



*Citibank Purchase Card and Fleet Card Rebates
Were Maximized and Are Now Properly Allocated*

March 30, 2012

Reference Number: 2012-10-031

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

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HIGHLIGHTS

CITIBANK PURCHASE CARD AND FLEET CARD REBATES WERE MAXIMIZED AND ARE NOW PROPERLY ALLOCATED

Highlights

Final Report issued on March 30, 2012

Highlights of Reference Number: 2012-10-031 to the IRS Deputy Commissioner for Services and Enforcement and Deputy Commissioner for Operations Support.

IMPACT ON TAXPAYERS

The IRS receives rebates based on its purchase card and fleet card expenditures. Rebates are increased based on the total volume of expenditures and timeliness of payments. Controls are generally operating effectively for the IRS to achieve compliance with the Prompt Payment Act and to maximize rebates. However, approximately \$1 million of purchase card rebates were not allocated to the correct appropriations, reducing the amounts that could have been spent IRS-wide, including providing services to taxpayers.

WHY TIGTA DID THE AUDIT

This audit was included in our Fiscal Year (FY) 2011 Annual Audit Plan and addresses the major management challenge of Erroneous and Improper Payments and Credits. The overall objectives were to determine whether the IRS has established sufficient controls in the purchase card and fleet card programs to ensure rebates are maximized and properly allocated and that payments are made in compliance with the Prompt Payment Act.

WHAT TIGTA FOUND

The IRS's management controls over the credit card payment and rebate allocation processes are generally operating effectively to achieve compliance with the Prompt Payment Act and Office of Management and Budget Circular A-123, Appendix B, Improving the Management of Government Charge Card Programs, including maximizing rebates. TIGTA

determined that, on average, invoices for purchase card and fleet card accounts were paid within five calendar days of the invoice receipt date. This significantly contributed to the IRS achieving compliance with the Prompt Payment Act and maximizing rebates. From September 2007 through March 2009, the IRS made 106,080 payments totaling more than \$102 million for purchase card and fleet card accounts to Citibank. These payments were timely in 99.96 percent of the instances.

Fleet card rebates received during FY 2008 through FY 2010 were properly allocated to the appropriation from which the funds were originally expended; however, only the purchase card rebates received after the first quarter of FY 2010 were properly allocated. The incorrectly allocated purchase card rebates resulted in a misappropriation of funds totaling approximately \$1 million. The misappropriation was due to the IRS not returning the rebates to the correct appropriation, and not because TIGTA identified any instances in which these funds were used for personal use or evidence of criminal wrongdoing.

Although the IRS is still unable to validate the amount of rebates it receives and has no assurance that the amounts are correct, the Department of the Treasury asked the General Services Administration to determine whether the rebate amounts received from Citibank were accurate. The General Services Administration audit identified additional rebates owed to the Department of the Treasury, but the final report had not been issued by the conclusion of TIGTA's fieldwork and, therefore, TIGTA does not know how much was applicable to the IRS.

WHAT TIGTA RECOMMENDED

TIGTA made no recommendations as a result of the work performed during this review. However, key IRS officials reviewed the report prior to its issuance and agreed with the facts and conclusions presented.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

March 30, 2012

MEMORANDUM FOR DEPUTY COMMISSIONER FOR SERVICES AND
ENFORCEMENT
DEPUTY COMMISSIONER FOR OPERATIONS SUPPORT

Michael R. Phillips

FROM: Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Citibank Purchase Card and Fleet Card Rebates
Were Maximized and Are Now Properly Allocated
(Audit # 201110003)

This report presents the results of our review of the purchase card and fleet card rebate program. The overall objectives of this review were to determine whether the Internal Revenue Service has established sufficient controls in the purchase card¹ and fleet card programs to ensure rebates are maximized and properly allocated, and that payments are made in compliance with the Prompt Payment Act.² We also determined whether appropriate corrective actions have been taken in response to recommendations made in our prior audit.³ This review was included in our Fiscal Year 2011 Annual Audit Plan and addresses the major management challenge of Erroneous and Improper Payments and Credits.

The Treasury Inspector General for Tax Administration made no recommendations as a result of the work performed during this review. However, key Internal Revenue Service officials reviewed this report prior to its issuance and agreed with the facts and conclusions presented.

Please contact me at (202) 622-6510 if you have questions or Nancy A. Nakamura, Assistant Inspector General for Audit (Management Services and Exempt Organizations), at (202) 622-8500.

¹ See Appendix VII for a glossary of terms.

² Pub. L. No. 97-177, 96 Stat.85 (1982) (codified as amended at 31 U.S.C. §3901 et seq.).

³ Treasury Inspector General for Tax Administration, Ref. No. 2010-10-124, *Although Citibank Travel Rebates Have Significantly Increased, They Were Not Properly Allocated, Resulting in the Misappropriation of Funds*, p. 24 (Sept. 2010).



*Citibank Purchase Card and Fleet Card Rebates
Were Maximized and Are Now Properly Allocated*

Table of Contents

Background Page 1

Results of Review Page 4

 The Internal Revenue Service Generally Exceeded the Requirements
 of the Prompt Payment Act and Maximized Purchase Card and Fleet
 Card Rebate Amounts Page 5

 The Internal Revenue Service Is Now Allocating Citibank Rebates to
 the Proper Appropriation Page 8

 Citibank Has Not Provided Sufficient Data to Allow for the Internal
 Revenue Service’s Validation of Rebate Accuracy Page 9

Appendices

 Appendix I – Detailed Objectives, Scope, and Methodology Page 11

 Appendix II – Major Contributors to This Report Page 14

 Appendix III – Report Distribution List Page 15

 Appendix IV – Outcome Measures Page 16

 Appendix V – Internal Revenue Service Purchase Card and
 Fleet Card Rebates Page 18

 Appendix VI – Excerpt From Office of Management and Budget
 Circular A-123, Appendix B Page 21

 Appendix VII – Glossary of Terms Page 22



*Citibank Purchase Card and Fleet Card Rebates
Were Maximized and Are Now Properly Allocated*

Abbreviations

AWSS	Agency-Wide Shared Services
BFC	Beckley Finance Center
FY	Fiscal Year
IFS	Integrated Financial System
IRS	Internal Revenue Service
WebRTS	Web Request Tracking System



*Citibank Purchase Card and Fleet Card Rebates
Were Maximized and Are Now Properly Allocated*

Background

The Department of the Treasury selected Citibank to provide credit card services for all of its offices and bureaus under the SmartPay2¹ program, and the Internal Revenue Service (IRS) uses purchase cards and fleet cards to procure goods and services. Because this is a Government contract, Citibank offers incentives (cash rebates) for timely payment of purchase card and fleet card invoices. The rebates are based on two primary factors: the total amount of purchase card and fleet card purchases (hereafter referred to as expenditures) and the timeliness of payments on expenditures. Rebates are increased by timely payments and are reduced or eliminated by late payments. As a result, it is important for the IRS to ensure that invoices are timely paid. From Fiscal Year (FY) 2008 through FY 2010, the IRS had expenditures totaling almost \$215 million for purchase and fleet cards and received more than \$2.4 million in rebate proceeds for the same period.

Additionally, each Federal agency that acquires goods or services from a business must comply with the Prompt Payment Act,² which requires Federal agencies to pay the amount due within 30 calendar days of receiving an invoice.³ If invoices are not timely paid, interest⁴ penalties begin to accrue.

The IRS established management controls over its payment processes to ensure compliance with the Prompt Payment Act and to maximize rebates. For the purchase card program, in September 2007, the IRS implemented an electronic control (Web Request Tracking System (WebRTS) purchase card module) in which the reconciliation and approval process takes place to certify the invoice for payment. In contrast, the fleet card program uses a manual control process whereby an approving official receives the invoice, reconciles the transactions, and certifies the invoice for payment. The IRS's policy is to reconcile and certify transactions for payment within 10 days⁵ of the invoice receipt date. The certified expenditures are forwarded to the Beckley Finance Center (BFC), which processes the payments to Citibank through the Integrated Financial System (IFS).

Office of Management and Budget Circular A-123, Appendix B, Improving the Management of Government Charge Card Programs (hereafter referred to as the Circular),⁶ prescribes policies

¹ See Appendix VII for a glossary of terms.

² Pub. L. No. 97-177, 96 Stat. 85 (1982) (codified as amended at 31 U.S.C. § 3901 et seq.).

³ Although "invoice" is synonymous with "statement," both the Prompt Payment Act and the BFC use "invoice" to describe the receipt of monthly transaction reports. As a result, we used the term "invoice" in this report.

⁴ The amount of interest must equal or exceed \$1.00 before it can be charged to the IRS.

⁵ The generic word "days" is used here in this paragraph. The requirement for purchase cards is business days and the requirement for fleet cards is calendar days.

⁶ Office of Management and Budget Circular No. A-123, Appendix B, Revised January 15, 2009.



*Citibank Purchase Card and Fleet Card Rebates
Were Maximized and Are Now Properly Allocated*

and procedures to agencies regarding how to maintain internal controls that reduce the risk of fraud, waste, and error in Government charge card programs (see Appendix VI).⁷ The Circular also stipulates that unless specific statutory authority exists allowing rebates to be used for other purposes, rebates must be returned to the appropriation or account from which they were expended and can be used for any legitimate expenditure by the appropriation to which they were returned or as otherwise authorized by statute. The IRS's budget has five⁸ regular appropriations: Taxpayer Services, Enforcement, Operations Support, Business System Modernization, and Health Insurance Tax Credit Administration. In addition, the Circular instructs Federal agencies to maximize rebates where appropriate.

The purchase card and fleet card programs are administered by different IRS business units. The Credit Card Services Branch has administrative oversight and program responsibilities for the IRS's purchase credit card program. Criminal Investigation and the Small Business/Self-Employed Division have administrative oversight and program responsibilities for their individual fleet card programs.

In our prior audit of travel card rebates,⁹ we recommended that the Chief Financial Officer establish and implement policies and procedures to ensure travel card rebates are allocated to the appropriations from which the expenditures were originally expended. We further recommended that the Deputy Commissioner for Operations Support institute an oversight program, including periodic reviews, to ensure the new policies and procedures were implemented and that future travel card rebates are properly allocated. Additionally, we recommended that the IRS coordinate with the Department of the Treasury to work with Citibank to obtain the data necessary to independently verify the travel card rebate amounts. The IRS concurred with our recommendations and has made significant progress on their implementation.

We limited the scope of this review to evaluating management controls over the purchase card and fleet card payment and rebate allocation processes, whether purchase card and fleet card rebates were maximized and properly allocated, and whether payments were made in compliance with the Prompt Payment Act. We did not examine any other aspects of the IRS's credit card programs during this audit.

This review was performed at the Agency-Wide Shared Services (AWSS), Employee Support Services, Credit Card Services Branch, in Nashville, Tennessee; the Office of the Chief Financial Officer in Washington, D.C.; the BFC in Beckley, West Virginia; Criminal Investigation, Investigations and Enforcement Operations, in Dallas, Texas; the Small Business/Self-Employed

⁷ Appendix VI provides information on the Circular's guidance for Government credit card rebates.

⁸ The FY 2012 budget contains four regular appropriations; however, during the time of our review there were five appropriations in effect.

⁹ Treasury Inspector General for Tax Administration, Ref. No. 2010-10-124, *Although Citibank Travel Rebates Have Significantly Increased, They Were Not Properly Allocated, Resulting in the Misappropriation of Funds*, p. 24 (Sept. 2010).



*Citibank Purchase Card and Fleet Card Rebates
Were Maximized and Are Now Properly Allocated*

Division, Strategy and Finance Office, in St. Paul, Minnesota; and the Department of the Treasury Purchase Card and Fleet Card Coordinators in Washington, D.C., during the period October 2010 through October 2011. We conducted this performance audit in accordance with generally accepted government auditing standards. 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. Detailed information on our audit objectives, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



*Citibank Purchase Card and Fleet Card Rebates
Were Maximized and Are Now Properly Allocated*

Results of Review

The IRS's management controls over the credit card payment and rebate allocation processes are generally operating effectively to achieve compliance with the Prompt Payment Act and the Circular, including maximizing rebates. Our audit determined that, on average, invoices for purchase card and fleet card accounts were reviewed, approved, and paid within five calendar days of the invoice receipt date. This significantly contributed to the IRS achieving compliance with the Prompt Payment Act and maximizing rebates. From September 2007 through March 2009, the IRS made 106,080 payments totaling more than \$102 million for purchase card and fleet card accounts to Citibank. These payments were timely in 99.96 percent of the instances.

Regarding the proper allocation of rebates, we noted improvements since our prior report. Fleet card rebates received during FY 2008 through FY 2010 were properly allocated to the appropriations from which the funds were originally expended. In addition, the purchase card rebates received after the first quarter of FY 2010 were properly allocated. However, from FY 2008 through the first quarter of FY 2010, the AWSS function allocated the majority of the purchase card rebates received during this period to the Operations Support appropriation. Because the IRS did not return the rebates proportionately to the appropriations from which they were originally expended, it resulted in a misappropriation of funds¹⁰ totaling approximately \$1 million. We did not identify any instances in which these funds were used for personal use or find any evidence of criminal wrongdoing.

Multiple factors have contributed to the IRS maximizing the amount of rebates it receives from Citibank. Primarily, the IRS has undertaken initiatives to enhance the timeliness of its payments to Citibank by instituting the WebRTS purchase card module. In addition, the current SmartPay2 contract provides an increase in basis points over the previous contract. The contract's terms have increased the amount of rebates received and provides the IRS a greater incentive to maximize rebates. However, the IRS is still unable to validate the amount of rebates it receives from Citibank and has no assurance that the amounts are correct.

¹⁰ The Misappropriation Act, 31 U.S.C. § 1301, requires that funds appropriated by Congress be used only for the programs and purposes for which the appropriation was made.



*Citibank Purchase Card and Fleet Card Rebates
Were Maximized and Are Now Properly Allocated*

The Internal Revenue Service Generally Exceeded the Requirements of the Prompt Payment Act and Maximized Purchase Card and Fleet Card Rebate Amounts

From September 2007 through March 2009, the IRS made 106,080 payments totaling more than \$102 million on purchase card and fleet card accounts to Citibank. We identified only 41 (0.04 percent) late payments that were attributed to isolated instances of human processing errors and the transition to an electronic process.¹¹ As a result, we believe the IRS successfully met the requirements of the Prompt Payment Act, which requires payment by 30 calendar days from the invoice receipt date. In addition, because the IRS paid the purchase card and fleet card invoices in an average of five calendar days, the IRS maximized the amount of Citibank rebates and exceeded the payment time period in the Prompt Payment Act.

Management controls were generally effective in achieving prompt payment

Management controls over the credit card payment process are generally operating effectively to achieve compliance with the Prompt Payment Act. In September 2007, the IRS implemented the purchase card module within the WebRTS, transitioning the purchase card administration and payment process from a manual process to an electronic process. The module was designed to enhance the purchase card program by providing an electronic process to associate and reconcile transactions with Citibank charges, allowing approving officials to certify individual transactions for payment, and interfacing daily with the Integrated Procurement System and the IFS. These enhancements allow the IRS to establish obligations and process payments more efficiently.

In the IRS's purchase card program, 104,817 payments totaling more than \$93 million were made to Citibank from September 2007 through March 2009. Of those payments, only 40 totaling approximately \$32,000¹² did not meet the requirements of the Prompt Payment Act. The BFC took full responsibility for all of the late payments. Management stated that the majority of the late payments resulted from the purchase card program's conversion from a manual process to an electronic process during the implementation of the WebRTS purchase card module. Additionally, management stated that other late payments were due to isolated technician processing errors.

Unlike the purchase card program, the IRS's fleet card program operated on a manual process. In order to achieve compliance with the requirements of the Prompt Payment Act, fleet card program management controls require that the approving official reconcile and certify the invoice within 10 calendar days of receipt and mail or fax the invoice to the BFC for payment. The IRS's fleet card program approving officials complied with the required time period and

¹¹ The implementation of the purchase card module within the WebRTS caused isolated errors as the IRS personnel were learning the new system.

¹² These late payments resulted in interest penalties paid to Citibank of approximately \$100.



*Citibank Purchase Card and Fleet Card Rebates
Were Maximized and Are Now Properly Allocated*

paid invoices within an average of five calendar days from invoice receipt. This practice allows the BFC sufficient time to process payments in compliance with the requirements of the Prompt Payment Act. In the IRS's fleet card program, 1,263 payments totaling more than \$9.6 million were made to Citibank from September 2007 through March 2009. Of those payments, only one payment of \$197 was not paid timely. The late payment was due to an oversight by a BFC technician who incorrectly entered the amount of payment as one dollar less than was actually due. The technician corrected the mistake five calendar days later. Due to the negligible amount of the late payment and the rapid correction of the error, the late payment did not accrue interest penalties.

Although both credit card programs had a small number of instances in which they did not meet the Prompt Payment Act, we determined that the IRS has been successful in minimizing both the number of payments that do not meet the requirements of the Prompt Payment Act and the related interest penalties.

Multiple factors contributed to maximizing Citibank rebates

The initiation of the purchase card electronic process within the WebRTS, adherence to management controls over the payment process, and the terms and incentives provided in the SmartPay2 contract have been effective in significantly increasing the amount of Citibank rebates received by the IRS. For example, with the WebRTS purchase card module, payments on purchase card invoices averaged five calendar days from the invoice receipt date from September 2007 to March 2009. For fleet card programs, each Criminal Investigation and Small Business/Self-Employed Division field office is required to manually reconcile and certify its Citibank invoices within 10 calendar days of receipt and mail or fax the invoices to the BFC for payment. Similar to the purchase card program, from September 2007 to March 2009, payments on fleet card invoices averaged five calendar days from the invoice receipt date.

Based on the low average number of days from the invoice receipt date to the date the BFC made a payment, we believe the purchase card and fleet card programs have been effective in maximizing rebates where appropriate.

In addition, the SmartPay2 contract terms provided additional incentives for making timely payments, which the IRS made use of to significantly increase the amount of rebates it received. During FY 2009, FY 2010, and the first three quarters of FY 2011, under the SmartPay2 contract, the quarterly rebates ranged from approximately \$117,000 to \$420,000,¹³ or 1.41 percent of total purchase card and fleet card spending. Under the prior contract, the combined Citibank quarterly rebates for the purchase card and fleet card programs ranged from approximately \$41,000 to \$133,000, or 0.90 percent of total purchase card and fleet card spending during FYs 2007 and 2008.

¹³ Appendix V provides details of purchase card and fleet card rebates from FY 2005 through the third quarter of FY 2011.



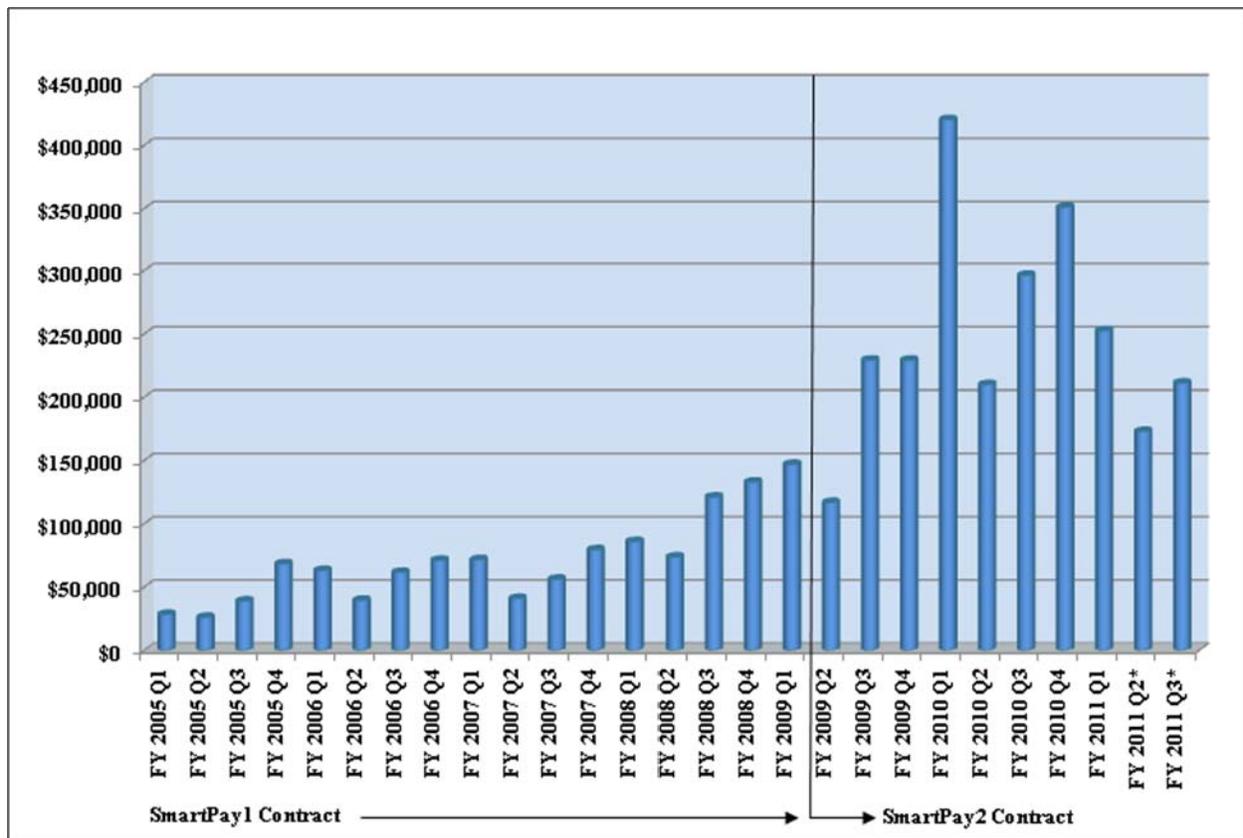
*Citibank Purchase Card and Fleet Card Rebates
Were Maximized and Are Now Properly Allocated*

The terms and incentives provided in the Citibank SmartPay2 contract created a substantial increase in the rebates. Features of the SmartPay2 contract that resulted in these increased rebates are:

- Sales rebates basis points increased from 14 to 91 for the purchase card and from six to 10 for the fleet card.
- Productivity rebate basis points increased from 53 to 75 for the fleet card.

Figure 1 indicates increases and decreases in the dollar amount of rebates that were received after the implementation of the SmartPay2 contract, which were higher than the rebates that were received under the SmartPay1 contract.

Figure 1: Total Amount of Purchase Card and Fleet Card Rebates by Quarter



Source: Our analysis of Citibank Custom Reporting System data from FY 2005 through the 3rd quarter of FY 2011. * Indicates the fleet card program received rebates from Wright Express.



*Citibank Purchase Card and Fleet Card Rebates
Were Maximized and Are Now Properly Allocated*

The Internal Revenue Service Is Now Allocating Citibank Rebates to the Proper Appropriation

During FY 2008 through FY 2010, the IRS received approximately \$2.4 million in purchase card and fleet card rebates from Citibank. Fleet card rebates for this entire period were properly allocated to the Enforcement appropriation from which the funds were originally expended. In addition, purchase card rebates received after the first quarter of FY 2010 were properly allocated to the appropriations from which the funds were originally expended. However, from FY 2008 through the first quarter of FY 2010, the AWSS function allocated the majority of the purchase card rebates to the Operations Support appropriation instead of returning the rebates proportionately to the appropriations from which they were originally expended. We previously reported this finding in the travel card rebate report and determined that, during this audit, the IRS allocated purchase card rebates following the same process as travel card rebates. As a result, the IRS misappropriated approximately \$1 million for this period, reducing the amounts that could have been spent IRS-wide, including providing services to taxpayers. The misappropriation was due to the IRS not returning the rebates to the correct appropriation and not because we identified any instances in which these funds were used for personal use or evidence of criminal wrongdoing.

The purchase card rebates from FY 2008 through the first quarter of FY 2010 totaled approximately \$1.5 million. The AWSS function allocated the entire \$1.5 million to the Operations Support appropriation but should have only allocated approximately \$500,000. The remaining \$1 million should have been allocated to the other four appropriations. The Circular states that rebate proceeds are to be returned to the appropriation or accounts from which they were originally expended and can be used for any legitimate expenditure for that appropriation. The IRS advised us that it had interpreted the Circular as supporting its retention of the rebates within the AWSS function budget to cover the costs of the Employee Support Services programs and operations because it believed this was a legitimate purpose.

In response to the recommendations provided in our prior audit of travel card rebates, the IRS took several actions to strengthen controls for rebate allocation and is now in compliance with the Circular. Currently, the IRS has a two-step automated process for allocating rebates. In June 2011, the AWSS function established an automated process within the IFS to calculate the percentage of purchase card, fleet card, and travel card expenditures from each appropriation. The IFS applies this percentage to the rebates received to determine the amounts that should be allocated back to the correct appropriation(s). The second control is an independent validation of this calculation and allocation performed by the AWSS function's Office of Strategy and Finance. This office replicates the automated process in the IFS to validate that the calculations were correct according to the guidance and requirements of the Circular and approves the rebate allocations for posting to the appropriation or account from which they were originally expended.



*Citibank Purchase Card and Fleet Card Rebates
Were Maximized and Are Now Properly Allocated*

Prior to this automated process, the IRS developed draft guidance to manually calculate the percentage of purchase card, fleet card, and travel card expenditures from each appropriation, which was used to correctly allocate the rebates. This guidance was effective with the second quarter of FY 2010, and we determined the IRS correctly allocated the rebates for this quarter. Additional draft guidance was issued for the Office of Strategy and Finance to independently review the manual calculations after the rebates were allocated. The IRS issued these draft procedures in final on January 18, 2011.

While we did evaluate the actual rebate allocations that were made to the IRS's appropriations to determine if they were appropriately allocated, we did not examine the independent reviews conducted by the Office of Strategy and Finance to determine if it effectively ensured the calculations were correct.

Citibank Has Not Provided Sufficient Data to Allow for the Internal Revenue Service's Validation of Rebate Accuracy

We determined that Citibank did not provide data that would allow the IRS to verify whether the quarterly purchase card and fleet card rebates received were correct. As a result, the IRS cannot be assured that the purchase card and fleet card rebates received from FY 2005 through the third quarter of FY 2011 totaling approximately \$3.7 million were accurate.

Despite the lack of data, the IRS had not attempted to validate the amount of rebates received and instead relied on the Department of the Treasury to ensure the accuracy of the rebates. In our prior audit, we met with representatives from the Department of the Treasury and learned that while they do not have any written policies or procedures to verify the accuracy of the rebates, they do perform a "reasonableness test" on sales rebates. This is done by comparing various reports¹⁴ they receive from Citibank that provide periodic information on the Department of the Treasury purchase card and fleet card expenditures (total sales) charged to Citibank cards. The IRS and the Department of the Treasury advised us during this audit that there had not been any changes or new procedures established to validate the rebates.

In the IRS's response to our prior audit recommendations, it informed us that the General Services Administration had contracted with an outside accounting firm to perform reviews of the Citibank rebate payments to the Department of the Treasury. The audit¹⁵ was initiated during February 2011 and focused on verifying the amount of both the sales and productivity rebates owed to the Department of the Treasury for all of its credit card programs. In the draft General Services Administration audit report, the total rebate amount (sales and productivity) was

¹⁴ The Department of the Treasury reviews the Citibank monthly cycle spend reports (departmental roll-up level) to compare the spend amount to the rebate net charge volume amount provided separately by Citibank.

¹⁵ The audit period subject to review was January 1, 2009, through March 31, 2010, and October 1 through December 31, 2010.



*Citibank Purchase Card and Fleet Card Rebates
Were Maximized and Are Now Properly Allocated*

evaluated based upon the source data obtained from Citibank, and it was determined that approximately \$66,600 in additional sales rebates is due to the Department of the Treasury. In addition, the audit determined that there were no variances in the productivity rebates; therefore, no additional productivity rebate proceeds were owed to the Department of the Treasury. The final General Services Administration audit report had not been issued by the conclusion of our fieldwork, so we do not know the actual amount of the rebate changes and how much was applicable to the IRS. The IRS and the Department of the Treasury are awaiting the final results of the General Services Administration audit prior to taking any further actions or developing validation procedures. Because any actions by the IRS to address our prior audit recommendation to independently verify the quarterly rebate amounts will be dependent in part on the results of this General Services Administration audit, we are not making any additional recommendations at this time.



*Citibank Purchase Card and Fleet Card Rebates
Were Maximized and Are Now Properly Allocated*

Appendix I

Detailed Objectives, Scope, and Methodology

The overall objectives of this review were to determine whether the IRS has established sufficient controls in the purchase card¹ and fleet card programs to ensure rebates are maximized and properly allocated and that payments are made in compliance with the Prompt Payment Act.² We also determined whether appropriate corrective actions have been taken in response to recommendations made in our prior audit on travel card rebates.³ To accomplish our objectives, we:

- I. Obtained an overall understanding of the controls the IRS has in place to maximize rebates in the purchase card and fleet card programs and the management controls related to payments made to Citibank.
 - A. Reviewed the applicable guidance and IRS policies, procedures, and practices and identified the controls over the purchase card and fleet card programs.
 - B. Interviewed IRS personnel involved in the purchase card and fleet card programs to determine the processes and controls used.
- II. Determined whether the IRS's internal controls were effective to ensure the IRS met the requirements of the Prompt Payment Act.
 - A. Determined whether the IRS business and functional units met the requirements of the Prompt Payment Act.
 1. Analyzed data from the IRS's IFS containing 106,080 payments made to Citibank on the IRS's purchase card and fleet card corporate accounts from September 2007 through March 2009.
 2. Calculated the number of calendar days from the invoice receipt date to the payment confirmation date for purchase card and fleet card transactions to determine whether the payments met the requirements of the Prompt Payment Act.

¹ See Appendix VII for a glossary of terms.

² Pub. L. No. 97-177, 96 Stat. 85 (1982) (codified as amended at 31 U.S.C. § 3901 et seq.).

³ Treasury Inspector General for Tax Administration, Ref. No. 2010-10-124, *Although Citibank Travel Rebates Have Significantly Increased, They Were Not Properly Allocated, Resulting in the Misappropriation of Funds*, p. 24 (Sept. 2010).



*Citibank Purchase Card and Fleet Card Rebates
Were Maximized and Are Now Properly Allocated*

- B. Determined if any payments were late by analyzing whether cardholders timely reconciled, and approving officials timely reviewed and approved, the purchase card and fleet card transactions.
 - C. Assessed the reliability of the IFS computer-processed data and determined whether the data are sufficiently reliable to use for our audit tests. We randomly selected 12 copies of account statements and compared them against the data we received to ensure dates and amounts matched.
- III. Interviewed IRS personnel responsible for purchase card and fleet card rebates and determined whether the quarterly rebate amounts they received from Citibank were verified for accuracy.
- IV. Contacted the Department of the Treasury and obtained a status on any changes in its roles and responsibilities and the policies, procedures, and practices regarding the Department of the Treasury's oversight of the IRS's purchase card and fleet card programs.
- A. Interviewed the Program Coordinator for the purchase card program.
 - B. Interviewed the Program Coordinator for the fleet card program.
 - C. Determined the status of the General Services Administration audit on the rebates received by the Department of the Treasury for all credit card programs.
- V. Determined the appropriations that funded the purchase card and fleet card expenditures and the IRS's allocation of the rebate amounts it received from Citibank from FY 2008 through FY 2010 to ensure the rebates were returned to the proper appropriations from which they were originally expended in accordance with Office of Management and Budget Circular A-123, Appendix B, Improving the Management of Government Charge Card Programs (Circular).
- A. Interviewed the IRS Employee Support Services Chief Administrative Program Staff Manager, the Chief Financial Officer, the Small Business/Self-Employed Division Fleet Card Coordinator, and the Criminal Investigation Fleet Card Coordinator.
 - B. Traced purchase card and fleet card expenditures and rebate allocations for the period of FY 2008 through FY 2010 to determine whether the rebates were proportionally allocated back to the appropriations from which they were originally expended.
- VI. Followed up on the FY 2010 Treasury Inspector General for Tax Administration audit recommendations related to travel card rebates to determine whether corrective actions were sufficient to fully address the audit findings.



*Citibank Purchase Card and Fleet Card Rebates
Were Maximized and Are Now Properly Allocated*

- VII. Determined whether the IRS effectively maximized rebates received from Citibank.
- A. Obtained the quarterly AWSS function purchase card and the Criminal Investigation and Small Business/Self-Employed Division fleet card rebate amounts received in FYs 2008, 2009, and 2010 and the first three quarters in FY 2011.
 - B. Received the Department of the Treasury SmartPay2 General Services Administration credit card contract specification to determine how the IRS could maximize rebates.
 - C. Determined the impact of the Department of the Treasury SmartPay2 General Services Administration credit card contract terms had on maximizing rebates.
 - D. Used the results from Step II.A. to determine whether the payment dates effectively maximized rebates where appropriate. We did not specifically test whether each payment maximized the rebate because the Circular allows for maximizing rebates where appropriate.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined the following internal controls were relevant to our audit objective: the IRS's policies, procedures, and controls to ensure the IRS maximizes rebates, properly allocates the rebates received, and makes timely payments in accordance with the requirements in the Prompt Payment Act. We evaluated these internal controls by: 1) interviewing key personnel within the AWSS function Credit Card Services, the Office of the Chief Financial Officer, and Criminal Investigation and Small Business/Self-Employed Division management; 2) interviewing management and personnel at the BFC; 3) interviewing credit card approving officials; 4) reviewing a total population of 106,080 purchase and fleet card payments to determine compliance with the Prompt Payment Act; 5) reviewing the policies and guidance for purchase card and fleet card payment processing; and 6) reviewing guidance and supporting documentation for the allocation of rebate amounts.



*Citibank Purchase Card and Fleet Card Rebates
Were Maximized and Are Now Properly Allocated*

Appendix II

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*Citibank Purchase Card and Fleet Card Rebates
Were Maximized and Are Now Properly Allocated*

Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Commissioner, Small Business/Self-Employed Division SE:S
Chief, Agency-Wide Shared Services OS:A
Chief, Criminal Investigation SE:CI
IRS Chief Financial Officer OS:CFO
Director, Employee Support Services, Agency-Wide Shared Services OS:A:ESS
Chief Counsel CC
National Taxpayer Advocate TA
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Director, Office of Program Evaluation and Risk Analysis RAS:O
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Chief, Agency-Wide Shared Services OS:A
Chief, Criminal Investigation SE:CI
IRS Chief Financial Officer OS:CFO



*Citibank Purchase Card and Fleet Card Rebates
Were Maximized and Are Now Properly Allocated*

Appendix IV

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Cost Savings, Funds Put to Better Use – Actual; \$1,009,822 in purchase card¹ rebates that were not allocated to the correct appropriations for the period FY 2008 through the first quarter of FY 2010 (see page 8).

Methodology Used to Measure the Reported Benefit:

We reviewed applicable Federal guidance (Office of Management and Budget Circular A-123, Appendix B, Improving the Management of Government Charge Card Programs (referred to as the Circular) and the Misappropriation Act)² to determine how purchase card rebates should be allocated. The Circular requires that rebates be returned to the appropriation or account from which the purchase card expenditures were originally expended. The Misappropriation Act requires that funds appropriated by Congress be used only for the programs and purposes for which the appropriation was made. We requested the detailed purchase card expenditure data from the IRS's appropriations and accounts for the period FY 2005 through FY 2010. The AWSS function was only able to provide detailed purchase card and fleet card expenditure data from FY 2008 through FY 2010 that could be traced back to the specific appropriation from which they were originally expended.

We analyzed the detailed expenditure data from FY 2008 through the first quarter of FY 2010 and determined the AWSS function received \$1,514,450 in purchase card rebates from Citibank. We calculated from the detailed expenditure data the percentage of purchase card expenditures from each of the IRS's five appropriations. We used these percentages to determine how the rebate amounts should have been allocated back to each of the five appropriations and determined the allocations the IRS made were incorrect from FY 2008 through the first quarter of FY 2010. The AWSS function allocated the entire \$1,514,450 to the Operations Support appropriation but should have only allocated \$504,628. The remaining \$1,009,822 should have been allocated to the other four appropriations. Therefore, the IRS misappropriated \$1,009,822 of the total purchase card rebates received from Citibank for FY 2008 through the first quarter of

¹ See Appendix VII for a glossary of terms.

² 31 U.S.C. § 1301.



*Citibank Purchase Card and Fleet Card Rebates
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FY 2010. From the second quarter of FY 2010 through the end of FY 2010, the AWSS function correctly allocated the rebates to all five appropriations.

Type and Value of Outcome Measure:

- Reliability of Information – Potential; \$3,696,450 in rebate amounts that could not be independently validated to ensure accuracy (see page 9).

Methodology Used to Measure the Reported Benefit:

We determined that Citibank did not provide data that would allow the IRS to verify whether the quarterly purchase and fleet card rebates received were correct. We interviewed IRS program officials and Department of the Treasury representatives to determine the verification processes used to ensure the correct amount of rebates were paid by Citibank. Despite the lack of data from Citibank, the IRS had not attempted to validate the amount of rebates received and instead relied on the Department of the Treasury to ensure the accuracy of the rebates. The Department of the Treasury does not have written policies and procedures to verify the accuracy of the rebates, but does perform a “reasonableness test” on sales rebates. As a result, the IRS has no assurance that the \$3,696,450 in purchase card and fleet card rebates received from FY 2005 through the third quarter of FY 2011 were accurate.



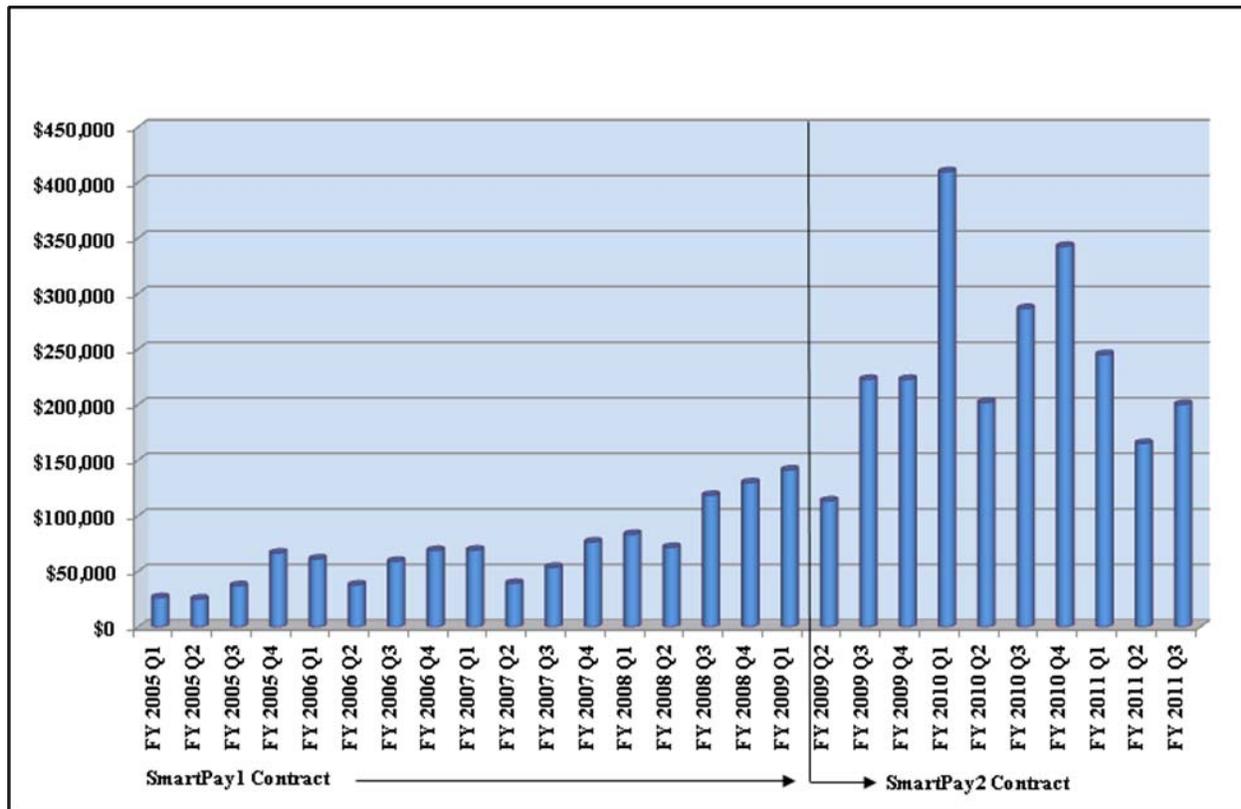
*Citibank Purchase Card and Fleet Card Rebates
Were Maximized and Are Now Properly Allocated*

Appendix V

*Internal Revenue Service Purchase Card¹
and Fleet Card Rebates*

Figure 1 illustrates the amount of rebates received per quarter for the purchase card program. The vertical line indicates the start of the SmartPay2 contract.

Figure 1: Total Purchase Card Citibank Rebates Received by Quarter



Source: Our analysis of Citibank Custom Reporting System data for FY 2005 through the 3rd quarter of FY 2011.

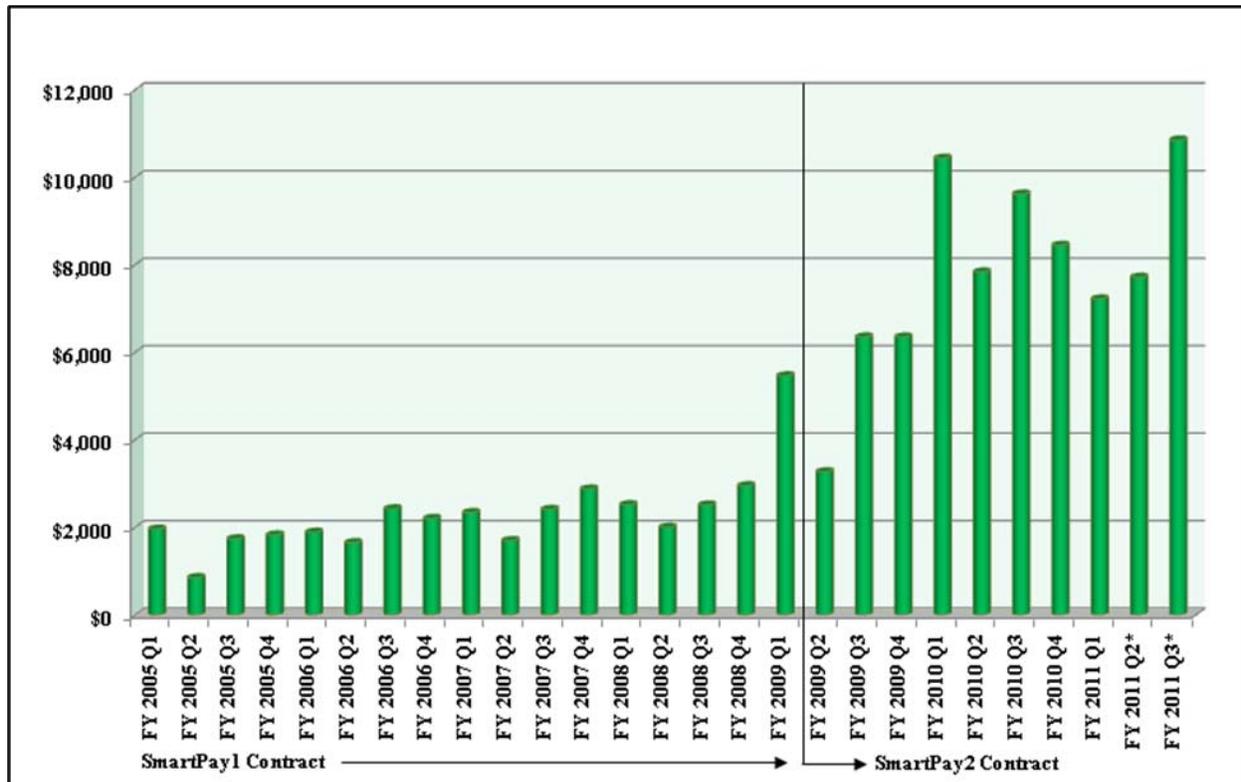
¹ See Appendix VII for a glossary of terms.



*Citibank Purchase Card and Fleet Card Rebates
Were Maximized and Are Now Properly Allocated*

Figure 2 illustrates the amount of rebates received per quarter for the fleet card program. The vertical line indicates the start of the SmartPay2 contract.

Figure 2: Total Fleet Card Citibank Rebates Received by Quarter



Source: Our analysis of Citibank Custom Reporting System data for FY 2005 through the 3rd quarter of FY 2011.
* Indicates the fleet card program received rebates from Wright Express.



*Citibank Purchase Card and Fleet Card Rebates
Were Maximized and Are Now Properly Allocated*

Figure 3 shows the purchase card and fleet card programs' total rebates received per quarter from the first quarter of FY 2005 through the third quarter of FY 2011. The "Total Rebates" column indicates the total combined purchase card and fleet card rebates received.

Figure 3: Citibank Quarterly Rebate Amounts Received

Fiscal Year/Quarter	Total Purchase Rebate	Total Fleet Rebate	Total Rebate
FY 2005 Q1	\$26,499.72	\$1,964.40	\$28,464.12
FY 2005 Q2	\$25,272.05	\$856.05	\$26,128.10
FY 2005 Q3	\$37,263.59	\$1,742.35	\$39,005.94
FY 2005 Q4	\$66,563.03	\$1,831.55	\$68,394.58
FY 2006 Q1	\$61,258.16	\$1,894.11	\$63,152.27
FY 2006 Q2	\$37,904.12	\$1,655.71	\$39,559.83
FY 2006 Q3	\$59,227.21	\$2,429.81	\$61,657.02
FY 2006 Q4	\$68,966.94	\$2,209.47	\$71,176.41
FY 2007 Q1	\$69,290.25	\$2,343.37	\$71,633.62
FY 2007 Q2	\$39,325.97	\$1,702.35	\$41,028.32
FY 2007 Q3	\$53,802.11	\$2,414.62	\$56,216.73
FY 2007 Q4	\$76,620.35	\$2,880.28	\$79,500.63
FY 2008 Q1	\$83,426.13	\$2,521.80	\$85,947.93
FY 2008 Q2	\$71,763.98	\$2,004.24	\$73,768.22
FY 2008 Q3	\$118,581.82	\$2,515.98	\$121,097.80
FY 2008 Q4	\$129,978.38	\$2,956.08	\$132,934.46
FY 2009 Q1	\$141,493.03	\$5,468.89	\$146,961.92
Beginning of SmartPay2 Contract			
FY 2009 Q2	\$113,578.88	\$3,276.27	\$116,855.15
FY 2009 Q3	\$222,907.08	\$6,354.64	\$229,261.72
FY 2009 Q4	\$222,907.08	\$6,354.64	\$229,261.72
FY 2010 Q1	\$409,813.64	\$10,440.70	\$420,254.34
FY 2010 Q2	\$202,128.60	\$7,840.52	\$209,969.12
FY 2010 Q3	\$286,732.64	\$9,620.46	\$296,353.10
FY 2010 Q4	\$342,669.21	\$8,450.79	\$351,120.00
FY 2011 Q1	\$245,300.40	\$7,223.67	\$252,524.07
FY 2011 Q2*	\$165,291.00	\$7,720.67*	\$173,011.67
FY 2011 Q3*	\$200,355.33	\$10,856.33*	\$211,211.66
TOTAL	\$3,578,920.70	\$117,529.75	\$3,696,450.45

Source: Our analysis of Citibank Custom Reporting System data for FY 2005 through the 3rd Quarter of FY 2011. * Indicates the fleet card program received rebates from Wright Express.



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Appendix VI

Excerpt From Office of Management and Budget Circular A-123, Appendix B

Office of Management and Budget Circular A-123, Appendix B, Improving the Management of Government Charge Card Programs, specifically states that the goal of this guidance is to maximize the benefits to the Federal Government when using Government charge cards to pay for goods and services by, for example:

- Improving financial, administrative, and other benefits offered to the Federal Government by Government charge card providers and other entities, including maximizing rebates where appropriate.
- Ensuring effective controls are in place to mitigate fraud, misuse, and delinquency.
- Reducing administrative costs and time for purchasing and paying for goods and services.

To drive down costs while ensuring that charge card programs effectively support the agency mission and financial controls, charge card managers must strive to:

- Utilize proper cash management decision making to maximize agency sales productivity rebates or Government-wide interest income earned by the Department of the Treasury as the situation determines.
- Employ the necessary internal controls to identify and collect corrective rebates.

In order to ensure that agencies are in the best position to maximize sales and productivity rebates, charge card managers must:

- Ensure on-time payments and appropriate card use by employing the processes and tools identified in the guidance.
- Initiate internal controls to ensure that appropriate charge card use is maximized.



*Citibank Purchase Card and Fleet Card Rebates
Were Maximized and Are Now Properly Allocated*

Appendix VII

Glossary of Terms

Term	Definition
Accrue	To increase in amount or value.
Appropriation	An appropriation is a provision of law authorizing the expenditure of funds for a given purpose and to incur obligations. The IRS has five appropriations: Taxpayer Services, Enforcement, Operations Support, Business System Modernization, and Health Insurance Tax Credit Administration.
Automated	To convert to an automatic operation.
Basis Point	A basis point in the SmartPay2 contract is 0.01 of one percent and is used in the calculation of the rebates received by the IRS.
Beckley Finance Center	The BFC processes all administrative accounts payable, accounts receivable, and collections and prepares and reconciles all financial reports and accounts to ensure integrity and accuracy.
Citibank Custom Reporting System	The Citibank Custom Reporting System provides a list of all attributes, metrics, and filters to produce queries and reports.
Fiscal Year	A 12-consecutive-month period ending on the last day of any month, except December. The Federal Government's fiscal year begins on October 1 and ends on September 30.
Fleet Cards	Fleet cards are used to procure fuel, maintenance service, and basic repairs for Government owned or leased vehicles. In January 2011, the IRS implemented a new fleet card program, Wright Express.
Integrated Financial System (IFS)	The IFS is a single-integrated system that connects the agency's account performance, budgeting, and procurement processing.
Integrated Procurement System (IPS)	The IPS is a procurement system that is used to track obligations, create solicitations and awards, handle vendor files, and generate reports.
Maximizing	The term "maximizing rebates" means to increase rebates as much as possible, where appropriate.



*Citibank Purchase Card and Fleet Card Rebates
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Term	Definition
Productivity Rebates	Productivity rebates are payments from the charge card contractor to the agency/organization based on the timeliness and/or frequency of payments to the contractor.
Purchase Card	Purchase cards are used to procure goods and/or services, such as office supplies, for authorized Government business.
Reasonableness Test	Reasonableness tests are procedures to examine the logic of accounting information.
Rebate	A rebate is a monetary payment provided by credit card contractors to agencies based on either the dollar volume spent or the timeliness and frequency of payments to the contractor.
Sales Rebate	Sales rebates are payments from the charge card contractor to the agency/organization based on the dollar or “spend” volume during a specified time period.
SmartPay1	SmartPay1 was a card program that provided credit cards to Federal Government agencies/departments through master contracts that are negotiated with major national banks. The contract was in effect from November 1998 through November 2008.
SmartPay2	SmartPay2 is a card program that provides credit cards to Federal Government agencies/departments through master contracts that are negotiated with major national banks. The contract is in effect from November 2008 through November 2018.
Web Request Tracking System	A web-based application that employs icons, drop-down menus, and fill-in data screens to automate the processing of requests for goods and services and provides an electronic interface between the IFS and the Integrated Procurement System.
Wright Express	In January 2011, the IRS implemented a new fleet card program, Wright Express. Wright Express is a subcontractor of Citibank that deals exclusively with fleet cards. Wright Express replaced the Citibank fleet card for the Criminal Investigation and Small Business/Self-Employed Division fleets, with the exception of the fleet vehicles operated internationally.