



U.S. CONSUMER PRODUCT SAFETY COMMISSION
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Date: March 31, 2011

TO : Inez M. Tenenbaum
Chairman

FROM : Christopher W. Dentel
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SUBJECT : Performance Audit of the CPSC's Purchase Card Program

The purchase card program was created as a way for agencies to streamline federal acquisition processes by providing a low-cost, efficient vehicle for obtaining goods and services directly from vendors. The purchase card can be used for simplified acquisitions, including micropurchases (historically defined as purchases of \$2,500 or less), as well as to place orders and make payments on contract activities. The Federal Acquisition Regulation (FAR) designated the purchase card as the preferred method of making micropurchases.

The General Services Administration (GSA) administers the federal government's contracts in support of agencies' purchase card programs. GSA contracts with commercial banks to issue purchase cards to federal employees. These cards are only to be used to make official government purchases. Unlike the government travel card program, purchase cards are not issued in the name of the employee who holds them, and they are paid directly by the agency.

All acquisitions at the CPSC are subject to the FAR, which governs the acquisition of goods and services by all executive agencies. To implement and supplement these regulations, the CPSC issues directives that set forth policy and handbooks that prescribe procedures for implementing the applicable policy. For the purchase card program, the CPSC issued CPSC Directive 1540.1, Government wide Commercial Purchase Card Program and CPSC Handbook 1540.1a, Government Commercial Purchase Card Handbook.

The directive and handbook provide policies and procedures that CPSC personnel must follow when using the government purchase card. The CPSC uses this guidance, in conjunction with the GSA and FAR guidance referenced above, to operate its purchase card program.

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Approximately 148 CPSC employees have purchase cards. From December 2008 through December 2009, there were a total of 5,237 purchase card transactions totaling \$1.4 million. The majority of these purchases were subject to the CPSC's micropurchase single purchase limit of \$2,500.¹

Under a contract monitored by the Office of Inspector General, Withum, Smith + Brown (WS+B), an independent certified public accounting firm, performed an audit of the CPSC's purchase card program. This audit was intended to assess the adequacy of the program's internal controls² and to provide the agency with recommendations to improve its program. The contract required that the audit be performed in accordance with generally accepted government auditing standards.

In general, WS+B found that the CPSC's internal controls over the purchase card program were inadequate. The auditor further found that the CPSC had developed adequate written policies and procedures but that these policies and procedures had not been implemented effectively. Reasons for the CPSC's lack of effective implementation of its policies and procedures included a lack of centralized oversight of the purchase card program, as well as a lack of management enforcement of the agency's policies.

Specific examples of WS+B's findings included the following: split purchases³ were used routinely to circumvent the CPSC's purchase card limit of \$2,500; required documentation regarding purchase card transactions and their review were not being maintained properly; and accountable property purchased with purchase cards was not recorded correctly in the property management system.

These problems, to a large extent, were caused by the agency's failure to provide refresher training to cardholders in CPSC purchase card policies and procedures and because of inconsistent implementation of these policies and procedures across the agency. There is a lack of adequate management oversight in the agency to ensure that internal controls are operating effectively. Moreover, violations of purchase card policies generally were not detected, resulting in disciplinary action not being taken when it was warranted.

WS+B recommends the following actions take place: (1) that the Chief Financial Officer ensure that an annual review of the purchase card program is conducted, using GSA's Blueprint for Success Oversight Guide; (2) that cardholders and approving officials receive periodic training in the purchase card procurement process and implementation; (3) that appropriate disciplinary

¹ The CPSC has continued to use the historical \$2,500 threshold, although the absolute maximum across the federal government has risen to \$3,000.

² Processes designed to help an organization accomplish specific goals or objectives. They are some of the means by which an organization's resources are directed, monitored, and measured. They play an important role in preventing and detecting fraud and protecting an organization's resources, both physical (funds and property) and intangible (*e.g.*, reputation and legal rights).

³ Splitting what should be a single transaction into two or more smaller transactions to circumvent federal procurement laws and CPSC policies.

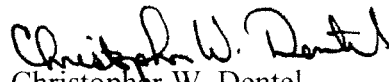
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action for purchase violations is enforced; and (4) that additional agency-wide monitoring procedures are implemented to reduce the risk of program noncompliance.

In connection with the contract, we reviewed WS+B's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the matters contained in the report. However, our review disclosed no instances where WS+B did not comply, in all material respects, with generally accepted government auditing standards.

In addition to the recommendations made by WS+B, we recommend the following: (1) that the CPSC adopt the recommendation made by the Government Accountability Office (GAO) in "GAO-08-333, Government Wide Purchase Cards: Actions Needed to Strengthen Internal Controls to Reduce Fraudulent, Improper, and Abusive Purchases"; and (2) that certifying officials be required to reimburse the government whenever they certify payment of a purchase card billing statement that includes improper purchase card transactions. This recommendation is supported by both the plain language of the statute in question and by prior GAO decisions. Under 31 U.S.C. § 3528, a certifying officer is responsible for the existence and correctness of the facts in the payment voucher he signs and any accompanying documents, and is personally liable for the amount of any illegal, improper, or incorrect payment resulting from any false, inaccurate, or misleading certificate made by him, as well as for any payment prohibited by law or which did not represent a legal obligation. (*e.g.*, B-303920, Mar. 21, 2006). The function of certification, as evidenced by the potential for personal pecuniary liability, is not perfunctory, but involves a high degree of responsibility. 55 Comp. Gen. 297 (1975).

Attached please find the Performance Audit of the Purchase Card Program of the U.S. Consumer Product Safety Commission. Should you have any questions, please contact me at (301) 504-7644.


Christopher W. Dentel
Inspector General

**U.S. CONSUMER PRODUCT
SAFETY COMMISSION**

**PERFORMANCE AUDIT OF THE
PURCHASE CARD PROGRAM**

OCTOBER 6, 2010

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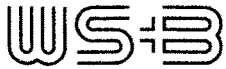
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October 6, 2010

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Executive Summary

We were engaged by the Consumer Product Safety Commission (CPSC), Office of Inspector General (OIG), to conduct a performance audit of CPSC's purchase card (P-Card) program. The increased use of P-Cards throughout the federal government necessitates that agencies establish and maintain internal controls to provide reasonable assurance that the goals of the purchase card program are met and that adequate safeguards are in place against fraudulent, improper, and abusive purchases.

Our audit objectives were to (1) determine whether CPSC's internal controls are effective in providing reasonable assurance that improper purchases would be prevented or detected in the normal course of business; (2) conduct a rigorous evaluation of the CPSC's internal controls over its purchase card program; (3) report the results of our assessment in a way that can be easily understood; and (4) develop recommendations for CPSC for improving its purchase card processes and procedures.

The audit included conducting structured interviews of agency personnel across thirteen departments, including two Field Investigations Branches. We reviewed existing and updated draft CPSC P-Card policies and procedures, relevant documents, P-Card data and various other reports. In addition, we selected a random statistical sample of P-Card purchases made during the period December 2008 through December 2009 for testing, as well as additional special samples representing areas of increased risk. A total of 5,237 transactions totaling \$1.4 million were included in the universe. The audit included a review of P-Card transaction documentation and P-Card transaction level data, for P-Card activity during the period December 2008 through December 2009. The audit work was completed in September 2010.

WithumSmith+Brown (WS+B) conducted this performance audit in accordance with generally accepted government auditing standards. 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. Our objectives, scope, methodology, and criteria are detailed in Appendix B.

Results in Brief

In summary, CPSC has developed a Government-wide Commercial Purchase Card Handbook of agency policies and procedures on the proper use of purchase cards and training is provided to new cardholders. However, internal controls over the program are not effective due to decentralized oversight and lack of enforcement of agency policies.

Our audit found deficiencies in key controls related to the lack of evidence of cardholder and/or approving official review, missing original supporting documentation of purchases, and lack of evidence of independent receipt and acceptance of purchases. In addition, we found split purchases routinely used to circumvent CPSC's P-Card limit of \$2,500, and controls designed to ensure accountable property purchased with P-Cards is properly recorded in the property management system need to be strengthened. Lack of adherence to established policies in other areas of the P-Card program were also noted. These problems were caused by a lack of periodic training in CPSC P-Card policies and procedures and inconsistent implementation across the agency. There is a lack of adequate oversight procedures in place to ensure internal controls are operating effectively, and violations of P-Card policies were generally unnoticed resulting in appropriate disciplinary actions not being taken.

A Notice of Findings and Recommendations (NFR) was issued to 13 CPSC departments that discussed the specific errors noted in their departments and was accompanied by detailed P-Card data for review. Management's responses to the NFRs were reviewed and any clarifications or corrections to the information have been incorporated into the report. Some of responses received have also been included as deemed appropriate.

To ensure that CPSC's P-Card program is not at risk of potential fraudulent, improper or abusive purchases, we recommend the Chairman of CPSC direct the Chief Financial Officer to ensure an annual review be performed using the U.S. General Services Administration (GSA) Blueprint for Success Oversight Guide, cardholders and approving officials receive periodic training in the P-Card procurement process and implementation, appropriate disciplinary action for P-Card violations is enforced, and additional agency-wide monitoring procedures are implemented to reduce the risk of program non-compliance.

CPSC Response

CPSC provided comments on our report agreed with the findings and stated it is taking actions to strengthen the effectiveness of current policies and controls. CPSC felt that, while the P-Card should not have been used for the luncheon noted by WSB on page six of this report, the allocation to the component offices involved was consistent with cost allocation practices. Additionally, CPSC was concerned that the readers not confuse "projected" errors with actual errors.

CPSC's response is included in its entirety as Appendix D.

AUDITOR CONCLUSION

OIG will follow up on the actions CPSC takes in the coming months to ensure P-Card transactions are adequately monitored and internal controls are effectively implemented.

RESULTS AND FINDINGS

Finding No. 1 – Lack of Key Internal Controls Over CPSC Purchase Card Program

Four of the key controls to prevent or detect fraud, waste, and abuse in an agency P-Card program include: 1) independent receipt of items by someone other than the cardholder; 2) cardholder review and approval of monthly P-Card statements; 3) approving official review and approval of monthly P-Card statements; and 4) maintenance and review of adequate purchase documentation, such as original invoices or receipts. We found that while CPSC established a Government-Wide Commercial Purchase Card Handbook of agency policies and procedures on the proper use of P-Cards and provided training to new cardholders, internal controls over the program were not effective due to a decentralized oversight function and lack of enforcement of agency policies. Department compliance with P-Card Handbook procedures varied. In some cases, agency departments have adapted P-Card policies to fit with internal business processes resulting in inconsistent implementation of the CPSC P-Card policies. In addition, in spite of the significant deficiencies noted during our testing, we did not find adequate accountability for P-Card violations as required in Directive 1540.1, *Government-wide Commercial Purchase Card Program*, in large part because the violations went unnoticed.

An internal CPSC review is performed each year on the program, but the results are based on responses to questionnaires completed and self-certified by a sample of 13 cardholders. Our review of purchase card activities noted 151 employees utilized the P-Card during our audit database period. The selection of 13 individuals represents only 9% of that population. Per GSA's Blueprint for Success, the sample should be large enough to provide adequate sampling of purchase card operations within the agency. Additionally, the review should include interviews of the approving official, cardholder and budget office, and the Annual Review Checklist should be completed. Although the review did identify some of the issues noted in this report, we believe a more comprehensive review in keeping with GSA guidelines should be performed annually.

We conducted numerous interviews of agency personnel throughout the departments, reviewed agency policies and procedures and federal laws and regulations related to P-Card use, and performed extensive testing of P-Card transactions and statements during the period December 2008 through December 2009. Our testing included a statistical sample of 62 transactions. In addition, we performed data analysis on the entire universe of transactions to search for unusual items or amounts, potential improper purchases, or potential purchases in violation of the Federal Acquisition Regulations (FAR) or agency policy. Based on this data analysis, we selected five additional categories of items for testing ("Additional Special Items") as described in Appendix B.

For the 62 statistical sample items, we noted the following errors:

Table No. 1: Purchase Errors Noted in Statistical Sample of 62 Transactions			
Control per Handbook	Number of Errors	Dollar Errors¹	Projected Errors¹
Cardholder must ensure independent receipt and acceptance of purchases by someone other than the cardholder. (Directive 1540.1a §8b)	13	\$14,102	\$297,799
Cardholder must retain all original charge and credit slips for inclusion in the procurement file. (Directive 1540.1a §8a(8))	17	\$23,694	\$389,430

¹ – Transactions with errors in more than one category are included in each category where an error was noted.

Independent receipt was not documented

Having someone independent of the cardholder document the receipt of items purchased is a key internal control to help prevent or detect improper purchases. In our statistical sample of 62 transactions, 13 of these transactions totaling \$14,102 were identified as missing documentation of independent receipt. When projected to the entire population, the likely error of undocumented receipt totals \$297,799.

Office of Management and Budget (OMB) Circular A-123, Appendix B, *Improving the Management of Government Charge Card Programs*, states agency policies and procedures must address the documentation of independent receipt and acceptance, when appropriate, to ensure that items purchased were actually received, including procedures addressing remote locations and emergency/urgent purchases where independent acceptance may be difficult or impossible. CPSC updated its Purchase Card Handbook (in draft form at the time of our audit), which states, "Cardholder must ensure independent receipt and acceptance of purchases by someone other than the cardholder." (Directive 1540.1a §8a(6)) Based on documentation provided, it appears the agency did not consistently ensure that purchased items are received by a designated staff other than the card holder. Additionally, there is no defined process within the agency requiring the copy of the signed packing invoice be retained.

In addition to our statistical sample, we also performed tests on the additional special samples (see Appendix B). We identified 10 other transactions without proper documentation of independent receipt of the goods and services by somebody other than the cardholder, totaling \$35,935. Therefore, the total amount of known errors was \$50,037.

Without evidence of independent receipt, CPSC has no assurance that the items purchased were actually received by CPSC and used for official agency purposes. In response to our finding, one department indicated they would like to see the agency move to purchasing office supplies on an agency-wide basis to minimize the possibility for abuse.

Original documents were not provided

Proper documentation of purchases is needed in order for an approving official to verify the purchase was for a valid agency purpose and was in compliance with federal laws and regulations. We found transactions in which the original documents were not maintained and available for review/audit when requested.

For example, only a quotation was provided as support for one purchase totaling \$1,147. Additionally, no documentation could be provided for two purchases from an electrical contractor, in the amounts of \$1,900 and \$450.

In our statistical sample of 62 transactions, 17 of these transactions totaling \$23,694 were identified as missing original documents. When projected to the entire population, the likely error of missing original documents totals \$389,430.

In addition to our statistical sample, we also performed tests on the additional special samples (see Appendix B). We identified 55 additional transactions without proper adherence to the procurement policy in the maintenance of original documents, totaling \$170,140. Therefore, the known total errors is \$193,834.

CPSC policies require the cardholder to retain all original charge and credit slips for inclusion in the procurement file. (Directive 1540.1a §8a(8)) In most cases a photocopy or printed copy of the invoice was

provided; however there were multiple instances in which no invoice could be made available for review when requested.

The lack of adequate recordkeeping had different causes which varied by department. In response to our audit findings, one department indicated it developed centralized databases to electronically store procurement-related documents. Another department disagreed with the errors because in some instances the pursuit of an original receipt directly from the vendor would require an additional expense to the Government, which is in direct contradiction with agency policy. Another department indicated it was a cardholder error related to a purchase made for another office, and the cardholder did not know to maintain the documentation for the purchase. Finally, another department stated the budget office does not require an original receipt/invoice to make payment, which also is in direct contradiction to CPSC policy.

Without proper original documentation, CPSC has no assurance that the items purchased were for a legitimate agency need and were purchased in accordance with federal laws and regulations.

Our statistical sample of 62 transactions was included on 52 different monthly cardholder statements. The handbook is very specific about cardholder and approving official statement review responsibilities; however, during our audit we noted the following errors:

Table No. 2: Statement Errors Noted for 52 Bank Statements Included in Statistical Sample		
Control per Handbook	Number of Errors¹	Dollar Errors¹
Cardholder must certify the receipt and accuracy of all purchases by signing and dating the Statement of Account. (Directive 1540.1a §8a(5))	2	\$ 18,767
The approving officer must sign the Statement of Account to certify that all purchases were necessary for Government business, received by the Cardholder, and were made in accordance with the Federal Acquisition Regulations (FAR). (Directive 1540.1a §8b(2))	10	\$121,475

¹ – Transactions with errors in more than one category are included in each category where an error was noted.

No cardholder and/or approving official signature

We found instances in which bank statements contained no evidence of review or sign-off by the cardholder and/or the approving official as required by the CPSC Purchase Card Handbook. For example, an online payment totaling \$247 for a changing table for testing purposes had no evidence of review or sign-off by the cardholder or the approving official. Another purchase totaling \$2,498 for printer ink had no evidence of review or sign-off by the cardholder. The Statement of Account with the printer ink purchase was approved by the head of the department (not the approving officer) 42 days after the statement date.

In our statistical sample of 52 Statements of Account, 2 of these statements with transactions totaling \$18,767 were identified as missing documentation of a cardholder signature. Additionally, 10 of these statements with transactions totaling \$121,475 were identified as missing documentation of an approving official signature.

In addition to our statistical sample, we also performed tests on the additional special samples (see Appendix B). We identified 9 other Statements of Account with transactions totaling \$23,139 which did not document the cardholder signature and 24 Statements of Account with transactions totaling \$82,579 which did not document the approving official's signature.

According to the CPSC Purchase Card Handbook, it is the approving official's responsibility to "report findings of impropriety or fraudulent action to the CPSC administrative contact point and/or the CPSC Inspector General." If the approving official is not completing and certifying proper review, the risk of improper or fraudulent purchases increases. In addition, CPSC may lose out on any opportunity for recourse if improper or unauthorized purchases are not identified and reported timely.

In response to our findings, departments sent a reminder to cardholders and approving officers to either review the statement and electronically sign on the date of receipt or to write the receipt date on the face of the statement.

Finding No. 2 – Split Purchases Circumvent CPSC Purchase Card Controls

We found that CPSC cardholders routinely split transactions into 2 or more smaller transactions to circumvent federal procurement laws and CPSC policies. In our additional special sample selection (see Appendix B), we extracted specific items from the P-Card transaction universe, which we identified and tested to determine whether the purchases had been split. We identified 36 transactions totaling \$141,345 which we found to be improperly split purchases.

Contracting activities carried out by the federal government generally must be conducted by warranted contracting officers; however, the P-Card may also be used by other government personnel for purchases at or below the micro-purchase threshold. The FAR Part 1.6.03-3 provides that such individuals must be delegated the authority to do so in writing in accordance with organization procedures. Regardless of the value of a purchase, FAR Part 13.003 prohibits cardholders from splitting organization needs into smaller purchases in order to circumvent applicable acquisition laws, regulations, and policies. Per the FAR, authorized personnel may use the P-Card for purchases at or below the micro-purchase threshold (currently \$3,000, except that the limit is \$2,000 for certain construction costs). CPSC's single purchase limit delegated to cardholders, however, is currently \$2,500. In addition, the CPSC Purchase Card Handbook defines a split purchase as a purchase where a cardholder intentionally divides what should be a single purchase into two or more separate transactions or purchases to avoid exceeding the single purchase limit. It also states that split purchases are prohibited.

The reasons and circumstances for the split purchases varied by department and cardholder, but overall there was a lack of adequate review of cardholder statements and approving officials did not appear to be monitoring split purchases effectively. We noted one instance where the split purchase was for an item that appeared to be an excessive or abusive purchase. Specifically, we noted eight transactions totaling \$13,013 had questionable documentation of the legitimate government need. These transactions consisted of a down payment and multiple split payments ranging from \$800 to \$2,500 to Dave & Buster's which included the purchase of alcoholic beverages. Six P-Cards were used to allocate portions of the bill to different departments in attendance at the party. The bills were split in order to circumvent the CPSC policy limiting single P-Card purchases to \$2,500. These transactions were permitted by the approving official. Split purchases' intentionally used to circumvent the micro-purchase limit is an abuse of the P-Card program.

CPSC officials indicated the luncheon at Dave & Buster's has been held for the last 4 years. In the past the luncheon did not exceed \$2,500; however, due to staff increases, the cost of the luncheon increased. CPSC also informed us the luncheon will not be held in the future.

In another instance, a retiring cardholder used the P-Card to stock up on office supplies prior to departure because no replacement administrator had yet been hired. The amount of purchases charged was \$4,944, split into three transactions, each of which was under \$2,500. The approving official signed off on this statement without questioning the split purchases.

The approving official is responsible for reporting findings of impropriety to the CPSC, which was not done in this case. If cardholders do not perceive that split purchases will be detected and appropriate disciplinary action imposed, there is an increased risk that cardholders will continue to violate these regulations and policies.

In other instances we identified, CPSC acknowledged that a Blanket Purchase Agreement (BPA) would be a more appropriate procurement mechanism, and CPSC is taking steps to implement BPAs. In many instances, CPSC did not believe the purchases amounted to split orders. However, we continue to believe that all except for one of the items initially identified as split purchases were improperly split to circumvent the micro-purchase threshold. For example, one of the purchases CPSC did not believe was a split purchase was for service on a CPSC truck totaling \$4,206 with two transactions of \$2,103 each. (See Exhibit 1) Another example is a receipt for a subscription renewal split into two payments (see Exhibit 2).

Finding No. 3 – Accountable Property

We noted CPSC's controls over accountable property¹ purchased with P-Cards are not operating effectively, increasing the risk of theft or loss of assets going undetected. Specifically, CPSC does not have adequate monitoring controls to ensure that accountable property purchased with P-Cards are actually entered into the property management system. The property management system is designed to account for and track CPSC property and equipment. For example, we noted two purchases of accountable property totaling \$3,748 made by one cardholder that were not entered into CPSC's property management system. In addition, these items could not be physically located when requested during our audit. One of the two transactions, totaling \$1,148 was part of our statistical sample of 62 items. When projected to the universe, the likely error of accountable property purchased with P-Cards not accounted for approximates \$22,908.

Internal controls at the most basic level are designed to ensure assets are safeguarded against loss. The CPSC Purchase Card Handbook states that cardholders are responsible for forwarding a copy of the Statement of Account to the Property Management Office (PMO) for all accountable and sensitive property items, including annotating the statement with the description and unit cost of each item purchased. Sufficient documentation supporting the department's contention that the equipment was reported to the PMO was not provided; therefore, we were unable to determine whether the cardholder did forward the necessary information to the PMO. No one we interviewed knew the location of the property.

Reconciliation procedures to compare the accountable property listing with the P-Card transactions do not currently exist. Without adequate monitoring and reconciliation procedures, CPSC has no assurance that accountable property purchased with P-Cards has not been lost or stolen.

¹ The CPSC Purchase Card Handbook defines accountable property as Object Class 31.0000 as well as sensitive property, including computer and electronic equipment, with an acquisition cost between \$100 and \$499.99.

Finding No. 4 – Lack of Adherence to Agency Policies

CPSC has instituted several policies and procedures designed to ensure that P-Card transactions are made in accordance with federal laws and regulations, including the FAR, and also to provide for accountability and availability of funds. However, we noted compliance with these policies and procedures was lacking and often varied by department which in many cases had developed their own procedures. In our statistical sample of 62 transactions, we noted the following:

Table No. 3: Non-Compliance with Policies Noted in Statistical Sample of 62 Transactions			
Control per Handbook	Number of Errors	Dollar Errors¹	Projected Errors¹
Cardholder, prior to making a purchase, must determine that there are adequate funds available for the credit card purchase. (Directive 1540.1a §4a(3))	12	\$ 14,402	\$274,892
Cardholders must advise merchants that the purchase is for official U.S. Government purposes, and therefore is not subject to tax. (Directive 1540.1a §6)	5	\$ 54	
Cardholder must first check the required sources to determine if the item(s) must be obtained through the GSA supply catalogs. (Directive 1540.1a §4a(1))	8	\$ 5,214	\$183,261
The Cardholders Ordering Log or a similar form must be used for recording purchases and controlling funds. (Directive 1540.1a §4a(3))	5	\$ 5,503	\$114,538

¹ – Transactions with errors in more than one category are included in each category where an error was noted.

Inconsistent documentation of review for funds availability

Although designed to streamline the purchasing process, agencies must still take steps to ensure funds are available before P-Cards can be used. We found inconsistent documentation of evidence of review for funds availability prior to purchase. In our statistical sample of 62 transactions, 12 of these transactions totaling \$14,402 were identified as lacking evidence of review for funds availability prior to purchase. When projected to the entire population, the likely error of purchases without documentation of adequate funding totals \$274,892.

CPSC policy states that the cardholder, prior to making a purchase, must determine that there are adequate funds available for the credit card purchase. (Directive 1540.1a §4a(3)) These errors were due to informal and verbal procedures being considered acceptable practice by cardholders, and the accounting and budget personnel. As a result of our finding, many departments indicated they will require funds availability to be documented in writing.

Sales tax improperly paid

State sales tax was improperly paid to some vendors without documentation of an attempt to contact the vendor for a refund. Cardholders must advise merchants that the purchase is for official U.S. Government purposes, and therefore is not subject to tax. If taxes are mistakenly applied to the purchases, the cardholder must contact the merchant for a credit (Directive 1540.1a §6). Although the total amount of sales tax paid improperly was insignificant, our audit noted a total of \$5,168 in amounts recorded as sales tax by the credit card processing bank.

In response to our findings, many departments sent reminders to cardholders and approving officials regarding state sales tax policies. Other departments stated they will give more attention to the sales tax in future purchases. One department disagreed with the finding, stating certain required vendors do not accept the sales tax exemption, and it is not cost effective for employees to follow up on improperly

charged sales taxes. Additionally, upon review of our audit findings, CPSC noted examples involving one cent tax charges that were not actually charged by the merchant. CPSC is in the process of working with the bank representative to end the practice.

Required/statutory vendors not used

We found inconsistent use of required sources of supply for P-Card purchases. The FAR requires P-Card purchases to follow the required sources of supply specified in FAR Part 8. We identified purchases which appeared to be for office supplies or furniture, which are required to be purchased following the priorities specified in FAR Part 8 (e.g. UNICOR, Committee for Purchase from People Who are Blind or Severely Disabled, Federal Supply Schedule contracts, etc.) In our statistical sample of 62 transactions, 8 of these transactions totaling \$5,214 were identified as purchased from other vendors without consideration for required vendors. When projected to the entire population, the likely error of required sources of supply totals \$183,261. CPSC policy states the required sources must first be checked to determine if item(s) must be obtained through the GSA supply catalogs. (Directive 1540.1a §4a(1))

Most departments indicated to us they did not use required sources of supply due to the length of time and poor quality of purchases received through these sources. These reasons and factors, however, do not appear to meet the unusual and compelling reasons exception outlined in FAR 6.302-2 which provides for an exception when serious injury, financial or other, to the Government would occur. Exceptions require written justification and approval. None were provided for our review.

No documentation in an ordering log

We found transactions not recorded on the ordering log required of cardholders by CPSC policy. CPSC policy requires an ordering log or similar form be used by cardholders to record purchases and control funds. (Directive 1540.1a §4a(3)). In our statistical sample of 62 transactions, 5 of these transactions totaling \$5,503 were identified as missing entry into an ordering log. When projected to the entire population, the likely error totals \$114,538

In response to our finding, one office indicated it had developed a centralized database (SharePoint site) to electronically store all procurement-related documents, including Government P-Card transactions, which will serve as Cardholder Ordering Logs. Two other departments indicated it will remind cardholders of the necessity to maintain a purchase log.

Additional Special Samples

In addition to our statistical sample of 62 transactions, we also selected additional samples for testing in areas of increased risk as described in Appendix B. We found additional non-compliance with CPSC policies relating to P-Card credits and travel transactions.

Credit amount lacks proper documentation

We randomly selected 10 specific items totaling \$1,905 from the transaction universe, out of 131 credit transactions totaling \$17,406, which we identified as credit amounts listed in the bank statement. Of these 10 specific credit transactions, we identified 6 transactions without proper adherence to the procurement policy in the maintenance of credit documents totaling \$1,445. We were unable to determine whether the amount credited was the proper or full amount to be credited due to poor documentation and procurement maintenance. CPSC policy states the cardholder must retain all original charge and credit slips for inclusion in the procurement file. (Directive 1540.1a §8a(9)) In response to our finding, the departments agreed that proper documentation should be maintained to support credit transactions.

Travel expenses and improper borrowing of P-Card

We extracted 13 specific items from the transaction universe, which we identified as purchases from vendors that appeared to be related to travel. We noted three types of transactions: travel expense subsequently refunded and charged to the correct travel P-Card, non-travel expenses such as banquet fees or van rentals for transportation of CPSC samples, and one unreimbursed hotel expense charged by another employee whom the cardholder let use the P-Card. CPSC policy prohibits the use of the P-Card for travel expenses (Directive 1540.1 Section 11). In addition, CPSC policy (Directive 1540.1, Section 8.a.9.) states the cardholder is responsible for insuring that charges are made only by the official holder of the card and must not allow anyone else to use his/her card or account number. The FAR Part 1.603-3 also requires that persons making micro-purchases must be appointed in writing in accordance with agency procedures.

RECOMMENDATIONS

To ensure that internal controls related to CPSC's P-Card program are effective in mitigating the risk of abuse or fraud, we recommend the Chairman of the Consumer Product Safety Commission direct the Chief Financial Officer to:

1. Ensure an annual review of the program be performed using the GSA Blueprint for Success: Purchase Card Oversight Guide.
2. Ensure that cardholders and approving officials are required to obtain periodic training on the P-Card procurement process and the specific implementation of CPSC policies and procedures.
3. Ensure that cardholders and approving officials are following CPSC directives, especially as they address:
 - a. Independent receipt of purchases;
 - b. Retaining original charge and credit slips;
 - c. Signing and dating the statements of account;
 - d. Certifying purchases;
 - e. Split purchases;
 - f. Safeguarding accountable property;
 - g. Determining funds availability;
 - h. Sales tax exemption;
 - i. Required sources of supply;
 - j. Tracking purchases on a cardholder ordering log;
 - k. Travel expenses; and
 - l. Allowing others to use the P-Card.
4. Ensure that the supervisors of CPSC employees who violate provision of the P-card program receive the information necessary to take appropriate disciplinary actions and ensure that if disciplinary action is not taken, the reason why is provided in writing to the Executive Director.
5. Implement additional agency-wide monitoring of the program to reduce the risk of non-compliance with federal laws and regulations, such as, but not limited to:

- a. Using the data and reports available from the bank, to perform ongoing monitoring for split purchases (e.g. the use of data mining techniques can provide for 100% testing of transactions); and
- b. Reconciling the Property Management System records to P-Card transaction records periodically to ensure that all accountable property purchased with P-Cards is properly identified and recorded.

We appreciate the cooperation and courtesies that CPSC personnel extended to us during this audit.

WithumSmith+Brown, PC

Exhibits

Example of Split Purchase

EXCEEDS THE NEED

DIESEL

WE SERVICE ALL FORD AND LINCOLN MERCURY PRODUCTS. CELL: [REDACTED]

CUSTOMER NO 860553	ADVISOR [REDACTED]	TAG NO 369208	INVOICE DATE 12/08/09	INVOICE NO COCB87154
CONSUMER PRODUCT SAFETY COMMISSION [REDACTED]		LABOR RATE [REDACTED]	LICENSE NO [REDACTED]	MILEAGE 57,940
[REDACTED]		YEAR MAKE / MODEL 03/FORD TRUCK/ECONO COM CTWAY/VAN E-	DELIVERY DATE 12/03/09	DELIVERY MILES
RESIDENCE PHONE 301-424-6421		BUSINESS PHONE 301-424-6421 x156	COMMENTS	MO: 57948
COMMENTS: 04FTZ BRAKE SERVICE TOTALS: YOUR NEXT APPOINTMENT IS SCHEDULED FOR: DATE: TIME: WITH: * CASH CHECK <input checked="" type="checkbox"/> CREDIT CARD: * CHARGE ACCT# CASHIER INIT *****				
TOTAL LABOR 2048.81 TOTAL PARTS 1675.00 TOTAL SUBLET ... 281.25 TOTAL G.O.G. 59.92 TOTAL MISC CHG. 35.00 TOTAL MISC DISC 0.00 TOTAL TAX 106.20 TOTAL INVOICE \$ 4206.18		Authorized Signature And Date ON BEHALF OF SERVICING DEALER, I HEREBY CERTIFY THAT THE INFORMATION CONTAINED HEREON IS ACCURATE UNLESS OTHERWISE SHOWN. SERVICES DESCRIBED WERE PERFORMED AT NO CHARGE TO OWNER. THERE WAS NO INDICATION FROM THE APPEARANCE OF OTHERWISE THAT ANY PART USED UNDER THIS CLAIM HAD IN ANY WAY WITH ANY CE OR MISUSE. RECORDS HIM ARE AVAILABLE FOR (1) OF PAYMENT NOTIFICATION ALER FOR INSPECTION BY FORD		
SALES DRAFT [REDACTED] GAITHERSBURG, MD 20879 TERMINAL 0092659 025031103800 12/08/2009 10:43:47 MFL XX0XXXXXXXXX7242 AUTH. TRANS. ID. MGF425UD INVOICE 07154 002 AUTH. CODE 0193227 AV. CODE NIN PURCHASE # 1 SALE TOTAL \$2103.09 TAX \$0.00 TOTAL \$2103.09 CUSTOMER COPY		SALES DRAFT [REDACTED] GAITHERSBURG, MD 20879 TERMINAL 0092659 025031103800 12/08/2009 10:44:42 MFL XXXXXXXXXXXX7242 AUTH. TRANS. ID. MGF0VFBFG INVOICE 07154 002 AUTH. CODE 011940 AV. CODE NIN PURCHASE # 2 SALE TOTAL \$2103.09 TAX \$0.00 TOTAL \$2103.09 CUSTOMER COPY		

ant o
 earn \$410.00 in [REDACTED] Today
 PAGE 6 OF 8 | END OF INVOICE | 07:12am

Example of Split Purchase

3308 Slade Run Drive, Falls Church, VA 22042-3921
(703) 227-0926 • Fax: (703) 237-2543 • Email: oberiecom@cox.net

Librarian
Consumer Product Safety Commission
4330 Eastwest Highway #701
Bethesda MD 20814-4408

RECEIPT

For:	Your Subscription to <i>Product Safety Letter</i>	Processed June 24, 2008	Payment Method credit card *****	Amount \$3985
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NOTE: We processed this renewal as two transactions for \$2,000 and \$1985.

Thanks!

We value your business!

Appendices

Appendix A

Background

CPSC was created in 1972 as an Independent Federal Regulatory Agency, whose mission is to protect the public from unreasonable risks of serious injury or death from thousands of types of consumer products under the agency's jurisdiction. CPSC has jurisdiction over more than 15,000 kinds of consumer products. CPSC recalls products that present a significant risk to consumers either because the product may be defective or violates a mandatory standard issued by CPSC.

The Government-Wide Commercial P-Card program was developed by the GSA for the purpose of extending P-Card services to federal government agencies. The P-Card program was intended to streamline federal agency acquisition processes by providing a low-cost, efficient vehicle for obtaining goods and services directly from vendors. CPSC, which is subject to the FAR, has set forth P-Card policies and procedures through its directives and handbook. Government Accountability Office (GAO) has reviewed P-Card programs for many years and issued reports highlighting weaknesses that expose agencies to fraudulent, improper, and abusive purchases and losses of assets. Some of the common deficiencies cited by GAO include:

- Purchases not properly authorized;
- Lack of independent receipt and acceptance; and
- Lack of accountability over easily pilferable goods purchased with P-Cards.

Per the Treasury Financial Manual (TFM) §4515, *Policy and Use*, small or micro-purchases of up to \$2,500 should be made using the Government P-Card. Other small purchase methods (i.e. imprest funds, third party drafts, SF-44 forms, and purchase orders) may only be used in lieu of the Government P-Card when it is more cost-effective, practicable, or required by existing statutes. The use of the P-Card benefits the government by saving time, money and resources. FAR Part 2.101 sets the micro-purchase threshold at \$3,000 for most items, however CPSC's P-Card micro-purchase limit is currently set at \$2,500.

WithumSmith+Brown was contracted by the Inspector General to perform an audit of the CPSC P-Card program. CPSC has approximately 151 employees who make purchases each year across agency offices and departments.

Appendix B

Objectives, Scope, Methodology, and Criteria

Objectives

Our objectives in performing this audit were to:

1. Determine whether CPSC's internal controls are effective in providing reasonable assurance that improper purchases would be prevented or detected in the normal course of business;
2. Conduct a rigorous evaluation of the CPSC's internal controls over its P-Card program;
3. Report the results of our assessment in a way that can be easily understood; and
4. Develop recommendations for CPSC for improving its P-Card processes and procedures.

Scope

WithumSmith+Brown (WS+B) conducted this performance audit in accordance with generally accepted government auditing standards. 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 included a review of P-Card transaction documentation and P-Card transaction level data, for P-Card activity during the period December 2008 through December 2009. A total of 5,237 transactions totaling \$1.4 million were included in the universe. The audit included a random statistical sample of 62 transactions as well as a selection of additional special items identified for further review. The audit work was completed in September 2010.

Our performance audit was not designed to, and we did not, perform a financial audit of the amounts obligated or expended by CPSC. This performance audit did not constitute an audit of financial statements in accordance with Government Auditing Standards. WS+B was not engaged to, and did not, render an opinion on CPSC's internal controls over financial reporting or over financial management systems for purposes of OMB's Circular No. A-127, *Financial Management System*. WS+B cautions that projecting the results of our evaluation to future periods is subject to the risks that controls may become inadequate because of changes in conditions or because compliance with controls may deteriorate.

Methodology

To accomplish our audit objectives, we obtained an understanding of the P-Card program and CPSC policies and procedures. We conducted an initial meeting with the OIG to obtain a further understanding of the scope of work, and also to obtain information on prior audits or reviews of CPSC P-Cards that have been conducted. We conducted an entrance conference meeting with CPSC representatives to discuss the scope and purpose of our audit, the timing of the fieldwork, and the reporting process. We completed information gathering interviews with key personnel, conducted walkthroughs of P-Card procedures with key personnel, inspected documents, and obtained and examined P-Card data and reports.

Based on the information gathered, we determined what the specific risks and opportunities of fraudulent, improper, or abusive purchases are in CPSC's program, and then determined what key control activities were in place to prevent or detect such occurrences. We performed a preliminary assessment of whether

the controls are likely to be effective, and we identified any control gaps (i.e. where there is not a control in place designed to achieve one or more control objectives). Next, we designed the test procedures and attributes to test the specific controls.

In order to perform our test of controls at the transaction level, we obtained a database of transactions and verified the population was complete by agreeing the control totals to the bank records. We performed some initial analysis of the transaction data and developed a sampling plan. We selected a random statistical sample 62 transactions from the universe of 5,237, following the Monetary Unit Sampling (MUS) approach, with a 95% confidence level. We project our audit findings in the report to indicate that all the transactions included in our universe would have had the same experience as the results reflected in the findings.

For any of the selected items that were purchases of easily pilfered goods, we performed additional procedures to verify the goods were still in existence, could be located, and were being used for government purposes. We performed tests of key elements including training, discipline, card limits, and purchasing and reviewing authorities. After completion of our control testing, the results were summarized, projected, and analyzed.

We obtained the most comprehensive database available in order to perform certain data mining techniques to identify potentially fraudulent, improper, or abusive purchases. We summarized the data by: (1) vendor to identify any questionable vendors, or missing or incomplete vendor information; (2) Merchant Category Code (MCC) to search for potential types of purchases that may be improper or fraudulent; and (3) month and week to identify unusual patterns; and purchases at or near year-end. We extracted purchases in round dollar amounts and purchases above the micro-purchase threshold, to determine if the cardholder has specific authorization to make such a purchase; reviewed data to identify potential split purchases (splitting a purchase into two or more transactions) to circumvent thresholds; and completed a Benford's law analysis, to identify anomalies in the dollar amount of the purchases.

For the additional special samples selected for follow-up, we first reviewed the supporting documentation and made a preliminary assessment of the appropriateness of the purchase. In addition, we conducted interviews with the cardholders and approving officials. The statistical and additional special item totals were as follows:

Sample	Type	Description	Total Transactions
MUS	Statistical	Random statistical sample of transactions	62
Split Purchase	Additional Special Item	Two or more transactions on the same day to the same vendor	115
Over Micro Limit	Additional Special Item	Individual purchases above the micro-purchase limit (\$2,500)	1
Credits	Additional Special Item	Credit transactions selected for further review	10
Round Amounts	Additional Special Item	Round dollar amounts, Pay Pal and unusual transactions	26
Travel	Additional Special Item	Transactions appearing to be travel related	13
Total			227

Criteria

We used the following criteria to accomplish our audit:

- GAO, *Government Auditing Standards (2007 Revision)*;
- GAO, *Principles of Federal Appropriations Law (Volumes I, II and III)*
- GAO Report, *Government-wide Purchase Card, Actions Needed to Strengthen Internal Controls to Reduce Fraudulent, Improper, and Abusive Purchases*
- GAO Audit Guide: *Auditing and Investigating the Internal Control of Government Purchase Card Programs*
- GAO Standards for Internal Control in the Federal Government
- GAO Internal Control Management and Evaluation Tool
- GAO *Guide for Evaluating and Testing Controls Over Sensitive Payments*
- OMB Circular A-123, *Appendix B, Revised (January 15, 2009), Improving the Management of Government Charge Card Programs*
- Federal Acquisition Regulation – Part 39, *Acquisition of Information Technology*
- Federal Acquisition Regulations, especially parts 13.2, *Acquisitions At or Below the Micro-Purchase Threshold* and 13.3, *Simplified Acquisition Methods*
- CPSC Directive 1540.1, *Government-wide Commercial Purchase Card Program*
- CPSC Handbook 1540.1a *Government-wide Commercial Purchase Card Handbook*
- CPSC Directive 0820.6, *Policy and Procedures for Ordering, Receiving and Controlling Expendable Supplies*
- CPSC Directive 1502.1, *Unauthorized Commitments*

Appendix C

Acronyms and Abbreviations

BPA	Blanket Purchase Agreement
CPSC	Consumer Product Safety Commission
FAR	Federal Acquisition Regulation
GAO	Government Accountability Office
GSA	U.S. General Services Administration
MCC	Merchant Category Code
MUS	Monetary Unit Sample
NFR	Notice of Findings and Recommendations
OIG	Office of Inspector General
OMB	Office of Management and Budget
PMO	Property Management Office
P-Card	Purchase Card
SF	Standard Form
TFM	Treasury Financial Manual
WS+B	WithumSmith+Brown

Appendix D

Consumer Product Safety Commission Response



U. S. CONSUMER PRODUCT SAFETY COMMISSION
4330 EAST WEST HIGHWAY
BETHESDA, MD 20814

Edward E. Quist
Chief Financial Officer
Office of Financial Management, Planning and Evaluation

Tel: 301-504-7655
Email: equist@cpsc.gov

November 22, 2010

Ms. Maureen Wagner
Manager
Withum Smith+Brown
8403 Colesville Road, Suite 340
Silver Spring, MD 20910

Dear Ms. Wagner:

We generally agree with the overall findings of the purchase card audit. We will take these actions to strengthen the effectiveness of our existing policies and controls:

1. A summary memorandum of the audit findings will be sent to all purchase card holders and approving officials' shortly after issuance of the audit.
2. On-line training will be required annually of all purchase card holders and approving officials instead of just requiring training for new card holders. The training will be monitored for compliance.
3. The draft revisions to CPSC Directive 1540 and its related Handbook (held up pending the completion of this audit) will be updated to reflect the results of the audit.
4. While EXFM already conducts its annual purchase card review using the General Services Administration Blueprint for Success Oversight Guide, we will use an expanded sample. Further, the findings of the reviews will be forwarded to the Executive Director with corrective actions recommended.
5. Additional new monitoring and reconciliation programs will be explored and developed as appropriate.

There are some specific references in the audit which merit clarification. Under the finding on Split Payments, an example cited concerns a staff award event which is permissible under appropriation law. The office involved was holding this event for the first time and did split the payment among its component directorates. This was consistent with the practice of assigning

Ms. Maureen Wagner
Page 2

charges for other costs to specific directorates. While upon review we agree that the use of individual purchase cards in this manner was inappropriate and the inexperience of the office making the arrangements is not an excuse, the use of different cards representing different component offices was made in good faith consistent with other cost allocation practices.

Also under the finding on Split Payments, we agree that in the sample chosen at least half of the transactions chosen did reflect spit payments. We believe, however, that this indicates that the staff has “often” incorrectly split purchases but not “routinely” or 100% of the time.

Finally, the tables in the audit report include the column headings “Dollar Errors” and “Projected Errors” indicating the dollars involved in the actual transactions audited and the dollars involved extrapolated to the full universe of transactions. The reader should not conclude that the “Projected Errors” amount represents actual found invalid or illegitimate transactions.

Sincerely,



Edward E. Quist