

AR-11-003

**FEDERAL TRADE COMMISSION**

**Office of Inspector General**



**FOLLOW-UP REVIEW OF THE FTC  
PURCHASE CARD PROGRAM**

**FINAL REPORT**

**January 28, 2011**



Office of Inspector General

UNITED STATES OF AMERICA  
FEDERAL TRADE COMMISSION  
WASHINGTON, D.C. 20580

January 28, 2011

TO: Steven Fisher  
Chief Financial Officer

FROM: John M. Seeba  
Inspector General

SUBJECT: Final Audit Report AR-11-003 – Follow-up Review of the FTC Purchase Charge Card Program

This report presents the results of our review of the Federal Trade Commission's (FTC) Purchase Card Program. This audit was initiated as a follow-up review to AR-07-002, "Review of the FTC Purchase Charge Card Program," March 2007. We conducted this audit to follow-up on recommendations in a previously issued report on purchase charge cards to determine if the FTC has implemented appropriate controls in compliance with Office of Management and Budget (OMB) and FTC guidance.

We found that the Federal Trade Commission had implemented all open recommendations from the March 2007 report. The FTC has generally implemented effective internal controls to deter fraud, waste and abuse in the program. However, we provided 3 additional recommendations to further strengthen or improve administrative controls in the program. Specifically, we recommended improvements in the areas of: tracking required training for card holders and approving officials; updating the administrative manual with current guidance; reinforcing the need for card holders to limit the use of convenience checks for payments; and establishing criteria for purchasing certain overseas travel services.

Management concurred with all the findings and recommendations proposed in this report. The agency response is included in Appendix A.

Note: Subsequent to the issuance of the draft report, management advised the OIG of a potential fraud committed by a purchase card holder. The OIG is currently investigating this issue and will provide a separate report on any findings and recommendations associated with this investigation.

We appreciate the courtesies and cooperation extended to us by members of your staff during the audit. Should you have any questions please contact me at 202-326-2800.

cc: Edwin Franklin, Acting Chief Acquisition Officer  
Diane Reinertson, Assistance CFO for Policy, Evaluation and Control

## **BACKGROUND**

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The Administrative Manual, Chapter 2, Section 310 details the FTC policy on use of credit cards. The Federal Acquisition Streamlining Act of 1994 (FASA) requires the maximum use of electronic commerce as the simplest and most expeditious method of acquisition.

The FTC has adopted a program that uses a credit card for small acquisitions. Under a delegation of procurement authority, the Acquisition Branch may issue purchase credit cards to qualifying employees (card holders). The program permits multiple small acquisitions of acceptable goods and services (generally each under \$2,500) to be ordered by phone or in person and paid from a single monthly statement. This program streamlines the procurement process by eliminating unnecessary paperwork, staff time, and processing delays.

The program currently uses Citibank to provide VISA credit cards for small purchases. For example, items such as supplies, small equipment purchases, training and vehicle maintenance and fuel are purchased using the purchase card. Citibank's Internet-based system, CitiDirect, provides program information, reporting, self-directed customer service, communications, electronic statements, and online help and reference materials.

### **Objectives**

The audit objective is to follow-up on recommendations previously issued report on purchase cards and determine if the FTC has implemented appropriate controls in compliance with OMB and FTC guidance.

### **Scope**

We reviewed and tested selected purchase card data for the period October 2009 through June 2010 for selected purchase card holders. For this period, the FTC incurred purchase card expenditures of about \$1.9 million for 3,884 purchases.

### **Methodology**

The audit identified the various regulations, policies, and procedures prescribed by General Services Administration (GSA) and FTC's Administrative Manual, Section 310, "Credit Cards." We judgmentally selected 10 of 70 (14%) purchase card holders that purchased goods or services in the amount \$526,373 (28%). We interviewed 10 card holders and their 8 approving officials, and tested transactions made by card holders during the period under review. We also reviewed training certificates for all card holders sampled.

## **Reliability of Computer Based Data**

We relied on the data supplied by the purchase card holders and independently obtained by the Office of Inspector General from the CitiBank purchase card data base. Our tests of data found that the information was sufficiently reliable for the tests that we conducted.

We conducted this audit in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The audit was conducted during the months of July through October 2010.

## **FINDINGS AND RECOMMENDATIONS**

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Overall, we found that the FTC purchase charge card program had implemented all five recommendations from the prior audit report, AR 07-002, "Review of the FTC Purchase Charge Card Program," March 2007. However, in conducting the follow-up review, we also found two additional areas where internal controls could be strengthened to improve the program and one area where management should reinforce policy.

Specifically, we found that:

1. A system to track and ensure that the one year training requirement mandated by FTC policy was not in place. The agency coordinator maintains a file of training completed by card holders. In most cases, card holders were current in their training requirement, however several had exceeded the one year requirement by between one and three years.
2. The use of convenience checks may be avoided in some circumstances where it appears that a vendor accepts credit cards. OMB Circular A-123, "Improving the Management of Government Charge Card Programs," specifies that convenience checks may be written to vendors who do not accept the purchase card, for emergency incident response, and for other Agency approved purposes that comply with Public Law 104-134, the Debt Collection Improvement Act of 1996. The Act requires agencies, with limited exceptions, to make federal payments through electronic means. Currently, card holders approved to write convenience checks must complete a separate authorization sheet for approval to write a convenience check. While this requirement is an incentive for the card holders to avoid using convenience checks, there is no assurance that a vendor did not accept charge cards as payment. Because check fees are assessed when using convenience checks, the government incurs additional costs when using convenience checks.

3. In the Office of International Affairs, the purchase of an evacuation service intended to assist employees in case of an illnesses or injury while in travel status for FTC business should be better defined and controlled. Good internal controls require the use of defined criteria when determining if an expense should be incurred for a legitimate government need. Lack of specific criteria caused the FTC to incur expenses where it was unnecessary or not justified.

### **Finding A – All Recommendations from the Prior Audit Report Were Implemented**

Overall, we found that the Federal Trade Commission followed the policies and procedures promulgated by the General Services Administration and the FTC Administrative Manual. The prior report AR 07-002, “Review of the FTC Purchase Charge Card Program,” March 2007 identified five recommendations for management consideration. Management agreed with all the findings and recommendations. The five recommendations that were implemented by management were:

1. The OIG recommends that the Financial Management Office (FMO) update, document, and implement risk management controls on the FTC purchase card program by April 30, 2007.
2. The OIG recommends that FMO review all Merchant Category Codes (MCC’s) currently in use and restrict the use of those that are not appropriate (in addition to the MCC’s in Table 1) by the end of FY 2007.
3. The OIG recommends that by the end of FY 2007, FMO include policies and guidelines within the purchase card program that are consistent with the Travel and Transportation Reform Act of 1998 (P.L. 105-264, §2(a)).
4. The OIG recommends that by the end of FY 2007, FMO develop and institute an internal audit system to conduct a monthly audit of all purchase charge card transactions in order to detect and prevent the misuse of the purchase charge card.
5. The OIG recommends that by the end of FY 2007, FMO revise and implement a training program that is consistent with the requirements in OMB Circular A-123 Appendix B and Treasury Financial Manual Volume 1, Part 4, Chapter 4500.

We appreciate that management took immediate corrective actions on the above recommendations.

### **Finding B – Tracking of Refresher Training Needs Improvement**

The FTC has not established a formal system to track the training of approving officials or purchase card holders. The FTC issued a memo on February 16, 2007, that requires all purchase card holders and approving officials to complete the GSA’s SmartPay Purchase Card training on an annual basis. This requirement is more stringent than the three year requirement specified in OMB Circular A-123, Appendix B. Our review found that 7 of the 18 card holders or approving

officials had not taken the required refresher training. All card holders or approving officials had taken some type of training; however the 7 mentioned above were not current in taking their annual required refresher training. While this finding represents a minor non-compliance issue, the FTC should take action to set up some type of tracking system to ensure that all card holders or approving officials are current in their training requirement.

### **Recommendation**

1. We recommend that the agency coordinator establish a system to track required training and the one year refresher training for card holders or approving officials in accordance with established FTC policy.
2. We recommend that the agency coordinator maintain copies of all training certificates pursuant to OMB A-123 Appendix B. Copies of all training certificates must be maintained pursuant to National Archives and Records Administration requirements, General Records Schedule 1, Item 10a.
3. We recommend that the Administrative Manual be updated with the policy issued in February 2007.

### **Management Response**

Management concurred with finding 1 to establish and maintain an Excel spreadsheet to track card holder training. Management also concurred with recommendation 2 and will work with HR to establish a system compliant with OMB A-123, Appendix B. For recommendation 3, management has agreed to update the Administrative Manual by September 30, 2011.

### **OIG Response**

We concur with Management's response and planned corrective actions.

### **Finding C – Use of Convenience Checks Should be Avoided**

Convenience checks are authorized for a select group of card holders to pay for goods or services that cannot be purchased with a purchase credit card. While the use of convenience checks make the payment of non-credit card vendors easier and quicker than paying through a contract or purchase order, the FTC currently incurs a fee of 2.25% of the purchase amount plus \$2.00 amount. For the period October 1, 2009 through June 30, 2010, the FTC paid an additional \$4,583.87 in fees for 382 transactions. Because we do not pay a fee for using a credit card, this represents an additional cost above the purchase price of the good or service.

Generally, convenience checks are used only when a vendor does not accept a credit card. In most cases, payments are for court fees, transcript fees and payments for consultants. The OIG observed that websites of state and federal agencies do accept credit cards for payment of fees. We believe that card holders should explore all options prior to using a convenience check and incurring additional fees.

### **Recommendation**

4. We recommend that the Financial Management Office reinforce the need for card holders to affirmatively determine whether vendors will accept purchase charge cards for payment. For vendors who do not accept charge cards, the card holder should annotate on the purchase order that vendor does not accept a charge card and that a convenience check will be issued.

### **Management Response**

Management concurred with the recommendation and will issue a memorandum to all card holders outlining the process to document when credit cards are not accepted by vendors and the need to issue a convenience check.

### **OIG Response**

We concur with Management's response and planned corrective actions.

### **Finding D – Better Criteria Needed for Incurring Certain Foreign Travel Expense**

Purchase of evacuation services for employees who travel overseas should be better defined and controlled. The Office of International Affairs purchases a service for FTC employees traveling on official business, that will evacuate them in case of an illness or injury while in travel status. The service is purchased because in many countries that the FTC travels to, medical facilities are substandard and this service is intended to provide transportation to an adequate care medical facility should an in-country accident or illness occur. OMB Circular A-123, "Improving the Management of Government Charge Card Programs," Appendix B, states that "each agency must develop and maintain written policies and procedures for the appropriate use of charge cards ...". Lack of specific criteria caused the FTC to incur an expense where it was unnecessary or not justified.

The Office of International Affairs purchases this service for employees as a precaution against the significant cost should an evacuation be necessary. This service, known as Global Solutions (Medex), provides for evacuation services to assist employees in transporting them to the U.S. or other countries where medical services would be adequate. For the period February 2008 through September 2010, the FTC paid \$9,909 to Medex for coverage of approximately 174 trips, although some amounts cover what appears to be lengthier stays or multiple trips to the same location.



For example, travel locations such as France, Costa Rica, Barbados and Brazil are considered by the U.S. State Department to have adequate hospital and medical care facilities. In these cases, purchase of the Medex “service” was unnecessary. Based on OIG analysis using the U.S. Department of State website for information, we found that 44 of the 174 purchases were unnecessary due to travel to locations with adequate medical facilities/care. The amount expended for these trips totaled \$1,560.80.

Based on OIG analysis of the facts presented, the purchase of Medex services was generally reasonable. However in certain circumstances, the Medex service should not be purchased when traveling to locations with adequate medical care.

### **Recommendation**

5. We recommend that the FTC develop criteria to determine when it is appropriate to purchase Medex services when traveling to locations that have inadequate medical care/facilities. We suggest that the FTC use the U.S. Department of State website as a guide for this determination.

### **Management Response**

Management concurred with the recommendation and will work with the Office of International Affairs to develop criteria for assessing when it is appropriate to purchase Medex services for employees traveling overseas.

### **OIG Response**

We concur with Management’s response and planned corrective actions.

## Exhibit A – Agency Response



Financial Management Office

UNITED STATES OF AMERICA  
FEDERAL TRADE COMMISSION  
WASHINGTON, D.C. 20580

January 19, 2011

To: John M. Seeba  
Inspector General

From: Steven A. Fisher *Steven A. Fisher*  
Chief Financial Officer

Subject: FMO responses to Draft Report AR-11-003 -- Follow-Up Review of the  
FTC Purchase Charge Card Program

We appreciate the opportunity to review and respond to your findings and recommendations contained in the draft report Follow-up Review of the FTC Purchase Card Program (AR-11-003).

The report recognizes the implementation of all recommendations in the previously issued Audit Report (AR 07-002) and that effective internal controls are in place to deter fraud, waste and abuse in the program.

The follow-up review identifies some additional opportunities in which the purchase charge card program can be improved. The FTC generally concurs with the findings and recommendations of your report and our responses to your recommendations are attached.

My staff and I are available at your convenience for further discussion as appropriate.

## Continued - Exhibit A – Agency Response

### **Finding A - All Recommendations from the Prior Audit Report Were Implemented**

#### Response:

We concur.

### **Finding B - Tracking of refresher Training Needs Improvement**

*The FTC has not established a formal system to track the training of approving officials or purchase card holders.*

We concur that when the fieldwork was conducted on this review, the FTC had not established a formal system to track the training of approving officials or purchase card holders. However, it is important to note that under our existing procedures no card is authorized or approving official appointed without initial verification of the individual's completion of the required training. We agree that tracking by the program coordinator will help to ensure the training is accomplished timely throughout the agency and have since established a tracking mechanism.

#### **Recommendation**

*1. We recommend that the agency coordinator establish a system to track required training and the one year refresher training for card holders or approving officials in accordance with established FTC policy.*

#### Response:

We concur with the recommendation and will establish and maintain a Microsoft Excel spreadsheet to identify and track initial and refresher training of each purchase card holder and approving official.

*2. We recommend that the agency coordinator maintain copies of all training certificates pursuant to OMB A-123 Appendix B. Copies of all training certificates must be maintained pursuant to National Archives and Records Administration requirements. General Records Schedule 1, item 10a.*

#### Response:

We concur that the program coordinator should receive and validate the certificate of completion for each required initial and refresher training certificate to enter the receipt in the tracking device. The Financial Management Office will work with the Human Resources Management Office to establish procedures for maintaining training certificates.

## Continued - Exhibit A – Agency Response

3. *We recommend that the Administrative manual be updated with the policy issued in February 2007.*

Response:

We concur with the recommendation that the Administrative Manual be updated with the current FTC policies regarding the conduct of the Purchase Card Program. We expect to update the Administrative Manual by September 30, 2011.

**Finding C - Use of Convenience Checks Should be Avoided**

We concur in principle that the use of the convenience check should be limited to only those situations in which all other forms of payment are unacceptable to the contractor party. They are unnecessarily costly and time consuming to the agency.

**Recommendation**

4. *We recommend that the Financial Management Office reinforce the need for card holders to affirmatively determine whether vendors will accept purchase charge cards for payment. For vendors who do not accept charge cards, the card holder should annotate on the purchase order that vendor does not accept a charge card and that a convenience check will be issued.*

Response:

We concur with the recommendation. A letter will be issued by the Assistant CFO for Acquisition to all card holders directing them to use their convenience check only in those instances where the selected vendor will not accept a charge card payment, and direct them to annotate their requirements documentation that the vendor will not accept a purchase order or purchase card payment and that they will issue a convenience check.

**Finding D - Better Criteria Needed for Incurring Certain Foreign Travel Expense**

We concur in principle with the finding that the purchase of evacuation services for employees who travel overseas should be better defined and controlled.

**Recommendation**

5. *We recommend that the FTC develop criteria to determine when it is appropriate to purchase Medex services when traveling to locations that have inadequate medical care/facilities. We suggest that the FTC use the U.S. Department of State website as a guide for this determination.*

Response:

The FMO agrees that criteria should be developed to determine when it is appropriate to purchase Medex services for employees traveling to foreign locations. The FMO will work with the Office of International Affairs to develop a standard decision making process that includes accessing the Department of State website for relevant information before determining the necessity for this service.

## Abbreviations Used in This Report

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CFO	Chief Financial Officer
FASA	Federal Acquisition Streamlining Act of 1994
FMO	Financial Management Office
FTC	Federal Trade Commission
GSA	General Services Administration
IG	Inspector General
MCC	Merchant Category Codes
OIG	Office of Inspector General
OMB	Office of Management and Budget