



U.S. Department of Agriculture



**Office of Inspector General
Northeast Region**

Audit Report

Food and Nutrition Service Purchase Card Program Operations

**Report No. 27401-28-Hy
May 2004**



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



DATE: May 21, 2004

REPLY TO

ATTN OF: 27401-28-Hy

SUBJECT: Food and Nutrition Service Purchase Card Program Operations

TO: Roberto Salazar
Administrator
Food and Nutrition Service

ATTN: Lael Lubing
Director
Grants Management Division

This report presents the results of our audit of the Food and Nutrition Service (FNS) purchase card operations. This audit was discussed with members of your staff on March 24, 2004. During our review of over 1,800 transactions, nothing came to our attention to cause us to believe that the system of management controls was not effective and operating as designed. Thus, the report contains no recommendations and a response by FNS is not required. The report is final upon issuance.

We appreciate the cooperation and assistance provided to the Office of Inspector General staff during this review. If you have any questions, please have a member of your staff contact Rebecca Anne Batts, Regional Inspector General for Audit, at (301) 504-2100 or Joseph A. Marchowsky, Assistant Regional Inspector General for Audit, at (301) 504-2102.

//s//

ROBERT W. YOUNG
Assistant Inspector General
for Audit

Executive Summary

Food and Nutrition Service Purchase Card Operations (Audit Report No. 27401-28-Hy)

Results in Brief

The objective of the audit was to determine whether the Food and Nutrition Service (FNS) had established effective controls over the authorization and execution of purchase card and convenience check transactions for fiscal year (FY) 2003. Specifically, we assessed: (1) the controls established by FNS over purchase card program operations; (2) compliance with Departmental and FNS policies; and (3) whether transactions were properly authorized, completed, and executed for permissible purchases. To accomplish this, we identified the policies and procedures issued, reviewed agency operations to assess whether controls were operating as designed, and reviewed samples of FY 2003 transactions for potentially fraudulent, improper, abusive or questionable purchases.

We reviewed over 1,800 of the 9,300 purchase card and convenience check transactions that occurred during FY 2003. Of over \$3 million in FY 2003 expenditures, we reviewed transactions valued at over \$1.1 million. Nothing came to our attention to cause us to believe that the system of management controls over the FNS' purchase card operations was not effective and operating as designed. As a result, we are making no recommendations to FNS.

Table of Contents

| | |
|---|----------|
| Executive Summary | i |
| Background and Objectives | 1 |
| Findings and Recommendations | 3 |
| Scope and Methodology | 4 |

Background and Objectives

Background

The FNS purchase card program is part of the Governmentwide Commercial Purchase Card Program. Government purchase cards, a type of credit card, simplified the process of making small purchases. The Federal Acquisition Regulation (FAR), Part 13,¹ established Governmentwide criteria for using purchase cards to place orders and make payments. Federal employees use purchase cards to make small purchases; this replaces part of the previous existing paper intensive procurement process. The US Department of Agriculture (USDA) purchase card is a commercially issued VISA credit card, which authorizes the cardholder to buy goods and services under an established delegation of authority.

The use of purchase cards has dramatically increased in past years, as agencies have sought to eliminate the bureaucracy and paperwork associated with making small purchases. The benefits of using purchase cards are lower costs and less paperwork for both the government and the vendor community.

Within USDA, the Office of Procurement and Property Management in conjunction with the Office of the Chief Financial Officer, administers the USDA Purchase Card Program. Departmental Regulation 5013-6, "Use of the Purchase Card and Convenience Check" issued February 13, 2003, establishes that the purchase card will be used for supply and/or service procurements valued at or below the micro-purchase threshold, which FAR 2.101 established as \$2,500 for a single transaction. In addition, purchase cards may be used by warranted procurement personnel² for actions at or below the Simplified Acquisition Threshold (SAT). FAR 2.101 established the SAT at \$100,000 per transaction. Cardholders are also given a monthly credit limit in addition to the single purchase limit. Purchases can be made by either credit card or convenience check. The credit card is generally to be used for all purchases where the vendors will accept it. Convenience checks are used when the vendor will not or cannot accept the credit card.³

FNS employs approximately 1,600 employees. About 600 of the employees are assigned to FNS headquarters, while the remaining staff is located in 7 Regional and 69 field offices. The Contract Management Branch of the Management Division, located at FNS Headquarters, administers the purchase card program for the agency. In FY 2003, FNS had a total of

¹ The Department of Defense, the General Services Administration, and the National Aeronautics and Space Administration jointly issues the Federal Acquisition Regulation for use by executive agencies in acquiring goods and services.

² An USDA employee delegated contracting authority by a duly authorized appointing official. The warrant states the level of contracting authority delegated to the individual. Only warranted individuals may contractually bind USDA for transactions above the micro-purchase threshold.

³ FNS has complied with the April 30, 2003, Departmental memorandum directing the elimination of convenience check usage by July 1, 2003.

88 cardholders nationwide. FNS had over 9,300 purchase card and convenience check transactions with a cumulative value of about \$3 million in FY 2003.

Objectives

The objective of the audit of the FNS purchase card program was to determine whether the agency had established effective controls over the authorization and use of purchase card and convenience checks for FY 2003 transactions. Specifically, we assessed: (1) the controls established by FNS over purchase card program operations; (2) agency compliance with Departmental and FNS policies; and (3) whether transactions were properly authorized, completed, and executed for permissible purchases.

Findings and Recommendations

We reviewed over 1,800 of the 9,300 purchase card and convenience check transactions that occurred during FY 2003. Of over \$3 million in FY 2003 expenditures, we reviewed transactions valued at over \$1.1 million. Nothing came to our attention to cause us to believe that the system of management controls over FNS purchase card operations was not effective and operating as designed. Accordingly, we are making no recommendations.

Scope and Methodology

This audit was conducted in accordance with generally accepted government auditing standards. We assessed the purchase card activity for FY 2003. Fieldwork was performed from August 2003 to March 2004, at FNS National Headquarters in Alexandria, Virginia and Mid-Atlantic Regional Office (MARO) in Robbinsville, New Jersey. We selected MARO because this regional office had the largest purchase card activity outside of FNS' Headquarters.

We determined the control environment by obtaining and assessing copies of Departmental and FNS issued policies and procedures for the purchase card program. This included reviewing Departmental Regulation 5013-6, "Use of the Purchase Card and Convenience Check," and FNS "USDA Purchase Card Program/PCMS Quick Reference Guide for FNS/CNPP."

Our audit included reviewing the procedures for authorizing and canceling purchase cards. Additionally, we completed steps to identify dormant (under-used) cards. We reviewed the internal review reports of purchase card activities completed by FNS, to include reports regarding disciplinary action taken for abuse of purchase cards. We interviewed the agency's program coordinators, two local agency program coordinators, and four cardholders, to determine and assess their understanding of their roles and responsibilities.

Our review included an examination of transactions for fraudulent, improper, abusive, or questionable purchases. We examined over 1,800 transactions valued at approximately \$1,100,000 for eight judgmentally selected cardholders at MARO and the FNS Headquarters. The sampled cardholders were the cardholders with the highest total of purchases in MARO. At FNS Headquarters, we examined the cardholders with the largest dollar value of transactions in the Financial Management Division, Special Nutrition Program Division, Information Technology Branch of the Management Division, and the three individuals with the largest dollar value of transactions in the Contract Management Branch of the Management Division. We reviewed each transaction to determine whether it was:

- Authorized by management;
- Supported by documentation;
- Within the cardholder's purchase limit (including an examination for split transactions to circumvent transaction limitation controls); and
- for the purchase of permissible items or services.

Also, we ensured that the eight cardholders had reconciled their accounts on a 30 day basis and that the cardholder's supervisors had performed and documented monthly reviews of purchase card transactions.

In addition to the individual transaction examination for the eight cardholders, we reviewed Purchase Card Management System transaction listings for all other regional cardholders with cumulative FY 2003 transactions exceeding \$15,000. This examination included over 2,300 additional transactions with a cumulative value in excess of \$938,000 from an additional 12 cardholders. We reviewed the listings for improper, abusive, or questionable purchases. Specifically, we reviewed the transaction description, the vendor name, and assessed whether each transaction was within the cardholder's purchase limit.