



**USAID**  
FROM THE AMERICAN PEOPLE

**OFFICE OF INSPECTOR GENERAL**

---

**FOLLOWUP AUDIT OF USAID'S  
GOVERNMENTWIDE  
COMMERCIAL PURCHASE  
CARD PROGRAM**

AUDIT REPORT NO. 9-000-08-009-P  
August 26, 2008

Washington, DC



**USAID**  
FROM THE AMERICAN PEOPLE

*Office of Inspector General*

August 26, 2008

**MEMORANDUM**

**TO:** M/OAA, Director, Maureen Shauket  
M/CFO, Chief Financial Officer, David Ostermeyer

**FROM:** IG/A/PA, Director, Steven H. Bernstein /s/

**SUBJECT:** Followup Audit of USAID's Governmentwide Commercial Purchase Card Program (Audit Report No. 9-000-08-009-P)

This memorandum transmits the Office of Inspector General's final report on the subject audit. In finalizing the report, we carefully considered your comments on the draft report and included your comments in their entirety as appendix II.

The report includes four recommendations for your action. Based on the information provided in your responses to the draft report, we conclude that management decisions have been reached for all four recommendations. Determination of final action for these recommendations will be made by the Audit Performance and Compliance Division (M/CFO/APC) upon completion of the planned actions.

I sincerely appreciate the cooperation and courtesies extended to my staff during this audit.

# CONTENTS

<b>Summary of Results</b> .....	1
<b>Background</b> .....	4
Audit Objective .....	4
<b>Audit Findings</b> .....	5
USAID Should Increase Purchase Card Use at USAID/Washington and Overseas Missions .....	6
USAID Should Maximize Prompt Payment Rebates.....	9
USAID Should Strengthen Training for Cardholders and Supervisors.....	10
USAID Should Fully Implement Its Annual Review Program.....	13
<b>Evaluation of Management Comments</b> .....	15
<b>Appendix I – Scope and Methodology</b> .....	17
<b>Appendix II – Management Comments</b> .....	19
<b>Appendix III – Findings and Recommendations from the OIG’s 2002 Audit of USAID’s Governmentwide Commercial Purchase Card Program</b> .....	23

# SUMMARY OF RESULTS

The Governmentwide commercial purchase card program was established to streamline the acquisition process and reduce administrative costs and time required to purchase and pay for goods and services. USAID's Office of Acquisition and Assistance serves as the Agency's purchase card program manager, while USAID's Chief Financial Officer directs, manages, and provides policy guidance and oversight of financial management personnel, activities, and operations related to the purchase card program (see page 4).

The Office of Inspector General's *Audit of USAID's Governmentwide Commercial Purchase Card Program*, dated March 19, 2002, identified numerous problems, including (1) not using purchase cards for all eligible transactions, (2) not paying purchase card invoices promptly, (3) not sufficiently training cardholders and program supervisors, and (4) not providing adequate monitoring of the purchase card program (see page 4). The objective of this followup audit was to determine whether USAID had corrected these problems.

In response to the 2002 audit, USAID took several actions to strengthen the purchase card program:

- The Office of Acquisition and Assistance developed new policies that required cardholders to use purchase cards for all procurements up to their approved card limit (see page 6).
- The Office of the Chief Financial Officer developed and implemented an accelerated payment system for USAID/Washington's Citibank invoices (see page 10).
- The Office of Acquisition and Assistance developed and implemented an expanded training program for all USAID/Washington cardholders and supervisors (see page 11).

Thanks to these efforts, USAID/Washington personnel increased their card use from about \$321,000 in fiscal year (FY) 2000 to about \$1.4 million in FY 2007. As a result, in FY 2007 USAID/Washington achieved estimated transaction savings of \$278,000. Volume-based rebates and prompt payment rebates from Citibank totaled about \$5,000 and \$15,000, respectively (see page 5).

Despite these improvements, the Office of Acquisition and Assistance and the Chief Financial Officer did not correct all of the problems identified during the previous audit. This followup audit identified several unresolved problems:

- Cardholders and procurement personnel did not use purchase cards for all eligible transactions, resulting in increased transaction costs and reduced volume-based rebates from Citibank (see page 6).

- USAID did not always pay its Citibank invoices promptly, resulting in reduced prompt payment rebates (see page 9).
- The Office of Acquisition and Assistance did not provide comprehensive training to mission personnel (see page 10).
- The Office of Acquisition and Assistance did not implement an effective cardholder annual review program with sufficient management controls over its purchase card program to minimize the risk of inappropriate use of purchase cards (see page 13).

To correct these problems, this report recommends that—

- The Director, Office of Acquisition and Assistance develop a plan to collect complete and accurate purchase card and purchase order data, assess variations in purchase card usage rates, and monitor Agencywide compliance with USAID requirements to maximize the use of purchase cards for all eligible transactions (see page 9).
- USAID's Chief Financial Officer develop guidance and procedures to accelerate the payment of purchase card invoices to maximize prompt payment rebates for overseas missions (see page 10).
- The Director, Office of Acquisition and Assistance develop a plan for a comprehensive purchase card training program for cardholders and supervisors at overseas missions (see page 12).
- The Director, Office of Acquisition and Assistance develop an implementation plan for an annual review program that incorporates appropriate segregation of duties (see page 14).

Implementation of these recommendations should help to reduce procurement transaction costs by about \$230,000 annually and increase purchase card rebates by about \$131,000 annually.

In comments to the report, the Office of Acquisition and Assistance and the Chief Financial Officer agreed to take steps to respond to the report's recommendations:

- The Office of Acquisition and Assistance will develop a program plan to collect complete and accurate purchase card data from the issuing bank and from its own data warehouse to assess variations in purchase card usage in order to monitor Agencywide compliance for all eligible procurements.
- The Chief Financial Officer will issue a directive that encourages operating unit managers to take advantage of accelerating payments on all Agency credit cards whenever practical.
- The Office of Acquisition and Assistance has developed a statement of work for the design and development of an online course for all cardholders and organization program coordinators.

- The Office of Acquisition and Assistance will direct the Chief, Evaluation Division to develop procedures for an annual review of the purchase card program that incorporates appropriate segregation of duties for executive officers stationed overseas.

# BACKGROUND

The Governmentwide commercial purchase card program was established to streamline the acquisition process and reduce administrative costs and time required to purchase and pay for goods and services. In 2006, the Association of Government Accountants estimated that using the purchase card instead of traditional procurement methods could save about \$87 per transaction.

USAID implements its purchase card program through a Citibank contract that the General Services Administration manages on a Governmentwide basis. An official within USAID's Office of Acquisition and Assistance serves as the Agency's purchase card program manager, while USAID's Chief Financial Officer directs, manages, and provides policy guidance and oversight of financial management personnel, activities, and operations related to the purchase card program.

Citibank, the purchase card service provider, processes USAID's card transactions and pays rebates based on card volume and how quickly USAID pays its purchase card invoices. In fiscal year 2007, USAID completed 8,760 small purchases (transactions under \$100,000), 72 percent using the purchase card and 28 percent using purchase orders. Purchase card transactions for USAID/Washington and the overseas missions totaled \$6.7 million and resulted in about \$35,000 in rebates.

In a March 2002 audit report,<sup>1</sup> the Office of Inspector General determined that—

- USAID had not used the purchase card for all eligible transactions.
- USAID frequently delayed its payments to Citibank by more than 30 days, resulting in lower rebates.
- USAID's training program for cardholders and approving officials was too limited in scope and too infrequent to ensure that those individuals had and retained the knowledge to properly implement the purchase card program.
- USAID had not designed and implemented effective controls over its purchase card program to minimize the risk of inappropriate use.

## AUDIT OBJECTIVE

The Office of Inspector General's Performance Audits Division audited USAID's Governmentwide commercial purchase card program to answer the following question:

- Did USAID correct the problems identified during the *Audit of USAID's Governmentwide Commercial Purchase Card Program*, audit report 9-000-02-004-P, dated March 19, 2002?

Appendix I contains a discussion of the audit's scope and methodology.

---

<sup>1</sup> *Audit of USAID's Governmentwide Commercial Purchase Card Program*, audit report 9-000-02-004-P, dated March 19, 2002 (see appendix III).

# AUDIT FINDINGS

Although USAID has made progress in implementing various aspects of its purchase card program, the Agency has not fully corrected all of the problems identified during the 2002 audit of USAID's Governmentwide commercial purchase card program.

In response to the 2002 audit, USAID (1) revised Automated Directives System 331 to require authorized staff to use purchase cards for all procurements up to their approved card limit, (2) implemented an accelerated payment system for USAID/Washington purchase card accounts, (3) expanded the training program for cardholders and program supervisors, and (4) developed procedures for an annual cardholder review. These new policies and procedures corrected some of the identified problems:

- Purchase card use increased from an estimated \$321,000 in fiscal year (FY) 2000 to \$1.4 million in FY 2007 for USAID/Washington. As a result, during FY 2007 USAID/Washington achieved estimated transaction savings of \$278,000 and generated volume-based rebates from Citibank of about \$5,000.
- Using the accelerated payment system for invoices during FY 2007, USAID/Washington's payments to Citibank averaged only 6.7 days from receipt of invoice, which resulted in prompt payment rebates of about \$15,000.
- As a result of an expanded training program, USAID/Washington's 106 cardholders and 54 of 55 program supervisors were trained on purchase card use.

Despite these improvements, USAID continues to experience problems related to its purchase card program. USAID should do the following:

- Increase purchase card use at USAID/Washington and overseas missions.
- Maximize prompt payment rebates.
- Strengthen training for cardholders and supervisors.
- Fully implement its annual review program.

These problem areas are discussed in the following sections.

## **USAID Should Increase Purchase Card Use at USAID/Washington and Overseas Missions**

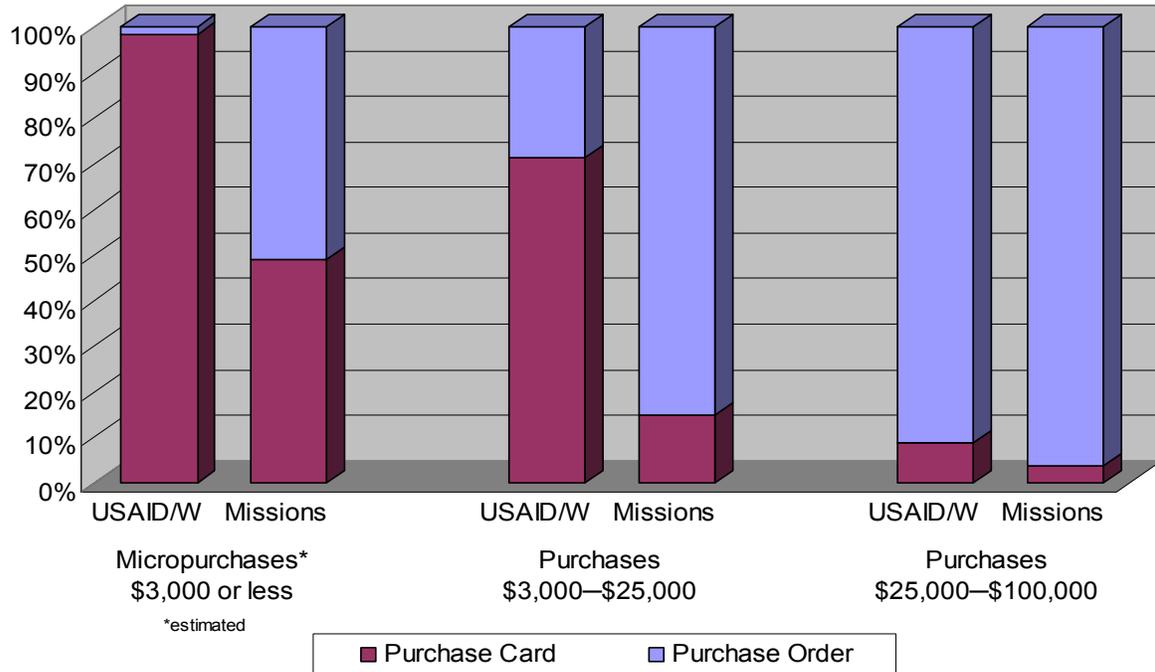
Summary: USAID's Automated Directives System 331.3 requires the use of purchase cards for purchases up to \$100,000. Although USAID/Washington's purchase card use has increased significantly for transactions up to \$25,000, the card is rarely used for purchases greater than \$25,000. Moreover, at overseas missions, card use for all purchases lagged significantly behind USAID/Washington. USAID has not maximized the use of purchase cards because the Office of Acquisition and Assistance has not developed or implemented adequate procedures to monitor, encourage, and enforce use of the purchase card for all eligible transactions. As a result, USAID did not minimize transaction costs or maximize purchase card rebates.

The 2002 audit report found that USAID did not use purchase cards to the maximum extent possible, resulting in additional transaction costs and reduced rebates. The Office of Acquisition and Assistance responded to the report as follows:

- Revised Automated Directives System 331 to require cardholders to use the purchase card for all eligible purchases of \$100,000 or less, up to each cardholder's transaction limit.
- Issued Acquisition and Assistance Policy Directive 02-07 authorizing the issuance of purchase cards to foreign service nationals, personal services contractors, and third-country nationals.
- Revised the procurement manual to allow personnel to receive procurement training that qualified them to purchase goods and services up to \$25,000.

Following the implementation of these new policies, USAID/Washington significantly increased its use of the purchase card for micropurchases (purchases up to \$3,000) and procurements up to \$25,000. However, USAID/Washington rarely used the purchase cards for larger procurements as required by USAID guidance. Furthermore, at the overseas missions, purchase card use varied from location to location, and overall card usage lagged significantly behind USAID/Washington for all transaction types, as illustrated in figure 1.

**Figure 1. FY 2007 Purchase Card/Purchase Order Usage**



Source: Unaudited USAID procurement data

Specific concerns related to purchases at each transaction level are discussed in detail below.

- Micropurchases of \$3,000 or less** – Following the introduction of the new policies, USAID/Washington’s purchase card transaction volume for micropurchases increased significantly, from about \$321,000 during FY 2000 to \$1.4 million during FY 2007. Personnel within each bureau and office at USAID/Washington had access to purchase cards for micropurchases, and the data indicate that they used purchase cards whenever possible for micropurchases.

Overseas, however, mission personnel used purchase cards for \$1.4 million in FY 2007, or for less than half of their estimated total micropurchase transactions. Furthermore, some missions continue to use purchase orders for most or all of their micropurchase transactions. For example, according to USAID’s procurement records, USAID/Haiti’s 473 micropurchases totaled \$422,000 in FY 2007, but the mission used its purchase card for only about 25 percent of these transactions. During FY 2007, USAID/Nigeria’s 67 micropurchases totaled \$77,000, but the mission did not use the purchase card for any micropurchase transactions.

- Procurements between \$3,000 and \$25,000** – USAID’s new policies led to increased use of the purchase card for procurements between \$3,000 and \$25,000 at USAID/Washington. According to the 2002 report, USAID cardholders did not routinely use purchase cards for transactions above the

micropurchase level, and only 5 of 107 USAID/Washington cardholders had the authority to make these larger purchases. In comparison, by March 2008, 38 of 106 cardholders at USAID/Washington could make purchases between \$3,000 and \$25,000, and purchase cards were being used for about \$2 million worth of goods and services. This represented about 71 percent of USAID/Washington's transactions in this price range during FY 2007.

At the overseas missions, in contrast, personnel rarely used purchase cards for procurements between \$3,000 and \$25,000. Only 39 of 63 missions had cardholders with a card limit that would allow purchases above the \$3,000 threshold, and missions used purchase cards for only \$1.1 million, or about 12 percent of all transactions in this price range during FY 2007.

- **Procurements between \$25,000 and \$100,000** – Neither USAID/Washington nor the missions maximized the use of purchase cards for procurements above \$25,000. Only warranted procurement personnel<sup>2</sup> were allowed to complete such purchases, and few such officials had been issued purchase cards. As of March 2008, only 1 of USAID's 119 warranted contracting officers had been issued a purchase card allowing purchases up to \$100,000, and purchase cards were used for only about \$300,000 (7 percent) of such transactions at USAID/Washington during FY 2007.

Overseas, 45 warranted procurement officials, usually mission executive officers, obtained purchase cards with limits over \$25,000, but they rarely used the cards for large purchases. According to USAID's procurement data, during FY 2007, mission personnel used the purchase card for only about \$392,000 (4 percent) of these larger transactions.

USAID/Washington and the missions did not use the purchase card to the maximum extent possible because the Office of Acquisition and Assistance did not collect complete and accurate purchase card and purchase order data, assess variations in purchase card usage rates, or monitor Agencywide compliance with USAID purchase card requirements. For example, the office did not systematically collect purchase order data for comparison to purchase card data to assess the card use rate for transactions under \$3,000. Furthermore, while the office collected purchase order data for larger transactions, it did not use this information to manage the purchase card program. Thus, the office did not use available information about the large number of purchase order transactions between \$25,000 and \$100,000 to note that warranted procurement personnel were not obtaining and using purchase cards for all eligible purchases.

According to Office of Acquisition and Assistance personnel, some mission cardholders were reluctant to use the card because of the increased possibility of credit card fraud that exists in some countries. However, although credit card fraud is a high risk in some countries, USAID officials agreed that these concerns should not limit purchase card use when making procurements from U.S.-based vendors. Both USAID/Washington and the missions commonly used purchase orders instead of purchase cards to buy merchandise and services from U.S.-based vendors that are known to accept purchase cards and offer low fraud risk, such as Dell Computer and Hewlett-Packard.

---

<sup>2</sup> These officials receive delegations of authority from the Director, Office of Acquisition and Assistance to conduct acquisition procedures within their warrant authority.

Furthermore, in a sample of 18 USAID/Washington purchase orders with a total value of \$618,000, all 18 U.S.-based vendors confirmed that they would have accepted the purchase card.

Because USAID does not use purchase cards for all eligible purchases, the Agency continues to pay larger transaction costs and receive smaller rebates than it should. The Procurement Executives Council<sup>3</sup> established a goal for civilian agencies to use the purchase card for 80 percent of their micropurchases and 75 percent of purchases under \$25,000. Had USAID reached these targets at all missions and offices, and also used the purchase card for 75 percent of its purchases between \$3,000 and \$100,000, its total purchase card transaction volume would have increased from \$6.7 million to \$23.8 million in FY 2007. Thus, the Agency could have saved an additional \$230,000 per year in transaction costs and received an additional \$85,000 in volume-based rebates from Citibank.

To reduce transaction costs and increase rebates, the Office of Inspector General makes the following recommendation:

*Recommendation No. 1: We recommend that the Director, Office of Acquisition and Assistance develop a plan to collect complete and accurate purchase card and purchase order data, assess variations in purchase card usage rates, and monitor Agencywide compliance with USAID requirements to maximize the use of purchase cards for all eligible transactions.*

## **USAID Should Maximize Prompt Payment Rebates**

Summary: Under its contract with Citibank, USAID receives rebates that reward it for prompt monthly payments. Although the Office of Financial Management implemented an accelerated payment system that allows USAID/Washington to pay its purchase card bills in less than 7 days, the Agency did not maximize its rebates. Because the Office of Financial Management did not require missions overseas to adopt the accelerated payment system, the missions paid their bills, on average, 26 days after receipt during FY 2007. Consequently, USAID lost an estimated \$46,000 in potential rebates.

Under the General Services Administration's contract with Citibank, USAID receives a prompt payment rebate based on the length of time required to pay each account's monthly invoice. Faster payments earn higher rebates, but USAID forfeits rebates for invoices that are not paid within 30 days. USAID's Automated Directives Systems 331.2 requires that missions pay their purchase card invoices in accordance with the Prompt Payment Act. A payment is generally considered timely if USAID pays an invoice within 30 days of receipt.

In 2002, in response to an audit recommendation in the previous report, the Office of Financial Management determined that the optimum payment date for Citibank invoices

---

<sup>3</sup> The Procurement Executives Council is an interagency council consisting of procurement executives in the executive branch that monitors and improves the Federal acquisition system.

was 5 days. Given the processing time requirements, this meant that USAID should pay its invoices as soon as possible upon receipt. USAID/Washington subsequently began paying its monthly Citibank bills immediately and requiring individual cardholders to reconcile their account charges within 5 days. Specific payments for any disputed charges can be suspended and investigated without slowing the overall payment process. As a result of this improved process, during FY 2007 USAID/Washington paid its purchase card bills close to the optimal date, on average within 6.7 days from invoice receipt.

However, USAID still has not maximized its prompt payment rebates. The Office of the Chief Financial Officer did not require overseas missions to adopt an accelerated payment system. USAID's financial management guidance for missions does not mention the benefit of paying purchase card invoices promptly and does not encourage missions to do so. Thus, missions paid their bills, on average, 26 days after receipt of invoice during FY 2007. Although these payments were usually completed within the 30 days required by the Prompt Payment Act as specified in USAID guidance, faster payment would have resulted in higher rebates.

As a result, USAID has not maximized its prompt payment rebates. During FY 2007, if the missions had paid their invoices within 6.7 days of receipt, USAID's rebate would have increased by about \$46,000.<sup>4</sup>

To maximize prompt payment rebates, the Office of Inspector General makes the following recommendation:

*Recommendation No. 2: We recommend that USAID's Chief Financial Officer develop guidance and procedures to accelerate the payment of purchase card invoices to maximize prompt payment rebates for overseas missions.*

## **USAID Should Strengthen Training for Cardholders and Supervisors**

Summary: Chapter 4500 of the Treasury Financial Manual requires Federal agencies to develop a training program for cardholders and approving officials in a purchase card program. Although the Office of Acquisition and Assistance developed and implemented a training program for USAID/Washington's staff, the office provided limited training at overseas missions. Many mission cardholders and supervisors did not receive training because the Office of Acquisition and Assistance did not dedicate sufficient training resources for this effort or develop alternatives to classroom training. Without adequate training, there is increased risk that cardholders may underuse or misuse the purchase card.

---

<sup>4</sup> This estimate assumes that the missions implement recommendation no. 1 and achieve a purchase card transaction volume of \$23.8 million annually. If mission transaction volume remains at FY 2007 levels, the potential rebate increase resulting from faster payments would be approximately \$6,500 per year.

Chapter 4500 of the Treasury Financial Manual,<sup>5</sup> titled Government Purchase Cards, states that all agencies participating in the purchase card program must develop a training program for cardholders and approving officials. Moreover, USAID's Automated Directives System 331.3.5 states that program participants must pass training requirements to be eligible for procurement duties.

As a result of the 2002 audit, the Office of Acquisition and Assistance agreed to expand its purchase card training program to include the following:

- A 3-hour classroom course or an interactive computer training program for all cardholders
- A Web-based training program designed by the General Services Administration for all cardholders
- A 40-hour acquisition training course for cardholders with spending limits between \$3,000 and \$25,000
- Specialized supervisory training

From March 2005 to March 2008, the Office of Acquisition and Assistance conducted classroom training for nearly all USAID/Washington cardholders and program supervisors. As of March 2008, acquisition and assistance trainers had provided classroom instruction covering the major directives and policies applicable to purchase card use to all 106 USAID/Washington cardholders and to 54 of 55 program supervisors. Furthermore, all USAID/Washington cardholders with spending limits between \$3,000 and \$25,000 received the required acquisition training.

However, the training efforts for mission cardholders and supervisors were less comprehensive. Office of Acquisition and Assistance officials provided regional classroom training at nine overseas missions in 2005 and 2006 and no classroom training at the missions in 2007. As a result, fewer than 25 percent of the current mission cardholders and supervisors have received classroom training. Fifty-nine percent of mission purchase cardholders and 45 percent of supervisors who did not receive formal classroom training instead "self-certified" that they had reviewed a computerized presentation of the purchase card training and had read the program manual. Moreover, 17 percent of mission cardholders and 35 percent of supervisors received no training, as illustrated in table 1.

---

<sup>5</sup> The Treasury Financial Manual is the U.S. Department of the Treasury's official publication for financial accounting and reporting of Federal Government receipts and disbursements. Volume 1, Part 4, Chapter 4500 codifies procedures including program controls and invoice payments.

**Table 1. Overseas Mission Cardholder and Supervisor Training,  
Purchase Card Program Participants, as of March 2008**

Training Type	Cardholders		Supervisors	
	Number of Participants	Percentage of Participants	Number of Participants	Percentage of Participants
Classroom Training	26	24	13	20
Self-Certified Training	63	59	29	45
No Training	17	17	22	35
<b>Total Number of Mission Cardholders</b>	<b>106</b>	<b>100</b>	<b>64</b>	<b>100</b>

Although self-certification allowed trainers to provide a substitute for formalized classroom instruction, participants were not tested on the material and did not receive a computer-generated certificate indicating that all the course material was reviewed. According to Office of Acquisition and Assistance officials, cardholders frequently request information about basic purchase card operations, which would indicate that self-certification may not be sufficient for knowledge retention about proper card usage.

Office of Acquisition and Assistance officials stated that trainers could not provide classroom training to many mission cardholders and program supervisors because budget constraints limited their ability to travel. Although the Office of Acquisition and Assistance had a training budget of about \$150,000 to \$200,000 during FY 2007, officials did not allocate any of these funds for training overseas purchase cardholders. Moreover, inadequate training persisted because the Office of Acquisition and Assistance did not develop alternatives to classroom training, such as verifiable computer-based training, testing, or the use of knowledgeable acquisition officials to train program participants on a regional basis.

Although the Office of Acquisition and Assistance did a commendable job training its purchase cardholders at USAID/Washington, it relied too heavily on a self-certification process for mission purchase cardholders. Since the self-certification process offers limited assurance that participants fully understand purchase card policies and procedures, its merits are questionable. Without adequate training, purchase cardholders and approving officials may be unaware of critical management controls and procedures that ensure the proper use of USAID's purchase cards to maximize benefits as well as safeguard the program from misuse.

To improve USAID's training efforts, the Office of Inspector General makes the following recommendation:

*Recommendation No. 3: We recommend that the Director, Office of Acquisition and Assistance develop a plan for a comprehensive purchase card training program for cardholders and supervisors at overseas missions.*

## **USAID Should Fully Implement Its Annual Review Program**

Summary: Automated Directives System 331.3.5 requires a designated reviewer to conduct an annual purchase card program review. Additionally, Automated Directives System 596.3.1 requires USAID to incorporate appropriate segregation of duties into its management control activities. The Office of Acquisition and Assistance developed guidance and procedures for an annual review process, but these procedures were never implemented at USAID/Washington or at most missions. Furthermore, the USAID directive allowed many cardholders at overseas missions to review their own transactions, thus limiting the value of the process. These deficiencies occurred because the Office of Acquisition and Assistance did not give adequate attention to the design and implementation of its annual review program. As a result, USAID continues to lack an effective purchase card annual review process to help ensure an efficient and effective purchase card program.

As reported in 2002, USAID had not designed and implemented effective controls over its purchase card program to minimize the risk of inappropriate use of purchase cards. In response to an audit recommendation, the Office of Acquisition and Assistance expanded Automated Directives System 331.3.5 to require that a designated reviewer conduct an annual purchase card program review. During this review, officials should use a detailed checklist to determine, among other things, whether:

- Purchase cards were used for authorized purchases only.
- Cardholder files contained adequate supporting documentation.
- Cardholder reconciliation and review and approvals took place in a timely manner.
- Cardholders obtained adequate funding in advance of each purchase.

The Office of Acquisition and Assistance's Purchase Card manual requires that these purchase card reviews be conducted at USAID/Washington by the Office of Acquisition and Assistance and by purchase card program supervisors at each mission. Since it is a management control activity, the review program is subject to Automated Directives System 596.3.1, which requires that the procedures incorporate appropriate segregation of duties to reduce risks of error or fraud.

However, although the Office of Acquisition and Assistance developed and disseminated these annual review procedures, the procedures were never fully implemented. At USAID/Washington, cardholder reviews were to begin in 2004, but none have yet been initiated. Moreover, according to Office of Acquisition and Assistance records, few overseas missions completed the required annual reviews. During FY 2007, for example, records indicate that only one mission completed the cardholder review.

In addition, the design of the current review program does not allow for appropriate segregation of duties at overseas missions. According to the review program guidance, purchase card supervisors should conduct the annual reviews at each mission. However, at many missions, these supervisors are also cardholders, and in several instances they are a mission's only cardholder. Consequently, some mission cardholders would be reviewing their own transactions, which would greatly limit the value and effectiveness of this management control procedure.

These deficiencies occurred because managers within the Office of Acquisition and Assistance did not give adequate attention to the design and implementation of the annual review program. According to Office of Acquisition and Assistance officials, personnel were not readily available, so the reviews at USAID/Washington have been delayed. The overseas missions did not conduct the reviews, in part, because the Office of Acquisition and Assistance did not monitor compliance with the review requirement, and because there were neither incentives for compliance nor negative consequences for noncompliance.

Because the review program was not adequately designed and implemented, USAID cannot confirm that cardholders are consistently and appropriately implementing purchase card policies and procedures. To correct this problem, the Office of Inspector General makes the following recommendation:

*Recommendation No. 4: We recommend that the Director, Office of Acquisition and Assistance develop an implementation plan for an annual review program that incorporates appropriate segregation of duties.*

# EVALUATION OF MANAGEMENT COMMENTS

In its response to the draft report, the Office of Acquisition and Assistance and the Office of the Chief Financial Officer agreed with all four recommendations. Management also described the actions it plans to take to address the recommendations. Management comments and our evaluation of them are summarized below.

In response to recommendation no. 1, the Director, Office of Acquisition and Assistance agreed to develop a program plan to collect purchase card data from the issuing bank and from its own data warehouse to assess variations in purchase card usage in order to monitor compliance for all eligible procurements. These actions are expected to be completed by January 31, 2009. Based on management's response, we consider that a management decision has been reached on this recommendation.

In response to recommendation no. 2, the Chief Financial Officer agreed to issue a directive within 90 days that encourages operating unit managers to fully take advantage of accelerating payments on all Agency credit cards. Based on management's response, we consider that a management decision has been reached on this recommendation.

In response to recommendation no. 3, the Director, Office of Acquisition and Assistance agreed to develop an online course for all cardholders and supervisors. The training will require participants to demonstrate mastery by completing a test before they are issued a purchase card. These actions are expected to be completed by January 31, 2009. Based on management's response, we consider that a management decision has been reached on this recommendation.

In response to recommendation no. 4, the Director, Office of Acquisition and Assistance agreed to develop a purchase card review program that incorporates appropriate segregation of duties. These actions are expected to be completed by January 31, 2009. Based on management's response, we consider that a management decision has been reached on this recommendation.

In additional comments, the Director of the Office of Acquisition and Assistance noted that the challenging business environment in many overseas locations makes extensive card usage for eligible purchases unrealistic in the near future. Mission circumstances may limit card usage, but we believe that the proposed actions will ensure progress toward maximized card use for eligible transactions as required by USAID guidance.

The Director also noted that budgetary and staffing challenges limit USAID's ability to implement an appropriate training program for overseas cardholders. Despite these challenges, we believe that the computer-based training program described in management's response can address the recommendation while minimizing travel time and expenses for mission personnel and Washington-based trainers.

Finally, the Director cited understaffing as a challenge in implementing appropriate segregation of duties in the annual review program. We agree that heavier workloads at

the missions make an annual review process with appropriate segregation of duties difficult to implement, but we also note the importance of adequate internal controls over the purchase card program.

# SCOPE AND METHODOLOGY

## Scope

The Performance Audits Division conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that the Office of Inspector General plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The audit objective was to determine whether the Offices of Acquisition and Assistance and Financial Management had taken sufficient corrective actions to justify final action on recommendations from audit report 9-000-02-004-P, dated March 19, 2002. The audit scope included the five most important recommendations from this report, those relating to card use, rebates, training, and program monitoring. The audit scope included the implementation of planned improvements at USAID/Washington and at 63 overseas missions. The audit fieldwork was conducted from February 14 to April 2, 2008, at USAID/Washington.

In planning and performing the audit, we reviewed relevant guidance on mission, USAID/Washington, and Office of Inspector General responsibilities related to actions taken in response to audit recommendations. During the review of management controls, we examined and assessed all purchase card transactions for fiscal year (FY) 2007, examining vendors for propriety and investigating any questionable transactions. We also examined controls over cardholder and supervisory training, and judgmentally selected a sample of records for verification to enable us to assess the accuracy and validity of the data. We interviewed a sample of cardholders to ascertain their understanding of appropriate card uses and relevant management controls. Finally, we reviewed the timeliness and completeness of the cardholder annual review process and assessed its effectiveness as a management control for the purchase card program. We considered guidance and comments developed by the Offices of Acquisition and Assistance and Financial Management in response to the previous audit.

The audit considered FY 2007 purchase card and purchase order transaction data that were provided by the Office of Acquisition and Assistance and were not audited. Because the Office of Acquisition and Assistance does not maintain a complete database of purchase orders under \$3,000 for overseas missions, we developed estimates for these transactions by extrapolating from the available purchase data for larger procurements.

## Methodology

In performing the audit work, we reviewed the *Audit of USAID's Commercial Purchase Card Program*, dated March 19, 2002. We also reviewed the applicable regulations and USAID policies and procedures pertaining to USAID's purchase card program, including Automated Directives System Chapter 331, *Simplified Acquisitions, Micro-Purchases, and Use of the USAID Worldwide Purchase Card*; the *USAID Worldwide Purchase Card Manual (October 2007)*; the General Services Administration umbrella contract with Citibank for purchase card services; and relevant portions of the Treasury Financial

Manual. In addition, we reviewed management's written response to the audit, which outlined the specific steps to be taken in response to the five selected recommendations.

To determine the effectiveness of management's response to the five selected recommendations, we collected and analyzed FY 2007 procurement transaction data. We stratified the purchase card and purchase order data by dollar value to establish card utilization rates for transactions under \$3,000, from \$3,000 to \$25,000, and from \$25,000 to \$100,000. We also analyzed a report of specific purchase order transactions made by the Office of the Chief Information Officer, representing about 25 percent of USAID/Washington's purchase orders, to test whether the purchase card could have been used. To determine card use rates for micropurchases, we interviewed cardholders and analyzed the procurement data. In counting transactions, purchases for multiple items at the same price from the same vendor on the same date were assumed to be a single transaction.

To evaluate USAID's effort to increase purchase card rebates, we reviewed data from both USAID and Citibank related to the rebate program. We also reviewed data obtained during interviews and correspondence with Office of Financial Management and Citibank personnel. The rebate calculation methodology was extracted from the Citibank contract and applied to a sample of monthly transaction activity to ensure that rebates were being calculated properly. We analyzed the monthly payment dates that USAID and Citibank documented to verify the timeliness of payments and the accuracy of rebate calculations.

To evaluate the training program, we reviewed the training curriculums for cardholders and program supervisors. We also reviewed information verifying training and card usage through interviews, correspondence, and questionnaires from USAID/Washington and mission cardholders as well as the training coordinators from the Office of Acquisition and Assistance. We reviewed listings of authorized cardholder and supervisor data as of March 1, 2008, and determined the number of cardholders who were trained, self-certified, or still needed training. We judgmentally selected the files of 40 of 212 cardholders to verify that USAID maintained appropriate records documenting training completion.

To assess USAID's efforts to increase purchase card program monitoring, we reviewed relevant documentation and interviewed the USAID management officials responsible for implementing the review program. We obtained copies of the review program methodology and confirmed the participation of overseas missions.

We established materiality thresholds and estimates of potential savings based on the Procurement Executives Council's Governmentwide Acquisition Performance Measurement Program for purchase card use at various transaction levels. The program's goal was for civilian agencies to use purchase cards for 80 percent of their micropurchases or 75 percent of transactions below \$25,000. Although the council did not establish a specific program goal for transactions between \$25,000 and \$100,000, we set a materiality threshold of 75 percent, since USAID's procurement data indicated that some mission and USAID/Washington offices already met or exceeded this level of purchase card use. To estimate cost savings from purchase card use, we used the \$87 per transaction savings estimate developed in 2006 by the Association of Government Accountants. This estimate was not audited but lies within the \$54 to \$92 savings range developed by the General Services Administration.

# MANAGEMENT COMMENTS



August 7, 2008

## MEMORANDUM

TO: IG/A/PA, Director, Steven H. Bernstein

FROM: M/OAA, Director, Maureen A. Shauket

SUBJECT: M/OAA Comments on Draft Follow-up Audit of USAID's Government-wide Commercial Purchase Card Program Report

This memorandum provides M/OAA comments on the draft follow-up audit of USAID's Government-wide Commercial Purchase Card Program report. While M/OAA generally agrees with the results of the follow-up audit as stated in the draft report, we would like to point out some of the challenges that we face in addressing the full extent of the noted weaknesses and recommendations.

We appreciate that the draft report notes the significant progress that M/OAA has made in developing policies that require card-holders to use the purchase cards for all procurements up to their approval card limit and that M/OAA developed and implemented an expanded training program for USAID/Washington card-holders and supervisors.

M/OAA recognizes that there is more to be done to make the purchase card program more efficient and to maximize the use of the purchase card as well as the rebates and transaction fee benefits. However, given the environment that we operate in at many overseas posts and the current resource allotment in Washington, it is unrealistic that 100% usage of the purchase cards for eligible purchases will be achieved in the near future.

Our overseas missions in countries such as Haiti and Nigeria (which were mentioned in the draft report) often work in a very challenging environment that puts limitations on maximizing purchase card usage. Our Agency is strongly encouraging its A&A workforce to utilize organizations and firms in the cooperating countries. In many of these countries, a cash economy still exists and vendors do not accept purchase cards as a payment method. In addition, many of these countries rank in the worst positions on Transparency International's annual corruption index. The draft report suggests using U.S. based vendors to buy merchandise and services in these circumstances. This,

however, would not allow us to respond to the Agency's development goal of enhancing the capacity of local organizations and firms. In addition, the required merchandise and services are often needed immediately to affect the development program on the ground. Ordering from the United States can be a lengthy and costly process, with significant overseas shipping costs and customs clearance process that would often outweigh any gains in terms of rebates and transaction cost fees from using the purchase card. In addition, Missions often use purchase orders with individuals for the completion of deliverables. These individuals are normally unable to accept purchase card payments.

With regards to training of purchase card-holders and supervisors, the draft report notes the significant progress made in USAID/Washington while noting less progress being made at the overseas missions. This discrepancy is a result of staff time and budget issues. Training is expensive. The training for the purchase card program competes with other Agency training programs for funding, some of which – like the CTO certification program and FAC-C training – are the submit of OIG and other reports similar to the purchase card program. M/OAA has been in a position of trying to maximize the impact of the training that we fund among the competing interests while constantly requesting more resources.

In addition to central funding for training programs, we face the obstacle of overseas missions being short-staffed and under-funded. It is difficult for a Mission Director or an Executive Officer to release a card-holder for 40 hours to take the training to upgrade card limits when there is no back-up for his/her day-to-day responsibilities. Missions also lack funding for travel to the training venue.

M/OAA wishes to fully comply with an annual review of the purchase card program that incorporates appropriate segregation of duties. Since 2001, however, M/OAA has been chronically understaffed while being asked to handle larger and larger volumes of acquisition and assistance. For example, in 1998, M/OAA had 180 staff on board and handled approximately \$2.5 billion in actions. In 2007, M/OAA had 113 staff on board and completed more than \$10 billion in actions. This represents a % decrease in staff and a 5 fold increase in workload. M/OAA has requested budget increases that would significantly increase staffing to allow issues such as the annual review to be fully addressed. This request is under consideration by Agency leaders.

With these comments, M/OAA would like to address the specific recommendations directed to M/OAA in the draft report:

***Recommendation No. 1:*** *We recommend that the Director, Office of Acquisition and Assistance develop a plan to collect complete and accurate purchase card and purchase order data, assess variations in purchase card usage rates, and monitor Agency-wide compliance with USAID requirements to maximize the use of purchase cards for all eligible transactions.*

***Management Decision:*** *The Director, Office of Acquisition and Assistance will develop a program plan to collect complete and accurate purchase card data from the issuing bank and from the OAA data warehouse to assess variations in purchase card usage in order to monitor agency-wide compliance for all eligible procurements. The Office*

did not systematically collect purchase order data for comparison to purchase card data to assess the card use rate for transactions under \$3,000 as Federal reporting of micro-purchases is not required. The general rule in the policy guidance is that if the vendor accepts the government purchase card then the requestor must use the card. **Target Completion Date:** January 31, 2009

**Recommendation No. 3:** We recommend that the Director, Office of Acquisition and Assistance develop a plan for a comprehensive purchase card training program for cardholders and supervisors at overseas missions.

**Management Decision:** The Director, Office of Acquisition and Assistance developed a Statement of Work for the design and development of a Computer-Based Training (CBT) on-line course for all cardholders and organization program coordinators. The training will cover all aspects of the purchase card program to ensure that all participants are aware of what their role entails in the program. The CBT will have a quiz and a Certificate of Completion at the end of the training session. The participant will be provided a clear description of the rules and regulations of the purchase card program. The Cardholder must obtain a score of 80% correct answers in order to be issued a government purchase card in addition to meeting the other mandatory training requirements. This training will be available for the new Smartpay2 Purchase Card Program which will be implemented on Nov. 3, 2008 and will be housed on the USAID Purchase Card website to allow prospective trainers to take the training at their convenience. **Target Completion Date:** January 31, 2009.

**Recommendation No. 4:** We recommend that the Director, Office of Acquisition and Assistance develop an implementation plan for an annual review program that incorporates appropriate segregation of duties.

**Management Decision:** The Director, Office of Acquisition and Assistance will direct the Chief, Evaluation Division to develop implementation for the annual review that incorporates appropriate segregation of duties for the Executive Officers stationed overseas. **Target Completion Date:** January 31, 2009.



## MEMORANDUM

TO: IG/A/PA, Steven H. Bernstein

FROM: M/CFO, David D. Ostermeyer

DATE: August 14, 2008

SUBJECT: M/CFO Comments on Draft Follow-up Audit of USAID's Government-wide Commercial Purchase Card Program Report

This memorandum is in response to the Office of Inspector General's request for feedback on the draft follow-up audit of USAID's Government-wide Commercial Purchase Card Program report. The CFO fully agrees with the IG recommendation that the Agency should maximize prompt payment rebates whenever practical. The management decision to take advantage of these rebates rests with the individual operating unit. Mission operating units should take into consideration the opportunity for potential gain associated with those rebates while weighing the cost benefit to the Operating Unit in doing so.

***Recommendation No. 2: USAID's Chief Financial Officer develop guidance and procedures to accelerate payment of purchase card invoices to maximize prompt payment rebates for overseas missions***

***Management Decision:*** *The Office of the Chief Financial Officer will issue a directive reminding Agency Operating Units of the opportunity costs available to the Agency in maximizing use of rebates. The CFO directive will encourage Operating Unit managers to fully take advantage of accelerating payments on all Agency credit cards when practical. This action will be completed within ninety days.*

**Findings and Recommendations from the OIG's 2002 Audit of  
USAID's Governmentwide Commercial Purchase Card Program**

<b>Finding</b>	<b>Recommendation</b>	<b>Final Action</b>
1. USAID did not use purchase cards to the extent required by Federal laws and regulations, or USAID policies, resulting in additional transaction costs and reduced rebates.	We recommend that the Director of the Office of Procurement <sup>6</sup> develop and document procedures to encourage, monitor, and enforce the use of purchase cards for all eligible micropurchases.	9/30/2003
	We recommend that the Director of the Office of Procurement revise the Automated Directives System to authorize and encourage use of the card above the micropurchase level and develop a plan to provide the necessary training for the purchase cardholders to increase their delegation of authority, when appropriate, to make purchases above the micropurchase level.	9/30/2003
2. USAID did not maximize the amount of possible rebates from the purchase card provider because it had not increased the number of purchase card transactions, expanded the purchase card program to include higher-value purchases, paid invoices promptly, or implemented certain electronic commerce policies.	We recommend that the Chief Financial Officer develop a plan to qualify for additional rebates by determining the optimal payment date for purchase card invoices and developing and documenting procedures requiring that payments are made by that date.	11/13/2003
3. USAID did not design and implement effective controls over its purchase card program to minimize the risk of inappropriate use of purchase cards.	We recommend that the Director of the Office of Procurement develop and implement procedures requiring purchase cardholders use their purchase cards to order goods and services from the U.S. Government's most preferred sources and that they distribute purchases equitably among qualified suppliers.	9/30/2003
	We recommend that the Director of the Office of Procurement develop, document, and distribute standard procedures, consistent with the Treasury Financial Manual, that require cardholders to adequately safeguard purchase cards and require that all cardholders and approving officials comply with those procedures.	9/30/2003
	We recommend that the Director of the Office of Procurement revise USAID guidance to indicate the type of approval and support documentation required to be maintained by cardholders, and develop procedures requiring that such documentation is properly maintained.	9/30/2003

<sup>6</sup> The Office of Procurement is presently referred to as the Office of Acquisition and Assistance.

3. (cont'd). USAID did not design and implement effective controls over its purchase card program to minimize the risk of inappropriate use of purchase cards.	We recommend that the Director of the Office of Procurement revise USAID guidance to indicate which purchase card transaction functions should be segregated and develop procedures that require proper segregation of duties.	9/30/2003
	We recommend that the Director of the Office of Procurement review its purchase card training program and develop a plan to increase the subject matter covered by the training, as well as determine how often cardholders and approving officials should be required to receive training updates.	9/30/2003
	We recommend that the Director of the Office of Procurement review the staffing and management structure of its purchase card program and determine the actions necessary to provide the Agency Program Coordinator with the resources and authority to properly administer the program.	3/21/2003
	We recommend that the Director of the Office of Procurement develop a plan and procedures to monitor and manage its purchase card program as required by the Treasury Financial Manual.	9/30/2003

**U.S. Agency for International Development**  
**Office of Inspector General**  
1300 Pennsylvania Avenue, NW  
Washington, DC 20523  
Tel: (202) 712-1150  
Fax: (202) 216-3047  
[www.usaid.gov/oig](http://www.usaid.gov/oig)