

**AR 07-002**

**Office of Inspector General**



**REVIEW OF THE FTC  
PURCHASE CHARGE CARD PROGRAM**

**March 2007**



Office of Inspector General

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

March 12, 2007

TO: Charles Schneider  
Executive Director

ATTN: Steven Fisher  
Chief Financial Officer

FROM: Howard L. Sribnick  
Inspector General

SUBJECT: Review of the FTC's Purchase Charge Card Program

This report presents the results of our audit of the FTC's purchase charge card program. The Chief Financial Officer's written response to the draft report is included as exhibit B with excerpts and the Office of Inspector General's (OIG) Position incorporated into the relevant sections of the report. Your response contained sufficient justification to resolve all recommendations. These recommendations will be considered closed when supporting documentation, as discussed in the OIG Position has been provided through the audit liaison.

We appreciate the courtesies and cooperation extended to our staff during this review.

# ***Executive Summary***

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## **Results in Brief**

The General Services Administration (GSA) purchase charge card (SmartPay) is used to purchase supplies and services in accordance with the Federal Acquisition Regulation (FAR). The purchase charge card is the preferred procurement and payment tool for micro-purchases. As prescribed in FAR 13.2, “micro-purchase” is an acquisition of supplies or services in which the aggregate amount does not exceed \$2,500, except in the case of construction where the limit is \$2,000. The purchase charge card is used as an ordering and payment mechanism, not a contracting mechanism for purchases above the micro-purchase threshold.

To allow agencies the maximum latitude, the GSA SmartPay master contract excludes only a few categories of purchases. They are:

- Long-term rental or lease of land or buildings;
- Travel or travel-related expenses (excluding conference rooms, meeting spaces and local transportation services such as Metro fare cards, subway tokens, etc.); and,
- Cash advances.

Although the Financial Management Office (FMO) has a system of internal controls in place and operating, some adjustments are needed to enhance the security of the FTC purchase card program.

FMO requires only new purchase charge card holders to complete an on-line tutorial prior to being issued a purchase charge card. FMO does not require supervisors or approving officials to attend agency training, i.e. complete the tutorial. Even though changes occur to the purchase charge card program, there is no further refresher training after initially completing the tutorial.

Although the Travel and Transportation Reform Act of 1998, Public Law 105-264, §2(a), requires that Federal employees use the travel charge card for all payments of expenses of official government travel, we discovered that the purchase charge card is being used for official government travel. Between the months of November 2005, and July 2006, \$23,334 was inappropriately charged on purchase charge cards for government travel. Cardholders and their supervisors/managers said they were not aware of the requirement to use only the travel charge card for official government travel.

The Agency/Organization Program Coordinator (A/OPC) has not exercised due diligence in reviewing the card provider's merchant category codes (MCC) that include goods and services that are not appropriate for a government entity. Some of the inappropriate MCC's, are for dating/escort services, massage parlors, package stores (beer, wine, and liquor) and membership in clubs (sports, recreation, athletic), country clubs, and private golf courses. With those MCC codes not being restricted, there is a potential for abuse and ultimately embarrassment for the FTC.

Except for using the purchase card for official government travel, we did not find any purchases for inappropriate goods or services.

**Recommendation  
In Brief**

We recommend that FMO, update, document, and implement risk management controls on the FTC purchase card program (including training) consistent with OMB Circular A-123 Appendix B, and with Public Law 105-264, §2(a) (1998). We also recommend that the A/OPC review the card providers MCC and bar the use of the purchase card for those MCC's for inappropriate goods and services.

## ***Abbreviations Used in This Report***

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AO	Approving Officials
A/OPC	Agency/Organization Program Coordinator
FAR	Federal Acquisition Regulation
FMO	Financial Management Office
FTC	Federal Trade Commission
GSA	General Services Administration
JWOD	Javits-Wagner-O'Day
OIG	Office of Inspector General
OMB	Office of Management and Budget
IG	Inspector General
MCC	Merchant Category Codes
P.L.	Public Law
TFM	Treasury Financial Manual

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# ***Background Scope Objectives and Methodology***

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## **Background**

Government purchase charge card usage provides streamlined, best practice processes that are consistent with private industry standards. The administrative cost savings of processing charge card transactions instead of paper-based transactions drives card use and merchant acceptance. Given its benefits, during the past decade the program has expanded with the support of the executive and legislative branches as well as the merchant community.

Use of purchase cards by approximately 392,500 cardholders government-wide ensures timely payment to merchants who do business with the Federal government. Merchants are paid for credit card transactions within 48 hours of submitting the transaction to the card network.

The purchase card is used as the procurement and payment tool for micro-purchases is defined in Federal Acquisition Regulation (FAR) 13.2. Micro-purchase means an acquisition of supplies or services in which the aggregate amount does not exceed \$2,500, except that the limit is \$2,000 in the case of construction.<sup>1</sup>

To allow agencies the maximum latitude, the contract excludes only a few categories of purchases, such as:

- long-term rental or lease of land or buildings,
- travel or travel related expenses (excluding conference rooms, meeting spaces, and local transportation services such as Metro fare cards, subway tokens, etc.) and,
- cash advances.

Intentional use of the purchase card for other than official government transactions constitutes misuse and, depending on the facts, may constitute fraud. The employing agency of a cardholder who misuses the card or who participates in fraud may cancel the purchase card and take disciplinary action against the employee, as appropriate. In the case of card misuse, the employee will be held personally liable to the government for any unauthorized (non-government) transaction.

## **Scope**

The scope of our review was purchase charge card regulations, internal controls, and use during FY2005 and FY2006.

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<sup>1</sup> For purchases above the micro-purchase threshold, the purchase card may be used as an ordering and payment mechanism, not a contracting mechanism. When used as an ordering and payment mechanism, contractors may bill against the card. When the order is delivered, the contractor bills the purchase card account instead of issuing an invoice directly to the agency.

**Objectives**

The objective of our review was to determine how the FTC Purchase Card Program is managed, to whom purchase cards are issued, and, whether internal controls are sufficient to detect and/or prevent fraudulent use of the purchase card.

**Methodology**

We reviewed regulations, policies, and procedures the FTC uses to manage the purchase charge card program. We reviewed monthly purchase charge card statements for purchases made between the months of September 2005, through August 2006. In addition, we reviewed administrative and financial records, and interviewed selected personnel.

We conducted this audit in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Accordingly, the audit included such tests of program and accounting records as considered necessary to meet the audit objectives.

The fieldwork for this audit was conducted during the months of December 2006, and January 2007.

# ***Findings and Recommendations***

## ***FTC Purchase Card Program System of Internal Controls Needs to be Strengthened***

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The Office of Management and Budget (OMB), issued OMB Circular A-123 Appendix B (Revised 2006), as guidance to maximize benefits when using government charge cards to pay for goods and services in support of official Federal missions. Agencies have an ongoing requirement to evaluate the effectiveness of the actions taken to comply with the requirements of this guidance.

For example, pursuant to OMB Circular A-123 Appendix B agencies must periodically evaluate the effectiveness of the controls put in place to mitigate the risks of payment delinquencies and charge card misuse. All program participants, including cardholders and charge card managers (including Agency/Organization Program Coordinator (A/OPC)), Approving Officials (AO), and other accountable/billing officials), must be trained in charge card management.

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### **Finding 1 Current Merchant Category Code's Allow the Purchase of Inappropriate Goods or Services**

Citibank, the issuer of the government purchase card, has established a table of merchant category codes (MCC's) for which the card may be used. This table includes MCC's for goods and services that are inappropriate for a government agency. However, the entire MCC table is used as a guide for approving agency purchases. This has occurred because the A/OPC has not reviewed and restricted the use of inappropriate MCC's. As a result, many of the MCC's associated with the FTC's purchase charge card allow cardholders to use government funds to purchase inappropriate goods or services, including purchases that would violate federal laws and policies.

A/OPC's also must exercise due diligence in reviewing MCC's in use and then restricting the use of those that are not appropriate. A sample of MCC's that are currently valid for purchases with the FTC purchase charge card, but which appear inappropriate on their face, are listed below in Table 1.

<b>MCC CODES</b>	<b>DESCRIPTION</b>
3000	Airlines, Air Carriers
3351	Car Rental Agencies
3501	Hotels, Motels, Resorts
4011	Railroads
4112	Passenger Railways
4119	Ambulance Services
4121	Taxicabs/Limousines
4411	Cruise Lines
4511	Airlines, Air Carriers
4722	Travel Agencies, Tour Operators
4723	Package Tour Operators - Germany Only
4761	Transportation/Travel
4829	Wires, Money Orders
5193	Florists Supplies, Flowers
5309	Duty Free Shops
5681	Furriers and Fur Shops
5718	Fireplace Accessory Stores
5813	Drinking Places (Alcoholic Beverages) –Bars, Taverns, Nightclubs, Cocktail Lounges, And Discotheques
5921	Package Stores - Beer, Wine, and Liquor
5932	Antique Stores - Sales, Repairs and Restoration Services
5933	Pawn Shops
5937	Antique Reproductions
5944	Jewelry Stores
5960	Direct Marketing - Insurance Service
5962	Direct Marketing -- Travel-Related Arrangement Services
5972	Stamp and Coin Stores
5973	Religious Goods Stores
5977	Cosmetic Stores
5992	Florist
5993	Cigar Stores and Stands
5996	Swimming Pools - Sales and Service
6010	Manual Cash Disbursements
6011	Automated Cash Disbursements
6012	Financial Institution - Merchandise and Services
6300	Insurance Sales, Underwriting, and Premiums
7011	Lodging –Hotels, Motels, Resorts, Central Reservation
7273	Dating/Escort Services
7276	Tax Preparation Services
7297	Massage Parlors
7832	Motion Picture Theaters
7911	Dance Halls
7941	Commercial Sports, Professional Sports Club, Athletic Fields, and Sports Promoters
7992	Public Golf Courses
7996	Amusement Parks, Circuses, Carnivals & Fortune Tellers

<b>MCC CODES</b>	<b>DESCRIPTION</b>
7997	Membership Clubs (Sports, Recreation, Athletic), Country Clubs, and Private Golf Courses
8351	Child Care Services
8398	Charitable Organizations
8641	Civic, Social, And Fraternal Associations
8651	Political Organizations
8675	Automobile Associations
8699	Membership Organizations –Not Elsewhere Classified
9211	Court Costs
9222	Fines
9311	Tax Payments

Table 1

The A/OPC should restrict the use of the MCC’s that include inappropriate or unlawful expenditures. If a cardholder used their purchase charge card to buy jewelry or contribute funds to a political organization, it would seriously damage the agency’s image. In fact, some of the types of expenditures included in the MCC, such as the use of the card to make a political contribution, would violate federal criminal law, see, 18 U.S.C. §1913.<sup>2</sup>

### **Recommendation 1**

The OIG recommends that FMO update, document, and implement risk management controls on the FTC purchase card program by April 30, 2007.

### **Agency Response**

We concur in principle with the recommendation that the FTC’s controls, policies, and practices must be consistent with OMB Circular A-123 and that improvements to existing purchase card risk management controls can be made. However, purchase card risk management controls and policies have been developed and are published in the FTC Administrative manual. Additionally, although the implementing procedures have not been thoroughly documented, they have been placed into operation as briefly described in the attached matrix.

### **OIG Position**

The OIG concurs with the Agency Response in Recommendation 1. To consider this recommendation closed, FMO needs to provide records that the procedures have been strengthened, and thoroughly documented.

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<sup>2</sup> 18 U.S.C. §1913 provides: “No part of the money appropriated by any enactment of Congress shall, in the absence of express authorization by Congress, be used directly or indirectly to pay for any personal service, advertisement, telegram, telephone, letter, printed or written matter, or other device, intended or designed to influence in any manner a Member of Congress, a jurisdiction, or an official of any government, to favor, adopt, or oppose, by vote or otherwise, any legislation, law, ratification, policy, or appropriation, whether before or after the introduction of any bill, measure, or resolution proposing such legislation, law, ratification, policy, or appropriation...”

## **Recommendation 2**

The OIG recommends that FMO review all MCC's currently in use and restrict the use of those that are not appropriate (in addition to the MCC's in Table 1) by the end of FY2007.

### **Agency Response**

We concur with this recommendation. As described below, FMO has taken corrective action to restrict the inappropriate Merchant Category Codes identified in this report.

On February 16, the Chief Acquisition Officer (CAO) instructed the purchase card vendor, (Citibank) to restrict the use of the MCC codes listed in Table 1 of this report with the exception of MCC 3501 and 9211, which were determined to be required for FTC business needs. MCC 9211, Court Costs may be legitimately used by FTC attorneys to pay for copying or other legitimate courthouse expenses that can occur during legal proceedings. The use of MCC 3501, Hotels, Motels, Resorts is necessary when reserving conference rooms at hotels. However, to discourage and limit the possibility of purchase card misuse FMO has updated the FTC administrative manual to prominently and specifically state that use of the purchase card for travel purposes such as hotel rooms is prohibited (Chapter 2: Section 310 - Credit Cards). Additionally, except for a few individuals who most frequently rent conference rooms, the CAO has advised Citibank to restrict the use of MCC 3501 for all remaining cardholders. The Acquisition branch within FMO is currently conducting a comprehensive review of all MCC currently in use and will remove any additional codes deemed inappropriate.

### **OIG Position**

OIG agrees with your decision to restrict the MCC's listed in Table 1 of the report and with excepting from this restriction MCC 9211 (Court Costs). The OIG also commends your commitment to conduct a comprehensive review of all MCC's currently in use.

To consider this recommendation closed; (1) provide documentation of the actions taken to restrict expenditures under unauthorized MCC's, including the response of the purchase card issuer. (2) OIG will review monthly purchase card statements in six months to verify that the purchase card has not used for travel related expenses.

## **Finding 2 Purchase Charge Card Used for Official Government Travel**

The Travel and Transportation Reform Act of 1998, Public Law (P.L.) 105-264, §2(a) (1998), requires that Federal employees use the travel charge card for all payments of expenses of official government travel

Contrary to this provision, government purchase charge cards are being used by agency employee's for official government related travel services. This has occurred because of the lack of adequate internal controls, lack of an internal audit process and a lack of supervisory review of purchases made with the purchase card.

As noted above, travel and travel related expenses are one of the few categories of expenses expressly prohibited under the purchase card program. Yet, our review of monthly purchase charge card statements revealed that \$23,334 was inappropriately spent on official government travel during the nine (9) month interval of November 2005, and July 2006. Table 2 shows those travel related costs.

Transaction	Reference Number	Date	Cost
Delta Airlines 0061542908638	5583152592229	November-05	\$ 612.89
Hyatt Regency Washington DC	1004095065243	November-05	\$ 996.86
Hyatt Regency Washington DC	1004095065250	November-05	\$ 992.73
Hyatt Regency Washington DC	1004095065268	November-05	\$ 8.26
Austrian Air 2571543412110	7753900146193	November-05	\$ 2,207.72
United Airlines 0161544066686	3830564416368	November-05	\$ 2,820.49
The Carlton Hotel New York	400002111897	December-05	\$ 399.18
The Carlton Hotel New York	400002111913	December-05	\$ 399.18
Park Hyatt Baku	5000741980617	February-06	\$ 131.17
Park Hyatt Baku	5000742058868	February-06	\$ 87.97
Lufthansa 2201556184174	9109612094908	April-06	\$ 3,093.17
Hyatt Regency Baku	874637501	April-06	\$ 1,248.23
Hyatt Regency Baku	874748258	April-06	\$ 1,429.94
Hyatt Regency Baku	1000876539803	May-06	\$ 256.54
Hyatt Regency Baku	1000876616593	May-06	\$ 224.73
LOT (Polish Airline)	4185000007826	June-06	\$ 575.28
NAtional TV	5002978884944	June-06	\$ 335.83
Austrian Air 2577601392178	4753900407821	June-06	\$ 1,049.07
Lufthansa 2207601392180	5165671919402	June-06	\$ 978.80
Park Hyatt Baku	3000982035121	July-06	\$ 1,727.47
Park Hyatt Baku	4000982560879	July-06	\$ 1,511.40
Hyatt Hotels Phoenix, AZ	4004086150615	November-05	\$ 127.29
Marriott 33769 JW Washington DC	5004126429433	December-05	\$ 190.07
Clarion Resort Pinewood Park	2000214868268	January-06	\$ 256.52
Clarion Resort Pinewood Park	338172811	January-06	\$ 258.02
Hyatt Regency Washington DC	4004091214676	February-06	\$ 206.10
Hyatt Regency Washington DC	4004091214684	February-06	\$ 206.10
Hilton Hotels La Jolla, CA	8040300057085	April-06	\$ 400.00
Club Quarters Wacker at Michigan	9513802137493	May-06	\$ 34.62
Palmer House Hilton Chicago	5040300148137	May-06	\$ 155.79
Palmer House Hilton Chicago	5040300148145	May-06	\$ 155.79
Hilton Hotels Washington, DC	1040300047926	July-06	\$ 180.00
Avalon Inn, Warren, OH	3003300095128	July-06	\$ 77.04
<b>Total for Travel Related Purchases:</b>			<b>\$23,334.25</b>

Table 2

One purchase charge card holder and his supervisor said they were not aware of Travel and Transportation Reform Act of 1998 and the requirement that employees use the travel charge card for all payments of expenses of official government travel.

### **Recommendation 3**

The OIG recommends that by the end of FY 2007, FMO include policies and guidelines within the purchase card program that are consistent with The Travel and Transportation Reform Act of 1998 (P.L. 105-264, §2(a)).

#### **Agency Response**

On February 20, the purchase card program policies published FTC administrative manual were revised to prominently and specifically state that use of the purchase card for travel related expenses is prohibited. Also, on February 16 the CAO issued a memo to all purchase cardholders and approving officials to notify them of the restrictions placed on the purchase card regarding travel expenses. This policy notice was also published on the FTC Daily, the FTC's daily newsletter. The CAO will continue to monitor cardholder compliance in this area. Additionally, a notification to all employees regarding the policy pursuant to the Travel and Transportation Reform Act of 1998<sup>[SIC]</sup> (P.L. 105-264) was last distributed to all employees in an official annual Notice to the Staff on January 9, 2006.

#### **OIG Position**

The OIG agrees with the updating of Administrative Manual Chapter 2, Section 310, to include travel-related expenses under Subchapter 7A *Prohibited Purchases*. Prior to making this change the Agency's policies for the purchase card was inconsistent *P.L. 105-264, §2(a)*, because purchase card policies did not address the prohibition of using the purchase card for travel related expenses.

The OIG considers this recommendation closed. The updated policy has been published in the Administrative Manual.

### **Recommendation 4**

The OIG recommends that by the end of FY2007, FMO develop and institute an internal audit system to conduct a monthly audit of all purchase charge card transactions in order to detect and prevent the misuse of the purchase charge card.

#### **Agency Response**

FMO agrees in principle with recommendation 4, that there should be a monthly review process subjecting all purchase card transactions to review. FMO believes that the current policy and procedures (described below) are adequate but that evidence of compliance can be better documented. In the future FMO will require the A/OPC to document the review (Tier 3 below) of all purchase card transactions and maintain documentation evidencing the review.

## OIG Position

OIG disagrees that the current policy and procedures are adequate. The current process for reviewing purchase card transactions is ineffective in that it did not detect the inappropriate use of the purchase card for \$23,334 of travel related expenses during an eight (8) month period.

OIG will consider this recommendation closed upon being provided documentation to show that FMO has established adequate review processes including Tier 3 reviews by the A/OPC.

### Finding 3 Purchase Charge Card Training is not Effective

The FTC Financial Management Office (FMO) requires new purchase charge card holders to complete an on-line tutorial prior to being issued a purchase charge card. FMO does not require supervisors or approving officials to attend agency training, i.e. complete the tutorial. Even though changes occur to the purchase charge card program, there is no further refresher training after initially completing the tutorial.

It is commendable that FMO put together the beginning steps of a training program, but the tutorial does not provide adequate direction for the approved uses and limitations on the types of purchases, and dollar amounts. For instance, the tutorial does not specify that the purchase charge card cannot be used for official government travel, cash advances, or long-term rental/lease of land or buildings.

The training tutorial for new purchase cardholders does not adequately instruct new purchase cardholders in their responsibilities. This occurred because FMO has not developed and implemented a training program consistent with OMB Circular A-123 Appendix B or the Treasury Financial Manual. As a result, some cardholders and their supervisors are not aware of their responsibilities, which have resulted in misuse of purchase cards.

In keeping with OMB Circular A-123 Appendix B, each agency must provide training on charge card management. Training is important because it is vital that charge card managers and cardholders understand their roles and responsibilities in order for charge card programs to be effectively implemented.

OMB Circular A-123 Appendix B details specific training requirements for the purchase charge card:

- **Cardholder** - Training for cardholders of the government purchase card must provide general information on how to use a charge card. It must

familiarize the cardholders with Federal procurement laws and regulations, agency policies, and proper card use. Training requirements must be consistent with the level of responsibility or spending authority the cardholder will have.

- ***AOs or Certifying Officials*** - Training in Federal acquisition, applicable financial policies and regulations, and AO responsibilities are required prior to assuming the AO responsibilities. AOs must also receive the same training as the cardholders. The AO (typically a supervisor) ensures that the purchase card is used properly. The AO also authorizes cardholder purchases (for official use only), ensures that the statements are reconciled and submitted to the designated billing office in a timely manner.

Agency managers are responsible for ensuring that cardholders follow the mandatory source requirements established in Part 8 of the Federal Acquisition Regulation (FAR) (Required Sources of Supplies and Services.) For example, the Javits-Wagner-O'Day (JWOD) Act requires the government to purchase certain supplies or services from JWOD participating non-profit agencies, if they are available within the period required. Cardholder training and oversight activities should focus on ensuring that cardholders meet the requirements established in FAR 8.704. The list of priorities is as follows: Supplies - (1) Federal Prison Industries, Inc. (41 U.S.C. 48), (2) JWOD participating non-profit agencies, and (3) Commercial sources; for Services - (1) JWOD participating non-profit agencies and (2) Federal Prison Industries, Inc., or commercial sources.

The Treasury Financial Manual (TFM) Volume 1, Part 4, Chapter 4500, §4535.20, also requires training for purchase cardholders, AO's, and other employees, such as those in the designated billing office.

During our review, we found that some cardholders indicated they had not received training on the proper use of their purchase card. As stated above, a charge card holder and his supervisor said they were not aware of the requirement that employees use the travel charge card for all payments of expenses of official government travel. In fact, the supervisor said they had used the purchase card for government travel since 1992.

The current FMO tutorial is a good source of information on how to challenge billing errors, and other administrative issues. However, the tutorial does not provide in-depth instruction to new cardholders or their supervisors on the procedures to safeguard the purchase card, not to use the purchase card for official government travel, and not obtain cash advances. In addition, inappropriate purchases with the purchase card are not covered in the tutorial.

The Contracting Officers Technical Representative tutorial is an excellent program and would serve as an example for developing a new purchase card-training program.

## **Recommendation 5**

The OIG recommends that by the end of FY2007, FMO revise and implement a training program that is consistent with the requirements in OMB Circular A-123 Appendix B and TFM Volume 1, Part 4, Chapter 4500.

### **Agency Response**

We concur with this recommendation. Per Chapter 2 Section 310 of the Administrative manual, the FTC currently requires all cardholders to complete a training tutorial prior to issuance of a purchase card. However, the FTC agrees that the training program can be improved to make it more consistent with the requirements in OMB Circular A-123 Appendix B and TFM Volume 1, Part 4, Chapter 4500. Therefore, based on the OIG recommendation, all current and future FTC purchase cardholders, and Authorizing Officials will be required to complete GSA SmartPay on-line training available on the GSA website. This training will be required as a condition to obtain a new purchase card, maintain custody of an existing purchase card, and to maintain status as an Approving Official. This training will also be required on an annual basis as refresher training. The A/OPC will monitor the training program. Proof of successful completion of this training will be the certificate of completion that is available for printing at the end of the course. Purchase cardholders and Authorizing Officials will be responsible to take the training and to send copies of the training certificate to the A/OPC.

The CAO has disseminated to all new and current purchase cardholders and Authorizing Officials, information to reflect the new GSA SmartPay on-line training requirement.

### **OIG Position**

OIG agrees and considers this recommendation closed.

## **Exhibit A – Summary of Monetary Results**

Exhibit A – Page 1 of 1

<b>Finding Number</b>	<b>Recommendation Number</b>	<b>Description</b>	<b>Amount</b>	<b>Category</b>
2	3,4	Purchase charge card misused for official government travel	\$23,334.25	Questioned Costs – No Recovery Recommended
<b>Total:</b>			<b>\$23,334.25</b>	

## **Exhibit B** – Agency Response

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Exhibit B – Page 1 of 5

March 8, 2007

To: Howard Sribnick  
Inspector General

From: Steven Fisher  
Chief Financial Officer

Subject: FMO responses to Discussion Draft Report AR 07-002 – Review of the  
FTC's Purchase Charge Card Program

We appreciate the opportunity to review and respond to the findings and recommendations contained in the draft report *Review of the FTC's Purchase Charge Card Program* (AR 07-002).

The report identifies opportunities in which the purchase charge card program can be improved, yet also confirms the overall control environment was very effective in preventing incidents of fraud, waste and abuse since all transactions examined were found to be legitimate and necessary expenditures for official Government business.

The Financial Management Office (FMO) generally concurs in with the findings and recommendations contained herein. However, the FMO requests a revision to recommendation 1 to better reflect the positive controls currently in place and that incorporates our response which follows.

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

## OIG Recommendation 1

*The OIG recommends that FMO develop, publish, and implement risk management controls, policies, and practices consistent with OMB Circular A-123 Appendix B, within the next six months.*

### Management Response:

We concur in principle with the recommendation that the FTC's controls, policies and practices must be consistent with OMB Circular A-123 and that improvements to existing purchase card risk management controls can be made. However, purchase card risk management controls and policies have been developed and are published in the FTC Administrative manual. Additionally, although the implementing procedures have not been thoroughly documented, they have been placed into operation as briefly described in the attached matrix.

To focus our improvement efforts, FMO completed the attached analysis of the risk management elements specified *OMB Circular A-123 Appendix B* and a brief description of FTC's corresponding controls, policies and or procedures. The analysis demonstrates existing purchase card risk management controls, policies, and practices are substantially consistent with OMB A-123 Appendix B, but also revealed certain areas that need to be strengthened. Specifically, FMO will address this recommendation by ensuring that:

- the detailed procedures that are in operation are properly documented;
- procedures are periodically evaluated and enhanced;
- the purchase card management plan is updated periodically as appropriate;
- update the relevant sections of the Administrative Manual to clarify the specific responsibilities and procedures regarding administrative and/or disciplinary actions in the event inappropriate charges are identified;
- cardholders, approving officials and the Agency/Organization Program Coordinator are reminded (at least annually) on the agency's policy with respect to administrative and/or disciplinary actions and their roles and responsibilities

## OIG Recommendation 2

*The OIG recommends that FMO review all MCC's currently in use and restrict the use of those that are not appropriate (in addition to the MCC's in Table1) by the end of FY2007.*

### Management Response:

We concur with this recommendation. As described below, FMO has taken corrective action to restrict the inappropriate Merchant Category Codes identified in this report.

On February 16, the Chief Acquisition Officer (CAO) instructed the purchase card vendor, (Citibank) to restrict the use of the MCC codes listed in Table 1 of this report with the exception of MCC 3501 and 9211 which were determined to be required for FTC business needs. MCC 9211, Court Costs may be legitimately used by FTC attorneys to pay for copying or other legitimate courthouse expenses that can occur during legal proceedings. The use of MCC 3501, Hotels, Motels, Resorts is necessary when reserving conference rooms at hotels. However, to discourage and limit the possibility of purchase card misuse FMO has updated the FTC administrative manual to prominently and specifically state that use of the purchase card for travel purposes such as hotel rooms is prohibited (Chapter 2: Section 310 - Credit Cards). Additionally, except for a few individuals who most frequently rent conference rooms, the CAO has advised Citibank to restrict the use of MCC 3501 for all remaining cardholders. The Acquisition branch within FMO is currently conducting a comprehensive review of all MCC currently in use and will remove any additional codes deemed inappropriate.

## OIG Recommendation 3

*The OIG recommends that by the end of FY 2007, FMO include policies and guidelines within the purchase card program that are consistent with The Travel and Transportation Reform Act of 1998 (P.L. 105-264, §2(a)).*

### Management Response:

On February 20, the purchase card program policies published FTC administrative manual were revised to prominently and specifically state that use of the purchase card for travel related expenses is prohibited. Also, on February 16 the CAO issued a memo to all purchase cardholders and approving officials to notify them of the restrictions placed on the purchase card regarding travel expenses. This policy notice was also published on the FTC Daily, the FTC's daily news letter. The CAO will continue to monitor cardholder compliance in this area. Additionally, a notification to all employees regarding the policy pursuant to the Travel and Transportation Reform Act of 1968 (P.L. 105-264) was last distributed to all employees in an official annual Notice to the Staff on January 9, 2006.

## OIG Recommendation 4

*The OIG recommends that by the end of FY 2007, FMO develop and institute an internal audit system to conduct a monthly audit of all purchase charge card transactions in order to detect and prevent the misuse of the purchase charge card.*

Management Response:

FMO agrees in principle with recommendation 4, that there should be a monthly review process subjecting all purchase card transactions to review. FMO believes that the current policy and procedures (described below) are adequate but that evidence of compliance can be better documented. In the future FMO will require the A/OPC to document the review (Tier 3 below) of all purchase card transactions and maintain documentation evidencing the review.

Per the Administrative Manual Chapter 2 Section 310, cardholders, Approving Officials and the A/OPC: responsibilities are:

Tier 1 – The cardholder reviews all transactions on the monthly statement and:

- (a) Reconciles the Statement of Account online within five days of each purchase.
- (b) Verifies that the quantity, quality, and prices of items/services furnished by the vendor are in accordance with the sales agreement.
- (c) Promptly forwards the billing statement, clearly marked to identify any items in dispute, to the organization's approving official.
- (d) Promptly initiates dispute procedures as needed.

Tier 2 – The cardholder's Approving Official (AO):

- (a) Reviews all credit card purchases within his/her organization for general compliance with policy.
- (b) Reviews Statements of Account for appropriate accounting information.
- (c) Brings discrepancies to the immediate attention of the cardholder or, if appropriate, the Assistant CFO for Acquisition.
- (d) Completes review of card statements within five days of receipt and forwards to Payment Office.
- (e) Recommends the cancellation of a card if a cardholder does not comply with FTC policy and procedures.

Additionally, although not currently specified in the Administrative Manual, the A/OPC performs the following tier 3 oversight activities:

Tier 3 - The A/OPC:

Reviews all purchase card transactions listed on Citibank's monthly "Total Business Reporting" report for reasonableness based on a combination of factors such as vendor name and dollar amount. For any items deemed questionable, the A/OPC then refers the questionable charges to the CAO for review. The CAO then contacts the cardholder's and

or approving official as appropriate to verify the appropriateness of the charge and take appropriate action.

#### OIG Recommendation 5

*The OIG recommends that by the end of FY2007, FMO revise and implement a training program that is consistent with the requirements in OMB Circular A-123 Appendix B and TFM Volume 1, Part 4, Chapter 4500.*

#### Management Response:

We concur with this recommendation. Per Chapter 2 Section 310 of the Administrative manual, the FTC currently requires all cardholders to complete a training tutorial prior to issuance of a purchase card. However, the FTC agrees that the training program can be improved to make it more consistent with the requirements in OMB Circular A-123 Appendix B and TFM Volume 1, Part 4, Chapter 4500. Therefore, based on the OIG recommendation, all current and future FTC purchase cardholders, and Authorizing Officials will be required to complete GSA SmartPay on-line training available on the GSA website. This training will be required as a condition to obtain a new purchase card, maintain custody of an existing purchase card, and to maintain status as an Approving Official. This training will also be required on an annual basis as refresher training. The A/OPC will monitor the training program. Proof of successful completion of this training will be the certificate of completion that is available for printing at the end of the course. Purchase cardholders and Authorizing Officials will be responsible to take the training and to send copies of the training certificate to the A/OPC.

The CAO has disseminated to all new and current purchase cardholders and Authorizing Officials, information to reflect the new GSA SmartPay on-line training requirement.

<b>FTC/OMB PURCHASE CARD RISK MITIGATION POLICIES AND PRACTICES MATRIX</b>	
<p><b>OMB A-123 Appendix B, general responsibilities of charge card managers in implementing risk management controls, policies, and practices.</b></p> <p><b>Charge card managers are responsible for:</b></p>	<p><b>FTC's Implementation of OMB A-123 Appendix B requirements:</b></p>
<p>(1) Implementing the appropriate controls to ensure compliance with Federal laws, Federal and agency regulations, and for monitoring program effectiveness</p>	<p>The FTC has implemented controls to ensure compliance with Federal laws, Federal and agency regulations, and for monitoring the FTC's charge card program effectiveness. As described through out this response.</p>
<p>(2) Ensuring that any risk management policies and practices established in the agency's charge card management plan are carried out effectively and that the charge card management plan is updated with enhanced risk management policies and practices, as appropriate;</p>	<p>The FTC A/OPC ensures that the Commission's purchase card management plan controls are carried out in accordance with the policies and procedures outlined in the FTC Administrative Manual Chapter 2, Section 310. Additionally, the A/OPC in consultation with the CAO recently updated our policies and established a formal charge card Risk Management Plan that was submitted to OMB on January 31, 2007 as required.</p>
<p>(3) Ensuring that cardholder statements of account and supporting documentation are reviewed and utilized to monitor delinquency, misuse, and other transaction activities;</p>	<p>To ensure the FTC cardholders statements of account and supporting documentation are reviewed and utilized to monitor delinquency, misuse and other transaction activities the FTC utilizes a three level methodology to conduct purchase card transaction reviews. See management response to recommendation 4.</p>
<p>(4) Ensuring separation of duties among key functions such as making purchases, authorizing purchases and payments, certifying funding, and reviewing and auditing;</p>	<p>As evidenced by the current review, there were no instances of inadequate segregation of duties were found in this area. The FTC Administrative manual Section 310.5 outlines the separation of duties and responsibilities of the cardholder, A/OPC, and AO.</p>

**FTC/OMB PURCHASE CARD  
RISK MITIGATION POLICIES AND PRACTICES MATRIX**

<p><b>OMB A-123 Appendix B, general responsibilities of charge card managers in implementing risk management controls, policies, and practices.</b></p> <p><b>Charge card managers are responsible for:</b></p>	<p><b>FTC's Implementation of OMB A-123 Appendix B requirements:</b></p>
<p>(5) Overseeing the establishment and maintenance of master file/official cardholder records, including training, appointment, single and monthly purchase limits, and related records;</p>	<p>The A/OPC establishes and maintains the master purchase card files which include; cardholder records, including training, appointment, single and monthly purchase limits, and related records. These files are available for inspection.</p>
<p>(6) Reviewing available data (including the use of data mining where appropriate) to detect instances of delinquency, fraud, and misuse and identify trends and outliers in relevant indicators of charge card program performance;</p>	<p>The FTC utilizes a multiple review process to detect instances of delinquency, fraud, and misuse. See response to OMB risk management control (3) above.</p>
<p>(7) Maintaining a policy that ensures that administrative and/or disciplinary actions are initiated in the event cardholders or other program participants fail to meet their responsibilities with respect to appropriate use and timely payment of the charge card; and</p>	<p>Although our policy on administrative/disciplinary actions addresses this requirement, based on our review of Section 310 of the Administrative Manual we will strengthen and clarify the policy.</p>
<p>(8) Communicating the agency's policy with respect to administrative and/or disciplinary actions to cardholders, and other program participants, including when referral to an agency Office of Inspector General is appropriate and/or required.</p>	<p>The Commission's policy with respect to administrative and/or disciplinary actions to cardholders and other program participants is communicated through the Administrative Manual and notices from the CAO.</p>