March 29, 2002

Acquisition

Controls Over the DoD Purchase Card Program
(D-2002-075)

Department of Defense
Office of the Inspector General

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Abstract
The first Government-wide purchase card contract was awarded by the General Services Administration in 1989 and DoD entered the program at that time. On October 13, 1994, the President of the United States issued Executive Order 12931 to increase the use of purchase cards for actions under $2,500. Purchases under $2,500 were chosen partly because these types of buys were generally less complex and did not require extensive procurement knowledge; and goods were often available for immediate delivery. Between FY 1996 and FY 2001, over 300 audit reports identified a wide range of implementation problems in the DoD Purchase Card Program. Nevertheless, the program remained an important part of DoD acquisition streamlining efforts.

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Acronyms

DFAS	Defense Finance and Accounting Service
GAO	General Accounting Office
GSA	General Services Administration
IG	Inspector General
OMB	Office of Management and Budget
PMO	Program Management Office
USD(AT&L)	Under Secretary of Defense for Acquisition, Technology, and Logistics
USD(C)	Under Secretary of Defense (Comptroller)

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March 29, 2002

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION, TECHNOLOGY, AND LOGISTICS

SUBJECT: Audit Report on Controls Over the DoD Purchase Card Program (Report No. D-2002-075)

We are providing this report for review and comment.

The Director, Defense Procurement provided a consolidated response to the draft report. DoD Directive 7650.3 requires that all recommendations be resolved promptly. Therefore, we request that the Director, Defense Procurement provide additional comments for recommendations 11 and 12.c by April 30, 2002.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Dennis L. Conway at (703) 604-9158 (DSN 664-9158) (dconway@dodig.osd.mil) or Ms. Kathryn M. Truex at (703) 604-9139 (DSN 664-9139) (kmtruex@dodig.osd.mil). See Appendix E for the report distribution. The audit team members are listed inside the back cover.

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Report No. D-2002-075 **March 29, 2002**
(Project No. D2001FG-0068)

Controls Over the DoD Purchase Card Program

Executive Summary

Introduction. The first Government-wide purchase card contract was awarded by the General Services Administration in 1989 and DoD entered the program at that time. On October 13, 1994, the President of the United States issued Executive Order 12931 to increase the use of purchase cards for actions under $2,500. Purchases under $2,500 were chosen partly because these types of buys were generally less complex and did not require extensive procurement knowledge; and goods were often available for immediate delivery.

Between FY 1996 and FY 2001, over 300 audit reports identified a wide range of implementation problems in the DoD Purchase Card Program. Nevertheless, the program remained an important part of DoD acquisition streamlining efforts.

Objective. Our objective was to evaluate the issuance and use of purchase cards and the controls over the processing of purchase card payments. We also reviewed the overall management control program as it related to the purchase card program. During our review, we examined the controls for issuing and using 231,856 purchase cards. We also selectively reviewed the controls over the processing of more than 10.6 million purchases amounting to $6.1 billion in FY 2001. In addition, we reviewed over 12,000 convenience checks totaling in excess of $27 million.

Results. The Purchase Card Joint Program Management Office needed to improve oversight and management controls over the 231,856 purchase cards in use and 10.6 million purchases made in FY 2001. Improved controls were needed over:

- selecting cardholders (29,120 purchase cards were unused for 6 months),
- assigning approving officials (3,463 approving officials oversaw more than 7 cardholder accounts each and 31 of these approving officials oversaw more than 100 cardholder accounts),
- setting of spending limits (6,533 cardholder accounts had a monthly spending limit of over $100,000),
- transactions at blocked businesses (over $4 million in transactions appeared to have been made at businesses that should have been blocked by the bank as inappropriate),
- purchases declined by banks (687 cardholder accounts had 10 or more declined purchases in a month),

- purchases made after card accounts were closed (transactions occurred on 390 closed accounts in a month), and

- management of convenience checks (248 of 12,008 checks written in a 20-month period exceeded the $2,500 authorized limit).

These conditions did not necessarily mean that fraud, waste, or mismanagement of purchase cards or checks had occurred. Some conditions could be data entry errors, but the absence of internal controls increases the risk for fraud, waste, or mismanagement. Although identified misuse was small in comparison to the volume of annual purchases, controls were not robust and only through more proactive oversight can the DoD ensure the integrity of the program. For details of the audit results, see the Finding section of the report. See Appendix A for details on the management control program.

Management Actions. During the audit, the Director, Defense Procurement and the Director, Purchase Card Joint Program Management Office took corrective actions to strengthen controls over the purchase card program. In particular, controls pertaining to the supervision of cardholders and restricting purchases from inappropriate businesses were strengthened. In addition, the Director, Defense Procurement requested assistance from the Inspector General, DoD, in obtaining audit results on the purchase card program to assist in managing the program, tracking fraud, and identifying trends of misuse. Further, on March 12, 2002, the Under Secretary of Defense for Acquisition, Technology, and Logistics and the Under Secretary of Defense (Comptroller) issued a joint memorandum that emphasized the need for all DoD organizations to maintain adequate internal review programs and to investigate potential abuse of the purchase card and take appropriate corrective and disciplinary actions.

On March 27, 2002, the Under Secretary of Defense (Comptroller) held a press conference to highlight actions directed by the Secretary of Defense to strengthen controls over purchase cards. These actions included the creation of a taskforce to be lead by the Comptroller to improve management of credit cards by punishing wrongdoers, developing reforms, improving training, and ensuring that senior management enforce controls of credit cards. The taskforce recommendations for proposed legislation and administrative changes needed for improvement are expected within 60 days.

Summary of Recommendations. We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics coordinate with the Under Secretary of Defense (Comptroller) to develop standardized training and update the program policies and procedures with internal controls addressed in this report. Also, we recommend that the Director, Defense Procurement, issue guidance on limiting the amounts for single purchases and modify the purchase card contract to block inappropriate businesses from use by cardholders. We recommend the Director, DoD Purchase Card Joint Program Management Office, review controls over issuing, using, and closing purchase card accounts. Also, we recommend that the Director design and test controls over the use of convenience checks and to verify the accuracy of data in bank computer systems.

Management Comments. The Director, Defense Procurement generally concurred with the audit findings and the intent of all the recommendations. The Director concurred with developing standardized training and updating program policies and procedures with internal controls addressed in this report, but non-concurred with modifying the purchase card contract regarding convenience checks and reopening of closed accounts.

Audit Response. The corrective actions initiated will improve the controls for the program. We believe there are actions that can be taken regarding convenience checks and reopening closed accounts. As a result, we request that the Director, Defense Procurement comment on these issues by April 30, 2002.

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Background

Federal Purchase Card Program. The first Government-wide purchase card contract was awarded by the General Services Administration (GSA) in 1989. DoD entered the program at that time. On October 13, 1994, the President of the United States issued Executive Order 12931 mandating increased use of purchase cards for micro-purchases (purchases under $2,500). Micro-purchases were chosen partly because these types of buys were generally less complex and did not require extensive procurement knowledge; and goods were often available for immediate delivery.

Government-wide purchases with the purchase card grew from $1.6 billion in 1995 to more than $12 billion in 2000. GSA, the agency responsible for the Government-wide purchase card program, reports that the Government saves approximately $1.2 billion annually in administrative costs by using purchase cards. In addition, the program earned the Government rebates in excess of $50 million in FY 2000 by paying for purchases promptly.

Federal Acquisition Regulation, part 13, "Simplified Acquisition Procedures," August 7, 2000, states that purchase cards should be the preferred method for purchases under $2,500. Purchase cards are also preferred for making contract payments.

Purchase Card Joint Program Management Office. The Deputy Secretary of Defense established the DoD Purchase Card Joint Program Management Office (PMO) in March 1998. The PMO is staffed with representatives from each of the Military Departments, the Defense Logistics Agency, and the Defense Finance and Accounting Service (DFAS). The PMO reports directly to the Director, Defense Procurement, within the office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD[AT&L]). Finance and accounting issues are coordinated with the Under Secretary of Defense (Comptroller) (USD[C]).

The Deputy Secretary of Defense directed the PMO to promote purchase card use, setting a goal that purchase cards be used for 90 percent of micro-purchases by FY 2000. The PMO reported that the goal was met in FY 1999, and exceeded by 5 percent in FY 2000. In addition, the PMO reported earning rebates, from prompt payment of purchases, amounting to $20 million in FY 1999. USD(AT&L) directed the PMO to coordinate contract requirements with GSA, reduce delinquencies, deploy a standard DoD-wide card management and reconciliation system, and develop a DoD-wide training program.

DoD organizations are responsible for distributing cards, training employees, and day-to-day management of the purchase card program. Each participating organization designates an office to manage the program, including assuring training is provided, a current list of cardholders and approving officials is maintained, and an annual oversight review of the program is performed.

How the DoD Program Works. DoD selected Citibank and the U.S. Bank to process its purchase card transactions. The GSA contract requires Citibank and the U.S. Bank to develop guidance on duties and responsibilities for employees involved in the Government-wide purchase card program. Following those

guidelines, DoD appointed agency program coordinators[1] with the responsibility for program management at the installation, major command, and Component levels. Coordinators issue purchase cards, establish limits on spending, and monitor use of a purchase card account.

Also, DoD employees are assigned as "approving officials" to authorize and approve purchases for payment. Once a cardholder makes an authorized purchase, the cardholder and the approving official reconcile the purchased goods and services with the bank statement prior to the approving official requesting payment by DFAS. See Appendix B for additional details on the organization of the DoD Purchase Card Program.

Congressional Interest. Weaknesses in the DoD purchase card program came to the attention of both Congress and the General Accounting Office (GAO) during 2001 and 2002. The House of Representatives Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations conducted hearings on July 30, 2001, and March 13, 2002. At the hearings, Senator Charles Grassley testified to the lack of internal controls over the DoD Purchase Card Program. GAO testified on program abuses at two Navy locations that were caused by significant breakdowns in purchase card controls. GAO specifically cited these breakdowns as contributors to fraudulent and abusive spending, theft, and misuse of Government property.

Other DoD Reviews of Purchase Card Program. The Inspector General (IG), DoD, and audit organizations in the Military Departments issued more than 300 reports on purchase cards between FYs 1996 and 2001. IG, DoD, Report No. D-2002-029, "DoD Purchase Card Program Audit Coverage," December 27, 2001, identified systemic issues within the purchase card program. These systemic issues included account reconciliation and certification, administrative controls, management oversight, property accountability, purchase card use, purchases, separation of duties, and training.

Objective

The audit objective was to evaluate the appropriateness of the issuance and use of purchase cards and the controls over the processing of purchase card payments. We also reviewed the management control program as it related to the overall objective. See Appendix A for a discussion of the audit scope and methodology, the review of the management control program, and prior coverage.

[1]Agency program coordinators are responsible for the implementation and execution of the purchase card program in accordance with established DoD regulations, policies, and procedures.

Controls Over the DoD Purchase Card Program

The Purchase Card Joint Program Management Office needed to improve oversight and management controls over 231,856 purchase cards and 10.6 million purchases in FY 2001. Analysis of purchase card and convenience check data for FYs 2000 and 2001 indicated that improved controls were needed over:

- selecting cardholders (29,120 purchase cards were unused for over 6 months),
- assigning approving officials (3,463 approving officials oversaw more than 7 cardholder accounts each and 31 of these approving officials oversaw more than 100 cardholder accounts),
- setting of spending limits (6,533 cardholder accounts had a monthly spending limit of over $100,000),
- transactions at blocked businesses (over $4 million in transactions appeared to have been made at inappropriate businesses that should have been blocked by the bank),
- purchases declined by banks (687 cardholder accounts had 10 or more declined purchases in a month),
- purchases made after card accounts were closed (transactions occurred on 390 closed accounts in a month), and
- management of convenience checks (248 of 12,008 checks written in a 20-month period exceeded the $2,500 authorized limit).

These conditions did not necessarily mean that fraud, waste, or mismanagement of purchase cards or checks had occurred. Some conditions could be the result of data entry errors, but the absence of internal controls increases the risk for fraud, waste, or mismanagement.

These conditions occurred because internal controls were not sufficient or effective, policies and procedures for the program were nonexistent, incomplete, or not followed, and program management and oversight did not ensure that standardized training was provided or that required annual oversight reviews were conducted.

As a result, although the identified misuse was small in comparison to the volume of annual purchases, management controls were not robust and only through more proactive oversight can DoD ensure the integrity of the program.

Program Controls

Managers need to examine internal controls to determine how well a program is performing, how it may be improved, and the degree to which controls help identify and address major risks for fraud, waste, abuse, and mismanagement. Office of Management and Budget (OMB) Circular No. A-123, "Management Accountability and Control," June 1995, states that Federal agencies have the responsibility to ensure that resources are used efficiently and effectively, and with minimal potential for fraud, waste, and abuse. Further, the Circular states that controls such as policies and procedures are tools to help managers achieve results and safeguard the integrity of programs.

The DoD PMO needed to improve oversight and management controls over the purchase card program. We examined the controls for issuing and using 231,856 purchase cards. We also selectively reviewed the controls over the processing of more than 10.6 million purchases amounting to $6.1 billion in FY 2001. In addition, we reviewed more than 12,000 convenience checks totaling more than $27 million. Improved controls were needed over the following aspects of the program:

- selecting cardholders and assigning approving officials,
- setting of spending limits,
- blocking and declining inappropriate purchases,
- purchases made after card accounts were closed, and
- managing convenience checks.

Selecting Cardholders and Assigning Approving Officials

Controls over purchase cards were not sufficient to prevent organizations from issuing cards to employees without a valid need. Organizations also did not limit the number of cardholder accounts and transactions managed by an approving official.

According to the DoD Purchase Card PMO, each DoD organization was responsible for establishing controls, such as policies and procedures, for distributing purchase cards. Also, each DoD organization was responsible for selecting approving officials[2] and determining the number of cardholders assigned to each approving official.

Distribution of Cards Based on Need. According to the PMO, purchase cards may be issued to any individual that a DoD activity deems appropriate. As of September 30, 2001, DoD had 231,856 current purchase card accounts. The

[2]The U.S. Bank uses the term "billing official" and Citibank uses "approving official" for an individual responsible for ensuring buys with a purchase card are authorized, documented, and certified for payment. For consistency, we will use the term "approving official" in this report.

audit determined, however, that 29,120 purchase cards were not used within a 6-month period. This lack of usage indicated the cards probably were not needed by the cardholders.

Better controls were needed to ensure that purchase cards were issued only to employees with a valid need to make purchases. In addition, controls should be in place to monitor the use of cards and to rescind unused cards. Without guidance requiring an employee to demonstrate the need for a card or withdrawal of cards unused for a specific period, the risk increases for card misuse.

Number of Cardholders Managed by Approving Officials. Some approving officials managed more than 100 cardholder accounts. Approving officials are a key control in the purchase card process because these officials verify the need for purchases and review the accuracy of monthly bills. Table 1 displays the number of cardholder accounts per approving official within DoD.

Table 1. Number of Cardholder Accounts per Approving Official (as of May 31, 2001)

Number of Cardholder Accounts per Approving Official	Number of Approving Officials				
	Army	Navy	Air Force	Defense Organizations	Total
1 to 7	18,893	6,963	14,907	2,584	43,347
8 to 20	1,508	283	950	102	2,843
21 to 99	287	41	240	21	589
100 or more	21	3	4	3	31
Total	**20,709**	**7,290**	**16,101**	**2,710**	**46,810**

On July 5, 2001, the PMO issued policy guidance stating that approving officials should normally be responsible for five to seven cardholders. Although only 7.4 percent of the approving officials managed more than 7 cardholder accounts (3,463 of 46,810 approving officials), 31 approving officials managed more than 100 cardholder accounts each. (Appendix C lists DoD organizations with approving officials responsible for more than 100 cardholder accounts.) Although the 31 approving officials may satisfactorily review and process bills for 100 cardholder accounts each, a large number of transactions on the bills may hinder a complete review.

Purchase Transactions Processed by Approving Officials. These 31 approving officials processed more than 22,150 transactions in May 2001. However, the number of transactions managed by each approving official varied significantly. For example, an approving official at the U.S. Air Force Education and Training Command was responsible for 105 cardholder accounts that collectively had only 2 purchases totaling $28,067 in May 2001. However, an approving official at the Army Corps of Engineers was responsible for 489 accounts that had 3,606 transactions totaling $1,490,338 in May 2001.

We selected two approving officials with more than 100 cardholder accounts (one at the Naval Surface Warfare Center in Indian Head, Maryland, and another at the Walter Reed Army Medical Research Acquisition Activity, Forest Glen, Maryland) to assess how effectively approving officials reviewed transactions.

Naval Surface Warfare Center. At the Naval Surface Warfare Center, an agency program coordinator also performed the duties of an approving official. This approving official certified all bills but only reviewed about 30 percent of the bills each month (the official was responsible for 144 cardholder accounts in May 2001 and 170 accounts in October 2001).

For May 2001, the approving official certified 1,926 transactions for $1.3 million. We were told that the official was certifying more than 100 accounts because past experience showed that using multiple approving officials created delinquencies and reduced rebates. However, because the official was certifying unreviewed bills, the risk of inappropriate purchases increased.

Walter Reed Army Medical Research Acquisition Activity. The approving official at Walter Reed was responsible for 102 cardholder accounts that processed 1,720 transactions totaling $706,196 for May 2001. However, the approving official was not certifying all transactions. Thus, inappropriate or unsupported purchases were more likely to occur.

Impact of Account Reviews on Prompt Payment of Bills. Approving officials responsible for a large number of cardholder accounts and transactions were more likely to have insufficient time to process the bills for payment and to have bills become delinquent. As presented in Table 2, approving officials with seven or more accounts were delinquent in making $10.6 million in payments.

Table 2. Approving Officials Managing 7 or More Cardholder Accounts (Accounts With Delinquencies as of May 31, 2001)

		Number of Days Delinquent				
DoD Organization	Number of Approving Officials	1 to 30	31 to 60	61 to 90	91 to 120	Total
Army	64	$2,017,157	$1,475,505	$79,511	$4,332	$3,576,505
Navy	51	6,124,829	652,976	31,908	2,421	6,812,134
Air Force	8	167,128	25,352	599	854	193,933
Other Defense Organizations	1	0	79	0	0	79
Total	**124**	**$8,309,114**	**$2,153,912**	**$112,018**	**$7,607**	**$10,582,651**

There were no accounts more than 120 days delinquent for these approving officials.

The 124 approving officials shown in Table 2 represent only 3.6 percent of the total number of approving officials responsible for more than 7 cardholder accounts and only .3 percent of all approving officials in DoD. However, these 124 approving officials were responsible for $10.6 million (29 percent) of the total $36.9 million of delinquent transactions as of May 31, 2001. If approving

officials are responsible for reviewing too many transactions, the risk increases for delinquent payments.

Management Controls Needed. The Director, Defense Procurement, needs to require DoD organizations participating in the purchase card program to require employees to demonstrate the need for a purchase card. The PMO needs to direct agency program coordinators to review card use at least quarterly and cancel unneeded cards. The PMO also needs to ensure increased oversight over approving officials managing more than seven cardholder accounts or comply with the seven cardholder account limit.

Approving Officials. DoD organizations use guidance developed by Citibank and the U.S. Bank to assign purchase card duties to their employees. Following these guidelines, organizations also assign employees as approving officials to supervise cardholders. Each cardholder should have an approving official. Duties should be separated between cardholders and approving officials.

Assignment of Approving Officials. We identified abnormalities involving the assignment of approving officials such as:

- approving officials without cardholders,
- cardholders without an approving official, and
- cardholders with more than one approving official.

These abnormal occurrences are shown in Table 3 by DoD organization.

Table 3. Status of Approving Officials
(as recorded in Citibank and U.S. Bank systems as of May 31, 2001)

	Number of Approving Officials				
Status of Approving Officials	Army	Navy	Air Force	Other Defense Organizations	Total
Approving Officials without Cardholders	2,019	373	1,234	412	4,038
Cardholders without an Approving Official	422	1,146	188	126	1,882
More Than One Approving Official	8	-0-	6	31	45

These abnormalities could represent data errors or outdated information in the bank systems. Controls would have identified these occurrences for further investigation and possible corrective action.

Separation of Duties Between Cardholders and Approving Officials. According to OMB Circular No. A-123, key duties of processing, reviewing, and authorizing transactions for payment should be separated among individuals. In addition, the Circular states that managers should ensure that individuals do not exceed or abuse assigned duties.

Cardholder and Approving Official Responsibilities. The Treasury Financial Manual, October 5, 2000, holds cardholders responsible for

complying with DoD regulations and practices when making purchases. Approving officials are responsible for ensuring buys with a purchase card are authorized, documented, and certified for payment.

Controls Over Reviewing and Approving Purchases. In May 2001, DoD had 46,810 approving officials for purchase cards. These approving officials represent the internal control to prevent inappropriate use of the purchase cards. Approving officials provide this control by independently reviewing and approving purchases made by the cardholders. However, this control did not exist for 156 accounts during May 2001. Cardholders were inappropriately performing the duties of reviewing and approving their own purchases. Table 4 identifies the number of card accounts where cardholder and approving official duties were not appropriately separated.

Table 4. Number of Cardholders Allowed to Review and Approve Purchases for Payment (for May 2001)[1]

Activity	Number of Accounts
Army	62
Navy	37
Air Force	48
Other Defense Organizations	9
Total	**156**

[1]Appendix D provides details on the specific organizations that allowed cardholders to make purchases and certify those purchases for payment.

Reviews on Duty Separation at Selected Organizations. We selected five DoD organizations where cardholders were also approving officials to determine why duties were not separated. We determined that the duties were not separated because neither the DoD activity managers nor the PMO had verified that an employee was not a cardholder before appointing the employee as an approving official.

Reviews at two of the five DoD organizations showed that inappropriate actions had occurred. For example, at one activity:

- unauthorized personnel had certified purchases for 7 months,
- original signatures could not be verified for 2 of the 7 months,
- two purchases were made separately to avoid contracting rules,
- no documents were on file that requested purchases, and
- no documents were on file to support purchases made for service or maintenance contracts.

At the second activity, no documents were on file to support purchases of a Christmas tree and office furniture. At the other three DoD organizations, no inappropriate actions or purchases were found.

DoD auditors have issued 22 reports citing instances of insufficient separation of duties involving purchase cards. Further information on these reports is available in IG, DoD, Report No. D-2002-029, "DoD Purchase Card Program Audit Coverage," December 27, 2001.

Management Controls Needed. The PMO should conduct regular analyses to identify abnormal conditions such as approving officials without cardholders, more than one approving official for a cardholder, and the existence of cardholders without an approving official.

The PMO should require agency program coordinators to research and resolve such abnormal occurrences. The PMO also needs to periodically identify, research, and correct inappropriate separations of duty to ensure cardholders are not allowed to be approving officials.

Spending Limits

The Government purchase card can be used as a "stand alone" simplified acquisition method in accordance with the specific single purchase limits cited in Table 5. In addition, the card can be used as a payment method for supplies and services above the micro-purchase threshold by warranted contracting officers and nonprocurement cardholders that have been appropriately designated and received specialized training.

Authority for nonprocurement cardholders to use the card above the micro-purchase threshold is in the Federal Acquisition Regulation 13.301, "Government-wide Commercial Purchase Card." This section authorizes use of the purchase card as a means of placing a task order or delivery order against a contract, basic ordering agreement, or blanket purchase agreement. Thus, appropriately designated cardholders may use the card to place orders for supplies and services covered by Indefinite Delivery Indefinite Quantity contracts, Federal Supply Schedule contracts, blanket purchase agreements, and other ordering instruments.

Table 5. Limits for Specific Categories of Purchases[1]

Categories of Purchases	Limit of Purchase
Supplies or services	$ 2,500
Construction	2,000
Training requests	25,000
Medical services	2,500
Nonappropriated funds	2,500
Military interdepartmental purchases	2,500
Overseas purchases	25,000

[1] The FY 2002 Defense Authorization Act, which expires September 30, 2003, raised the limit to $15,000 per transaction for purchases relating to biological or chemical terrorism, and other terrorist acts (76 Federal Contracts Report 624).

According to the PMO, each cardholder has a single purchase dollar limit as well as a monthly purchase dollar limit. The agency program coordinator along

with the approving official and resource manager determine the appropriate spending limit authorization controls. These authorization controls are imposed to control spending and to support a system of funds controls in accordance with available funding.

Micro-Purchase Threshold. DoD organizations issued purchase cards with limits exceeding $2,500 for a single micro-purchase. Table 6 shows that for the months of February and May 2001,[3] DoD cardholders made 31,018 (14,389 plus 16,629) transactions, valued at $311.9 million, that exceeded the micro-purchase threshold.

Table 6. Transactions Over the Micro-Purchases Threshold (during February and May 2001)

Organizations	Number of Transactions in February 2001 over $2,500	Amount of Transactions	Number of Transactions in May 2001 over $2,500	Amount of Transactions
Army	4,767	$61,496,513	5,462	$60,312,011
Navy	4,300	43,123,109	4,848	48,309,526
Air Force	3,660	25,861,464	4,383	31,248,021
Other Defense Organizations	1,662	19,772,481	1,936	21,835,509
Total	**14,389**	**$150,253,567**	**16,629**	**$161,705,067**

The micro-purchase threshold was exceeded by amounts ranging from $.70 to $206,326 during May 2001. Although the cardholders that exceeded the micro-purchase threshold may have used the card appropriately in each of these transactions as a payment method, we were not able to validate this premise from the available data. The PMO advised that there was no way to segregate bank reported purchase card transactions and associated dollars data to indicate whether the card was used as a method of acquisition or as a method of payment. The data show the need for increased controls by approving officials for reviewing and certifying transactions for payment.

Comparison of Spending Limits to Available Funds. Table 7 shows the amount cardholders and approving officials were authorized to spend in a given billing cycle as indicated in information provided by the banks. For cardholder accounts, this amount defines the maximum amount that may be charged in one monthly billing cycle. For approving officials, this amount is a multiple of three of the cycle dollar limit.

[3]Purchase card data was obtained for the months of February and May 2001 unless otherwise noted in this report.

Table 7. Cardholder and Approving Official Monthly Spending Limits (in billions of dollars)		
DoD Organization	Cardholders' Limits	Approving Officials' Limits
Army	$3.0	$7.5
Navy	1.5	35.4
Air Force	1.8	4.5
Other Defense Organizations	.8	1.6
Total	**$7.1**	**$49.0**

The FY 2002 DoD Appropriations Act provided DoD with $332.6 billion. Approving officials had annualized spending limits of $196.4 billion ($49.0 billion divided by 3 multiplied by 12), or 59 percent of the DoD budget.

During May 2001, 6,533 cardholder accounts had monthly limits exceeding $100,000 and 40 of those accounts had a limit of $9,999,999. Cardholders could spend up to $9,999,999 for a single purchase or per month if no approving official limit was entered into the bank system.

High spending limits created the potential for inappropriate purchases and could lead to potential violations of the Antideficiency Act if spending exceeded budgeted funds. For example, a U.S. Bank report showed that cardholders of the Air Force 1st Fighter Wing had a yearly spending limit of $6.6 billion. However, the 1st Fighter Wing had an annual budget of only $130 million. Therefore, the cardholder spending limit was potentially 50 times greater than the budget of available funds for the entire Wing. The PMO and U.S. Bank contend that the report was inaccurate; however, neither organization was able to document this assertion or demonstrate that corrective actions were completed to adjust the credit limits.

Accuracy of Limits Recorded in Bank Systems. Reports generated by the U.S. Bank computer system were not accurate in that they failed to show actual amounts established in the system by DoD personnel.

Establishing Purchase Card Accounts. Within the purchase card program, the agency program coordinator was responsible for establishing new purchase card accounts in the bank systems. When establishing an account, the agency program coordinator was responsible for establishing controls over spending by entering a limit on the amount to be spent for a single micro-purchase and over the period of a month. In addition, the agency program coordinator was responsible for maintaining these spending controls by changing the single micro-purchase and monthly limits in the bank system when needed.

Changing Purchase Card Accounts. At the U.S. Bank, changes made to single micro-purchase and monthly spending limits did not properly update the bank's system. For example, the Air Force 1st Fighter Wing personnel entered changes into the bank system for 20 accounts. The changes should have restricted the total monthly spending limit for the 20 accounts to $427,100.

However, the changes did not appropriately update in the system. In addition, the bank system showed that 512 card accounts in the 1st Fighter Wing had no limit on single micro-purchases.

The 1st Fighter Wing's headquarters, the Air Combat Command, and bank personnel stated that the problem was identified during testing of the U.S. Bank system in December 2000. However, the PMO and users of the bank system were not aware of the problem as of June 2001. Furthermore, as of November 2001, the problem was still uncorrected.

Management Controls Needed. To improve controls over spending limits, the Director, Defense Procurement, should develop written guidance for issuing purchase cards that includes a methodology for use by agency program coordinators in establishing spending limits for cardholders and approving officials. In addition, proper oversight by the PMO must be in place to ensure cardholders are adhering to the limits. Proper oversight by the PMO should include requiring agency program coordinators to:

- perform periodic reviews on the amount of purchases made by cardholders,
- adjust the purchase limit to the minimum amount justified by use, and
- ensure purchase limits are established.

In addition, the PMO should follow up to ensure that appropriate reviews are made by the agency program coordinators and that purchase limits recorded by U.S. Bank and Citibank are those requested by DoD. Commercial credit card companies reduce the risk of bad debts by setting a dollar limit on purchases allowed by customers. Accordingly, the PMO must ensure that limits are in place and that DoD employees are limited to the minimum amount of purchases based on funds available and the justifiable needs of an activity.

Blocked Businesses

The GSA contract instructs Citibank and the U.S. Bank to prevent inappropriate use of purchase cards by blocking purchases from some businesses. However, purchase cards were sometimes used to process inappropriate transactions.

Use of Cards at Blocked Businesses. The PMO provided information on its Internet website that prohibited cardholders from making purchases from businesses such as jewelry stores, pawn shops, and dating or escort services. The banks were supposed to block transactions from these businesses.

However, the banks processed more than $4 million in transactions from businesses supposedly blocked. Table 8 shows the transactions not blocked by banks between October 1999 and May 2001.

Table 8. Transactions Not Blocked by Banks (between October 1999 and May 2001)		
Businesses Coded as	Number of Transactions	Amount of Transactions
Jewelry Stores	3,034	$1,630,052
Direct Marketing Insurance	1,636	1,390,188
Pawn Shops	634	291,282
Antique Shops	550	254,578
Financial Institutions – Manual Cash Advance	68	320,766
Dating and Escort Services	61	5,528
Antique Reproductions	53	33,809
Security Brokers or Dealers	52	32,974
Timeshares	47	34,070
Court Costs, Alimony, and Child Support	36	7,203
Bail and Bond Payments	4	12,673
Political Organizations	3	900
Fines	3	1,482
Wire Transfer—Money Orders	2	644
Betting, Casino Chips, and Off-Track Betting	2	2,508
Total Number and Amount of Transactions	**6,185**	**$4,018,657**

Verifying the Appropriateness of Selected Transactions. We selected 229 questionable transactions made between October 1999 and July 2001 to determine whether the transactions were made for valid purposes. By contacting vendors and conducting internet searches, we determined that 157 of the 229 transactions were appropriate; however, the business' bank had miscoded the business. For example, 65 of the transactions were coded as 7273 (Dating and Escort Services); however, the majority of these transactions were to various computer companies, which should have been coded as 7372 (Computer Programming, Integrated Systems Design, and Data Processing Services).

A more detailed review of 95 of the 229 transactions through on-site auditor verification of cardholder billing statements and supporting documentation, to include cardholder interviews, was also conducted. This review showed that 94 of the 95 transactions were made for appropriate purposes, although the code numbers used by the bank were incorrect for 79 of the 95 transactions. The one inappropriate transaction was referred to the Defense Criminal Investigative Service for further investigation.

Management Controls Needed. The Director, Defense Procurement, needs to publish a list of the specific types of businesses blocked from use by cardholders. Also, the Director needs to request that GSA modify the purchase card contract to require banks to block purchases from businesses considered inappropriate by DoD organizations participating in the purchase card program.

Purchases Declined by Banks

The banks appropriately denied some attempted purchases. According to bank records, these attempted purchases were declined because cardholders did not

have enough available credit, the bank system was not operating, the account was temporarily closed, or the account needed to be activated.

Cardholders made 954,002 purchases amounting to more than $488.2 million during February 2001. However, 11,480 cardholder accounts were declined 44,893 purchases. Cardholders attempting to make purchases despite repeated denials could suggest attempts to use the cards inappropriately. Although over 90 percent of the cardholder accounts with declined purchases had fewer than 10 attempts to process purchases during February 2001, as shown in Table 9, some cardholders had a significant number of purchases declined. One cardholder with the U.S. Army Contracting Command in Korea had a total of 78 declined purchases. This cardholder attempted purchases at home furnishing stores, equipment rental stores, fuel dealers, and drapery and upholstery stores.

Table 9. Number of Card Accounts with Declined Purchases (as of February 2001)

Organizations	10 or Fewer Purchase Attempts Declined	11 or More Purchase Attempts Declined	Total Number of Card Accounts with Declined Purchases
Army	4,413	235	4,648
Navy	1,936	250	2,186
Air Force	3,746	150	3,896
DoD Organizations	698	52	750
Total	**10,793**	**687**	**11,480**

Management Controls Needed. The PMO needs to direct agency program coordinators to identify and investigate accounts when cardholders are attempting to make purchases after repeated declines by the banks.

Purchases Made After Card Accounts Were Closed

Purchases were processed for some card accounts after the accounts were closed. According to the banks, the accounts had been closed, but not terminated. Because the accounts were only closed, the banks allowed the accounts to be reopened for processing purchases. Many transactions were for America OnLine internet accounts. Table 10 details the number of transactions processed on closed accounts.

Table 10. Transactions on Closed Accounts (May 2001)			
Organizations	Number of Cardholder Accounts	Number of Transactions	Dollar Value
Army	147	251	$171,734
Navy	82	115	42,758
Air Force	128	210	184,785
Other Defense Organizations	33	48	40,443
Total	**390**	**624**	**$439,720**

Although the number of purchases processed through closed accounts was small, some purchase card agency program coordinators believed that no transactions could be processed through these accounts once closed. Because some approving officials and agency program coordinators were not aware that the banks would process transactions through these closed accounts, the risk increased for undetected fraudulent transactions.

Controls were not always in place and working to detect fraudulent transactions. For example, the Army Materiel Command cardholders were only required to sign a list as proof that an old purchase card was returned. The activity did not attempt to determine whether the card account had unrecorded purchases, unreceived purchases, or automatically recurring purchases (such as subscriptions). Therefore, purchases could be processed on closed accounts without detection by the purchase card approving officials and agency program coordinators.

Management Controls Needed. The PMO needs to coordinate with the banks and modify the purchase card contract to include procedures that prevent card accounts from being reopened after closure.

Convenience Checks

According to the DoD Financial Management Regulation, the desired method for making all payments within the United States is transferring funds electronically. When electronic transfers of funds are not practical, the Financial Management Regulation permits the use of purchase cards. If a business refuses to accept the purchase card or if use of the card is impractical, DoD may use a convenience check.[4]

Within the purchase card program, the GSA contract requires the U.S. Bank and Citibank to accommodate DoD organizations with convenience checks. Convenience checks provide an alternative for DoD to make minor purchases when cash, purchase cards, and other alternatives are not usable. Convenience checks should not exceed $2,500 ($10,000 in support of a contingency if

[4] Convenience checks are a contractor-provided product and service that allows checks to be written on a card account within established dollar limits.

overseas). Use of convenience checks was not properly monitored to ensure that:

- checks did not exceed $2,500,
- checks were not used to make purchases when the purchase card could have been used, and
- checks were not used to buy unauthorized items.

Use of Convenience Checks. Convenience checks amounting to more than $1.9 million were written for amounts greater than the authorized $2,500. Although approving officials were responsible for certifying payments of bills, almost 250 convenience checks were written in excess of $2,500 by DoD organizations,[5] as shown in Table 11.

Table 11. Convenience Checks Written for Amounts Exceeding $2,500 (between October 1999 and May 31, 2001)

Organizations	Total Number of Checks Written	Number of Checks Over $2,500	Value of Checks Over $2,500
Army	6,478	35	$ 209,834
Navy	2,241	135	1,225,513
Air Force	2,352	60	337,148
Other Defense Organizations	932	18	128,036
Unknown	5	-0-	-0-
Totals	**12,008**	**248**	**$1,900,531**

Although the percentage of checks written for amounts greater than $2,500 was not significant when compared with the total number of checks written, the DoD Financial Management Regulation prohibits writing checks for more than $2,500.

Reviews on Convenience Checks. The PMO conducted quarterly reviews on convenience checks issued for amounts greater than $2,500 and sent the results semiannually to each of the Services and other Defense organizations. Also, the PMO required all organizations to conduct an audit and to cancel checking accounts that violated the DoD Financial Management Regulation limitation of $2,500 per check.

The PMO reviewed convenience checks issued from July 1, 2000, through December 31, 2000. The review identified 38 convenience checks issued for more than $2,500. The PMO determined the primary reasons for checks issued for more than $2,500 as:

- approving officials did not properly oversee check writing,

[5]A total of $27,389,557 of convenience checks were written between October 1999 and May 31, 2001.

- check writers avoided the splitting of a purchase (splitting of purchases is prohibited by the Federal Acquisition Regulation), and

- check writers were not familiar with guidance for using the checks.

The PMO performed its initial review of convenience checks for the period of January 1, 2000, through June 30, 2000. The initial review determined that the Army, Navy, and Air Force had issued 80 convenience checks for more than $2,500 totaling $464,683. Similar to the most recent review—July 1, 2000, through December 31, 2000—the organizations contended that most of the checks were issued for more than $2,500 because check writers and approving officials were not aware of the guidance relating to convenience checks. As of November 21, 2001, the PMO had received results of the reviews from all organizations except the Defense Intelligence Agency.

Use of Convenience Checks at Businesses That Accept the Purchase Card. Convenience checks were inappropriately used at businesses that accepted the purchase card. According to the DoD Financial Management Regulation, convenience checks are an alternative to cash for paying official expenses of DoD organizations that previously used imprest funds.[6] Convenience checks should be used only after purchase cards are determined to be unusable. In addition, cardholders can use purchase cards to pay for training costs up to $25,000; therefore, convenience checks should not be used for this purpose unless purchase cards are unusable in which case convenience checks can be used to pay for training costs up to $2,500.

Table 12 identifies 409 convenience checks that were written to businesses that accepted purchase cards. For example, convenience checks were inappropriately used to make purchases at businesses such as the U.S. Postal Service, Federal Express, and the United Parcel Service.

In addition, 484 checks were written to purchase training. These purchases represent potential opportunities for misuse of the card. The PMO needs to periodically research checks written for training to ensure that purchase cards were determined unusable.

[6]Imprest funds were authorized to make small purchases (not exceeding $500) of supplies or services on an "imprest basis." An "imprest basis" means that the amount of the fund was to remain constant.

Table 12. Convenience Checks Written to Businesses That Accept Purchase Cards (October 1999 through May 2001)		
Payee of Checks	Checks Written for more than $2,500	Number of Checks
Business	18	409
Training	46	484
Total	**64**	**893**

Further, 28 convenience checks written for more than $2,500 were written to individuals. For example, at one DoD organization, checks were written to individuals for services at a chapel. During April and May 2001, checks for $1,300, $840, and $220 were written to a priest, a music director, and an organist, respectively. While these checks could represent valid payments, checks could be fraudulently written to relatives, friends, or other individuals.

Management Controls Needed. PMO needs to continue to review purchase card data at least semiannually to identify convenience checks written in amounts greater than $2,500 or for inappropriate purposes. In addition, the PMO should take the following actions:

- reemphasize DoD guidance concerning what payments can and cannot be made using convenience checks,
- require agency program coordinators to research convenience check transactions and to take appropriate actions to correct improper uses of the checks,
- request the GSA to amend the purchase card contract to state that convenience checks not written in accordance with the DoD Financial Management Regulation will not be honored,
- identify convenience checks written to individuals and require agency program coordinators to research the transactions, and
- follow up with agency program coordinators to ensure appropriate corrective actions are performed.

Purchase Card Program Policies, Procedures, and Oversight

Internal controls were neither sufficient nor effective because policies and procedures for the program were nonexistent, incomplete, or not followed; and program management and oversight did not ensure that standardized training was provided or that annual oversight reviews were conducted.

Development and Use of Policies and Procedures. OMB Circular No. A-123 states that controls such as policies and procedures help managers achieve results and safeguard the integrity of programs. The PMO had delegated the

development of many policies and procedures for the program to the DoD organizations. As a result, policies and procedures either did not exist, were incomplete, or were not followed.

Program Management and Oversight. Management and oversight of the purchase card program needed improvement. The Treasury Financial Manual requires DoD to develop internal procedures for using the purchase card. The Manual stipulates that those procedures should include internal controls such as training program participants and conducting annual program oversight review.

Training Program Participants. No DoD guidance lists the specific training that an employee should receive prior to obtaining a purchase card. According to DoD Directive 7000.15, "DoD Accountable Officials and Certifying Officers," July 8, 1998, DoD organizations are required to provide training to new cardholders, approving officials, and agency program coordinators. This training includes initial training to new cardholders and periodic refresher training to current cardholders.

The PMO stated that the agency program coordinators were responsible for ensuring that the cardholders and approving officials received the proper training. However, the PMO did not review the agency program coordinators' records to ensure that training was provided.

Program Oversight Reviews. Annual oversight reviews were not performed consistently. During the audit, we visited six locations. Two locations, the Air Force 1st Fighter Wing and the Army Materiel Command, conducted internal reviews. However, the other four locations did not.

Management Controls Needed. The USD(AT&L) needs to coordinate with the USD(C) to review DoD policies and procedures that address internal control weaknesses identified in this report. Also, the USD(AT&L) should develop guidelines for DoD organizations to use for issuing and using purchase cards, and processing card purchases and convenience checks.

In addition, the USD(AT&L) should develop standardized training and add a requirement in the DoD Financial Management Regulation that the training be completed by cardholders, approving officials, and agency program coordinators. Further, the PMO should require all DoD organizations to submit reports on the results of oversight reviews and provide guidance to effect corrective actions as needed.

Actions Taken by Management During the Audit

During this audit, the PMO and the Director, Defense Procurement, took actions to strengthen controls over the purchase card program. For example, the PMO issued guidance on July 5, 2001, to strengthen controls over the supervision of cardholders. The memorandum, "Internal and Management Controls – DoD Purchase Card Program," states that commanders and directors need to limit the number of cardholders supervised by an approving official to seven cardholders.

In addition, the Director, Defense Procurement issued a memorandum on August 13, 2001, requesting the Military Departments and Defense agencies to:

- review cardholder bills to verify cardholder authorizations to buy items on the bills, verify receipt of items, and record appropriate items on property records;
- ensure cardholders had a continuing need to have a purchase card;
- restrict purchase limits to a reasonable amount based on need;
- limit the number of cardholders per approving official; and
- perform spot checks on internal controls, to include using audit organizations and inspectors general to assist.

The Director, Defense Procurement, requested assistance from the IG, DoD, on August 14, 2001. Specifically, the Director requested assistance obtaining audit results on the purchase card program to assist with managing the program, tracking fraud, and identifying trends of misuse.

Also, the PMO and the Director, Defense Procurement, agreed at a meeting with IG, DoD, representatives on October 3, 2001, to take actions to correct weaknesses identified in controls over restricting purchases from inappropriate businesses, to include:

- advising Citibank and U.S. Bank on the types of businesses blocked from use and requesting verification from the banks that the codes were blocked;
- requesting DFAS to expand its participation in Operation Mongoose[7] to include data mining of purchase card data using the results of work performed by the IG, DoD, and the Air Force Audit Agency; and
- distributing letters to all cardholders and approving officials providing the codes of businesses blocked from use.

Finally, the PMO issued a memorandum on October 5, 2001, "Blocking of Merchant Category Codes," to strengthen controls over the types of businesses used by cardholders. The memorandum advises cardholders of the need to adhere to DoD policy that restricts purchases from certain businesses.

In addition, the memorandum authorizes agency program coordinators to restrict cardholder purchases from additional inappropriate businesses. The memorandum alerted cardholders that the Operation Mongoose Program would be expanded to detect both authorized purchases made at inappropriate types of businesses, and declined purchases.

[7] The Operation Mongoose Program was started to identify erroneous, duplicate, or fraudulent payments and to detect and correct internal control weaknesses. The program includes personnel from the Defense Finance and Accounting Service; the Defense Manpower Data Center; and the Inspector General, DoD.

On March 12, 2002, the Under Secretary of Defense for Acquisition, Technology, and Logistics and the Under Secretary of Defense (Comptroller) issued a joint memorandum that emphasized the need for all DoD organizations to maintain adequate internal review programs. The memorandum also emphasized that managers at all levels are responsible for investigating alleged cases of purchase card fraud or abuse, and taking appropriate corrective and disciplinary action.

Conclusion

Although numerous audit reports issued over the last 7 years have identified a wide range of implementation problems in the DoD purchase card program, the program remains an important part of the DoD acquisition streamlining effort. This report identifies specific risk factors that still existed in FY 2001 that required more proactive oversight. Actions were taken during the audit by the senior DoD managers and the Director, DoD Purchase Card Joint Program Management Office to strengthen controls over the program, to include those pertaining to the supervision of cardholders, and to restricting purchases from potentially inappropriate businesses. The IG, DoD, as well as other elements of the DoD audit and investigative oversight community, will continue to work closely with those managers to improve the program and take action against individuals who misuse credit card privileges.

Management Comments on the Finding and Audit Response

The Director, Defense Procurement, Office of the Under Secretary of Defense for Acquisition, Technology and Logistics generally concurred with the audit findings and the intent of all the recommendations. For clarification purposes, a discussion on the application of spending limits as an authorization control and the inconsistency between the bank's reporting system and their authorization controls was provided.

Management Comments on Spending Limits. The Director stated that the findings in the report on spending limits may not be accurate in all cases. The findings may have misrepresented actual limits because the auditor did not review cardholder and billing account limits together and, the report provided by the bank showing spending limits was inaccurate.

Audit Response. The audit team reviewed data provided by the bank on cardholder and billing account limits together and identified discrepancies between those data and the limits requested by program coordinators. These discrepancies were brought to the attention of the Program Management Office and the bank. Although the Program Management Office states that the bank subsequently corrected the problem, the documentation requested by the audit team to support that assertion has not been received. Effective implementation of corrective action in response to recommendation 9 should address this problem.

Recommendations, Management Comments and Audit Response

We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics:

1. Coordinate with the Under Secretary of Defense (Comptroller) and review DoD policies and procedures to address internal control weaknesses identified in this report. Develop written guidelines for DoD organizations to use for issuing and using purchase cards, and the processing of purchases and convenience checks.

Management Comments. The Director, Defense Procurement concurred and stated that in addition to actions taken during the course of the audit, the Program Management Office is in the process of advising the Defense Components to close purchase cards that are no longer needed and to place controls over valid cards that are infrequently used to protect the government from potential cardholder or outside fraudulent use. The Program Management Office memorandum will be issued no later than April 5, 2002.

2. Develop standardized training for the purchase card program. Coordinate with the Under Secretary of Defense (Comptroller) on updating the DoD Financial Management Regulation with the requirement for purchase card training.

Management Comments. The Director, Defense Procurement concurred and stated that the Program Management Office is completing efforts on an interactive purchase card training module for the DoD to be on-line by mid July 2002. In addition, as a part of a Comptroller lead review of the Travel Card and Purchase Card Programs in March 2002, both regulatory guidance and training adequacy are being assessed. Final recommendations are forthcoming and are expected to further address this recommendation.

We recommend that the Director, Defense Procurement:

3. Distribute guidance for issuing purchase cards that includes a methodology for use by agency program coordinators in establishing spending limits for cardholders and approving officials. Require single purchase limits for all cardholders.

Management Comments. The Director, Defense Procurement concurred and stated that a memorandum dated August 13, 2001 advised the Defense Components to set cardholder spending limits and/or billing account spending limits based on cardholder projected needs and available funds.

Audit response. The August 13, 2001 guidance suggested components perform frequent spot checks of the recommended internal controls. The occurrence of these verification measures should be made mandatory, if the controls are to be effective. The Comptroller lead review discussed under recommendation 2 is expected to address this matter.

4. Request the General Services Administration to modify the purchase card contract to require the banks to block purchases from businesses considered inappropriate by DoD organizations.

Management Comments. The Director, Defense Procurement concurred with the intent of the recommendation and stated that the purchase card contract requires the banks to establish specific authorization controls as requested by the agency program coordinator. On October 5, 2001, the Director, Purchase Card Joint Program Office, directed the banks to initiate authorization controls that would decline all purchase card authorizations at merchants identified within a group of twenty specific category codes considered inappropriate. Defense component program coordinators were advised to further restrict card use at certain merchant types as appropriate.

We recommend that the Director, Purchase Card Joint Program Management Office:

5. Direct agency program coordinators to review card use and cancel unused cards or perform other actions that would protect the Government from fraudulent or improper use.

Management Comment. The Director, Defense Procurement concurred and stated that the Program Management Office is in the process of advising the Defense Components to close purchase cards that are no longer needed and to place controls over valid cards that are infrequently used to protect the government from potential cardholder or outside fraudulent use. The Program Management Office memorandum will be issued no later than April 5, 2002.

6. Analyze purchase card data for abnormal occurrences by periodically reviewing the number of cardholders assigned to an approving official. Require agency program coordinators to research and resolve the following abnormal occurrences:

a. approving officials without cardholders, and

b. cardholders without an approving official.

Management Comments. The Program Management Office concurred and stated that DOD billing accounts with more than 7 cardholders were identified and provided to the defense components for corrective action. The Program Management Office will perform this analysis on a semi-annual basis. In addition, the Program Management Office corrective action identified in recommendation 1 will include direction for the coordinators, on a semi-annual basis, to identify and cancel billing accounts that have no cardholders or cardholder accounts not attached to the billing accounts. This direction will be issued no later than April 5, 2002.

7. Identify, research, and correct inappropriate separations of duties when cardholders are allowed to be approving officials.

Management Comments. The Program Management Office concurred and stated that cases where cardholders are their own billing official were provided to the defense component program coordinators to immediately close the card

accounts. The Program Management Office will perform another review in May 2002 to ensure all of these situations do not exist, and will include this occurrence in the semi-annual analysis identified in recommendation 6.

8. Review spending limits and require agency program coordinators to perform periodic reviews on the amount of purchases made by cardholders and to adjust purchase limits to the minimum amount justified by use.

Management Comments. The Program Management Office concurred and stated that many program coordinators use "default" limits that do not accurately reflect their needs or available funding. The Director, Defense Procurement memo dated August 13, 2001, directs program officials to set reasonable single purchase and monthly spending limits based on what the person needs to buy as part of his/her job. Spending limits can be established on cards by either using the cardholder spending limits or the billing account limit.

Audit Response. The August 13, 2001 guidance suggested components perform frequent spot checks of the recommended internal controls. The occurrence of these verification measures must be made mandatory, if the controls are to be effective. The Comptroller lead review discussed under recommendation 2 is expected to address this matter.

9. Require agency program coordinators to reconcile spending limits in the U.S. Bank and Citibank computer systems with DoD requested limits and resolve discrepancies quarterly.

Management Comments. The Program Management Office concurred and stated that the coordinators will be directed to review spending limits in the bank authorization system to ensure they are accurate. This direction will be issued no later than April 5, 2002. This review may be conducted as part of the review of cardholder/billing accounts.

Audit Response. In addition to the review, discrepancies must be resolved. The occurrence of these measures must be made mandatory, if the guidance is to be effective. The Comptroller lead review discussed under recommendation 2 is expected to address this matter.

10. Identify and investigate accounts when cardholders attempt to make purchases after banks repeatedly declined to process purchases.

Management Comments. The Program Management Office concurred and stated that it is in the process of advising the program coordinators to review cardholders with large numbers of declines to determine if they are attempting to circumvent internal controls. The Program Management Office memorandum will be issued no later than April 5, 2002.

11. Coordinate with the banks and modify the purchase card contract to include procedures that prevent card accounts from being reopened after notification of closure by the agency program coordinator. Procedures developed should address treatment of possibly legitimate charges which may be posted after closing of the account.

Management Comments. The Program Management Office non-concurred and stated that card accounts are not "reopened" to accept trailing transactions. The purchase card program makes use of standard commercial credit card platforms, processes and business rules. Transactions can post to cardholder accounts as long as six months after the cardholder makes a purchase. This is due to the card association requirement that vendors cannot charge the card until shipment. If card accounts change, it is unfair to the merchant to refuse these otherwise legitimate charges due to our failure to properly notify the vendor of a card change. If the charges are not valid, the DoD has disputes rights and will not incur liability if procedures are properly followed. For merchants who continually charge a closed account after being notified of the new account number, the program coordinator can direct the card-issuing bank to "charge-back" these transaction to the merchant. The charge-back results in a fee to the merchant similar to a returned check charge. The number of invalid charges occurring after account closure has been found to be minimal.

Audit Response. Information received during the course of the audit from both the Program Management Office and the US Bank indicate that purchase card accounts can be "soft closed" instead of terminated. Being "soft closed" allows the account to be reopened. In one case an account had been closed for over a year when a merchant processed a charge against the "closed" account. The vendor had charged the account in error. If the government is going to use bank practices, it is customary for vendors to call in credit card requests to get an authorization number prior to making a charge. We believe it is unfair to have to pick up the tab for charges against closed accounts. Charges are not allowed to individual credit card accounts once closed; the merchant gets a decline from the credit card company. The Director, Defense Procurement should reconsider its position on Recommendation 11 and provide additional comments in response to the final report.

12. Review purchase card data to identify convenience checks written in amounts greater than $2,500 or for inappropriate purposes. Take the following actions:

a. Reemphasize DoD guidance concerning what payments can and cannot be made using convenience checks.

b. Require agency program coordinators to research convenience check transactions and to take appropriate actions to correct improper uses of the checks.

c. Request that the General Services Administration amend the purchase card contract to state that convenience checks not written in accordance with the DoD Financial Management Regulation will not be honored.

Management Comments. The Program Management Office concurred in part and stated that guidance will be issued to the Components reminding these organizations that their program reviews (both agency program coordinator and heads of contracting) shall include an examination of convenience check transactions to ensure that program officials are complying with governing financial management and acquisition regulations. In addition, the Program Management Office will continue periodic screening of convenience check

transactions to identify those activities that are writing checks in excess of the $2,500 threshold. The Program Management Office will cancel check accounts for activities with repeated violations.

The purchase card program makes use of standard commercial convenience check platforms, processes and business rules. The commercial platform does not have a system of authorizations that could limit the writing of the check at the merchant location. Additionally, the Financial Management Regulation allows checks to be written up to $10,000 in support of a contingency. Identification of appropriateness of the check cannot be accomplished in time to void payment therefore, the most efficient and economical procedures to use would be the post review/justification which is currently in place.

Audit Response. The DoD Financial Management regulation states that convenience checks are not to be written over $2,500 unless it is a payment in an overseas transaction in support of a contingency, then it can be written up to $10,000. However, according to bank representatives, a foreign draft would be used, not a convenience check. Standard commercial convenience check platforms allow for convenience checks to be returned for insufficient funds, especially since the checks state that they are not valid for over $2,500. Implementing the recommendation would allow the banks to return the checks and avoid potentially fraudulent checks. The Director, Defense Procurement should reconsider its position on Recommendation 12.c. and provide additional comments in response to the final report.

13. Identify convenience checks written to individuals and require agency program coordinators to research the transactions. Follow up with agency program coordinators to ensure appropriate corrective actions are performed.

Management Comments. The Program Management Office concurred and stated that program reviews will include a "spot check" examination of convenience checks written to individuals to ensure that these transactions are legal, proper, and correct. While it may be entirely appropriate to write a convenience check to an individual such as a chapel organist or guest speaker who does not accept the purchase card, controls should be in place to ensure appropriateness of the checks.

14. Require all DoD organizations to provide reports on the results of oversight reviews and provide guidance to effect corrective actions as needed.

Management Comments. The Program Management Office concurred and stated that the Defense Components are required to conduct installation/base level reviews at least annually. Depending upon the Component, the results of these reviews are reported to either the installation/base commander or the local head of contracting. In turn, components are to report material control weaknesses thorough command channels to DoD. In addition, in separate memoranda dated August 13, and 14, 2001, respectively, the Director of Defense Procurement requested audit community assistance in this area. The memorandum includes a request that Military Departments and Defense agencies perform spot checks on internal controls, to include using audit organizations and the inspectors general to assist. The August 14 memorandum

requested assistance from the IG, DoD, organization in obtaining audit results on the purchase card program to assist with managing the program, tracking fraud and identifying trends of misuse. We believe that the reviews (and associated audit plans) conducted by the Component audit organizations and the IG, DoD, should also include an examination of the integrity, the quality and the completeness of the installation/base level reviews. The Program Management Office would then make use of the resulting audit reports and recommendations to determine if existing policy and/or internal control measures should be amended or strengthened.

Audit Response. The audit and investigative community has agreed to work with the Director, Defense Procurement and the Comptroller lead taskforce to identify corrective actions to improve the credit card program. This effort is not intended to be a replacement for oversight by the departmental management, however. Currently the results of the oversight reviews are rarely reported up the chain-of-command and senior DoD managers lack visibility over actual operations of the purchase card program. The Air Force and Defense Logistics Agency were the only DoD components that had reported purchase cards as a material weakness, despite the efforts of the audit and investigative community to bring instances of internal control violations to command attention throughout the DoD.

Appendix A. Audit Process

Scope

Work Performed. We examined the controls for issuing and using 231,856 DoD purchase cards in FY 2001. In addition, we reviewed 12,008 convenience checks written between October 1999 and May 2001. We selectively reviewed the controls over the processing of more than 10.6 million purchases, by card or check, amounting to $6.1 billion in FY 2001.

Selection of Purchase Card Data. We selected and reviewed automated purchase card data provided for the months of February and May 2001 by the U.S. Bank and Citibank. The two banks processed 954,002 transactions amounting to $488.3 million during February 2001, and 994,919 transactions totaling $528,981,656 during May 2001. In addition, we reviewed 12,008 convenience checks written between October 1999 and May 2001, totaling $27,389,557. Using these data, we evaluated controls over issuing and using purchase cards as well as the processing of purchases.

Reviews at Organizations. We interviewed personnel in the Army Materiel Command; Naval Sea Systems Command; Air Combat Command; Headquarters, Marine Corps; the Defense Contracting Command-Washington; and the Air Force 1st Fighter Wing to evaluate controls over issuing and using cards. In addition, we interviewed personnel at the Purchase Card Joint Program Management Office.

We also interviewed personnel at Fort Bragg, North Carolina; Fort Campbell, Kentucky; Fort Sam Houston, Texas; Air Force Academy in Colorado Springs, Colorado; Robbins Air Force Base, Georgia; Lackland Air Force Base, San Antonio, Texas; Bolling Air Force Base, Washington, D.C.; Aberdeen Proving Grounds, Maryland; Washington Aqueduct, Washington, D.C.; and the U.S. Army Reserve Command, Garden Grove, California. These interviews included an evaluation on the validity of 95 of 229 transactions processed for businesses that should have been blocked. These transactions occurred between October 1999 and July 2001.

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage in the Acquisition Management high-risk area.

Methodology

Use of Computer-Processed Data. To achieve the audit objective, we extensively relied on computer-processed data provided by Citibank and the U.S. Bank from the Citidirect and the Customer Automated and Reporting Environment systems. We applied data mining techniques to evaluate controls over issuing and using purchase cards, as well as the processing of purchase card payments. Data mining assisted on this audit with discovering previously

unknown relationships among the data. For example, we identified abnormal occurrences such as:

- approving officials without cardholders,
- cardholders without an approving official, and
- cardholders with more than one approving official.

Although we did not perform a formal reliability assessment of the computer-processed data, we found some inconsistencies. Single micro-purchase and monthly spending limits for some cardholders were not correct in the bank systems. However, we did not find errors that would preclude use of the computer-processed data to meet the audit objective or that would change the conclusions in this report.

Use of Technical Assistance. We received technical assistance from the Information Systems Directorate within the IG, DoD, Office of Administration and Information Management. Information Systems Directorate personnel loaded purchase card data from the banks on the IG, DoD, mid-tier computer. In addition, Information Systems Directorate personnel provided computer software that aided in performing queries of the purchase card data.

We also received technical assistance from the Defense Manpower Data Center. The Defense Manpower Data Center performed computer searches to identify purchases that should have been blocked, purchases made by cardholders that approved their own bills for payment, and purchases made using convenience checks. The Defense Manpower Data Center also provided us with cardholder and transaction data for February and May 2001.

Audit Type, Dates, and Standards. We performed this economy and efficiency audit from January 2001 through January 2002 in accordance with generally accepted government auditing standards.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD and within the General Services Administration, General Accounting Office, U.S. Bank, and Citibank. Further details are available on request.

Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. We reviewed the adequacy of controls over the issuance and use of purchase cards at the Army Materiel Command; Naval Sea Systems Command; Air Combat Command; Headquarters, Marine Corps; Defense Contracting Command-Washington; Air

Force 1st Fighter Wing; and the DoD Purchase Card PMO. We reviewed FY 2000 annual statements of assurance required by the Federal Managers Financial Integrity Act of 1982 for the Army, Navy, Air Force, other Defense organizations, and the DoD-wide statement of assurance.

We also reviewed management controls at Fort Bragg, North Carolina; Fort Campbell, Kentucky; Fort Sam Houston, Texas; Air Force Academy in Colorado Springs, Colorado; Robbins Air Force Base, Georgia; Lackland Air Force Base, San Antonio, Texas; Bolling Air Force Base, Washington, D.C.; Aberdeen Proving Grounds, Maryland; Washington Aqueduct, Washington, D.C.; and the U.S. Army Reserve Command, Garden Grove, California, to evaluate the validity of transactions processed for businesses that should have been blocked.

Adequacy of Management Controls. We identified material management control weaknesses related to the purchase card program as defined by DoD Instruction 5010.40. Controls over the purchase card program at some DoD organizations visited or contacted were not adequate to provide reasonable assurance that sufficient or effective internal controls existed.

Specifically, we verified that management control weaknesses existed with cardholders serving as their own approving official at the Army Physical Disability Agency at Walter Reed Army Medical Center, Washington, D.C.; the Defense Security Service in Linthicum Heights, Maryland; the Joint Regional Medical Planning Office and the public affairs office at Fort Meade, Maryland; and the Office of Special Investigations at Andrews Air Force Base, Maryland.

Also, convenience checks were written for amounts greater than $2,500 at the Defense Attache Training Service in Arlington, Virginia. In addition, approving officials were responsible for more than 100 cardholder accounts at the Army Medical Research Acquisition Activity at Walter Reed Army Institute of Research, Forest Glen, Maryland, and the Naval Surface Warfare Center, Indian Head, Maryland. Further, questionable purchases were made at the National Naval Medical Center, Bethesda, Maryland.

Recommendations in this report, if implemented, will improve controls over the purchase card program by assisting in meeting the goals of the program and ensuring that the cards were being used appropriately and efficiently; and that fraud, waste, and misuse were kept to a minimum. A copy of the report will be sent to the senior official in charge of management controls for the USD(AT&L).

Adequacy of Management's Self-Evaluation. The PMO officials did not perform a self-evaluation and, therefore, did not identify or report the material management control weaknesses identified by the audit. However, the Air Force and the Defense Logistics Agency reported a material control weakness in the purchase card program.

Air Force. The Air Force reported that its agency program coordinators did not perform the required annual reviews on cardholder accounts. The Air Force took corrective action by implementing Air Force Instruction 64-117, "Air Force Purchase Card Program," dated December 6, 2000, which requires approving officials to perform 100 percent reviews every 12 months.

Defense Logistics Agency. The Defense Logistics Agency reported that an employee within its Document and Automation Production Service had misused a purchase card. The Agency took corrective actions by implementing a self-inspection program, organization-wide procedures to train and direct purchase cardholders and approving officials, and an internal review program.

DoD-Wide Controls Over Purchase Cards. Although the Air Force and the Defense Logistics Agency identified weaknesses in the purchase card program, the PMO had not identified weaknesses in the system of controls within the DoD program, as cited in this audit report. The PMO stated that its staff consisted of only nine employees and that the DoD organizations had management control program officers to ensure compliance with established regulations and policies.

Prior Coverage

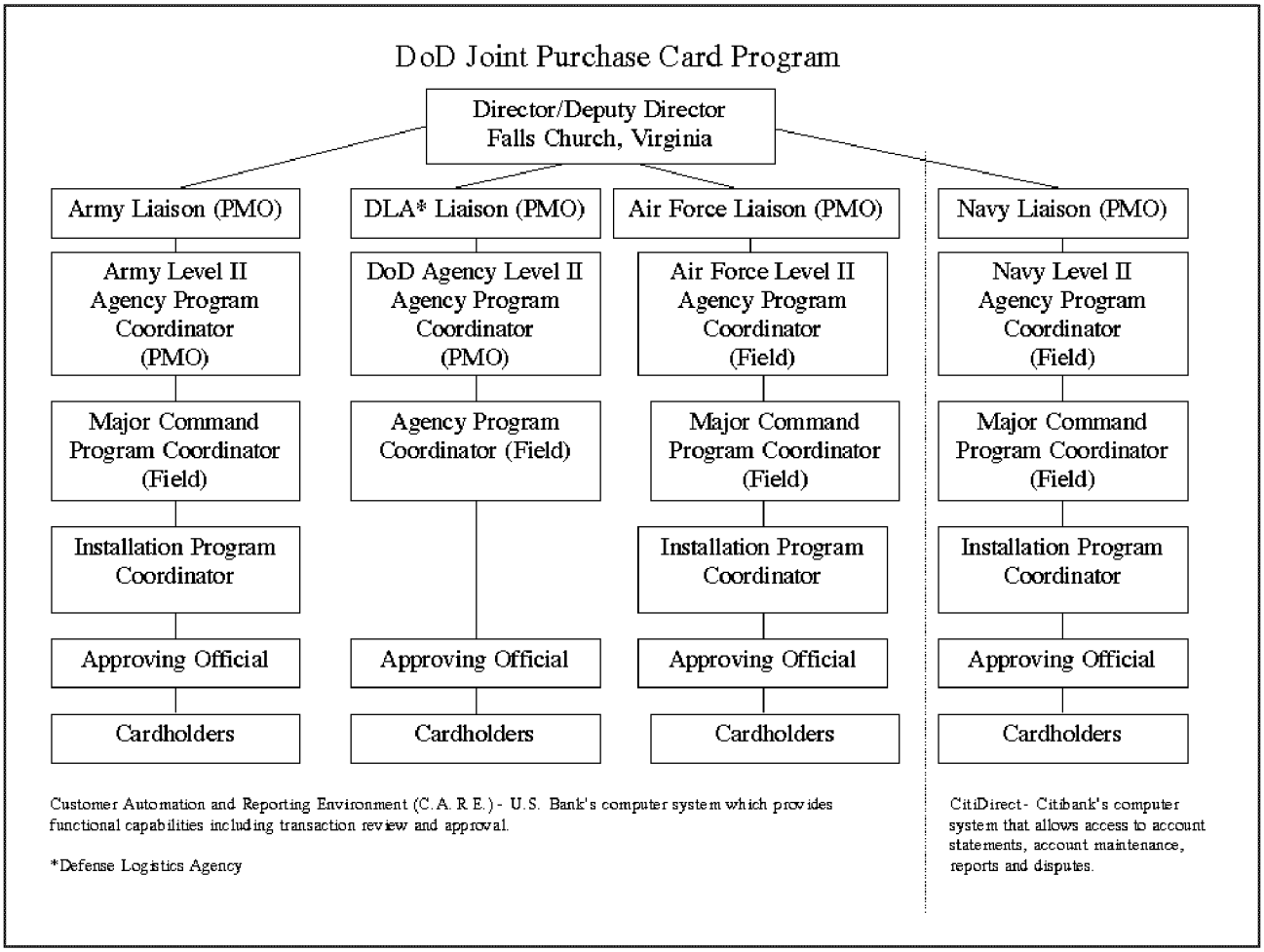
During the past 7 years, Congressional committees, GAO, and DoD audit organizations have issued numerous reports discussing the DoD purchase card program.

General Accounting Office. The GAO issued four reports relating to the DoD purchase card program. The most recent report, GAO Report No. GAO-02-506T, "Purchase Cards: Continued Control Weaknesses Leave Two Navy Units Vulnerable to Fraud and Abuse," issued on March 13, 2002, was a followup of GAO Report No. GAO-01-995T, "Purchase Cards: Control Weaknesses Leave Two Navy Units Vulnerable to Fraud and Abuse," issued on July 30, 2001. Both reports were issued as testimony before the Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform, House of Representatives. GAO reports can be accessed on the Internet at http://www.gao.gov.

DoD Audit Organizations. The IG, DoD, and audit organizations in the Military Departments and Defense agencies issued more than 300 reports on purchase cards between FYs 1996 and 2001. IG, DoD, Report No. D-2002-029, "Summary of DoD Purchase Card Program Audit Coverage," December 27, 2001, identified systemic issues with the program. Also, IG,DoD, Report No. D-2002-065, "Summary of DoD Travel Card Program Audit Coverage," March 18, 2002, identified systemic weaknesses in the travel card program.

Inspector General, DoD, reports can be accessed on the Internet at http://www.dodig.osd.mil/audit/reports. The Military Departments and other Defense organizations' reports can be viewed from the DoD Internet website at http://www.defenselink.mil/.

Appendix B. Organization of the DoD Purchase Card Program



Appendix C. Approving Officials Responsible for More Than 100 Cardholder Accounts *

DoD Activity	Major Command	Number of Approving Officials
Army	Headquarters Forces Command	5
	U.S. Army Training and Doctrine Command	1
	Medical Command	1
	U.S. Army Corp of Engineers	1
	Army Medical Research Acquisition Activity	1
	National Guard Bureau	12
Navy	Naval Sea Systems Command	2
	Bureau of Medicine and Surgery	1
Air Force	Air Force Services Squadron (Nonappropriated Funds)	1
	Air Force Education and Training Command	1
	U.S. Air Force Academy	1
	Service Squadron	1
Defense Organizations	On-Site Inspection Agency	1
	Defense Micro Electronics Activity	1
	Defense Information Technology Contracting Officer	1
Total		**31**

*Data in this chart were current as of May 2001.

Appendix D. Cardholders Authorized to Approve and Certify Their Own Payments*

Agency	Major Command	Number of Accounts
Army	Defense Contracting Command – Washington	3
	National Guard Bureau	5
	U.S. Army Combined Forces Command – National Capital	8
	Army Materiel Command	3
	Military District Washington	3
	Army Corps of Engineers	3
	Training and Doctrine Command	2
	Army Southern Command	5
	Headquarters Forces Command	12
	Army Contracting Command Europe	1
	Office of Chief of Chaplains	3
	National Guard Bureau	13
	Medical Command	1
Navy	Chief of Naval Operations	2
	Bureau of Medicine	13
	Naval Air Systems Command	1
	Bureau of Naval Personnel	3
	Naval Sea Systems Command	1
	Marine Corps	1
	Atlantic Fleet	11
	Navy/Marine Corps	4
	Navy Special Warfare Command	1
Air Force	Air Force Space Command	14
	Air Force Materiel Command	4
	Air Mobility Command	10
	Pacific Air Force	2
	Air Force Services (Nonappropriated Fund Organizations)	5
	Air Force Europe	3
	Raytheon Support Services	1
	Air Education and Training Command	2
	Air Force Reserve	2
	Air Combat Command	3
	Air Force Chaplain Services	2
Defense Organizations	Defense Finance and Account Service	3
	Defense Logistics Agency	2
	Defense Contract Management Agency	1
	Defense Intelligence Agency	3
	Total	**156**

* Data in this chart were current as of May 2001.

Appendix E. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
- Director, Defense Procurement
  - Director, Purchase Card Joint Program Management Office
- Director for Acquisition Initiatives

Under Secretary of Defense (Comptroller)
- Deputy Chief Financial Officer
- Deputy Comptroller (Program/Budget)

Department of the Army

Auditor General, Department of the Army
Commander, Army Materiel Command

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Naval Inspector General
Auditor General, Department of the Navy
Commandant of the Marine Corps
Commander, Naval Sea Systems Command

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force
Commander, Air Combat Command
Commander, First Fighter Wing, Langley Air Force Base

Other Defense Organizations

Director, Defense Commissary Agency
Director, Defense Contract Management Agency
Director, Defense Finance and Accounting Service
Director, Defense Information Systems Agency
Director, Defense Intelligence Agency
Director, Defense Logistics Agency
Director, Missile Defense Agency

Other Defense Organizations (con't)

Director, Defense Threat Reduction Agency
Director, National Imagery and Mapping Agency
Director, Defense Contacting Command-Washington
Director, DoD Education Activity
Director, Washington Headquarters Services
President, Uniformed Services University of the Health Sciences

Non-Defense Federal Organizations and Individuals

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform
House Subcommittee on Technology and Procurement Policy, Committee on Government Reform

Under Secretary of Defense, Acquisition, Technology, and Logistics Comments

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

ACQUISITION, TECHNOLOGY AND LOGISTICS

MAR 22 2002

DP(EB)

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING (DODIG)

THROUGH: DIRECTOR, ACQUISITION RESOURCES AND ANALYSIS NS 3/25/02

SUBJECT: Audit Report on Controls Over the DOD Purchase Card Program, D2001FG-0068

This memorandum provides our comments regarding the findings and recommendations of the subject draft report. We generally concur with the audit findings and the intent of all the recommendations. For clarification purposes, a discussion on the application of spending limits as an authorization control and the inconsistency between the bank's reporting system and their authorization controls is discussed at the beginning of the attached comments relative to the specific recommendations.

Please direct questions regarding our comments to the program manager, Bruce Sullivan at (703) 681-7564 or my action officer, Melissa Rider at (703) 695-1098.

Deidre A. Lee
Director, Defense Procurement

Attachment:
As stated

DRAFT AUDIT REPORT DATED FEBRUARY 28, 2002
D2001FG-0068

"CONTROLS OVER THE DOD PURCHASE CARD PROGRAM"

DEPARTMENT OF DEFENSE COMMENTS

GENERAL COMMENTS ON FINDINGS AND RECOMMENDATIONS: **The findings in the report on spending limits may not be accurate in all cases.** The findings may have misrepresented actual limits because the auditor did not review cardholder and billing account limits together and, the report provided by the bank showing spending limits was inaccurate.

Evaluating spending controls at the cardholder level alone, or referencing the credit limit, can misrepresent actual controls over the card. Limits may be imposed at three levels— at the cardholder individual purchase level, at the cardholder monthly limit level and at the billing official/ activity monthly limit level. The limits at the billing official/ activity level provide controls that would prevent overextension cited in the draft report. Therefore, there are strong controls in place for purchase limits.

U.S. Bank provided the IG with a report that did not accurately portray spending limits in the Bank's authorization system. We advised the bank and the DoDIG of this situation. The bank subsequently corrected the problem (table not being updated with actual authorization controls) and the report now accurately reflects spending controls in the banks authorization process.

COMMENTS ON SPECIFIC RECOMMENDATIONS:

RECOMMENDATION 1: Coordinate with the USD(C) and review DOD policies and procedures to address internal control weaknesses identified in this report. Develop written guidelines for DOD organizations to use for issuing and using purchase cards, and the processing of purchases and convenience checks.

USD(AT&L) RESPONSE: Concur. As a result of the DoDIG findings, the Purchase Card Joint Program Management Office (PMO) and the Office of the Director for Defense Procurement reviewed Department policies for internal control weaknesses. As a result, and on July 5, 2001, the PMO issued a memorandum subject Internal and Management Controls to all defense components. The PMO coordinated the memorandum with the Office of Under Secretary of Defense (Comptroller). Additionally, on August 13, 2001, the Director for Defense Procurement issued a memorandum, subject; Government Purchase Card Internal Controls, to Directors Of Defense Agencies and Deputy Assistant Secretaries Of The Military Services directing that they ensure cards are issued only to personnel with a continuing need to purchase goods or services as part of their duties. On March 12, the Under Secretary of Defense (Comptroller) and the Under Secretary of Defense for Acquisition, Technology, and Logistics jointly signed a memorandum emphasizing Department policies and internal controls for the purchase card. Finally, the PMO is in the process of advising the Defense Components to close purchase cards that are no longer needed and to place controls over valid cards that are infrequently used to protect the government from potential cardholder or outside fraudulent use. The PMO memorandum will be issued no later than April 5, 2002.

RECOMMENDATION 2: Develop standardized training for the purchase card program. Coordinate with the Undersecretary of Defense (Comptroller) on updating the DoD Financial Management Regulation with the requirement for purchase card training.

USD(AT&L) RESPONSE: Concur. The requirement for training cardholders is currently in existence in the Federal Acquisition Regulation and the Defense Supplement. In addition, the PMO is completing efforts on an interactive purchase card training module for the DOD. The Defense Acquisition University contracted for its completion and the course is scheduled to be on-line by mid July 2002 In addition, as part of a Comptroller led review of the Travel Card and Purchase Card Programs in March 2002, both regulatory guidance and training adequacy are being assessed. Final recommendations are forthcoming and are expected to further address this recommendation.

RECOMMENDATION 3: Distribute guidance for issuing purchase cards that includes a methodology for use by agency program coordinators in establishing spending limits for cardholders and approving officials. Require single purchase limits for all cardholders.

DDP RESPONSE: Concur. The DDP memo of August 13, 2001, advised the Defense Components to set cardholder spending limits and/or billing account spending limits based on cardholder projected needs and available funds.

RECOMMENDATION 4: Request the General Services Administration to modify the purchase card contract to require the banks to block purchases from businesses considered inappropriate by DOD organizations.

DDP RESPONSE: Concur with concept. The purchase card contract currently requires the banks to block purchases from businesses considered inappropriate by DOD organizations. Section C.30, AUTHORIZATION CONTROLS, requires the banks to establish specific authorization controls as requested by the agency program coordinator. On October 5, 2001, the Director, Purchase Card Joint Program Office, directed the banks to initiate authorization controls that would decline all purchase card authorizations at merchants identified within a group of twenty specific category codes considered inappropriate. Defense component program coordinators were advised to further restrict card use at certain merchant types as appropriate

RECOMMENDATION 5: Direct agency program coordinators to review use and cancel unused cards or perform other actions that would protect the Government from fraudulent or improper use.

DDP RESPONSE: Concur. Director of Defense Procurement memorandum dated August 13, 2001, "Government Purchase Card Internal Controls", provided direction that only those personnel with a continuing need to purchase goods or services as part of their job should be cardholders. Additionally, the corrective action being taken for recommendation 1 above will remedy this situation.

RECOMMENDATION 6: Analyze purchase card data for abnormal occurrences by periodically reviewing the number of cardholders assigned to an approving official. Require agency program coordinators to research and resolve the following abnormal occurrences:

a. approving officials without cardholders, and
b. cardholders without an approving official.

PMO RESPONSE: Concur. The PMO identified DOD billing accounts with more than 7 cardholders and provided them to the defense components for corrective action. The PMO will perform this analysis on a semi-annual basis. Additionally, the PMO corrective action identified in recommendation 1 will include direction for the coordinators, on a semi-annual basis, to identify and cancel billing accounts which have no cardholders or cardholder accounts not attached to billing accounts.

RECOMMENDATION 7: Identify, research, and correct inappropriate separation of duties when cardholders are allowed to be approving officials.

PMO RESPONSE: Concur. The PMO identified cases where cardholders are their own billing official and directed the defense component program coordinators to immediately close the card accounts. The PMO will perform another review in early May to ensure all of these situations do not exist, and will include this occurrence in the semi-annual analysis identified in recommendation 6 above.

RECOMMENDATION 8: Review spending limits and require agency program coordinators to perform periodic reviews on the amount of purchases made by cardholders and to adjust purchase limits to the minimum amount justified by use.

PMO RESPONSE: Concur. We concur that many program coordinators use "default" limits which do not accurately reflect their needs or available funding. The Director of Defense Procurement memo dated August 13, 2001, directs program officials to set reasonable single purchase and monthly spending limits based on what the person needs to buy as part of his/her job. Spending limits can be established on cards by either using the cardholder spending limits or the billing account limit.

RECOMMENDATION 9: Require agency program coordinators to reconcile spending limits in the U.S. Bank and Citibank computer systems with DoD requested limits and resolve discrepancies quarterly.

PMO RESPONSE: Concur. The PMO corrective action identified in the response to recommendation 1 will include direction for the coordinators to review spending limits in the bank authorization system to ensure they are accurate. This review may be conducted as part of the review of cardholder/billing accounts.

RECOMMENDATION 10: Identify and investigate accounts when cardholders attempt to make purchases after the bank's repeatedly declined to process purchases.

PMO RESPONSE: Concur. The PMO corrective action identified in the response to recommendation 1 will require program coordinators to review cardholders with large numbers of declines to determine if they are attempting to circumvent internal controls.

RECOMMENDATION 11: Coordinate with the banks and modify the purchase card contract to include procedures that prevent card accounts from being reopened after notification of closure by the agency program coordinator. Procedures developed should address treatment of possibly legitimate charges that may be posted after closing of the account.

PMO RESPONSE: Non-concur. Card accounts are not "reopened" to accept trailing transactions. The purchase card program makes use of standard commercial credit card platforms, processes and business rules. Transactions can post to cardholder accounts as long as six months after the cardholder makes a purchase. This is due to the card

association requirement that vendors cannot charge the card until shipment. If card accounts change, it is unfair to the merchant to refuse these otherwise legitimate charges due to our failure to properly notify the vendor of a card change. If the charges are not valid, the DOD has disputes rights and will not incur liability if procedures are properly followed. For merchants who continually charge a closed account after being notified of the new account number, the program coordinator can direct the card-issuing bank to "charge-back" these transactions to the merchant. The charge-back results in a fee to the merchant similar to a returned check charge. The number of invalid charges occurring after account closure has been found to be minimal.

RECOMMENDATION 12: Review purchase card data to identify convenience checks written in amounts greater than $2,500 or for inappropriate purposes. Take the following actions:

a. reemphasize DoD guidance concerning what payments can and cannot be made using convenience checks,
b. require agency program coordinators to research convenience check transactions and to take appropriate actions to correct improper uses of the checks, and
c. request the General Services Administration amend the purchase card contract to state that convenience checks not written in accordance with the DoD Financial Management regulation (FMR) will not be honored.

PMO RESPONSE: Partially concur. The PMO corrective action identified in the response to recommendation 1 will include guidance to the Components reminding these organizations that their program reviews (both agency program coordinator and heads of contracting) shall include an examination of convenience check transactions to ensure that program officials are complying with governing financial management and acquisition regulations. In addition, the PMO will continue periodic screening of convenience check transactions to identify those activities that are writing checks in excess of the $2,500 threshold. The PMO will cancel check accounts for activities with repeat violations.

The purchase card program makes use of standard commercial convenience check platforms, processes and business rules. The commercial platform does not have a system of authorization controls which could limit the writing of the check at the merchant location. Additionally, the Financial Management Regulation allows checks to be written up to $10,000 in support of a contingency. Identification of appropriateness of the check cannot be accomplished in time to avoid payment, therefore, the most efficient and economical procedure to use would be the post review/justification which is currently in place.

RECOMMENDATION 13: Identify convenience checks written to individuals and require agency program coordinators to research the transactions. Follow up with agency program coordinators to ensure appropriate corrective actions are performed.

PMO RESPONSE: Concur. The PMO will request that program reviews include a "spot check" examination of convenience checks written to individuals to ensure that these transactions are legal, proper, and correct. While it may be entirely appropriate to write a convenience check to an individual such as a chapel organist or guest speaker who does not accept the purchase card, controls should be in place to ensure appropriateness of checks.

RECOMMENDATION 14: Require all DOD organizations to provide reports on the results of oversight reviews and provide guidance to effect corrective actions as needed.

PMO RESPONSE: Concur. Defense Components are required to conduct installation/base level reviews at least annually. Depending upon the Component, the results of these reviews are reported to either the installation/base commander or the local head of contracting. In turn, components are to report material control weaknesses through command channels to DOD. In addition, in separate memoranda dated August 13 and 14, 2001 respectively, the Director of Defense Procurement requested audit community assistance in this arena. The memorandum includes a request that Military Departments and Defense agencies perform spot checks on internal controls, to include using audit organizations and the inspectors general to assist. The August 14 memorandum requested assistance from the DoDIG organization in obtaining audit results on the purchase card program to assist with managing the program, tracking fraud and identifying trends of misuse. We believe that the reviews (and associated audit plans) conducted by the Component audit organizations and the DoDIG should also include an examination of the integrity, the quality and the completeness of the installation/base level reviews. The PMO would then make use of the resulting audit reports and recommendations to determine if existing policy and/or internal control measures should be amended or strengthened.

Audit Team Members

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, produced this report. Personnel of the Office of the Inspector General, DoD, who contributed to the report are listed below.

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