

GOVERNMENT PURCHASE CARD PROGRAM

AUDIT PROGRAM

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**AUDIT OF INTERNATIONAL MERCHANT
PURCHASE AUTHORIZATION CARD**

AUDIT PROGRAM

PART I - INTRODUCTION

PURPOSE:

To provide Internal Review (IR) Offices background and recommended audit steps to use during audits of the Government Purchase Card Program, currently known as the International Merchant Purchase Authorization Card (IMPAC). Internal Review Offices should use this program, subject to any modifications the local commander deems necessary, during audits of IMPAC.

SOURCES:

1. Federal Acquisition Regulation (FAR), Part 13.
2. Army FAR, Part 13.
3. Army Regulation 710-2, Inventory Management Supply Policy Below the Wholesale Level.
4. Army Regulation 11-2, Management Control.
5. Army Regulation 215-4, Nonappropriated Fund Contracting.
6. Defense Finance and Accounting Service Indianapolis Center Regulation 37-1 (DFAS-IN 37-1). Include all current Accounts Payable Policy Messages.
7. General Services Administration (GSA)'s Government-wide Commercial Credit Card Service, Contract Guide GS-23F-94031, Oct. 1995.
8. Army Regulation 420-18
9. Army Regulation 735-5
10. Army Regulation 725-50
11. Deputy Assistant Secretary of the Army (Financial Operations) Policy Letter, Subject: Funding and Obligation Instructions for Micropurchases Using the

International Merchant Purchase Authorization Card (IMPAC), dated September 16, 1996.

12. Office of the Under Secretary of Defense Comptroller, Subject: Purchase Card Reengineering Implementation Memorandums
 - #1: Certifying Officer Guidance Oct. 17, 1996
 - #3: Streamlined Financial Management Procedures Mar. 27, 1997
 - #4: Use of IMPAC for Transactions with DAPS May 5, 1997
 - #5: Accommodation Checks Aug. 5, 1997
13. Deputy Assistant Secretary of the Army (Financial Operations) Policy Letter, Subject: OUSD(C) Purchase Card Memorandum Number 5 – Accommodations Checks, dated February 4, 1998.
14. Assistant Secretary of the Army (Research, Development and Acquisition) Memorandum, Subject: Reporting Purchase Card Fraud, dated September 3, 1997.
15. Deputy Assistant Secretary of the Army (Financial Operations) Memorandum, Subject: Reduction in Detail Information Included in Information Technology Budget Submissions, dated May 13, 1997.

OVERALL OBJECTIVE: The overall objective of the audit is to ensure proper management controls are maintained over the authorization and use of IMPAC and the supplies, services and materials procured with it.

SCOPE: Internal Review Offices should determine the audit scope, sample size, and audit standards required based upon the type of audit or service to be performed, i.e., full scope, quick response, or consulting service.

BACKGROUND: The IMPAC is a government-wide commercial credit card that non-procurement personnel may use as a purchase and payment instrument for micro purchases (\$2,500 and less; \$2,000 for construction) of approved supplies and services. It is applicable to both appropriated and nonappropriated funds. Using the purchase card in lieu of purchase orders saves the Army approximately \$93 in direct labor costs for each order processed. To encourage maximum use of the card, the Army Chief of Staff (CofS) established a goal that 90 percent of all micro purchases be made using the IMPAC.

Procurement personnel with appropriate training and experience may be authorized to use the card up to **\$999,900** for payment purposes when all statutory and regulatory requirements are met.

The card streamlines the purchase and payment process for small dollar value and commercial items. The card has built-in safeguards and management controls to minimize misuse. The safeguards include a monthly and single purchase dollar cap assigned to the card. There is also a safeguard that restricts purchases from certain vendors categories by blocking authorization against those merchant activity codes.

Before an activity can locally procure supplies and services, it must determine if it can acquire them through the sources listed in Part 8 of the FAR. The sources include, in order of preference; local inventories, Federal Prison Industries, National Industries for the Blind and Severely Handicapped, and National Inventories. Cardholders shall keep records of all transactions, to include: who the purchase is for; date of order; vendor name; price paid; and when received.

In addition to the "plastic" card accounts, activities may elect to establish "accommodation check accounts" to provide a means of paying for micro purchases in instances where the vendor will not accept the government purchase card. These accounts are used like a commercial checking account and the account holder receives a separate monthly statement. Purchases using these checks are subject to the same limits as other micro purchase transactions. Accommodation check accounts have quarterly audit requirements and must be monitored more intensely than other purchase card accounts.

Each month, the bank will send a Billing Statement directly to the card holder. The card holder must reconcile the statement with the receipts (kept on file until billed and reconciled) and forward the statement to the approving official for review against the official Billing Statement. The Approving Official will certify the Billing Statement, then forward the certified statement to the Finance Office for payment. The Approving Official will retain the original cardholder Statements of Account and a copy of the certified Billing Statement for a period of three years.

The Corporate Payment System provides the Approving Official with a “rolling” invoice. All unpaid balances from previous invoices are reflected in the total amount due. Paper based invoicing and payment processes generally result in a one billing cycle lag between receipt of the bill and posting of the payment on the invoice. Approving Officials should monitor the balances on the Billing Statement to make sure that payments are being posted to their accounts in a timely manner.

PART II - PREPARATION FOR AUDIT

1. Obtain and Review:
 - Government-wide Commercial Credit Card Service Contract Guide, GS-23F-94031, Oct 95, published by GSA.
 - DFAS-IN 37-1, Chap 20.
 - Local Directorate of Contracting policy.
 - Government-wide Purchase Card Program Army Update Training Guide (copy available through the Agency Program Coordinator).
2. Contact IG, SJA, CID for information applicable to IMPAC.
3. Determine if the Command Supply Discipline Program includes evaluations of IMPAC purchases.
4. Contact your Management Control Administrator to determine if any material weaknesses were reported. Obtain and review copies of past evaluations. Determine if future evaluations are planned.

PART III - AUDIT OBJECTIVES AND STEPS

1. **Objective:** To determine the adequacy of administrative oversight procedures.

Audit Steps:

Auditor W/P

Initial

a. Determine who decides the number of cards needed, designated cardholders, and designated approving officials

b. Determine who establishes credit card limitations for each cardholder (single purchase and monthly) and if they have been coordinated with the Resource Manager.

c. Determine if cardholders received at least four (4) hours of training.

d. Determine who is designated as the agency program coordinator to function as the primary liaison with the credit card contractor.

e. Determine if management information reports (available from First Bank) are used to evaluate card usage.

f. Determine if property book officers have issued hand receipts for non-expendable pilferable and/or sensitive property purchased with the card.

g. Determine adequacy of procedures to retrieve cards when personnel are reassigned or leave the work force.

Audit Steps:

Auditor W/P

Initial

h. Determine the adequacy of procedures to safeguard cards and account numbers.

i. Determine controls established to report lost or stolen IMPAC cards.

j. Determine if disputed charges and billing errors are:
-paid in accordance with “delayed dispute” procedures
-resolved with all parties involved.
-are credited on a future billing.

k. Determine if the organization is monitoring use of the card to meet the Army CofS goal that 90 percent of all eligible micro purchases be made using the IMPAC card.

l. Determine if relationships between cardholders, approving officials, certifying officers, and hand receipt holders represent conflicts of interest.

m. Determine if Resource Managers post bulk obligations or commitments for card purchases as described in the DASA(FO) September 16, 1996 Memorandum.

2. **Objective:** Determine if credit cardholders are making authorized purchases and properly accounting for all items received.

Audit Steps:

Auditor W/P

Initial

a. Determine if cardholders satisfy requirements for supplies and services through order preference as listed in the GSA contract guide, pages 9 and 10.

b. Determine if local procedures for making purchases are more restrictive than procedures recommended by DA and/or DOD and, if so, why.

c. Determine if other purchase methods for items under \$2,500 are used instead of the IMPAC and if so why.

d. Determine if local purchases comply with regulatory guidance and local operating procedures.

e. Determine if cardholders maintain records of purchases.

f. Determine if cardholders reconcile the statement of account each month

g. Determine if non-expendable items purchased are physically on-hand. This can be accomplished by taking a sample of card holder receipts and verifying the items are present.

h. Determine if there is an audit trail (item receipts and detailed invoices) to support purchases.

Audit Steps:

Auditor W/P

Initial

i. Determine if items purchased were shipped within 30 days. Cardholders are responsible for informing the vendor that charges for items can only be placed on the card when shipped.

j. Determine if cardholders inform the merchant not to display card numbers on packing slips when purchases are made by telephone.

k. Determine if cardholders used split purchases to avoid single purchase limits. (\$2500 for supplies and services; \$2000 for construction.)

l. Determine if purchases include state or local taxes. Official government purchases are not subject to these taxes in most locations.

m. Determine if cardholders are familiar with procedures to follow in case their card is lost or stolen.

n. Determine if cardholders maintain an accurate record of unresolved disputed purchases.

3. **Objective:** Determine if approving officials adequately review, approve, and certify for payment the items purchased by cardholders.

Audit Steps:

Auditor W/P

Initial

a. Determine if approving officials maintain and are familiar with regulatory and local guidance concerning IMPAC cards.

b. Determine if approving official has been delegated certification authority and that the appropriate signature card is on file at the paying office.

c. Determine if approving officials are verifying, approving, and certifying monthly purchases made by the cardholders.

d. Determine if procedures are in place and used to resolve improper uses of cards.

e. Determine if procedures are in place and used to transfer cardholders from one Approving Official to another Approving Official if necessary.

f. Determine if approving officials check to see if hand receipts have been issued for accountable property.

g. Determine if approving officials stamp the date of receipt on the official Billing Statement.

Audit Steps:

Auditor W/P

Initial

h. Determine if approving officials are maintaining the original card holder Statements of Account and a copy of the certified Billing Statement for three years.

i. Determine how certified Billing Statements are forwarded to the Finance Office to ensure timely payment (15 calendar days after receipt).

j. Determine effect of late payments, if any.

k. Determine if procedures are in-place to ensure timely reconciliation and payment of bills during periods of mobilization.

4. **Objective:** Evaluate the effectiveness of the paying office

Audit Steps:

Auditor W/P

Initial

a. Determine if paying office date stamps receiving date of certified Billing Statement from approving official.

b. Determine if paying office receives certified invoice within 15 calendar days of statement date.

c. Determine how paying office calculates prompt payment interest due.

d. Verify that paying office notifies the bank of official billing statement receipt date.

e. Verify that activity has provided a prompt pay interest fund cite for each approving official.

f. Verify that the paying office made payment within the Prompt Payment Act window (23-30 days from date of receipt by approving official).

Note: Guidance is pending on the OMB policy that allows for payment of Purchase card bills upon receipt at the paying office.

5. **Objective:** Evaluate the implementation of the Management Control Process as it relates to IMPAC.

Audit Steps:

Auditor W/P

Initial

a. Review the Army Inventory of Functions Requiring Management Control Evaluations to determine if the audited area is included.

b. Review the 5-year plan to determine whether the audited area is included.

c. Review the latest management control evaluations made in the audited area, to determine whether controls are in place, being used as intended, and effective in achieving their purpose. Also, determine whether a DA Form 11-2-R was completed certifying the evaluation.

d. Determine if there were weaknesses identified as a result of a management control evaluation for the audited area.

- If weaknesses were detected, were they evaluated as potential material weaknesses and reported at the appropriate command level.

- Were material weakness corrective action milestone plans developed and tracked through completion.

- Were they properly completed.

6. **Objective:** Evaluate administration and control of accommodation check accounts.

Audit Steps:

Auditor W/P

Initial

a. Review ODASA(FO) Memorandum on Accommodation Checks, dated February 4, 1998.

b. Determine that the authority to have an accommodation check account was justified in writing, and signed and dated by the Commander or his/her designee.

c. Determine that the justification: cited a recurring need that could not be fulfilled by use of the government purchase card or government travel card; an estimate of the bulk funding amount; and an estimate of the administrative cost of the account.

d. Determine that specialized training was provided to accommodation check holders and approving officials.

e. Determine that accommodation check accounts are bulk funded with a single accounting classification or work code as assigned by the resource manager.

f. Determine that accommodation check accounts are established as a separate account and are not combined with active IMPAC accounts.

Audit Steps:

Auditor W/P

Initial

g. Determine that accommodation check accounts are independently

audited on a quarterly basis by an official designated in writing by the Commander.

h. Determine that accommodation check accounts audits verify :

- All unused checks by preprinted sequential numbers.
- Reconciliation of all check numbers used during the quarter under audit.
- Check amounts are limited to \$2500.00. *(This is a new change from OUSD(C)).*
- Purchases are not split to stay under the accommodation check limit.

i. Determine that local policies and procedures prohibit the conversion of checks to cash and the use of checks out of sequence.

PART IV - DEFINITION OF TERMS

1. International Merchant Purchase Authorization Card, (IMPAC). The registered trademark of the First Bank Systems, Inc., the current contractor for the government purchase card program. The IMPAC initials will appear on the government purchase card and on most forms.
2. Approving Official, (AO). The individual within a directorate or activity who may certify the Cardholder's monthly "Statement of Account" and ensure that payments are for purchases which are authorized and made in accordance with FAR and agency regulations. The Approving Official should be within the Cardholder's direct chain of command.
3. Cardholder, (CH). The individual within a directorate or activity to whom a card is issued and procurement authority is delegated. The card bears the Cardholder's name and may only be used by this individual for authorized U.S. Government purchases.
4. Agency Program Coordinator, (APC). The individual in the organization responsible for administering the government-wide purchase card program. Duties include maintaining an up-to-date list of all cardholders names, addresses, account numbers and telephone numbers. This individual may determine who the approving officials and the cardholders will be.
5. Finance Office Contact. Individuals in Finance Office responsible for payment of each monthly Billing Statement after certification by an Approving Official.
6. Dispute Office Contact. Dispute office contacts (usually the APC) will coordinate, process, and monitor all disputed purchases, credit or billing errors, after efforts by the Cardholder and Approving Official have not been successful.
7. Statement of Account (SOA). A monthly listing of all charges made by the cardholder, billed by the IMPAC merchant, First Bank Systems, Inc.
8. Certifying Officer. The person, normally the Approving Official, who certifies the official Billing Statement as appropriate for payment. This person has pecuniary liability for the correctness of the bill for payment.
9. Accommodation Checks. Paper checks that are issued against a government purchase card account. Checks can be used to pay for procurements under the micro purchase threshold (\$2500, \$2000 construction) in instances where the vendor will not accept the government purchase card.

PART V - UNAUTHORIZED USE

1. The card shall not be used for the following:
 - Cash advances.
 - Rental or lease of land or buildings.
 - FTS 2000 Telecommunications service.
2. The card shall not be used for the following unless individual agencies warrant such use:
 - Purchase of official meals, drinks, lodging, or other travel costs. (Except where AMEX is not applicable).
 - Purchase of airline, bus, or travel related tickets (Travel Card or Central Travel Account should be used instead).
 - Purchase of gasoline, oil, or repairs for interagency fleet management vehicles (There is a fleet card available for these purchases).

PART VI - POTENTIAL PROBLEMS

- Credit cards are not safeguarded.
- Credit cardholders did not receive training.
- Potential conflicts of interest.
- Inadequate oversight by approving officials.
- Unauthorized purchases.
- Payments made for items not received.
- Split purchases to avoid credit card limitations.
- Purchase of non-expendable pilferable or sensitive items not accounted for on property books.
- Late forwarding of approved copies of the statements to Paying Office, resulting in interest payment penalties.

-Cardholders' statements approved by someone other than the approving authority.

-Not taking advantage of incentives offered for early payment, electronic receipt of invoices, reports.

PART VII - SUGGESTIONS FOR IMPROVEMENT

We envision that this guide will need to be periodically updated and revised. Please send your suggestions to:

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