government or corrupt the Government's agents. Waste is any activity taken with respect to a Government charge card that fosters or results in

³ Worldwide Federal Supply Service Contract for Purchase, Travel, Fleet, and Integrated Card Services, General Services Administration, Solicitation No. FCXC-G1-060001-N, Section CP.3.6. As noted subsequently, the Department does not permit such cash advances using purchase cards.

⁴ OMB Circular A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," Appendix B, "Improving the Management of Government Charge Card Programs," (January 15, 2009) § 4.1.

⁵ Ibid. § 4.2.

⁶ Ibid.

⁷ OMB Circular A-123, Appendix B, Attachment 1, "Glossary."

unnecessary costs or other program inefficiencies. Abuse is the use of a Government charge card to buy authorized items, but at terms that are excessive, for a questionable need, or both.

According to the OMB Circular, charge card managers are responsible for the following:

- Implementing the appropriate controls to ensure compliance with Federal laws and Federal and agency regulations and for monitoring program effectiveness.⁸
- Ensuring that any risk management policies and practices established in the agency's charge card management plan are carried out effectively and that the charge card management plan is updated with enhanced risk management policies and practices, as applicable.⁹
- Ensuring that payment obligations are paid on time and that all relevant Prompt Payment Act requirements are met.¹⁰
- Establishing a process, with strict internal controls, to ensure that all charges and payments are timely, accurate, and appropriate.¹¹
- Closely monitoring delinquency reports from charge card vendors.¹²
- Contacting appropriate personnel to ensure that delinquent payments are addressed and corrective actions are taken to prevent further occurrence.¹³

OMB Circular A-123, Appendix B, also sets forth general training requirements for all charge card program participants. Specifically, all participants must be trained before appointment or receiving a purchase card; must take refresher training, at a minimum, every 3 years; and must certify that they have received the training, understand the regulations and procedures, and know the consequences of inappropriate actions.¹⁴

Department Purchase Card Program

As of September 30, 2017, the Department's Purchase Card Program had 1,950 cardholders with spending for FY 2017 of approximately \$110 million. The purchase card is specifically designed for official Government use only. The intent is to provide a streamlined procurement method to save time and money by empowering non-procurement employees and Contracting Officers with the authority to make purchases within their delegated limits. The card may be used for over-the-counter, internet, facsimile, or telephone purchases. According to Department guidance, the purchase card should be used to the maximum extent practicable in lieu of imprest or petty cash

⁸ OMB Circular A-123, Appendix B, § 4.3.

⁹ Ibid.

¹⁰ Ibid. § 4.4.

¹¹ Ibid.

¹² Ibid.

¹³ Ibid.

¹⁴ Ibid. § 3.4.

funds. If the card is used as a method of purchase or payment, all purchases must be for official use and are subject to Federal appropriations law, the FAR, the Department of State Acquisition Regulation, and Department purchase card policies and procedures.

Under 4 Foreign Affairs Manual 455.1, the Department has issued the “SmartPay2 Worldwide Purchase Card Program Manual” (Program Manual)¹⁵ as guidance on U.S. Government-wide purchase card usage and oversight. According to the Program Manual,¹⁶ the objectives of the Purchase Card Program are the following:

- Streamline the procurement process by empowering Department cardholders with the ability to purchase their own supplies and services in support of their missions.
- Raise awareness of individual roles and responsibilities to ensure accountability and oversight to prevent misuse and abuse.
- Simplify purchase card processes and procedures through increased use of standardization and maximization of technology.
- Reduce administrative costs associated with official Government purchases.
- Improve cash management practices and streamline payment procedures.

Roles and Responsibilities

As shown in Figure 1, key participants in the Department’s Purchase Card Program include Agency/Organization Program Coordinators, Designated Billing Officers, and bureau and post Program Coordinators.

Figure 1: Key Participants in the Department Purchase Card Program

Bureau of Administration, Office of the Procurement Executive – Purchase Card Program Manager	
<ul style="list-style-type: none"> • Issue all purchase card policy guidance. • Develop long-term program goals. • Implement new products. • Interface with the General Services Administration and other agency counterparts. 	
Bureau of Administration, Office of the Procurement Executive, Office of Acquisitions Management, Business Operations Division – Operations Manager and Key Program Administrators	
<ul style="list-style-type: none"> • Responsible for day-to-day administration of the Purchase Card Program. • Perform high-level purchase card administration. • Conduct ongoing oversight. • Interface with Citibank on behalf of customers. 	
Program Coordinators	
<ul style="list-style-type: none"> • Responsible for day-to-day administration and local management of individual Designated Billing Officials, Approving Officials, and cardholders. • Certify the Annual Review. 	<i>(continued on next page)</i>

¹⁵ Department of State SmartPay2 Worldwide Purchase Card Program Manual (June 2011).

¹⁶ Department of State SmartPay2 Worldwide Purchase Card Program Manual, at i.

Designated Billing Offices/Officers

- Reconcile and pay the Citibank monthly invoices.
- Ensure funding assigned to each cardholder is adequate.
- Track disputes and credits on future invoices.
- Resolve all payment-related issues to avoid account delinquencies, suspensions, or cancellations.

Approving Officials

- Responsible for oversight and approval for purchase card use by cardholders under their purview.
- Provide assistance to the bureau and post Program Coordinators in performing the Annual Review of the bureau or post Purchase Card Program.

Cardholders

- Authorized to use purchase cards and are solely responsible¹⁷ for expenditures charged against their cards.
- Responsible for using the card in accordance with established policies and procurement regulations.
- Maintain a purchase card buying log.
- Reconcile monthly purchase card Statements of Account.

Source: OIG prepared from information in the Department of State SmartPay2 Worldwide Purchase Card Manual (June 2011).

Integrated Logistics Management System

The Integrated Logistics Management System (ILMS) is the Department's integrated supply chain system capable of tracking a procured item from request and procurement to retirement or disposal. ILMS users are able to trace the status and location of an item throughout the Department's supply chain process. Additionally, information such as purchase order numbers, requester names, item descriptions, technical specifications, and locations are included in the system's database, including procurement, warehousing, and transportation. Purchase card transactions are entered into ILMS typically for procurements under the micro-purchase threshold.

Purchase Card Buying Process

According to the Department's SmartPay2 Worldwide Purchase Card Program Manual, the process for using the purchase card consists of seven steps:¹⁸

1. Ensure the requirement is defined:¹⁹ requesting offices should always provide cardholders with written requirements in the form of a requisition or a procurement

¹⁷Although, as noted previously, the Government—i.e., the Department—is liable for charges incurred, the Department may seek recourse against cardholders for improper use.

¹⁸ Department of State SmartPay2 Worldwide Purchase Card Program Manual, § 8.

¹⁹ Domestic cardholders must enter all procurement requirements into ILMS, which allows the Department to track all purchase card requirements and transactions.

request.²⁰ The cardholder must ensure that the procurement request clearly describes the requirement to be bought and contains all necessary approvals and clearances. The procurement request must also contain adequate funding to cover the total cost of the purchase.

2. Ensure the requirement is authorized: the Government purchase card may be used to buy a variety of commercially available supplies and services needed for official use; however, certain supplies and services are unauthorized according to Department policies, the FAR, or the Department of State Acquisition Regulation.²¹
3. Ensure available funding: the cardholder must always obtain adequate funding before making any purchase. Funding may be obtained on a bulk basis²² or for each individual transaction; however, funding must be sufficient to cover all costs associated with the shipping and handling of the purchase.
4. Review required sources and other mandatory requirements: cardholders must satisfy requirements for supplies and services from the sources listed in FAR Part 8 in descending order of priority before making any open market purchase.
5. Make the purchase: cardholders can make purchases over-the-counter, by telephone or facsimile, by mail or catalog, or by email or internet.
6. Record in purchase card buying log: each time a cardholder makes a purchase, key information, such as the date of the purchase, amount, fiscal information, a description of the item or service, the dates on which items or services are received, and any other necessary information, must be recorded in the buying log.
7. Reconcile cardholder monthly Statement of Account: the cardholder must download the monthly Statement of Account and compare the transactions that appear on the statement with the buying log and supporting documentation to prevent errors such as double billings, incorrect charge amounts, or missing credits.

Purchase Card Annual Reviews

Each Department bureau or overseas post is required to conduct an Annual Review of cardholder practices. This is an important tool to ensure that cardholders comply with the purchase card buying process. Annual Reviews for the previous fiscal year must be completed

²⁰ A requisition or procurement request is an internal document that conveys to the buyer or cardholder the request for supplies or services; that is, it describes what the cardholder is to buy and provides other pertinent information useful for the cardholder in the procurement process.

²¹ Examples of unauthorized purchases include cash advances; advance payments; rental or lease of land or buildings; individual travel expenses; professional services for medical, legal, design, engineering, or consulting; caterers, restaurants, or bars; domestic telecommunication wireless services and equipment; construction above \$2,000; services other than construction above \$2,500 per year (domestic) and \$3,000 per year (overseas); supplies that contain hazardous substances; hazardous waste clean-up and disposal; rental and maintenance agreements above \$2,500 per year (domestic) and \$3,000 per year (overseas); membership in organizations, including charitable and social organizations; personal services; entertainment, amusement, and recreational services; firearms; and unauthorized pesticide purchases or applications.

²² Bulk funding is a method of advance funding that sets aside a specific amount for a single cardholder to make purchase card purchases. Although bulk funding is set aside in advance, the cardholder must obtain prior approval for each purchase from the approving official.

and certified by the bureau or post Program Coordinator in the Purchase Card Management and Reporting System (PMARS) during the first quarter of each new fiscal year. Annual Reviews help ensure compliance with program policies and procedures and assist the Program Management Office²³ in Washington, DC, with overall program support.

The Annual Review process consists of three parts—cardholder checklists, a summary of findings, and Annual Review certification by the Program Coordinator. By conducting the Annual Review, Program Coordinators can ensure procedures and standards are being properly administered.

AUDIT RESULTS

Finding A: Department Purchase Cardholders Generally Used Purchase Cards in Accordance With Laws and Regulations

OIG found that, with some exceptions, Department purchase cardholders generally used their Government card for purchases allowed by laws and regulations. OIG selected 580 transactions for review from FY 2016 and FY 2017 and noted 17 exceptions. Specifically, OIG found three purchases that had been split into six separate transactions, totaling \$12,528, to circumvent micro-purchase limitations. In addition, OIG found 11 transactions, valued at \$11,629, in which convenience checks were inappropriately used to purchase catering services. The exceptions identified occurred, in part, because of a need to procure items quickly or confusion about Department policy. The typically appropriate use of the purchase card by Department cardholders can be attributed to internal controls established by the Purchase Card Program Management Office to monitor purchases, and OIG did not find any instances of cardholder fraud, waste, or abuse.

No Exceptions Found in General Transactions

According to the GSA SmartPay contract, cardholders may purchase any commercially available supply or service within their spending limits that is not prohibited by either Federal or agency-specific procurement regulations. As noted previously, only a few classes of purchases are strictly prohibited, including the following:

- Long-term rental or lease of land or buildings.
- Travel or travel-related expenses (not including conference rooms, meeting spaces, and local transportation services).
- Cash advances (unless permitted by the organization).

²³ The Program Management Office is the office of the Purchase Card Program Manager within the Bureau of Administration.

OIG tested 182 general transactions,²⁴ valued at \$431,476, from 161 cardholders, to determine whether cardholders made purchases allowed by laws and regulations. OIG found that 177 of the 182 tested general transactions were allowed by laws and regulations.

One reason for the low number of exceptions is that the Program Management Office established internal controls that generally operate effectively. The Government Accountability Office has noted that a key factor in improving accountability in achieving an entity's mission is to implement such an effective internal control system.²⁵ The Program Management Office respects the principles and practices for employing effective internal controls, which was evident not only from interviews with the staff of the Program Management Office but also from observation of the controls in action. As an example, OIG found that the use of purchase cards at a particular bureau or post was suspended if the required Annual Review from that post or bureau was not submitted timely, because the Annual Review and its certification process is considered an especially important control. Additionally, the Program Management Office has placed great emphasis on proper training for cardholders, approving officials (AO), and Program Coordinators, with different training modules specified depending on one's role. Furthermore, according to the Program Manual,²⁶ cardholders, AOs, and Program Coordinators must take "refresher training" every 3 years, in addition to annually required ethics training. These are important control factors that assist in mitigating purchase card fraud, misuse, and abuse.

Three Split Purchases Were Identified

Purchase cards may be used by Contracting Officers and other designated individuals to make micro-purchases.²⁷ Only warranted Contracting Officers, who must promote competition to the maximum extent practical, may make purchases above the micro-purchase threshold using the purchase card. In doing so, Contracting Officers must consider the solicitation of quotations from at least three sources.²⁸ Although they must keep documentation to a minimum, purchasing offices must retain data supporting purchases to the minimum extent and duration necessary for management review purposes, including showing the suppliers contacted or explaining the absence of competition.²⁹ These requirements were designed to ensure that the Government obtains a competitive price for its procurement requirements. When cardholders

²⁴ OIG defines "general transactions" as transactions that were not part of subcategories tested separately by OIG. The subcategories tested separately by OIG were (1) potential split purchases, (2) prohibited MCC transactions, (3) convenience checks, and (4) "high risk" transactions. See Appendix A: Purpose, Scope, and Methodology, for additional information related to the sample selected.

²⁵ Government Accountability Office, *Standards for Internal Control in the Federal Government* (GAO-14-704G, September 2014), 1.

²⁶ Department of State SmartPay2 Worldwide Purchase Card Program Manual, § 5.2.

²⁷ As noted previously, FAR Subpart 2.101 states that a micro-purchase is an acquisition of supplies or services using simplified acquisition procedures, the aggregate amount of which does not exceed the micro-purchase threshold of \$3,500 (\$2,000 for construction, \$2,500 for services).

²⁸ FAR Subpart 13.104, "Promoting competition."

²⁹ FAR Subpart 13.106-3(b), "Award and documentation."

attempt to circumvent the micro-purchase limitation by dividing the cost of a procurement into two or more transactions that are under the micro-purchase limit, that action is known as a “split transaction.”

OIG initially selected 208 transactions, totaling \$545,757, from 39 cardholders, that potentially could be purchases that were split into two or more transactions to circumvent a cardholder’s single-purchase limit or the micro-purchase threshold, which was \$3,500 for the transactions OIG reviewed. Because of transaction duplication issues,³⁰ OIG ultimately tested 116 transactions, totaling \$253,375, and found that 6 unique transactions (5 percent), totaling \$12,528 (5 percent), from 3 cardholders were split purchases.³¹ The six transactions circumvented both the cardholder’s single purchase limit and the micro-purchase threshold in place at the time of the transaction.³² The specific circumstances relating to the three cardholders and the split purchases identified are as follows:

- One cardholder split a \$3,566 purchase to procure kitchen equipment for an overseas post. The purchase was split into two, same-day transactions with the same vendor, one for \$3,455 and the other for \$111. The cardholder admitted to splitting the purchase, explaining it was due to a change in the foreign currency exchange rate and “pressure to deliver [the equipment] in time.”
- One cardholder split a \$4,800 charge for employee costs at a shared Federal fitness center into two, same-day transactions, one for \$3,000 and the other for \$1,800. The cardholder stated that the split was done “due to credit card restrictions at the time.”
- One cardholder split a \$4,162 purchase of business services into two, same-day transactions with the same vendor, one for \$1,609 and the other for \$2,553. The order was notated by the cardholder as an “Emergency Purchase that could not be finalized with other vendors.”

For the six split purchase transactions, the purchase cardholders circumvented controls for convenience or expediency. As described previously, the single purchase limit is an internal control to ensure that purchases above established limits are properly reviewed and approved before the Department obligates funds. If such limits are circumvented, the Department has less control over the obligation and expenditure of its resources. A cardholder may also make

³⁰ OIG identified 2 purchases that were made with a stolen purchase card, 4 transactions that were inconclusive, and 92 that were duplicated transactions. See Appendix A: Purpose, Scope, and Methodology, for additional information on these transactions.

³¹ According to the Program Manual, a split purchase is an “illegal tactic” by the cardholder to manipulate or “get around” established single or monthly purchase limits. For example, if a cardholder has a single purchase limit of \$3,000 and wants to purchase a computer valued at \$3,600, it would “be illegal” to split the purchase into two transactions, one for \$600 and another for \$3,000.

³² The National Defense Authorization Act for Fiscal Year 2018 (P.L. 115-91) increased the micro-purchase threshold from \$3,500 to \$10,000. The Department made the increase effective May 31, 2018, for all domestic and overseas contracting activities, according to Procurement Information Bulletin 2018-03.

contractual commitments for the Department that exceed the delegated purchasing authority. In addition, circumventing the micro-purchase limitations may impede competition.

Because of the limited number of exceptions determined to have actually been split purchases (only six transactions were identified as potential split purchases), OIG is not making a recommendation associated with these exceptions, because controls to prevent the splitting of purchases generally work effectively. Nevertheless, OIG communicated these exceptions to the appropriate Department officials.

Controls To Prohibit the Use of Merchant Category Codes Did Not Always Work

According to the FAR, commercial purchase cards may be used only for purchases that are otherwise authorized by law or regulation.³³ At the discretion of the Department's Purchase Card Program Management Office, individual cardholders can have particular MCCs blocked or have those blocks removed depending on the circumstances. As shown in Table 1, the Department generally prohibited the use of certain MCCs in 2016.³⁴

Table 1: Prohibited Merchant Category Codes

MCC Description	MCC
Dating/Escort Services	7273
Massage Parlors	7297
Video Tape Rental	7841
Betting Facilities	7995
Court Costs Including Child Support	9211
Fines	9222
Bail & Bond Payments	8112
Tax Payments	9311

Source: OIG prepared on the basis of information from the Bureau of Administration.

Of 513,222 purchase card transactions, valued at \$347,893,924, that were made during FY 2016 and FY 2017, OIG identified 43 transactions, valued at \$12,568 (less than 1 percent), that were made to vendors with prohibited MCCs according to the Purchase Card Program's 2016 Merchant Category Code Templates List.³⁵ With input from the Program Management Office, OIG determined that 35 of 43 transactions were for purposes allowed by laws and regulations and 8 of 43 transactions were initiated by someone other than the cardholder and were therefore not considered exceptions for the purpose of this audit. Details relating to OIG's testing are shown as follows:

³³ FAR Subpart 13.301(a).

³⁴ The Department's Purchase Card Program's 2016 Merchant Category Code Templates List was last updated in August 2016.

³⁵ See Appendix A: Purpose, Scope, and Methodology, for additional information related to the audit work performed.

- OIG identified 3 cardholders who had 31 transactions, valued at \$4,976, to pay fines associated with parking tickets. These payments were classified as MCC 9222, "Fines." On the basis of a review by the Bureau of Diplomatic Security and subsequent research conducted by the Program Management Office, OIG verified that all 31 transactions were authorized and appropriate.
- OIG identified eight transactions, valued at \$391, for subscriptions to various dating websites. These purchases were classified as MCC 7273, "Dating and Escort Services." All the charges were found to be made by unauthorized individuals not associated with the cardholder. The cardholders for the eight transactions took timely and appropriate action upon noticing the improper charges. As a result, Citibank credited the amounts so that the Department was not charged for the transactions.
- OIG identified one transaction, valued at \$1,116, with a vendor classified as MCC 7841, "Video Tape Rental." The transaction was for the purchase of audio equipment, such as ceiling speakers, for a conference room, which OIG verified was authorized and appropriate.
- OIG identified three transactions, valued at \$6,085, with vendors classified as MCC 9311, "Tax Payments." These vendors were mistakenly given this MCC classification. OIG found that one transaction was for meeting space and equipment associated with a conference, another was for license plates for official vehicles, and the third was to pay for training. OIG verified that all three transactions were authorized and appropriate.

Although none of the transactions was considered an exception, OIG's analysis shows that the Department's control to block certain MCC codes did not always operate effectively. OIG asked the Program Management Office why the 43 prohibited MCC transactions were not blocked at the point of sale. According to an official from the Program Management Office, applying the prohibited MCCs is not a foolproof process and the transactions could have "slipped through" simply because of an error made by a merchant. The official also noted that identifying only 43 such transactions (less than 1 percent) from a universe of 513,222 purchase card transactions was a "pretty good record." OIG considers this explanation reasonable and is not making any recommendations related to this area. However, had the transactions been blocked at the point of sale, the eight improper transactions relating to the dating and escort services would not have been accepted and processed.

Convenience Checks Associated With Purchase Cards Were Used To Purchase Catering Services, Which Was Contrary to Department Policy

OIG identified some issues related to acquisition of certain catering services. Convenience checks should not have been used in the first instance because the vendors accepted credit cards. More fundamentally, the catering services should have been acquired through a procurement mechanism that was not associated with purchase cards, although Department policy on this point is not entirely clear.

Convenience checks provide a useful tool to be used with vendors that do not accept the purchase card, thereby enabling bureaus to have flexibility in acquiring supplies and services in

a timely manner. These check-based transactions are similar to regular purchase card transactions in that they are listed as individual transaction line items in the monthly cardholder statements issued by Citibank. The use of convenience checks is more expensive to the Department, however, as Citibank assesses a flat fee of \$1.20 per check plus a “Check Usage Fee” of 2.45 percent of the dollar amount of each check.³⁶

According to Department policy,³⁷ convenience checks may be used only as a payment of last resort when no merchant is available that accepts the purchase card. Furthermore, although Federal regulations allow for the purchase of food in some instances, such as for awards ceremonies, Department policy prohibits the use of the purchase card, which, by implication, includes associated convenience checks, to pay for catering services.³⁸

OIG reviewed 138 convenience check transactions,³⁹ valued at \$561,292, from 18 cardholders and found that 2 cardholders used convenience checks to pay for “light refreshments” for recurring awards ceremonies. These uses did not comply with Department policy. Specifically, OIG found 11 transactions (8 percent), valued at \$11,629 (2 percent), for restaurant catering services. One cardholder used convenience checks nine times to purchase light refreshments for an awards ceremony. As discussed subsequently, an entirely different procurement mechanism should have been used. The convenience checks themselves, though, were also improper because the vendor accepted credit cards. The cardholder stated that she did not realize that using the purchase card for restaurant catering services was prohibited. She also stated that she would no longer use convenience checks for such procurements and would inform her AO of the limitations. The other cardholder did not provide justification for using the convenience checks for this type of purchase. However, she also stated that she did not realize that using convenience checks for catering services was prohibited.

OIG notes, however, that a lack of clarity in the policy regarding the purchase of food items is one reason that the prohibited purchases for catering services occurred. The Department’s Purchase Card Program Manual states that purchasing “light refreshments” is permissible.⁴⁰ However, the Purchase Card Program Manual also states that the use of the purchase card is not authorized at “Caterers, Restaurants, Bars,”⁴¹ which are the types of vendors from which a cardholder is most likely to purchase light refreshments. Furthermore, the Department uses one code as assigned by Citibank, MCC 6012, for all convenience check transactions regardless of the goods or services being purchased. Because only one code is assigned for all convenience check transactions, it is not possible to apply a “block” to prevent purchases using convenience

³⁶ Department of State Purchase Card Convenience Check Policy (December 14, 2017), 6.

³⁷ *Ibid.* at 1.

³⁸ Department of State SmartPay2 Worldwide Purchase Card Program Manual, at 74.

³⁹ OIG judgmentally selected 10 high-risk convenience check transactions (9 paid to “Skywalk Café and 1 overseas check), while 128 convenience check transactions were selected using a statistical sampling design. See Appendix A: Purpose, Scope, and Methodology, for additional information related to the sampling plan.

⁴⁰ Department of State SmartPay2 Worldwide Purchase Card Program Manual, at 70.

⁴¹ *Ibid.* at 74.

checks with vendors of particular types of prohibited goods or services. Since MCC 6012 is a Citibank code for all convenience checks, no control can be applied to block *some* of the checks. As a result of the exceptions identified, the Department incurred \$11,926 in charges and \$297 in convenience check fees.

Recommendation 1: OIG recommends that the Bureau of Administration clarify and reissue policy guidance in the Department of State Worldwide Purchase Card Program Manual to describe specifically when purchase cards may be used to pay for “light refreshments” at restaurants and caterers.

Management Response: The Bureau of Administration, Office of the Procurement Executive (A/OPE), concurred with the recommendation, stating that the Office of Acquisitions Management was updating the Department of State Worldwide Purchase Card Program Manual. A/OPE stated that changes to the manual “included clarification of when purchase cards may be used to pay for light refreshments at restaurants and caterers.” A/OPE anticipates release of the revised manual during the third quarter of FY 2019.

OIG Reply: On the basis of A/OPE’s concurrence with the recommendation and planned actions, OIG considers the recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that A/OPE’s clarified and reissued policy guidance in the Worldwide Purchase Card Program Manual to specifically describe when purchase cards may be used to pay for light refreshments at restaurants and caterers.

No Exceptions Found in High-Risk Sample Items

OIG tested nine other transactions that were selected for scrutiny on the basis of risk factors and known prohibitions.⁴² OIG verified that all nine transactions were allowable.

Finding B: Maintaining Records of Purchases and Monthly Statement Reconciliation Can Be Improved

OIG found that cardholders did not always record and document purchases or reconcile monthly cardholder statements in accordance with Department policy. Specifically, of 580 transactions, totaling \$1,622,823, selected for testing, OIG found that 157 transactions (27 percent), totaling \$390,573, were missing at least 1 item of supporting documentation required by Department policy. OIG also found that of the 580 transactions, the cardholders did not provide evidence that monthly statements were reconciled for 52 transactions (9 percent), totaling \$164,954. OIG concluded that the missing documentation and lack of evidence that monthly statements were reconciled were due, in part, to the fact that the cardholders did not maintain required documents or document reconciliation efforts. Properly recording purchases and reconciling statements are important procedures to help detect errors.

⁴² See Appendix A: Purpose, Scope, and Methodology, for additional information related to sampling plan.

Recording and Documenting Purchases

According to the Department's SmartPay2 Worldwide Purchase Card Program Manual,⁴³ cardholders must ensure the procurement request is clearly defined and authorized, verify that funding is adequate, review the procurement request for accuracy and compliance with requirements, enter the procurement requests into the "Ariba Buyer"⁴⁴ system, and obtain the necessary approval by an AO to make the purchase. After a purchase is made, cardholders must maintain complete supporting records for the transaction, such as invoices and communications with the vendor. These procedures are required as internal controls to protect program integrity; promote "dual control" to ensure that more than one person is involved in the procurement and reconciliation process; and minimize opportunities for fraud, misuse, or simple human error.

OIG selected 580 transactions, totaling \$1,622,823, made by 221 cardholders to determine whether cardholders recorded and documented purchases in accordance with Department policy. Specifically, OIG requested the following eight required items from each cardholder:

1. Associated purchase request and requisition.
2. Documentation demonstrating that adequate funding was available.
3. Documentation demonstrating that the cardholder reviewed required sources and met other mandatory requirements.
4. Evidence of AO review and approval prior to the purchase.
5. Any waivers allowing the cardholder to deviate from established procedures, if applicable.
6. Invoice or receipt for the transaction, which should include the date of purchase, a description of the good or service received, price, and quantity.
7. Applicable monthly buying log.
8. Evidence of reconciliation with the applicable Statement of Account, including review and approval by the AO.

As shown in Table 2, OIG found that of 580 transactions,⁴⁵ totaling \$1,622,823, 157 transactions, totaling \$390,573, were missing at least 1 of the 8 supporting documents required by Department policy.

⁴³ Department of State SmartPay2 Worldwide Purchase Card Program Manual, at 68.

⁴⁴ Ariba Buyer is the Department's procurement system within ILMS in which users can request goods and services, obtain approvals for purchases, finalize purchase orders, and run reports related to procurements.

⁴⁵ One Hundred Twenty-Seven transactions, valued at \$308,056, made by 23 cardholders were duplicate transactions or could not be resolved because auditors were not successful in contacting the cardholders, the AOs, or the program coordinators. See Appendix A: Purpose, Scope, and Methodology, for additional information related to the audit work performed.

Table 2: Results of Testing of Required Supporting Documentation

Number of Required Supporting Documents Missing	Number of Transactions	Number of Cardholders	Amount of Purchases
1	72	45	\$139,974
2	19	13	\$58,603
3	33	18	\$135,929
4	12	7	\$14,403
5	3	3	\$12,837
6	7	5	\$10,994
7	8	5	\$12,084
8	3	3	\$5,750
Total	157		\$390,573

Source: Prepared by OIG on the basis of its testing of 580 transactions.

Reconciling Monthly Statements

According to the Department's SmartPay2 Worldwide Purchase Card Program Manual,⁴⁶ cardholders are required to reconcile their purchases with the monthly Statement of Account from Citibank. Specifically, the Program Manual states that one of the cardholder's responsibilities is to reconcile, sign, and date the Statement of Account. The cardholder must then forward the Statement of Account with the Buying Log and any supporting documentation to the AO for the AO's review and approval.

OIG selected 580 transactions, totaling \$1,622,823, made by 221 cardholders to test for compliance with the reconciliation requirement. OIG requested, from each cardholder, evidence of reconciliation with the applicable Statement of Account and evidence that the AO had reviewed and approved the reconciled the Statement of Account. OIG found 52 transactions (9 percent), totaling \$164,954 and made by 31 cardholders, in which the cardholders did not provide evidence that monthly statements had been reconciled.

Reminding Users About the Requirement To Reconcile Monthly Statements May Help Address Deficiencies Identified

OIG concluded that the missing documentation and the lack of evidence that monthly statements were reconciled were due, in part, to cardholders not maintaining required documents or documenting reconciliation efforts. For example, one cardholder stated that she had lost all her purchase card records for the year in question. Another cardholder stated that she intended to start recording transactions in a buying log but had "not yet gotten around to doing it." Maintaining accurate records and supporting documentation for purchase card transactions and performing reconciliations are central controls for protecting the integrity of the Department's Purchase Card Program. Therefore, periodic notices from the Program

⁴⁶ Department of State SmartPay2 Worldwide Purchase Card Program Manual, at 63.

Management Office to program participants reminding them of the importance of these tasks could help increase compliance with this requirement and detection of errors.

Recommendation 2: OIG recommends that the Bureau of Administration establish a process to periodically remind program participants of the importance of managing records and performing reconciliations as required by the Department of State Worldwide Purchase Card Program Manual.

Management Response: A/OPE concurred with the recommendation, stating that the Office of Acquisitions Management currently issues program reminders to purchase card participants through an annual worldwide Department Notice and a cable to all posts that summarizes the importance of participant roles and responsibilities, including maintaining required supporting documentation and conducting timely, proper monthly reconciliation.

OIG Reply: On the basis of A/OPE's actions to periodically remind program participants of the importance of managing records and performing reconciliations, OIG considers this recommendation closed and no further action is required.

Finding C: The Department Generally Administered the Purchase Card Program in Accordance With Established Policies

OIG found that the Department generally administered the Purchase Card Program in accordance with required policy and procedures. Specifically, OIG found sufficient compliance with requirements for training and delegation of authority for the 24⁴⁷ cardholders selected for testing were properly trained and authorized to make purchases. OIG also found that 256 of 284 (90 percent) bureaus or posts with purchase cards had completed their bureau/post annual review and certified that purchase card standards were followed and uploaded the results to PMARS, which is a new requirement introduced in FY 2017. OIG attributed the approximately 10-percent noncompliance rate to the recency of the annual review requirement as well as to some confusion about how to complete and certify the reviews. Nevertheless, it is important that all purchase card Program Coordinators be held accountable for certifying that annual reviews are completed to ensure that purchase card standards are followed consistently.

Training and Delegation of Authority

According to the Department's Foreign Affairs Manual,⁴⁸ each Purchase Card Program participant must successfully complete initial training relevant to that role in the program and complete refresher training every 3 years. However, OIG noted that the Purchase Card Program Manual requires refresher training every 2 years, which conflicts with the Foreign Affairs Manual. Although OIG found compliance to be sufficient with the 3-year refresher requirement for those officials tested, as per the Foreign Affairs Manual, the Bureau of Administration

⁴⁷ See Appendix A: Purpose, Scope, and Methodology for details of sampling methodology.

⁴⁸ 4 Foreign Affairs Manual 455.3.

should ensure that the requirements for the Purchase Card Program as listed in the Foreign Affairs Manual are consistent with those of the Program Manual.

Recommendation 3: OIG recommends that the Bureau of Administration clarify and reissue policy guidance in the Department of State Worldwide Purchase Card Program Manual to identify the required frequency of “refresher training” for program participants.

Management Response: A/OPE concurred with the recommendation, stating that the Office of Acquisitions Management was updating the Department of State Worldwide Purchase Card Program Manual, which will include clarification of the requirements and frequency of refresher training for all program participants. The response also identified online training courses that provide this information.

OIG Reply: On the basis of A/OPE’s concurrence with the recommendation and planned actions, OIG considers the recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration clarified and reissued the Worldwide Purchase Card Program Manual to identify the required frequency of refresher training for program participants.

Recommendation 4: OIG recommends that the Bureau of Administration compare all policy guidance for the Purchase Card Program as promulgated in the Department of State Worldwide Purchase Card Program Manual with the requirements set forth in the Foreign Affairs Manual to ensure consistency between these documents.

Management Response: A/OPE concurred with the recommendation, stating that the Office of Acquisitions Management compared policy guidance during January 2019 and was in the process of promulgating revisions to the Department of State Worldwide Purchase Card Program Manual, the Foreign Affairs Manual, and the Foreign Affairs Handbook. The response noted that the Department will provide “milestones for estimated progress to achieve clearance and publication” of these revisions.

OIG Reply: On the basis of A/OPE’s concurrence with the recommendation and planned actions, OIG considers the recommendation resolved pending further action. This recommendation will be closed when OIG receives and accepts documentation demonstrating that the Bureau of Administration compared all policy guidance for the Purchase Card Program as promulgated in the Department of State Worldwide Purchase Card Program Manual with the requirements set forth in the Foreign Affairs Manual and Foreign Affairs Handbook to ensure consistency between these documents.

Regarding the assignment of purchasing authority to cardholders, Department policy states that the cardholder role must be established through a written Delegation of Authority

Memorandum.⁴⁹ Of 24 cardholders and the corresponding 23 AOs tested, OIG determined that compliance with Department requirements to issue and maintain Delegation of Authority Memoranda was sufficient.

Annual Reviews

According to the Department's SmartPay2 Worldwide Purchase Card Program Manual, the bureau or post Program Coordinator is responsible for conducting an annual review of the Purchase Card Program. The previous fiscal year's review must be completed in the first quarter of the new fiscal year.⁵⁰ The Annual Review process consists of three parts—cardholder checklists, a summary of findings, and an annual review certification by the Program Coordinator. Together, these components help ensure that required purchase card procedures and standards are being administered properly.

OIG found that 256 (90 percent) of 284 bureaus and posts had completed required Annual Reviews for FY 2017. The Department has controls in place to monitor whether the Annual Reviews are completed and procedures to take action when they are not. For example, staff members from the Program Management Office suspended the use of purchase cards at two overseas posts at which Program Coordinators had neglected to properly certify and submit the required Annual Reviews. However, action was not taken at all 28 posts⁵¹ that had not submitted their FY 2017 Annual Review in PMARS.⁵²

OIG found that bureau and post Program Coordinators did not comply with the Annual Reviews in a timely manner, in part, because it was a new (introduced in FY 2017) requirement to certify and upload the Annual Reviews to PMARS. For example, three Program Coordinators stated that they were confused by the completion and certification process. Additional training may help alleviate confusion with the system and procedures. Although the training courses offered for Purchase Card Program participants are comprehensive, they could be improved by emphasizing the importance of the timely completion and certification of Annual Reviews and the steps needed to ensure the submission of the Annual Reviews in PMARS.

The Annual Review process is an important internal control for helping ensure compliance with Purchase Card Program requirements at each bureau or overseas post. The Annual Review can be used to take corrective actions when problems are identified and, with the certification requirement, hold Program Coordinators accountable for operations of the Purchase Card Program at their individual bureaus or posts. Without the timely submission of the Annual

⁴⁹ Ibid. at 66.

⁵⁰ Ibid. at 56.

⁵¹ As of July 2018, the number of non-compliant bureaus or posts for FY 2017 had been reduced to 10.

⁵² PMARS is a web-based application that provides Department users worldwide with a portal to accomplish purchase card-related tasks such as establishing accounts, making changes to existing accounts, and performing mandatory Annual Reviews.

Review, however, the Department cannot address any deficiencies or be assured that the Purchase Card Program is operating as intended.

Recommendation 5: OIG recommends that the Bureau of Administration establish a process to remind purchase card approving officials and bureau or post Program Coordinators to complete, certify, and submit the Purchase Card Program Annual Reviews in a timely manner, as required by the Department of State Worldwide Purchase Card Program Manual.

Management Response: A/OPE concurred with the recommendation, stating that the Office of Acquisitions Management had issued a Department Notice and cable to all posts summarizing the need to complete timely annual reviews in accordance with established policy. In addition, A/OPE noted that the Office of Acquisitions Management issues reminders via email about the annual review during the reporting period, then subsequently sends follow-up emails to those bureaus and posts that have not completed, certified, or submitted their annual review in PMARS.

OIG Reply: On the basis of A/OPE's actions to remind purchase card approving officials and bureau or post Program Coordinators to complete, certify, and submit the Purchase Card Program Annual Reviews in a timely manner, OIG considers this recommendation closed and no further action is required.

RECOMMENDATIONS

Recommendation 1: OIG recommends that the Bureau of Administration clarify and reissue policy guidance in the Department of State Worldwide Purchase Card Program Manual to describe specifically when purchase cards may be used to pay for “light refreshments” at restaurants and caterers.

Recommendation 2: OIG recommends that the Bureau of Administration establish a process to periodically remind program participants of the importance of managing records and performing reconciliations as required by the Purchase Card Program Manual.

Recommendation 3: OIG recommends that the Bureau of Administration clarify and reissue policy guidance in the Department of State Worldwide Purchase Card Program Manual to identify the required frequency of “refresher training” for program participants.

Recommendation 4: OIG recommends that the Bureau of Administration compare all policy guidance for the Purchase Card Program as promulgated in the Department of State Worldwide Purchase Card Program Manual with the requirements set forth in the Foreign Affairs Manual to ensure consistency between these documents.

Recommendation 5: OIG recommends that the Bureau of Administration establish a process to remind purchase card approving officials and bureau or post Program Coordinators to complete, certify, and submit the Purchase Card Program Annual Reviews in a timely manner, as required by the Purchase Card Program Manual.

APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY

The Office of Inspector General (OIG) conducted this audit to determine whether (1) Department of State (Department) purchase cardholders used their Government card only for purchases allowed by laws and regulations; (2) Department purchase cardholders recorded purchases, documented purchases, and reconciled monthly statements, as required by Department policy; and (3) the Department administered the Purchase Card Program in accordance with established policies.

The Office of Audits conducted this audit from September 2017 to August 2018. Issuance of this report was delayed because of the lapse in OIG's appropriations that occurred from 11:59 p.m. December 21, 2018, through January 25, 2019. Audit work was performed in the Washington, DC, metropolitan area and in Charleston, SC. OIG conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objective. OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objective.

To gain an understanding of the audit topic, OIG researched and reviewed Federal laws and regulations, as well as Department policy related to the Department's Purchase Card Program, such as the Federal Acquisition Regulation;¹ Office of Management and Budget (OMB) Circular A-123, Appendix B;² the Department of State Acquisition Regulation; and the Foreign Affairs Manual. OIG also met with and interviewed key personnel, including individuals from the Bureau of Administration, Office of Logistics Management, Office of Program Management and Policy; a Key Program Administrator; and Designated Billing Officers. To gain a general understanding of their respective roles, OIG also interviewed a cardholder and a Program Coordinator. To determine whether the Department's existing controls over the Purchase Card Program provided assurance that improper purchases would be detected or prevented in the normal course of business, OIG interviewed Department officials and sought to understand existing oversight and monitoring processes.

To determine whether purchase cardholders used their Government cards only for purchases allowed by laws and regulations, OIG obtained a Citibank listing of all FY 2016 and FY 2017 Department-issued purchase card transactions, selected a sample of transactions, and requested and reviewed supporting documentation. Specifically, OIG reviewed 580 transactions, valued at \$1,622,823, to determine whether purchase cardholders used their Government cards only for purchases allowed by laws and regulations and recorded and documented purchases and reconciled monthly statements in accordance with Department policy. More specifically, OIG reviewed supporting documentation to assess compliance with

¹ 48 Code of Federal Regulations, Chapter 1, "Federal Acquisition Regulation."

² Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control," Appendix B, "Improving the Management of Government Charge Card Programs."

the steps that are required as part of the purchase card buying process, as described in the Department's Worldwide Purchase Card Program Manual.

For example, to ensure that each requirement was authorized, OIG requested a copy of the purchase request or requisition form and documentation demonstrating that adequate funding was available prior to making the purchase. To verify the purchase, OIG requested invoices or receipts showing the date of purchase, a description of the goods or services received, and the price and quantity of the transactions. Since each cardholder must also maintain a monthly buying log to record key information for each purchase, such as the date of purchase, amount, fiscal information, a description of the item or service, and the dates on which items or services were received, OIG requested a copy of a particular month's buying log for the transactions being reviewed. Additionally, OIG requested documentation supporting the cardholder's reconciliation with the applicable Statement of Account and evidence that the AO had reviewed and approved the reconciled Statement of Account, since such reconciliations are required to help prevent errors such as double billings, incorrect charge amounts, or missing credits.

To determine whether the Department administered the program in accordance with established policies, OIG requested access to the Department's Purchase Card Management and Reporting System (PMARS).³ OIG used PMARS to review cardholder training certificates to determine whether training certificates were current as well as to determine whether Program Coordinators had completed and submitted Annual Reviews, as required.

Prior OIG Reports

Management Assistance Report: Process Used by the Department of State To Prepare the Joint Purchase and Integrated Card Violation Report Requires Improvement (AUD-CGI-18-26, February 2018)

In February 2018, OIG issued a Management Assistance Report after discovering that the Department's semi-annual Joint Purchase and Integrated Card Violations Reports, submitted to OMB between April 2014 and March 2017, were incomplete and untimely. Specifically, the reports contained only OIG component information and were not submitted within the 120-day requirement. OIG made one recommendation to the Department intended to help ensure that all relevant information concerning purchase and integrated card violations are reported to OMB, as required. As of August 2018, the recommendation had been implemented and therefore was closed.

Information Report: Department of State 2016 Purchase Card Risk Assessment (AUD-CGI-17-25, December 2016)

To assess risk associated with the Department's Purchase Card Program, OIG reviewed the Department's FY 2015 purchase card data and concluded that the risk of illegal, improper, or

³ PMARS is a web-based application that provides Department users worldwide with a portal to accomplish purchase card-related tasks such as establishing accounts, making changes to existing accounts, and performing mandatory Annual Reviews.

erroneous use in the Department Purchase Card Program was “high.” This conclusion was based on Department Purchase Card Program size, internal controls, training, previous audits, OIG Office of Investigations observations, and violations reports.

Audit of the Department of State Travel Card Program (AUD-CGI-16-48, September 2016)

OIG conducted this audit to determine whether Department travel cardholders (1) obtained cash advances in accordance with regulations, (2) used their Government-issued cards only for purchases allowed by laws and regulations, and (3) obtained and used their Government-issued cards for travel expenses in accordance with regulations. OIG also addressed whether the Bureau of the Comptroller and Global Financial Services closed travel card accounts in a timely manner when employees were separated from service. OIG made seven recommendations to improve internal controls for the Department’s travel card program, such as developing or clarifying related policies, changing certain existing procedures, and developing new procedures such as applying disciplinary actions uniformly to employees who misuse or abuse their travel cards. As of August 2018, three of the recommendations were implemented and closed and four were considered resolved pending further action.

Work Related to Internal Controls

OIG performed steps to assess the adequacy of internal controls related to the areas audited. For example, OIG gained an understanding of the Department’s processes for issuing and monitoring purchase charge cards to employees. To conduct audit work and develop findings, OIG also reviewed Federal guidance, such as the Federal Acquisition Regulation and OMB Circular A-123, Appendix B, as well as Department policy, such as the Worldwide Purchase Card Program Manual. Any significant internal control deficiencies noted during the audit are reported in the Audit Results section of this report.

Use of Computer-Processed Data

During this audit, OIG used electronically processed data provided by Citibank, the Department’s Integrated Logistics Management System (ILMS),⁴ and PMARS as evidence.

Citibank Transaction Data

OIG obtained FY 2014 through FY 2017 Citibank data, consisting of 1,264,541 transactions. OIG performed various steps to transform the data and verify their completeness and accuracy. OIG assessed the reliability of these data by performing electronic testing, reviewing existing information about the data, and interviewing officials who were familiar with the data. OIG determined that the data were sufficiently reliable for the purposes of this report.

Integrated Logistics Management System

OIG accessed data in ILMS, particularly data from the “Ariba Buyer” component. Ariba Buyer allows users to request goods and services, obtain approvals for purchases, finalize purchase

⁴ ILMS is the Department’s web-based system used to procure and manage assets, both domestically and overseas.

orders, and run reports related to procurements. OIG used data contained within ILMS to verify purchase approvals and other information provided by cardholders for transactions that OIG reviewed. OIG conducted data reliability testing for ILMS by comparing supporting documentation received from cardholders for particular purchase card transactions with the data maintained in ILMS and determined that the data were sufficiently reliable for the purposes of this report.

Purchase Card Management and Reporting System

OIG used the data contained in PMARS to review cardholder training certificates and delegation memoranda and to verify the completion of required Annual Reviews for domestic bureaus and overseas posts. OIG could not independently assess the reliability of the data within PMARS but nonetheless determined that the system's records were sufficient for the limited compliance testing performed.

Detailed Sampling Methodology

Selection of Citibank Transactions

To determine the 580 Citibank transactions, valued at \$1,622,823, selected for review, OIG used 2 selection methods: (1) a risk-based approach, which identified 270 transactions for review, valued at \$640,082, and (2) a statistical sampling design, which identified 310 transactions for review, valued at \$982,741.

The sampling methodology sought to evaluate four focus areas: (1) potential split purchases,⁵ (2) the Department's controls over prohibited Merchant Category Codes (MCC),⁶ (3) internal controls for convenience check⁷ use, and (4) internal controls for general purchase card transactions.⁸ OIG also tested the items selected to determine whether required documentation was maintained. In this section, OIG describes the analytical steps taken to reduce the initial universe to a highly focused target universe.

Initial Universe of Citibank Transactions

The initial universe of purchase card transactions for FY 2014 through FY 2017 that were obtained from Citibank was 1,264,541 transactions, totaling \$199,997,241.⁹ After removing

⁵ When a cardholder attempts to circumvent the micro-purchase limitation by dividing the cost of a procurement into two or more transactions that are under the micro-purchase limit, it is known as a split purchase.

⁶ MCCs are used to classify merchants and businesses by the type of goods or services provided. The Department blocks certain codes.

⁷ According to the Department of State Purchase Card Convenience Check Policy (December 14, 2017), 1, a convenience check can be used only as a payment of last resort when no merchant is available that accepts the purchase card.

⁸ OIG defines general transactions as transactions that were not part of the other identified subcategories.

⁹ This value includes the negatives that were removed later.

duplicate rows, transactions without dollar amounts, transactions with overlapping dates,¹⁰ negative dollar amounts and zero dollar amounts, and other line items that did not represent cardholder transactions, 994,023 transactions, totaling \$648,191,966, remained. To reduce the number of transactions and review the most relevant data, OIG chose to limit the scope of the audit to FY 2016 and FY 2017, resulting in a total of 513,222 transactions, valued at \$347,893,925. With these transactions, the team defined several selection criteria to develop a workable, target group of transactions.

Judgmental Sample of Credit Card Transactions

From the universe of 513,222 transactions, OIG judgmentally selected 270 transactions for review, as detailed in Table A.1. OIG used data analysis techniques to highlight transactions with possible internal control weaknesses while applying possible fraud indicators through a risk scoring method.¹¹ The results of testing these items are included in Finding A of this report. OIG also assessed the completeness of documentation for these 270 transactions. The results of this testing are included in Finding B of this report.

Table A.1: Judgmental Sample of Transactions by Category

Selected Criteria	Number of Transactions	Amount
Potential split purchases	208 ^a	\$545,757
Transactions using a prohibited MCC	43	\$12,568
High risk convenience checks	10	\$10,027
Other high risk items	9	\$71,730
Total	270	\$640,082^b

^a Only 112 transactions were reviewed.

^b Because of rounding, the total amount may be plus or minus \$1.

Source: Prepared by OIG on the basis of its sampling plan.

Potential Split Purchases

Split purchases are transactions used to circumvent the Department's requirements for the micro-purchase limit of \$3,500 by splitting one purchase in excess of \$3,500 into two or more transactions. OIG identified certain factors that might identify a split purchase. Specifically, OIG selected transactions for review that related to two or more transactions to the same vendor on the same day or plus or minus 1 day.

On the basis of initial factors, OIG determined that certain categories of valid purchases were included in the selection. For example, organizations would often make payments to utilities or telephone companies on the same date. These transactions appeared to be split purchases but were in fact valid purchase card transactions. To eliminate these transactions, OIG used

¹⁰ Two datasets were combined to develop the universe of transactions. One dataset contained all FY 2017 transactions. The other dataset contained data from FY 2014 through the third quarter of FY 2017. Transactions from the first three quarters of FY 2017 were in both datasets, so OIG removed the duplicate transactions.

¹¹ The determinations considered both auditor judgment and possible fraud indicators.

additional factors to refine its selection of transactions to review for this category. Specifically, OIG also considered whether:

- The sum of the transactions exceeded the micro-purchase threshold (i.e., \$3,500).
- Other split purchases had been made with the same merchant.
- Other split purchases had been made by the same cardholder.

Using these criteria, OIG selected 208 potential split purchase transactions, valued at \$545,757, for review. Of these 208 transactions, OIG found that 92 transactions, valued at \$292,382, were duplicate transactions¹²; 2 transactions, valued at \$4,130, were made with a stolen card; and 4 transactions, valued at \$5,205, were inconclusive. OIG ultimately reviewed 112 transactions, totaling \$243,561.

Prohibited MCCs

Certain types of merchants can be blocked on the basis of MCCs. MCCs are used to classify merchants and businesses by the type of goods or services provided. Individual cardholders can have particular MCCs blocked or have those blocks removed, depending on the circumstances. Using a list of blocked MCCs that was provided by the Department, OIG identified 43 transactions, valued at \$12,568, for review.

High-Risk Convenience Checks

A convenience check can only be used as a payment of last resort when no merchant is available that accepts the purchase card. For the judgmental portion of the sample, OIG chose to review all high-risk convenience check transactions. OIG considered convenience checks to be high risk when they were used overseas or when they were used at a specific local restaurant. Convenience checks are not allowed to be used overseas. OIG identified one transaction, totaling \$91, that appeared to be a convenience check used overseas. In addition, OIG identified nine transactions, totaling \$9,936, that were selected for further scrutiny because the merchant named Skywalk Café was known to accept credit cards; accordingly, convenience checks should not have been used for payment. In total, OIG judgmentally selected 10 high-risk convenience check transactions for review, totaling \$10,027.

Other High-Risk Transactions

OIG selected nine transactions for review, totaling \$71,730, on the basis of an analysis performed using certain risk criteria as follows:

¹² Although OIG attempted to remove all duplicate transactions during its initial analysis of the data, some transactions that were duplicates were not identified. In this case, during fieldwork OIG found transactions that were sub-transactions. These sub-transactions were included in the main transaction, and to include them in the testing would lead to a review of duplicate transactions. Therefore, these 92 sub-transactions were not reviewed individually.

1. OIG determined that vendor types that are not commonly used may be more vulnerable to fraud. Therefore, OIG selected items from MCCs with fewer than 13 transactions.
2. OIG determined that when one cardholder makes purchases at a vendor that is not commonly used by other cardholders, it may be an indicator of fraud. Therefore, OIG selected transactions in situations in which only one cardholder purchased items from a vendor, two or more transactions were made by the cardholder to that vendor, and the total dollar amount spent at the vendor exceeded \$5,375.
3. OIG determined that unusual domestic¹³ transactions on weekends or holidays may be a fraud indicator. Therefore, OIG identified domestic transactions made on holidays or weekends in bureaus that had fewer than 24¹⁴ weekend or holiday transactions.
4. OIG determined that purchase card transactions that did not have a purchase request recorded in ILMS was a potential fraud indicator. Therefore, OIG identified transactions in those circumstances.

Small Dollar Transactions Removed To Determine the Final Target Universe

From the universe of 513,222 transactions, OIG removed the 270 transactions that were judgmentally selected for review, leaving a total of 512,952 transactions. OIG then removed all transactions that were less than \$100. This eliminated the possibility of selecting a large sample of small, immaterial transactions.¹⁵ After defining the scope period and applying the selection criteria, the final target universe (statistical sampling frame) that was used for statistical sampling was 359,869 transactions, totaling \$339,904,386.

Statistical Sample Size Selection

OIG selected the statistical sample of transactions by using a stratified, partially dollar-weighted sampling design.¹⁶ The two strata were convenience checks (as documented, high-risk convenience checks were selected judgmentally) and general (that is, all other transactions). A sample size was computed to project to each of the strata. These sample sizes ensured a worst-case precision of plus or minus 10 percent, given a 95-percent confidence level. OIG used two variables to select the samples that accounted for the partially dollar-weighted sampling design. The first variable was a calculated risk score,¹⁷ and the second variable was the transaction amount. Selecting the sample using these two variables enabled a sample based on

¹³ Overseas posts were not considered because they do not always have the same work schedules or holidays as domestic locations.

¹⁴ OIG's statistician calculated a cutoff amount to avoid selecting transactions from bureaus that commonly had weekend or holiday transactions. Specifically, the cutoff value was defined by computing the distribution of all weekend and holiday purchases made by domestic bureaus. The number 24 was the lower 25th percentile value in this distribution. This means that transactions from a bureau with more than 24 weekend and holiday purchases would not be selected.

¹⁵ This reduction eliminated 23 percent of the total number of transactions while keeping 98 percent of the total dollar value in the final target universe.

¹⁶ The partially dollar-weighted sampling design selected the transactions by combining the dollar value with the risk score. This design enabled the selection of higher dollar and larger risk score transactions.

¹⁷ The risk score applied both auditor judgment and possible fraud indicators.

both internal control risk and value. Using this methodology, OIG selected a sample of 310 transactions, as detailed in Table A.2.¹⁸

Table A.2: Sampled Transactions From the Statistical Sampling Frame

Strata	Sampling Frame Transactions	Sampling Frame Amount	Number Selected	Amount Selected
Checks	740	\$1,274,460	128	\$551,265
General	359,129	\$338,629,926	182	\$431,476
Total	359,869	\$339,904,386	310	\$982,741*

* Because of rounding, the total dollar sum may be plus or minus \$1.

Source: Prepared by OIG on the basis of its testing.

This sample of 310 items was used to determine whether the Department used the purchase card only for purchases allowed by laws and regulations (Finding A of the Audit Results section of this report) and whether cardholders recorded and documented purchases as required (Finding B of the Audit Results section of this report).

Of 182 general transactions, totaling \$431,476, selected for review, OIG was unable to draw conclusions on 5 transactions, totaling \$5,557. Specifically, OIG did not receive documentation related to two of the items; the supporting documentation provided for two transactions was insufficient, and one transaction was a duplicate.¹⁹ The results of the testing of the 310 sample items are included in Finding A and Finding B of this report.

Selection of Training Records and Delegation Memoranda for Review

The selection of training records and delegation memoranda sought to test compliance with requirements to complete purchase card training modules and execute memoranda to delegate purchase authority. A “spend report” from Citibank for FY 2017 was used to identify the top 10 highest spending cardholders from each of 8 categories. The eight categories were the Department’s seven regional bureaus, plus one category called “domestic bureau,” which captured all the Department’s functional or non-regional bureaus into one category. OIG selected the 3 top spenders in each of the 8 categories for a total of 24 cardholders. The results of OIG’s testing are included in Finding C of the Audit Results section of this report.

¹⁸ Because of the sampling design, 26 transactions were selected more than once.

¹⁹ Although OIG attempted to remove all duplicate transactions during its initial analysis of the data, some transactions that were duplicate were not identified. In this case, during fieldwork OIG found a transaction that was a sub-transaction. This sub-transaction was included in the main transaction, and including it in the testing would lead to a review of duplicate transactions. Therefore, the one sub-transactions was not reviewed individually.

APPENDIX B: BUREAU OF ADMINISTRATION RESPONSE




United States Department of State

Washington, D.C. 20520

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February 26, 2019

MEMORANDUM

TO: OIG/AUD – Norman P. Brown
FROM: A/OPE –  Cathy J. Read
SUBJECT: Draft Report on *Audit of Department of State Purchase Card Program*

Thank you for the opportunity to provide a management response on the subject draft report. The point of contact for this report is the A/OPE Front Office (A-OPEFrontOfficeAssistants@state.gov).

Recommendation 1: OIG recommends that the Bureau of Administration clarify and reissue policy guidance in the Department of State Worldwide Purchase Card Program Manual to describe specifically when purchase cards may be used to pay for “light refreshments” at restaurants and caterers.

Management Response to Draft Report (02/26/2019): The Office of the Procurement Executive (OPE) concurs with the recommendation. OPE’s Office of Acquisitions Management (AQM) is updating the Purchase Card Manual and changes include clarification of when purchase cards may be used to pay for light refreshments at restaurants and caterers. AQM anticipates release of the revised manual during Fiscal Year (FY) 2019, 3rd quarter.

Recommendation 2: OIG recommends that the Bureau of Administration establish a process to periodically remind program participants of the importance of managing records and performing reconciliations as required by the Purchase Card Program Manual.

Management Response to Draft Report (02/26/2019): OPE concurs with the recommendation. AQM currently issues program reminders to participants through an annual worldwide Department Notice and ALDAC summarizing the importance of roles and responsibilities, maintaining required supporting documentation and the conduct of timely, proper monthly reconciliation (see Tab 1).

Recommendation 3: OIG recommends that the Bureau of Administration clarify and reissue policy guidance in the Department of State Worldwide Purchase Card Program Manual to identify the required frequency of “refresher training” for program participants.

Management Response to Draft Report (02/26/2019): OPE concurs with the recommendation. AQM is updating the Purchase Card Manual and changes include clarification to the requirements and frequency of “refresher training” for all program participants. This information is also currently available in all our online role-based training courses (PA-297 for

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Cardholders/Approving Officials; PA-299 for Program Coordinators; PA-300 for Designated Billing Officials) as well as from our Purchase Card website.

Recommendation 4: OIG recommends that the Bureau of Administration compare all policy guidance for the Purchase Card Program as promulgated in the Department of State Worldwide Purchase Card Program Manual with the requirements set forth in the Foreign Affairs Manual to ensure consistency between these documents.

Management Response to Draft Report (02/26/2019): OPE concurs with the recommendation. AQM compared policy guidance during January 2019 and is in process of promulgating revisions to both the Purchase Card Manual and the FAM and FAH. AQM will provide milestones for estimated progress to achieve clearance and publication of FAM and FAH revisions in its initial response to the final report.

Recommendation 5: OIG recommends that the Bureau of Administration establish a process to remind purchase card approving officials and bureau or post Program Coordinators to complete, certify, and submit the Purchase Card Program Annual Reviews in a timely manner, as required by the Purchase Card Program Manual.

Management Response to Draft Report (02/26/2019): OPE concurs with the recommendation. AQM has issued an annual Department Notice and ALDAC summarizing the need to complete timely annual reviews in accordance with established policy. See Tab 2 for the FY2018 ALDAC. In addition, AQM issues reminders via email about the annual review during the reporting period, then subsequently sends follow-up email to those bureaus and posts that have not completed, certified and/or submitted their annual review in PMARS.

Attachments:

Tab 1 – 18 STATE 64136 Annual Purchase Card Program Updates.

Tab 2 – 18 STATE 113218 FY2018 Purchase Card Annual Review Reminder.

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MRN: [18 STATE 64136](#)
Date/DTG: Jun 22, 2018 / 222126Z JUN 18
From: SECSTATE WASHDC
Action: ALL DIPLOMATIC AND CONSULAR POSTS COLLECTIVE *ROUTINE*
E.O.: 13526
TAGS: ASUP, AFIN, AMGT
Subject: Purchase Card Program Updates

1. Summary: This ALDAC addresses information and updates to the Department of State (DoS) purchase card program.
2. Increase in Micro-Purchase Threshold: The National Defense Authorization Act for Fiscal Year 2018 (NDAA FY18) (Public Law 115-91) (Sections 806 and 805 respectively) increased the micro-purchase threshold from \$3,500 to \$10,000. A/OPE reported this update, effective May 31, 2018, in Procurement Information Bulletin (PIB) 2018-03, available at the following site: <http://a.m.state.sbu/sites/OPE/PD/Lists/PIBs/PIBs.aspx>. Based on this authority, DoS cardholders may request a permanent threshold increase in their single purchase limit up to \$10,000, and/or increase in the monthly cycle limit up to \$100,000, through PMARS (Purchase Card Management and Reporting System), under "Submit Requests" on the PMARS Dashboard. All "Threshold Increase" requests must clearly demonstrate a need for the increase and cardholder compliance with policy and regulation, including maintaining a current buying log, timely reconciliation, and use of ILMS tools such as Ariba and eFiling. Requests will be approved on a case-by-case basis by A/LM's Business Operations Division (A/LM/AQM/BD), responsible for oversight of the Department's purchase card program.
3. Award of SmartPay3 (SP3) DoS Task Order: On April 5, 2018, DoS awarded the new SmartPay3 (SP3) task order to Citi for purchase, travel and fleet card products and services. This task order will replace the existing SmartPay2 task order, which expires on November 29, 2018. Transition guidance will be sent to all purchase card participants prior to the expiration of the SP2 program.
4. Continuous Monitoring of the Purchase Card Program: On January 9, 2018, A/LM/AQM/BD issued an SOP for bureaus and posts on performing continuous monitoring of their purchase card programs. The plan identifies responsibilities by role and associated corrective actions for areas of non-compliance. Bureaus and posts should carefully review this plan to ensure proper program monitoring: <http://m.a.state.gov/pcard/wp-content/uploads/sites/29/2018/03/SOP-for-Continuous-Monitoring-by-Role-v1-3-9-18.pdf>

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5. **Launch of New Purchase Card Website:** A/LM/AQM/BD is excited to announce the recent launch of a new purchase card website: <http://lm.a.state.gov/pcard/>. From the new site, one can find information about all aspects of the program, including points of contact, roles and responsibilities, policies and guidance, PMARS, and much more. Users accessing the old site address (pcard.a.state.gov) will be directed to the new address.
6. For information on any of the above initiatives, visit the purchase card website (<http://lm.a.state.gov/pcard/>) or contact Program Manager Margaret Colaianne at Colaianne@state.gov or by phone at: (703) 516-1688.

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MRN: [18 STATE 113218](#)
Date/DTG: Nov 09, 2018 / 091811Z NOV 18
From: SECSTATE WASHDC
Action: ALL DIPLOMATIC AND CONSULAR POSTS COLLECTIVE *ROUTINE*
E.O.: 13526
TAGS: ASUP, AFIN, AMGT
Subject: FY18 Purchase Card Annual Review Deadline

1. Summary: All posts and Department offices with purchase cards must complete their FY2018 Annual Review in PMARS (Purchase Card Management & Reporting System) prior to December 31, 2018. This ALDAC addresses the importance of the annual review and the process to complete it.

2. Background: The annual review ensures that bureaus and posts comply with all established purchase card policies, procedures, and regulations and highlights areas of improvement and best practices. The review focuses on critical areas of program compliance including training, timely reconciliation and payment, authorized purchases, Ariba utilization, and monitoring vacancies.

3. Purchase Card Annual Review:

Program coordinators (PCs) must involve their approving officials (AOs) in the review of the individual cardholders (CHs). The PC must assist with the assessment of established internal controls, policies, procedures, and recommended improvements. When all AO submissions are complete, bureau/post PCs must certify annual reviews in PMARS. The PMARS annual review consists of the following:

- **CH Checklist** – AO completes one for all CHs reviewed
- **Summary of Findings** – AO completes one for all CHs reviewed
- **Bureau/Post Checklist & Summary of Findings** – PC completes one per bureau/post
- **Certification of Completion** – PC certifies annual review in PMARS

4. Accessing the Annual Review in PMARS:

As of October 1, 2017 all annual reviews must be completed in PMARS. To access the

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PMARS annual review, visit pmars.a.state.gov using Google Chrome. PMARS retains certified reviews for five years and can be accessed as needed.

5. Black-out Period for PMARS Access – November 16-29, 2018:

Please note that during the black-out period, PMARS will not permit access to FY18 CH checklists, related information, or submission of any account setups or changes. If a bureaus or posts have any urgent concerns during the black-out period, contact regional key program administrators (see below) or email the Purchase Card Operations Team at: PurchaseCardKPA@state.gov.

<i>Region Served</i>	<i>Point of Contact (s)</i>	<i>Phone Number</i>	<i>Fax Number</i>
Domestic	David Short	(703) 875-6008	(703) 875-4427
EUR East & West & SCA	Shekena Wheeler	(541) 344-6078	(703) 875-4427
WHA & EAP	Janice Papadam	(703) 875-5240	(703) 875-4427
AF & NEA	Linda Alexander	(703) 875-4355	(703) 875-4427

6. Annual Review Questions:

For other questions regarding the annual review policy or PMARS, contact Margaret Colaanni at (703) 516-1688. The annual review policy is available from the purchase card website at: lm.a.state.gov/pcard/. Users can also contact the ILMS helpdesk for assistance completing the review in PMARS at ilmshelp.state.sbu.

Signature: Pompeo

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ABBREVIATIONS

A/OPE	Bureau of Administration, Office of the Procurement Executive
AO	approving official
FAR	Federal Acquisition Regulation
GSA	General Services Administration
ILMS	Integrated Logistics Management System
MCC	Merchant Category Codes
OIG	Office of Inspector General
OMB	Office of Management and Budget
PMARS	Purchase Card Management and Reporting System

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If you fear reprisal, contact the
OIG Whistleblower Coordinator to learn more about your rights.

WPEAOmbuds@stateoig.gov