



December 3, 2009

VINCENT H. DEVITO, JR
VICE PRESIDENT, CONTROLLER

SUBJECT: Audit Report – Imprudent Purchases and Management Instruction on Expenses for Internal and External Events (Report Number FF-AR-10-025)

This report presents the results of our audit of the Postal Service's compliance with the Management Instruction (MI) on Expenses for Internal and External Events¹ and follow up to our audit report on Imprudent Spending Using the SmartPay® Purchase Card² (Project Number 09BO016FF000). The objectives of our audit were to determine whether employees complied with the management instruction for internal and external events and to conduct follow-up testing to determine whether imprudent purchases were still occurring. The report is self-initiated and addresses financial risks. See [Appendix A](#) for additional information about this audit.

Conclusion

While overall spending using the SmartPay2® Purchase card³ has declined in the past year, our audit disclosed non-compliance with the policy on meals and events and continued imprudent purchases during this time of economic uncertainty for the Postal Service. Based on our review of judgmentally selected transactions, we identified over \$792,000 in purchases that were not made in accordance with Postal Service policy and over \$54,000 in imprudent purchases.

Compliance with Internal and External Events Guidance Needs Improvement

Based on our examination of purchases for meals and events,⁴ we determined that employees spent \$792,022 on meals and internal and external events without justification for food purchases, purchased alcohol without officer approval, and exceeded the dollar limit for meals set forth in the MI. For example, we found a meeting

¹ MI FM-640-2008-1, *Expenses for Internal and External Events*, September 10, 2008.

² *Fiscal Year 2009 Imprudent Spending Using the SmartPay® Purchase Card* (Report Number FF-MA-09-002, dated January 20, 2009).

³ Management replaced SmartPay cards with SmartPay2 cards in November 2008.

⁴ Transactions obtained from the Accounts Payable Excellence (APEX) system for the time period October 2008 through February 2009.

where catering charges totaled \$355,451 without a documented business justification for including the meals, and instances of meals exceeding \$90 per person.⁵

The MI for meals and events requires employees to justify the business reason for purchasing food and meals, restricts certain purchases (including alcohol), and establishes dollar limits for meal purchases. It also states that managers must fully consider available budget and both the benefits and costs before authorizing and paying for expenses associated with hosting internal/external events. In addition, managers must consider whether the appearance of a proposed event will raise questions as to its business value and whether it can be readily justified to the public or oversight constituencies.

In the purchase documentation we reviewed, approving officials did not properly review eBuy requests to ensure that purchases were justified and contained all necessary information, including business justification for meals. While the eBuy system contains a field for purchase justification, the justification for meals was frequently missing. Further, the system did not have a unique field to document a justification for providing working meals.⁶ See [Appendix B](#) for our detailed analysis.

We recommend the vice president, Controller, in coordination with the vice president, Supply Management:

1. Develop and implement further system and process improvements to strengthen and better enforce the requirement for justification of business meals.

Management's Comments

Management generally agreed with the finding and recommendation and stated they will review ways to improve the eBuy system and requisition process. Management is implementing the eBuy2 system and will provide the U.S. Postal Service Office of Inspector General (OIG) with a written assessment of system improvements or alternative solutions to better enforce the requirement for justification of business meals by January 31, 2010. Management further stated that organizational changes have been made recently to improve the efficiency of local purchasing activities, and the Postal Service will be opening two new Purchasing Shared Services Centers in April 2010. Management envisions that these centers will improve oversight, advise field managers on controlling expenditures, and provide opportunities to improve extended supply chains. See [Appendix C](#) for management's comments, in their entirety.

Imprudent Spending Continues

Although we noted that, overall, use of the SmartPay2 Purchase card has declined, management could make further reductions if they eliminated non-essential purchases.

⁵ The MI allows \$50 per person for dinner.

⁶ Meals provided as part of a working meeting to allow continuance of official business and/or training.

Purchases of the type noted in our prior report⁷ were not as prevalent in our testing during this audit. However, our testing of transactions for the timeframe of October 2008 through June 2009 showed that imprudent spending continues to occur, including continued purchases of gift cards from unauthorized vendors and expensive items purchased as employee recognition awards and retirement gifts. We also continue to see purchases for ancillary items associated with conferences (e.g., lodging, table linens, and flowers) that we consider excessive during this challenging economic time. The examples included in this report totaled \$54,085.

Such purchases are in direct conflict with the Postal Service's objective of driving down costs in all operations and processes.⁸ The PMG expressed concern regarding imprudent purchases in a memorandum on reducing costs he sent to all officers. In this memorandum, dated December 1, 2008, the PMG referenced our prior audit, noting that the purchases we identified – although within the authority of the approving officials – were imprudent and unnecessary during a time of severe economic uncertainty. Further, he provided officers additional guidance on the importance of using their approval authority to consider the amount, type, and purpose of the purchase, as well as its business value and potential public perception of the purchase. We noted that 12 events (totaling \$323,334) were cancelled due to such financial concerns. Area and district personnel who decided to cancel the events stated they thought cancelling would be in the best interest of the Postal Service even though doing so would result in the cancellation fees.⁹

We recognize that as an ongoing business enterprise, the Postal Service must be able to host events and meetings and has taken steps to improve the monitoring of expenses for internal and external events. However, further effort is needed to promote compliance with established policies, curtail costs, and show the Postal Service as a good steward of its finances to the public. As we reported in a previous audit report,¹⁰ a method to isolate and track these types of expenditures does not exist and we recommended that a unique general ledger account to isolate expenses associated with internal and external events (meals, refreshments, employee recognition gifts, gift cards, etc.) be implemented. The Postal Service is currently working to implement a change that will allow for better monitoring and transparency for these transactions but has encountered some difficulties. In light of this, until such time as a process is implemented, we believe additional clarification should be made to the MI to establish upper limits for internal and external event-related costs. See [Appendix B](#) for our detailed analysis.

⁷ We noted purchases of items such as Global Positioning Systems, espresso machines, and designer watches (*Fiscal Year 2009 Imprudent Spending Using the SmartPay® Purchase Card* (Report Number FF-MA-09-002, dated January 20, 2009)).

⁸ *Postal Bulletin 22238*, FY 2008 Closing Guidance: Message from the Controller, July 31, 2008.

⁹ We did not take exception to these cancellation fees.

¹⁰ *Fiscal Year 2009 Postal Service Management Instruction – Expenses for Internal and External Events* (Report Number FT-MA-09-001, dated January 13, 2009).

We recommend the vice president, Controller:

2. Implement a spending limit for internal and external events and recognition awards, including all ancillary items associated with the events.

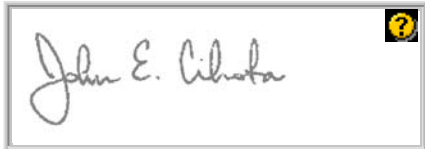
Management's Comments

Management generally agreed with the finding and recommendation. Although they stated the current MI is an effective policy, and including additional spending limits in the MI and reissuing the policy would be counter productive, they agreed further policy enforcement is necessary. The vice president, Controller's office will contact the area finance managers where infractions to the policy were identified. Also, a presentation was provided to area accounting managers on October 14, 2009, that discussed the policy. Additionally, a memorandum will be sent to all officers emphasizing the internal and external event policy by December 31, 2009. This memorandum will be distributed to all purchase cardholders for their information and to share with their management officials.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations in the report.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact John Wiethop, director, Field Financial Central, or me at (703) 248-2100.

A rectangular box containing a handwritten signature in cursive that reads "John E. Cihota". In the top right corner of the box, there is a small, square icon with a yellow background and a black question mark.

John E. Cihota
Deputy Assistant Inspector General
for Financial Accountability

cc: Joseph Corbett
Susan M. Brownell
Stephen J. Nickerson
Bill Harris

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

In November 1991, the Postal Service joined the government-wide Commercial Credit Card Program administered by the General Services Administration (GSA) called SmartPay. The program within the Postal Service is known as the SmartPay Purchase Card Program, which Supply Management and Finance co-sponsor. In November 2008, the Postal Service began transitioning to SmartPay2 and replaced all purchase cards. The Postal Service pays no administrative fees for the card services and earns cash refunds based on the aggregate volume of its transactions. There are no interest penalties, and the Postal Service pays all credit card charges with a single monthly payment.

When eBuy or other consolidated Finance-approved payment processes are not an option, the purchase card is the primary delegated local buying authority (the authority to buy and pay for day-to-day operational needs). Generally, a single purchase card transaction may not be greater than \$10,000.

Cardholders, approving officials, and program coordinators must follow purchasing guidelines for approved expenditures set by the Postal Service in Handbook AS-709,¹¹ and various manuals, handbooks, management instructions, and locally issued guidance. This guidance requires cardholders to maintain documentation, including approved purchasing requests, sales and credit drafts and receipts, and delivery documentation. In addition, guidance issued January 4, 2008, requires cardholders to maintain documentation supporting the timely review of monthly statements by cardholders and approving officials.¹²

MI FM-640-2008-1 provides policies and procedures for purchases and payment of official Postal Service business internal and external event-related expenses. Internal events include on-site and off-site official and non-routine meetings, conferences, training sessions, town hall meetings, briefings or information-sharing events, and Postal Service employee recognition and appreciation events and gatherings. Internal events are attended predominately by Postal Service employees, but may include individuals representing outside organizations, contractors, and, in limited circumstances, employee's immediate family members.

External events include on-site and off-site official business events that benefit the Postal Service and while Postal Service employees (and contractors) may be required to participate as part of their official duties, they are predominately intended for and attended by customers or other external stakeholders. These stakeholders include

¹¹ *Credit Card Policies and Procedures for Local Buying*, September 2008.

¹² *Officer Memorandum of Policy GSA Smart Pay Purchase Card Reconciliation Process Time Change*, January 4, 2008.

representatives of industry or special interest groups, foreign postal administrations and visitors, suppliers, and others with whom the Postal Service conducts official business.

Purchase and payment for most internal events is done under local buying policies and procedures. When employees cannot use a government-issued purchase credit card (SmartPay2), they use another local buying method. When internal event expenses will exceed the local buying threshold, requests must be coordinated with and processed by Supply Management's Travel and Conference Service Category Team.

In our previous report, *Fiscal Year 2009 Imprudent Spending Using the SmartPay® Purchase Card*,¹³ we reported that employees made, and were continuing to make, imprudent and unnecessary purchases during a time of severe economic uncertainty in the Postal Service. While such purchases were generally not in direct violation of Postal Service policies, they conflicted with the Postal Service's objective of driving down costs in all operations and processes. Moreover, the public's view of such imprudent purchases could have a detrimental effect on the Postal Service's public image due to the perception that public funds are being used to purchase expensive items.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to determine whether employees complied with the management instruction for internal and external events and to conduct follow-up testing to determine whether imprudent purchases were still occurring.

To accomplish our objectives, we issued letters to employees to obtain supporting documentation for judgmentally selected SmartPay, SmartPay2, and Accounts Payable Excellence (APEX) purchase transactions. We selected APEX transactions for meetings and conferences greater than \$10,000 for the time period of October 2008 through February 2009.¹⁴ The total amount for APEX transactions we reviewed during this period was \$1.7 million. Included in this amount were charges for 12 events (totaling \$323,334) that were actually cancellation fees for events in which area and district personnel determined that cancelling would be in the best interest of the Postal Service, even with the resulting cancellation fees.¹⁵

We also selected 214 SmartPay and SmartPay2 transactions (totaling \$777,243) for the period October 2008 through June 2009.¹⁶ We selected the purchase credit card transactions based on standard industry codes and dollar amount of transactions. We used Postal Service instructions, manuals, policies, and procedures as criteria to evaluate internal controls and data reliability. We interviewed supervisors and employees as needed.

¹³ Report Number FF-MA-09-002, dated January 20, 2009.

¹⁴ These dates reflect when the invoices were paid rather than when the events occurred.

¹⁵ We did not evaluate the reasonableness of the cancellation fees paid.

¹⁶ There were a total of 531,463 transactions processed during the specified period, with a value of \$177,482,564.

We conducted this performance audit from June through December 2009 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We assessed the reliability of computerized data by verifying the computer records to source documents. We discussed our observations and conclusions with management officials on September 16, 2009, and included their comments where appropriate.

PRIOR AUDIT COVERAGE

We conducted 14 audits of SmartPay purchases in the past 3 years. Management agreed with our findings and recommendations and implemented corrective action. The table below contains the details of these 14 reports.

Report Title	Report Number	Final Report Date	Monetary Impact	Non Monetary Impact	Report Results
<i>SmartPay Purchase Card Use by Postal Service Officers</i>	FT-AR-07-014	9/29/2007	\$127,393	\$181,908	Internal controls over the SmartPay Purchase Card use of Postal Service officers were generally adequate, including authorization and subsequent review. However, the Postal Service did not always maintain adequate purchase documentation or use the purchase card for authorized purposes. The Postal Service could strengthen existing SmartPay Purchase Card policies to further enhance controls over the purchase card program.
<i>National Review of SmartPay Purchase Card Transactions</i>	CA-AR-08-002	11/8/2007	\$244,626	\$177,183	Our audit disclosed that 25 of 42 cardholders had 37 transactions (totaling \$45,474) which did not have approved purchase requests or proper written justifications. Four cardholders improperly split purchases to avoid the \$10,000 per transaction spending limit.
<i>Fiscal Year 2007 Southwest Area SmartPay Purchase Card Program</i>	FF-AR-08-072	1/11/2008	\$63,511	N/A	SmartPay Purchase Card cardholders had 105 transactions (totaling \$95,589) that either were not supported with documentation or were for unauthorized items. Cardholders did not always enter gift cards into the eAwards system.
<i>Fiscal Year 2007 SmartPay Purchase Card Program</i>	FF-AR-08-094	2/4/2008	\$1.2 million	\$2.6 million	We identified various internal control and compliance issues in all 17 judgmentally selected sites, including one policy issue related to monthly reconciliations.
<i>Fiscal Year 2008 Capital Metro Area SmartPay Purchase Card Program</i>	FF-AR-08-270	8/22/2008	N/A	N/A	Generally, cardholders supported Capital Metro Area SmartPay Purchase Card Program purchases and complied with Postal Service policies and procedures. However, the credit card reconciliation process needed improvement.

Imprudent Purchases and Management Instruction on Expenses for Internal and External Events

FF-AR-10-025

Report Title	Report Number	Final Report Date	Monetary Impact	Non Monetary Impact	Report Results
<i>Fiscal Year 2008 Southeast Area SmartPay Purchase Card Program</i>	FF-AR-08-279	9/8/2008	N/A	N/A	We did not identify any control and compliance issues with the Southeast Area's SmartPay Purchase Card Program.
<i>Fiscal Year 2008 Pacific Area SmartPay Purchase Card Program</i>	FF-AR-08-281	9/12/08	\$20,215	\$3,360	Cardholders did not always document the business necessity for holding separate working meetings after normal business hours; seek or receive tax exemptions on purchases; or enter non-cash award transactions into the eAwards system. In addition, cardholders and approving officials did not follow monthly reconciliation procedures.
<i>Fiscal Year 2008 Western Area SmartPay Purchase Card Program</i>	FF-AR-08-286	9/24/08	\$57,712	N/A	Cardholders did not always document the business necessity for working meals or purchase bottled water from the contracted vendor.
<i>Fiscal Year 2008 Great Lakes Area SmartPay Purchase Card Program</i>	FF-AR-08-287	9/25/08	\$38,412	\$37,808	Purchases were not always supported with documentation, monthly reconciliation procedures were not always followed, and SmartPay Credit Card Program Cardholder Accountability Acknowledgment forms were not always complete.
<i>Fiscal Year 2008 Eastern Area SmartPay Purchase Card Program</i>	FF-AR-09-002	10/21/08	\$26,745	\$9,826	Cardholders made purchases from unauthorized vendors and did not always document the business necessity for working meals. eBuy authority was not properly delegated and purchases were not always supported by receipts. Cardholders and approving officials did not follow monthly reconciliation procedures.
<i>Fiscal Year 2008 Northeast Area SmartPay Purchase Card Program</i>	FF-AR-09-001	10/22/2008	\$36,263	\$13,481	Cardholders made purchases without documenting the business necessity for working meals, and cardholders and approving officials did not follow monthly reconciliation procedures.
<i>Fiscal Year 2008 New York Metro Area SmartPay Purchase Card Program</i>	FF-AR-09-028	11/28/08	\$63,000	\$34,451	Cardholders did not always document the business need for working meals, follow proper contracting rules, and verify charges during reconciliation.
<i>Fiscal Year 2009 Postal Service Management Instruction – Expenses for Internal and External Events</i>	FT-MA-09-001	1/13/2009	N/A	N/A	We found the draft MI did not address three key areas: use of personal credit cards, consistent and detailed definitions, and transparency among all Postal Service managers. During our review, we suggested various changes based on best practices and our observations.
<i>Fiscal Year 2009 Imprudent Spending Using the SmartPay® Purchase Card</i>	FF-MA-09-002	1/20/2009	N/A	N/A	Employees have made, and are continuing to make, imprudent and unnecessary purchases during a time of severe economic uncertainty in the Postal Service. While such purchases are generally not in direct violation of Postal Service policies, they conflict with the Postal Service's objective of driving down costs in all operations and processes.

APPENDIX B: DETAILED ANALYSIS

Compliance with Internal and External Events Guidance Needs Improvement

Based on our testing of purchases for meals and events, we determined that employees made \$792,022 in purchases for meals and internal and external events without justification for food purchases, purchased alcohol without officer approval, and exceeded the dollar limit for meals set forth in MI FM-640-2008-1.¹⁷ Fifteen of the 40 event transactions we tested were held within 30 days of issuance of the new MI. We considered the \$792,022 unrecoverable questioned costs.¹⁸

The MI for meals and events requires employees justify the business reason for purchasing food and meals, restricts certain purchases including alcohol, and establishes dollar limits for meal purchases. It also states that managers must fully consider available budget and both the benefits and costs before authorizing and paying for expenses associated with hosting internal- and external-related events as covered by this MI. In addition, managers must consider whether the appearance of a proposed event will raise questions as to its business value and whether it can be readily justified to the public or oversight constituencies. Examples of the non compliance with the MI included:

- No business justification was provided for \$355,451 of food¹⁹ provided at a September 2008²⁰ national sales educational conference attended by over 600 employees. We requested supporting documentation for six of the 65 banquet charges incurred during the conference. We noted that beer and wine were served on one occasion, a bartender charge of \$500 was included on one occasion, and one dinner for 650 guests totaled \$62,714, which is \$96 per guest.²¹ The supporting eBuy requisition and other documentation did provide the business reason for the meal expenditures as required. Postal Service representatives we contacted believed the meal costs were less expensive than paying each attendee per diem; however, our example shows this was not the case.
- A postmaster installation celebration and reception held in October 2008 included unallowable food purchases totaling over \$17,000. The menu included crab cakes, beef wellington, shrimp, and scallops. Items such as these are not within

¹⁷ The requirements for justifying the purchase of meals and officer approval for the purchase of alcohol were policies in the previous MI FM-640-2001-4, *Payment for Meals and Refreshments*, September 24, 2001. A subsequent MI FM-640-2008-1, dated September 10, 2008, established meal limits.

¹⁸ Unrecoverable costs that are unnecessary, unreasonable, or an alleged violation of law or regulation.

¹⁹ A hotel representative we spoke to stated it is common practice for hotels to incorporate charges for meeting and/or conference room space into the charges for meals and beverages they provide.

²⁰ Management issued the revised MI September 10, 2008. The conference started September 21, 2008.

²¹ The allowable dinner amount per the MI is \$50 per person. We reviewed a sample of per diem expenses claimed by 11 attendees, and they all deducted the meals provided from the per diem amount claimed.

the guidelines of the MI for postmaster installation ceremonies, which states food purchases are limited to light snacks.

- There were excessive per person dinner charges for 20 employees attending a year-end leadership meeting in September 2008.²² This 2-day meeting cost the Postal Service \$27,567. Specifically, the per dinner cost for 20 employees was \$43 over the allowable limit. Overall, the total dinner cost of \$2,267 exceeded the allowed amount by \$860. Additionally, lodging at the conference facility was included for these 20 district office employees even though their official duty station was within nine miles of the conference facility. According to Postal Service policy, local travel is defined as travel to a location within a 50-mile radius of your permanent duty station in which overnight lodging is not needed.²³ We believe paying lodging for personnel when their office is so close to the conference facility could raise questions in the public's mind as to the business need.
- There were three instances²⁴ of beer and wine purchased without the required officer approval,²⁵ totaling \$1,459. One meeting was held on Postal Service property after normal working hours. While there is no specific criterion that addresses this practice, we believe serving alcohol on Postal Service property would appear questionable to the public and to Postal Service employees.
- Alcohol (other than beer and wine) was purchased for a meeting held in September 2008²⁶ that included attendees from other countries at a cost of \$202. The MI strictly prohibits the purchase of alcohol other than beer and wine.
- No business necessity or justification was provided for \$77,757 in breakfast (working meals) costs at 24 internal and external events held between September 2008 and February 2009. The MI states that "Meals can be provided as part of a working meeting when they are required for the purpose of continuing official business and/or training. Typically, this will not include breakfast, and should, when practicable, be scheduled to avoid overlapping meal periods."

²² As noted, the revised MI was issued September 10, 2008. This meeting was also held on September 10, 2008.

²³ Handbook F-15, *Travel and Relocation*, February 2004, updated with *Postal Bulletin* revisions through December 20, 2007, Section 7-1.1.1.

²⁴ Events occurred October 6 and November 5, 2008, and February 25, 2009.

²⁵ The MI states that when it is reasonable and customary and participants are not on duty or not in their assigned postal workplace during scheduled working hours, officers may authorize Postal Service funds to purchase and pay for alcohol (beer and wine only) to be served in conjunction with officer-approved internal and external events.

²⁶ As noted, management issued the revised MI September 10, 2008. This meeting was held on September 18, 2008.

Imprudent Spending Continues

Although we noted that, overall, spending using the SmartPay2 Purchase card has declined, further reductions could be made if non-essential purchases were eliminated. For example, for the period of January through September 2009, SmartPay2 transactions for three SIC codes²⁷ related to food purchases totaled \$825,996. Included in our review were purchases for ancillary items associated with conferences (e.g., lodging, table linens, flowers, etc.) that we consider excessive during this challenging economic time. Such purchases are in direct conflict with the Postal Service’s objective of driving down costs in all operations and processes.²⁸ Moreover, the public’s view of such purchases could have a detrimental effect on the Postal Service’s public image. Chart 1 illustrates the reduced amount of spending with the SmartPay2 Purchase card.

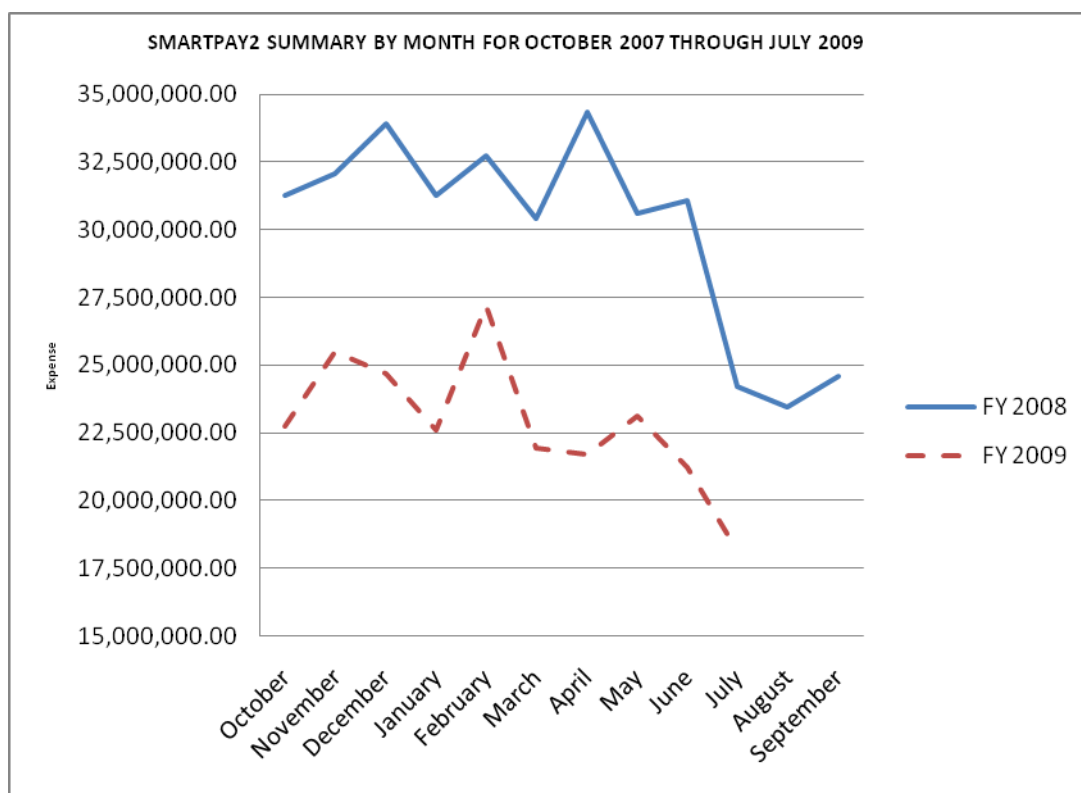


Chart 1

Our testing identified the following imprudent purchases totaling \$54,085:

- Five cardholders purchased gift cards from unauthorized vendors totaling \$31,791. All gift card amounts were \$25 or more and none were entered into eAwards. The cardholders told us they purchased gift cards from unauthorized vendors at their supervisor’s request. In other instances, the gift cards were

²⁷ The SIC codes were Fast Food, Catering, and Restaurants.

²⁸ *Postal Bulletin* 22238, FY 2008 Closing Guidance: Message from the Controller, July 31, 2008.

needed immediately and there was not enough time to order from the authorized vendors. The gift cards were not entered into eAwards because personnel presenting the cards did not know this was a requirement, even though clear information regarding the policy²⁹ is on the Postal Service's intranet.

- Two districts purchased movie tickets for \$14,150 to give as incentives to employees.³⁰ The districts made these purchases after the PMG issued a memo directing a curtailment of spending.
- There were three meetings that included lodging costs for 45 employees whose duty station was less than 50 miles from the meeting location.³¹ The total cost for the stays was \$6,533.
- Thirty retirement watches (costing \$216 each) were purchased in one district, whereas other districts purchased watches for \$30 per watch.
- A meeting held in September 2008 for selected postmasters included set-up fees and gratuities totaling \$527 for a no-host bar.³² While the MI does not restrict such purchases, in light of the economic conditions, we do not feel this is a prudent expenditure as it may appear to the public to be an unnecessary expense.
- Three meetings³³ included expenses for flowers, linens, candles, and red carpets totaling \$4,579. Again, while the MI does not restrict these types of purchases, they can become excessive without written guidelines for purchasing these ancillary items.

To understand how the public perceives awards and recognition, we posted a blog topic on the OIG's web page inviting comments on the subject of employee recognition. Our analysis of the 1,289 responses showed an equal division between those who believe awards are a good idea and those who believe awards should not be used as a recognition method.

- Some respondents commented that Postal Service employees are well paid and awards should not be necessary. Another respondent stated "save the money and reduce the cost. Employees should be doing their job at 125% because our jobs may be lost."

²⁹ Memorandum of Policy ERM-12-12-06, *Recognition and Awards Program*, January 12, 2006.

³⁰ These gift cards were purchased in bulk to have on hand to provide for carpooling or for updating address records. Only a few employees were identified as receiving these at the time of our audit, so we do not know how many employees benefited from this purchase.

³¹ These examples are in addition to the example included earlier in the report and occurred on September 7, October 3, and October 8, 2008.

³² Attendees paid for their beverages.

³³ The meetings were held on September 7, September 18, and September 22, 2008.

- The opposing opinion included a comment that employees should be rewarded as they are in any other company. Another respondent stated that carriers should be rewarded for the work the carriers do just as supervisors are.

APPENDIX C: MANAGEMENT'S COMMENTS

VINCENT DeVITO
VICE PRESIDENT, CONTROLLER



November 13, 2009

LUCINE WILLIS

SUBJECT: Draft Audit Report—Imprudent Purchases and Management Instruction on
Expenses for Internal and External Events (Report Number FF-AR-09-DRAFT)

Thank you for the opportunity to review and comment on the subject draft audit report. The reduction in spending from fiscal years 2008 to 2009 is encouraging. However, it appears there is still work to be done in curtailing spending even further during this time of economic uncertainty. I have reviewed the report and generally agree with the findings and recommendations. The following is our full response to the recommendations contained in the report.

The Office of Inspector General's (OIG) report recommends that the Vice President, Controller, in coordination with the Vice President, Supply Management:

Recommendation 1: Develop and implement further system and process improvements to strengthen and better enforce the requirement for justification of business meals.

Response: Management agrees with the intent of this recommendation, and the VP, Controller will coordinate efforts with Supply Management as we review ways to improve our eBuy system and requisition process. However, as mentioned in the report, eBuy contains a field available for justification use, and making a field specific to documenting working meals may not be cost effective. As Supply Management implements the eBuy2 system, we will take this recommendation into consideration and provide the OIG with a written assessment of system improvements or alternative solutions. Target date for completion is January 2010.

Regarding process improvements, Supply Management has recently implemented organizational changes to improve the efficiency of local purchasing activities and will be opening two new fully-staffed Purchasing Shared Services Centers in April 2010. The Purchasing Shared Services Center's capabilities will include a customer service call center, district-level local buying support, client outreach communications, and demand-management guidance for managing supplies and services consumption. We anticipate the centers will reduce organizational costs, increase efficiencies through consolidation and standardization, and give us the ability to leverage purchasing requirements. We also envision that these centers will improve oversight, advise field managers on controlling expenditures, and provide opportunities to improve our extended supply chains.

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The OIG's report recommends that the Vice President, Controller:

Recommendation 2: Implement a spending limit for internal and external events, and recognition awards, including all ancillary items associated with the events.

Response: We agree with the intent of this recommendation, however the September 2008 Management Instruction, which was reviewed and commented on by the OIG, is an effective policy. Including additional spending limits within the Management Instruction and reissuing the policy would be counter productive. However, we agree that further policy enforcement is essential to ensure that the policy is followed and imprudent spending is no longer an issue. The VP, Controller's office will contact those Area Finance Managers where infractions to the policy were identified. A presentation on the event and imprudent spend policy was presented to the Area Accounting Managers at their meeting on October 14. A memo will be sent to all Officers emphasizing the internal and external event policy by December 2009. Supply Management will distribute this referenced memorandum to all purchase cardholders for their information and to share with their management officials.

We do not believe that this report contains any proprietary or business information and may be disclosed pursuant to the Freedom of Information Act. If you have any questions about this response, please contact Kathy Banks, 202 268-3592.



Vincent Devito

cc: Joseph Corbett
Susan M. Brownell
Bill Harris
Stephen J. Nickerson