

**GENERAL SERVICES ADMINISTRATION  
OFFICE OF INSPECTOR GENERAL**

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**AUDIT OF GSA'S FISCAL YEAR 2009  
DIRECT PAY PURCHASES  
REPORT NUMBER: A100137/B/F/F10004  
SEPTEMBER 30, 2010**



U.S. GENERAL SERVICES ADMINISTRATION  
Office of Inspector General

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September 30, 2010

MEMORANDUM FOR: ALISON L. DOONE  
CHIEF FINANCIAL OFFICER (B)

FROM: JEFFREY C. WOMACK  
DEPUTY ASSISTANT INSPECTOR GENERAL FOR  
FINANCE AND ADMINISTRATIVE AUDIT OFFICE (JA-F)

SUBJECT: Audit of GSA's Fiscal Year 2009 Direct Pay Purchases  
Report Number A100137/B/F/F10004

During fiscal year 2010, the Office of Inspector General's (OIG) Finance and Administrative Audit Office (JA-F) initiated an audit of fiscal year 2009 direct pay purchases. This audit was performed in response to a request from the Office of the Chief Financial Officer (OCFO). The OCFO expressed concerns over the direct pay purchases because micro-purchases under the threshold are not reviewed outside of the program offices.

**Objective, Scope and Methodology**

The objective of the audit was to determine if fiscal year 2009 direct pay purchases were processed in compliance with OCFO policy and the Prompt Payment Act.

To achieve this objective, we reviewed regulations and guidance pertinent to the direct pay program; contacted and met with appropriate staff to gain an understanding of the process; developed a cycle memo<sup>1</sup> and conducted walkthroughs.<sup>2</sup> We also worked with the OIG statistician to generate a statistical sample of 118 direct pay purchase transactions valued at \$3,000 or less from a population of 16,581 transactions and 78 direct pay purchase transactions over \$3,000 from a population of 1,068 transactions. We then reviewed the corresponding supporting documentation to determine if:

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<sup>1</sup> A cycle memo is a description of the operating policies and procedures relating to the processing of cycle transactions.

<sup>2</sup> Our walkthrough consisted of tracing transactions from initiation, through processing, to inclusion on the general ledger, observation of the processing and applicable controls in operation, making inquiries of personnel applying the controls and examination of related documents.

- (1) The invoice amount agreed with the amount posted in Pegasys;
- (2) The invoices had been properly reviewed and approved<sup>3</sup>;
- (3) The appropriate general ledger accounts were used; and,
- (4) The transaction was processed in a timely manner in accordance with the provisions of the Prompt Payment Act.

The audit field work was conducted during the period of March 2010 to August 2010 in accordance with generally accepted government auditing standards. These 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 objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based on our audit objective.

## **Background**

In April 2002, when Pegasys became the GSA accounting system of record, only the Agency's finance centers were authorized to approve direct pay purchases that were not associated with an undelivered order in the system. From April 2002 to August 2005, all vendor invoices documenting receipt of goods or services were submitted to the applicable finance centers<sup>4</sup> prior to payments being processed.

In August 2005, the OCFO established the *Policy on Submission of Invoices to the Office of Finance* in which direct payments of \$2,500 or less would no longer be submitted to the finance centers, instead, the applicable GSA service or staff office would receive and enter these invoices into Pegasys themselves. In February 2007, the micro-purchase threshold for procurement of supplies or services increased from \$2,500 to \$3,000. Consequently, the current process for direct pay purchases simply requires that an individual having access rights to Pegasys enter payment information (vendor, item description, amount and accounting codes) for purchases that are \$3,000 or less. The finance centers then process the payment without review of the actual invoice or validating receipt of goods or services.

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<sup>3</sup> For direct pay purchases over \$3,000, we obtained and reviewed additional supporting documentation to ensure the transactions were authorized by the appropriate finance centers.

<sup>4</sup> There are two finance centers that process direct pay purchases: the Heartland Finance Center (HFC) in Kansas City, Missouri and the Greater Southwest Finance Center (GSFC) in Fort Worth, Texas. The HFC processes direct pay purchases for the Federal Acquisition Service (FAS) and the GSFC processes direct pay purchases for the Public Buildings Service (PBS).

Also, as part of the *Policy on Submission of Invoices to the Office of Finance*, the OCFO established that direct payments greater than \$3,000 are required to be forwarded to the appropriate finance center for an additional level of review and disbursement.

### **Results in Brief**

Our audit found instances where GSA did not consistently adhere to the OCFO's *Policy on Submission of Invoices to the Office of Finance* and the Prompt Payment Act. Specifically, we noted a transaction without supporting documentation and invoices that were not paid in a timely manner. In addition, we noted a weakness with regard to segregation of duties in which the same person had authorization for all three Pegasys role-holder positions: Direct Pay Approver, Accounting Classification, and Funds Authorization.

### **Audit Finding**

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*Internal controls over GSA's direct payment process can be improved.*

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Our audit identified a transaction without supporting documentation. According to the Prompt Payment Act, GSA is required to keep documentation to substantiate any disbursement. Also the OCFO's *Policy on Submission of Invoices to the Office of Finance*, dated August 1, 2005, stipulates that, for audit purposes, invoices are to be maintained by the originating office for a period of 75 months.

In addition, we noted four direct pay purchases of \$3,000 or less and two direct pay purchases over \$3,000 that were not paid in a timely manner. Both direct pay purchase transactions over \$3,000 incurred late interest penalties.<sup>5</sup> The Prompt Payment Act, Section 1315.4(f) states:

*The period available to an agency to make a timely payment without incurring an interest penalty begins on the date of receipt of a proper invoice. Section 1315.4(b) of the rule provides that an invoice is deemed to be received on the later of 1) the date a proper invoice is received by an agency if the agency annotates the invoice with the date of receipt, or 2) the seventh day after the date in which goods are delivered or services completed, unless acceptance occurs earlier or if a longer acceptance period is specified in the contract. If the agency fails to annotate an invoice with the date of receipt of the invoice, the date placed on the invoice by the contractor is used to determine the start*

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<sup>5</sup> The total additional expense incurred from late interest penalties was \$87.44.

*date for the payment period. Unless otherwise specified, Section 1315.4(g) of the Prompt Payment rule states that payment is due on either 1) the date specified in the contract, 2) in accordance with discount terms when discounts are offered and taken, 3) in accordance with Accelerated Payment Methods, or 4) 30 days after the start of a payment period, when a proper invoice is received.*

We also noted that 4 of 118<sup>6</sup> direct pay purchases were processed and approved by the same person in Pegasys. Specifically, the same person who processed the direct pay purchase provided authorization for all three Pegasys role-holder positions: Direct Pay Approver, Accounting Classification, and Funds Authorization. According to the Government Accountability Office's *Standards for Internal Controls in the Federal Government*, segregation of duties is one of the key control activities that help reduce the risk of error or fraud.

### **Conclusion**

Generally, we found the internal controls in place for direct pay purchases to be effective with the exception of observations noted in this report. We believe the recommendations included in this report will address these observations.

### **Recommendations**

We recommend that the Office of the Chief Financial Officer and the Heads of Services and Staff Offices:

1. Ensure that the Office of the Chief Financial Officer's *Policy on Submission of Invoices to the Office of Finance* is consistently applied and followed Agency-wide regarding the record retention requirements.
2. Ensure that the Prompt Payment Act is followed Agency-wide to avoid the incurrence of late payment interest penalties.

We recommend that the Office of the Chief Financial Officer:

3. Implement controls in Pegasys to prevent a single individual from holding three Pegasys role-holder positions to authorize direct pay purchases.

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<sup>6</sup> There were 118 direct pay purchases that were \$3,000 or less.

## **MANAGEMENT'S RESPONSE**

Management's response dated September 24, 2010 states they concur with the audit finding and recommendations noted in the audit report.

## **MANAGEMENT CONTROLS**

The objective of the audit was to determine if fiscal year 2009 direct pay purchases were in compliance with Office of the Chief Financial Officer policy and the Prompt Payment Act. As part of the audit, we reviewed the controls over the direct payment process and noted GSA did not consistently adhere to the Office of the Chief Financial Officer's *Policy on Submission of Invoices to the Office of Finance* and the Prompt Payment Act. We have included recommendations in this report to address identified control issues.

We would like to thank the Office of the Chief Financial Officer for the courtesies extended to us during our review. If you have any questions regarding this report, please do not hesitate to call me or Donna Peterson-Jones, Audit Manager, at 202-501-0006.



Jeffrey C. Womack  
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Finance and Administrative Audit Office (JA-F)

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