

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**VENDOR PAYMENTS - WASHINGTON HEADQUARTERS
SERVICE SUPPORT SERVICES DIVISION**

Report No. 94-094

May 10, 1994

Department of Defense

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Acronyms

DCIS	Defense Criminal Investigative Service
DPS	Defense Protective Service
DSS-W	Defense Supply Service - Washington
FAR	Federal Acquisition Regulation
FBI	Federal Bureau of Investigation
HCA	Head of Contracting Activity
IG	Inspector General
OSD	Office of the Secretary of Defense
RE&F	Real Estate and Facilities Directorate
SSD	Support Services Division
WHS	Washington Headquarters Services



**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884**

May 10, 1994

**MEMORANDUM FOR DIRECTOR, WASHINGTON HEADQUARTERS
SERVICES**

**SUBJECT: Audit Report on Vendor Payments - Washington Headquarters Services,
Support Services Division (Report No. 94-094)**

We are providing this final report for your information and use. It discusses purchasing procedures used by the Real Estate and Facilities Directorate, Support Services Division, Washington Headquarters Services. The audit was initiated to assist the Defense Protective Service with its criminal investigation of the Support Services Division.

Comments on a draft of this report met the requirements of DoD Directive 7650.3 and were responsive. No additional comments are required. This report identifies no quantifiable monetary benefits.

The courtesies extended to the audit staff are appreciated. If you have any questions about this audit, please contact Mr. Raymond D. Kidd, Program Director, at (703) 614-1682 (DSN 224-1682), or Mr. John A. Richards, Project Manager, at (703) 693-0451 (DSN 223-0451). The distribution of this audit report is listed in Appendix C. The audit team members are listed inside the back cover.

A handwritten signature in black ink, reading "Robert J. Lieberman", is positioned above the typed name.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 94-094
(Project No. 3FH-5025.01)

May 10, 1994

VENDOR PAYMENTS - WASHINGTON HEADQUARTERS SERVICES, SUPPORT SERVICES DIVISION

EXECUTIVE SUMMARY

Introduction. The audit was initiated to assist the Defense Protective Service with its criminal investigation of the Real Estate and Facilities Directorate, Support Services Division (SSD), Washington Headquarters Services (WHS). The SSD is responsible for the acquisition of goods and services for DoD activities in the National Capital Region. The SSD issues small-purchase orders and uses Government-issued credit cards and an imprest fund to make purchases. SSD purchases are limited to small purchases of services, expendable supplies, and low-cost equipment authorized from local vendors.

Objectives. The objectives of the audit were to determine whether payments for goods and services were valid and to validate or discredit allegations of improper activities. In addition, we determined whether purchasing procedures were adequate. We also examined internal controls and compliance with applicable regulations.

Audit Results. Because of inadequate documentation, we could not determine whether purchases and payments were valid or whether items were properly received. Also, we could not validate or discredit the allegations of improper activities, as requested by criminal investigators. Adequate purchasing procedures were established; however, SSD personnel made purchases that were not in compliance with applicable regulations. That condition occurred because SSD personnel was concerned only with customer satisfaction, rather than with implementing necessary controls to ensure that purchasing procedures were followed and supporting documentation was properly prepared and maintained. Serving customer needs and maintaining reasonable controls are by no means incompatible. Also, management did not provide its personnel (buyers) with all applicable policies and procedures and the necessary training to implement them. Finally, management did not implement controls over the safeguarding of assets and separation of duties. As a result, purchases totaling \$1.3 million were made using purchasing procedures that were not authorized for the particular purchase, were split into smaller purchases, or made without adequate documentation. Although fraud was not detected, the lack of effective procedures increased the potential that fraud could occur.

Internal Controls. The WHS Internal Management Control Program did not effectively identify material control weaknesses in SSD's purchasing procedures, safeguarding of assets, and separating of duties. See Part I for the internal controls assessed and the finding in Part II for details of the internal control weaknesses.

Potential Benefits of Audit. The audit did not identify quantifiable monetary benefits; however, all recommendations in this report, if implemented, will result in compliance with regulations and improved management controls. For details of the benefits of each recommendation, see Appendix A.

Summary of Recommendations. We recommended that the Director, Washington Headquarters Services, continue with the steps already taken toward improving the management of the SSD, implement internal controls and established procedures, emphasize regulatory compliance, and maintain adequate supporting documentation.

Management Comments. The Director, Washington Headquarters Services, concurred with the finding and recommendations. No further comments are required. See Part II for a discussion of management's comments, and Part IV for the full text of the comments.

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This report was prepared by the Financial Management Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense.

Part I - Introduction

Background

Washington Headquarters Services (WHS) was established on October 1, 1977, under the authority of the 1958 Defense Reorganization Act. It provides administrative and operational support to specified activities in the National Capital Region, as outlined in DoD Directive 5110.4, "Washington Headquarters Services," May 6, 1991. The WHS is composed of seven Directorates, one of which is the Real Estate and Facilities Directorate (RE&F). The audit focused on the procurement operations of the Support Services Division (SSD), a division of the RE&F.

The SSD is responsible for the acquisition of supplies, equipment, furniture, furnishings, and services, and for property accountability and maintenance for the Office of the Secretary of Defense (OSD). The SSD makes these purchases through the use of small-purchase orders, Government-issued credit cards, and the SSD imprest fund. The SSD acquires an estimated \$4.2 million per year of goods and services for DoD organizations in the National Capital Region. Most purchases are made using credit cards; however, purchases over \$2,500 are made using small-purchase orders, and purchases under \$500 that require immediate attention are made using the imprest fund. In addition, the SSD manages and operates the Executive Motor Pool, providing official transportation to authorized senior officials from the OSD, the Air Force, the Joint Chiefs of Staff, and Defense agencies.

Objectives

The objectives of the audit were to determine whether payments for goods and services were valid and to validate or discredit allegations of improper activities. In addition, we determined whether purchasing procedures were adequate. We also examined internal controls and compliance with applicable regulations.

Scope and Methodology

This audit was initiated by a request from the Defense Protective Service (DPS). To avoid the perception of a lack of independence from WHS, DPS referred its investigation to the Defense Criminal Investigative Service (DCIS) and the Federal Bureau of Investigation (FBI). Accordingly, the audit results were provided to the DCIS and the FBI.

The audit was divided into three sections that correspond to the three types of purchases that the SSD makes: purchases using small-purchase orders, credit

card purchases, and imprest fund purchases. We audited only those aspects that relate to the SSD; the other functions of RE&F or the WHS were not audited. We did, however, meet or contact other organizations for which the SSD provided services. Organizations visited or contacted are listed in Appendix B.

Audit Period and Standards. This performance audit was made from July to December 1993 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General (IG), Department of Defense. Accordingly, we included such tests of internal controls as were considered necessary.

Universe and Sample. The SSD did not have a computer-based data system to track purchases; however, SSD managers provided us with their manual log so that we could determine the universe of purchases. The universe for small purchases was 939 transactions, valued at \$8.6 million. We selected a random sample of 61 transactions, valued at \$530,000, for a general review. In addition, we selected 90 transactions, valued at \$2.3 million, to determine whether purchase orders were being split. The period covered by the transactions was January 1991 to July 1993. The universe for credit card purchases was 1,568 transactions, valued at \$726,000. A random sample of 135 transactions, valued at \$98,000, was selected for general review. To determine whether unauthorized purchases were made, we selected 1,096 transactions, valued at \$626,000, with 119 vendors. For the imprest fund, the total universe was 403 transactions, valued at \$53,000; a random sample of 100 transactions, valued at \$16,000, was selected. The period covered by the credit card and imprest fund transactions was January 1992 to July 1993.

Limitations. Because of the lack of supporting documentation, we could not validate or discredit the allegations of improper activities as requested by criminal investigators. Also, we could not verify whether purchase requests were legitimate and activities actually received the items.

Internal Controls

The audit evaluated internal control policies and procedures for purchasing operations, safeguarding of assets against loss from unauthorized use, and executing transactions in compliance with existing regulations. We identified material internal control weaknesses as defined by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. Controls were either not established or not implemented. The internal management control program at the SSD did not detect any specific weaknesses beyond a need for a more thorough review of the imprest fund. Specifically, management did not implement review and approval controls for detecting unauthorized purchases. Also, management did not implement controls to properly safeguard assets, such as cash and credit cards. In addition, controls were not in place to detect split purchases, lack of separation of duties, and other purchasing irregularities. Finally, management did not implement controls to ensure that purchases

Introduction

complied with applicable regulations and purchases were adequately documented. All recommendations in this report, if implemented, will assist in correcting the weaknesses. We identified no quantifiable monetary benefits related to the correction of those internal control weaknesses. Other benefits are detailed in Appendix A, "Summary of Potential Benefits Resulting From Audit."

Prior Audits and Other Reviews

Only one other audit or review of the SSD has been done. The IG, DoD, issued a draft inspection report, "Washington Headquarters Services," on January 11, 1994. The inspection found that the WHS planning process did not ensure the best use of available resources and did not provide adequate policies and procedures to ensure that DoD financial management policies were followed. The report also stated that WHS needed to develop and use performance measures, along with improved management controls and oversight mechanisms, to routinely measure and evaluate the effectiveness and efficiency of the organization.

Part II - Finding and Recommendations

Management of Support Services Division

The Real Estate and Facilities Directorate (RE&F), Support Services Division (SSD), routinely made purchases that were not in compliance with applicable regulations. That condition occurred because the SSD Director and Deputy Director were concerned only with customer satisfaction, rather than with implementing necessary controls to ensure that purchasing procedures were followed and supporting documentation was properly prepared and maintained. Also, management did not provide buyers with all applicable policies and procedures and the necessary training to implement them. Finally, management did not implement controls over the safeguarding of assets and separation of duties. As a result, purchases totaling \$1.3 million were made using purchasing procedures that were not authorized for that particular purchase, were split into smaller purchases, or were made without adequate documentation. Although fraud was not detected, the lack of effective procedures increased the potential that fraud could occur.

Background

The RE&F, SSD, is authorized to acquire supplies, services, and construction in the amount of \$25,000 or less using the small-purchase procedures described in the Federal Acquisition Regulation (FAR) part 13, "Small Purchase and Other Simplified Purchase Procedures." The SSD makes purchases by issuing small-purchase orders, charging to Government-issued credit cards, or using an imprest fund. SSD purchases are limited to expendable supplies and low-cost equipment authorized from local vendors.

Small Purchase Orders. Small-purchase orders are used for any acquisitions that are not required immediately and for which costs do not exceed \$25,000. However, SSD can issue small-purchase orders over \$25,000 on a General Services Administration (GSA) scheduled contract. If a vendor is not on a GSA schedule, small purchase orders are limited to \$25,000. If a purchase request submitted to SSD results in a small purchase greater than \$25,000 that cannot be obtained from a GSA-scheduled vendor, the purchase should not be made by SSD and should not be divided to circumvent the dollar limit.

Management of Support Services Division

Credit Cards. Credit cards are primarily used for small-purchase items limited to \$2,500 that are needed immediately. The Head of Contracting Activity (HCA), the RE&F Director, is responsible for the overall management of the credit card program. He has delegated those duties to the Special Assistant to the RE&F Director, who acts on his behalf. The RE&F internal procedures governing the use of the credit card require the HCA to specify the authority to be delegated for the daily operations of the program. The HCA or his delegate sets all limitations and requirements for the credit card.

The approving official for all credit card purchases is the SSD Director. In that capacity, the SSD Director is to review the monthly charges made by SSD personnel (the buyers) and his deputy. He is responsible for ensuring that all purchases are adequately documented, items procured are authorized, and card limitations are not exceeded. In case of a questionable procurement, the SSD Director is to consult with the Credit Card Project Director (the RE&F Acquisition Management and Oversight Division Procurement Analyst) for final approval. The RE&F Credit Card Project Director is also responsible for periodically reviewing SSD activities.

The use of credit cards is subject to a single-purchase limit, a monthly cardholder limit, and a monthly office limit. A single-purchase limit cannot be exceeded unless the HCA or his delegate issues a revised delegation of authority. The monthly cardholder limit is an HCA-imposed spending limit on a cardholder's cumulative purchases in a given month. The monthly office limit is equal to the sum of all cardholders' monthly purchase limits.

Imprest Fund. The imprest fund is to be used for urgent purchase requests that cannot be fulfilled with in-house supplies for under \$500. SSD had a primary and alternate imprest fund custodian. The imprest fund custodian was accountable for the imprest fund balance of \$5,000. However, during our audit, the imprest fund was deactivated.

Management Oversight Controls

Review and Approval. RE&F management requires that all requests for credit card and imprest fund purchases be supported with sufficient justification and submitted to the SSD Director for review and approval. After approval, the Director should forward requests to applicable buyers. However, SSD buyers were receiving purchase requests directly from the activities. As a result, \$258,000 was spent on purchases that were not authorized for purchase by credit cards under the RE&F internal guidance. Table 1. shows the nonauthorized credit card purchases made between January 1992 and July 1993. These purchases may have been authorized using small-purchase orders; however, not enough supporting documentation was available for us to determine their validity. We gave the RE&F Director a separate list of the buyers, including the SSD Deputy Director, who had made the nonauthorized credit card purchases.

**Table 1. Nonauthorized Credit Card Purchases
Between January 1992 and July 1993**

<u>Items/Services Purchased</u>	<u>Number of Purchases</u>	<u>Amount</u>
ADP equipment and software	13	\$ 13,911
Carpet/drape installation	67	50,887
Furniture	26	38,848
Graphics	13	14,710
Janitorial, other than repair services	182	94,529
Lodging	4	6,615
Moving	21	25,929
Personal clothing (uniforms)	1	2,492
Personal/professional services	1	35
Printing or copying services	1	671
Repair of leased/owned vehicles	11	4,897
Rental or lease of motor vehicles	1	122
Telecommunications and telephone equipment	<u>8</u>	<u>4,270</u>
Total nonauthorized credit card purchases	<u>349</u>	<u>\$257,916</u>

We reviewed the nonauthorized credit card purchases for lodging to determine whether attendees were paid for lodging on their travel vouchers. We sampled 10 vouchers included in 4 lodging purchases and found that 1 attendee had improperly claimed and been paid \$116 for 2 days of lodging. We provided SSD management with a copy of the improper travel claim for their action.

Another purchase was partially duplicated by a combination of an imprest fund purchase and a credit card purchase. On December 9, 1992, the SSD Deputy Director purchased 80 tapes for \$476 through the imprest fund, using a photocopy of a request for 465 tapes and penciling in 80. On December 10, 1992, the SSD Deputy Director purchased an additional 465 tapes on his credit card for \$2,767, using the activity's original request form. The purchase request used to support the transactions showed that the activity requested 465 tapes, and officials at the requesting activity verified that they received only 465 tapes. We could not determine what happened to the 80 tapes, since no other activity had requested tapes.

Those purchases were not forwarded to the SSD Director for approval. In addition, since the RE&F Credit Card Project Director did not periodically review SSD operations, those purchases would never have been detected.

RE&F management also requires the HCA to review all credit card limits before approving additions, deductions, or cancellations. However, the HCA approving official established a single-purchase limit of \$25,000 for one cardholder, which exceeded the monthly limit of \$15,000. In addition, between January 1992 and July 1993, the HCA approving official established monthly cardholder limits that exceeded the monthly office limit by as much as

Management of Support Services Division

\$17,000. The HCA approving official approved changes requested by the SSD Director without reviewing the effects of those changes. As a result of the breakdown of primary management control within the SSD and secondary management control established by the HCA, the credit card program operated with little or no oversight.

Training. Based on discussions with newly assigned SSD management, RE&F management, and SSD buyers, adequate training was not provided to buyers. Individuals with delegated procurement authority, at a minimum, should receive training in procurement ethics and should attend the Defense Small Purchase Course or the Management of Defense Acquisition Contracts course. Because of the lack of training, SSD buyers were not familiar with the applicable purchasing procedures.

Safeguarding of Assets. Assets were not properly safeguarded. Specifically, proper controls were not implemented over the imprest fund, receipt of assets, and credit card use. Controls that were violated included separation of duties, custody of the imprest fund, controls over cash advances, reconciliation and replenishment of the imprest fund, changing of the safe combination, and use of the credit card by personnel other than the assigned cardholder.

Separation of Duties. From January 1992 through July 1993, the primary and alternate imprest fund cashiers made 19 imprest fund purchases, valued at \$3,187. In addition, the SSD Deputy Director made credit card purchases estimated at \$106,046, which he also had the authority to approve. Also, SSD buyers were authorized to receive purchased goods from vendors. The buyers received assets valued at \$416,000 that they had also purchased from vendors.

Custody. Custody of the imprest fund was not properly maintained. Instead of providing the alternate cashier with temporary funds when needed, the primary cashier permanently assigned \$1,500 to the alternate cashier without obtaining the alternate's signature.

Cash Advances. Although RE&F management requires cash to be advanced only on the day on which purchases are to be made, cash was routinely advanced from the imprest fund prior to the day purchases were made. In 21 out of 100 imprest fund transactions, the primary and alternate imprest fund cashiers disbursed a total of \$3,151 from 1 to 7 days before the imprest fund purchase took place.

Reconciliation and Replenishment. The SSD imprest fund contained more funds than necessary, and was not reconciled and replenished monthly as required by DoD 7220.9-M, the "DoD Accounting Manual." For example, the imprest fund was not replenished during October through December 1991; March, May, October, and December 1992; and January and April 1993. SSD's imprest fund purchases averaged \$3,000 per month.

Safe Combination. The safe combination was not changed annually as required. In addition, we observed the safe being opened by an employee other than the primary imprest fund cashier, the only employee who should have

known the combination. Because of the lack of documentation, we could not determine when the combination was last changed.

Credit Card Use. Credit cards were used by employees other than the cardholders. For example, on February 6, 1993, five purchases, valued at \$9,551, from D.C. Stationers, Inc., were made by an employee other than the assigned cardholder. When the purchases were made, the cardholder was in training and had not given permission for the other employee to make purchases. In addition, the employee who made the purchases explained that the other card was used because her monthly limit had already been reached. The potential for one buyer to use the account number of another buyer is great because the monthly billing statements showing each cardholder's account number are kept in an unlocked drawer that is accessible to all buyers.

Irregularities in Purchase Procedures

Splitting of Purchases. The FAR part 13 states that small-purchase procedures should not be used to acquire supplies and services that are expected to exceed the small-purchase limit, even when the purchases do not exceed that limit. Requirements that total more than the small-purchase limit should not be broken down into several purchases that are within the limit in order to permit negotiation under small-purchase procedures. SSD buyers split purchases that exceeded small-purchase limits into several smaller purchases. Of the 90 small contract files we reviewed, 8 files, valued at \$376,477, contained purchases that were divided into multiple purchases to avoid the \$25,000 limit on small-purchase transactions. For example, on May 29, 1992, an SSD buyer purchased audiovisual equipment for the Office of the Secretary of Defense, valued at \$106,261, from Design and Production, Inc. The SSD buyer split the purchase into five purchases to avoid the \$25,000 limit on small-purchase transactions. Those purchases exceeded \$25,000 and should not have been made by the SSD. In addition, 32 credit card purchases, valued at \$47,930, were divided to avoid the \$2,500 limit. For example, on February 8, 1993, an SSD buyer purchased office supplies, valued at \$9,551, from D.C. Stationers, Inc. The SSD buyer split the purchase into five purchases to avoid the \$2,500 limit on credit card purchases. Further, one imprest fund purchase from Argco Repair Service, valued at \$868, was divided into two transactions to avoid the \$500 limit on imprest fund transactions. The SSD made small purchases worth a total of \$425,275 that should not have been made with the small-purchase method used.

Sources of Supply. The FAR part 13 requires agencies to satisfy their requirements from its approved lists of sources for obtaining supplies and services. The first source to be used for supplies is the agency's inventory. For services, the first source is the list of services available from the industries of the blind and other severely handicapped persons. DoD Directive 5335.2, "Defense Supply Service - Washington (DSS-W)," also requires DoD Components in the National Capital Region to use the services of DSS-W whenever possible.

Management of Support Services Division

The SSD failed to consistently use the approved sources of supplies and services when making purchases. SSD buyers purchased goods from local vendors when the same or substitute goods could have been obtained from the DSS-W Stock Fund. SSD buyers also did not determine whether the requested item or an acceptable substitute was available from DSS-W before purchasing from local vendors. For example, 46 credit card and 9 imprest fund purchases were made from local vendors at a cost of \$51,626 when similar goods could have been obtained from the DSS-W Stock Fund for \$34,458. As a result, the SSD unnecessarily spent \$17,168 of customer funds to avoid paperwork and obtain the items quickly.

On February 13, 1992, the Director, WHS, and the Director of the United States Secret Service (the Secret Service), Department of the Treasury, signed a memorandum of understanding for the maintenance and repair of armored vehicles. The Secret Service was to provide maintenance and repair support, on a reimbursable basis, beginning in FY 1992. The SSD buyers did not receive copies of the memorandum of understanding, so they continued to send the armored vehicles to local vendors for repair and paid for the work with credit cards. Since the memorandum of understanding did not give information on the costs of maintenance and repair, we were not able to compare the cost of repairs by the Secret Service to repairs made by vendors. Therefore, we could not determine the actual amount of unnecessary expenses.

Rotation of Vendors. The FAR part 13 requires small purchases to be distributed equitably among qualified suppliers. Existing guidance requires buyers to solicit suppliers other than the previous vendor before placing repeat orders. If suppliers furnish standing price quotations or catalog prices on a recurring basis, obtaining competition on individual purchases is not necessary, but the prices should be periodically confirmed as current. When determining the number of sources to solicit, the buyer must consider the nature of the item or service to be purchased and whether it is highly competitive; information on recent purchases of the same or similar items or services; the urgency and dollar value of the purchase; and past experience with vendor prices.

The SSD management and buyers favored certain vendors and ignored regulations requiring purchases to be rotated among vendors. No documentation existed to show that the buyers solicited suppliers other than the previous vendor before placing repeat orders. The SSD management and staff acknowledged that they used the same vendors on a regular basis. For example, services for cleaning, installation, and repair of carpets and drapes totaling \$118,210 were repeatedly obtained from the same vendors. The volume of those services indicated a need to establish a contract for them.

Supporting Documentation

DoD Directive 5015.2, "Records Management Program," March 22, 1991, requires DoD Components to establish and maintain a central Records Management Program to ensure that DoD records are maintained and managed

from creation through disposal. SSD management is responsible for adequately documenting all SSD transactions. Examples of documents required to support transactions include: purchase requisitions, documentations of price quote solicitation (Abstracts of Bids), certifications of availability of funds (DD [Department of Defense] Forms 1262), purchase orders (DD Forms 1155), vendor invoices and receipts, and receiving documents (DD Forms 1155 or 250).

Of the 61 small-purchase contract files we examined, 46 files, related to contracts valued at \$506,059, did not contain the required basic documentation, such as receipt or acceptance of goods and services and price quote solicitations. Of the 100 imprest fund files reviewed, 94 files, valued at \$14,314, did not contain the required purchase requisition (Secretary of Defense Form 474) or any documentation of the activity's receipt or acceptance of purchased goods and services. Further, of the 135 credit card transactions reviewed, 90 transactions, valued at \$61,895, did not contain documentation of purchase requests or receipt. Of the 90 transactions, 8 were based on memorandums; for the remainder, we could not determine what initiated the transaction. Buyers explained that some transactions were based on phone calls. Documentation for other transactions was lost, or the transactions may have been based on improper activities.

As a result, the auditors could not determine whether \$582,000 in purchases was actually requested, requirements for open competition were met, funds were certified for availability, goods or services were actually received, and payments to the suppliers were valid.

Conclusion

At SSD, we observed inadequate management oversight, inappropriate purchasing procedures, and a lack of adequate supporting documentation for purchases. As a result, we could not determine whether purchases and payments for goods and services were valid in all instances. Further, because of the lack of supporting documentation, we could not validate or discredit the allegations of improper activities as requested by criminal investigators. During our audit, the RE&F management temporarily replaced the Director and Deputy Director, SSD. Based on our preliminary observations, we believe that RE&F management should assign a Director and Deputy Director who will implement stronger internal controls and require buyers to comply with all regulations, while continuing to satisfy SSD's customers. Serving customer needs and maintaining reasonable controls are not incompatible.

Recommendations

We recommend that the Director, Washington Headquarters Services:

1. Issue new credit cards and provide safeguards to protect account numbers from use by employees who are not assigned those numbers.

2. Direct the Director, Support Services Division, to:

a. Require appropriate officials to review and give prior written approval to all purchase requests.

b. Require the Credit Card Project Director to perform frequent reviews of cardholders' and approving officials' activities.

c. Require the Head of Contracting Activity to review delegated authority and all cardholders' limitations and revise them when necessary.

d. Require officials to periodically analyze imprest fund use to keep the imprest fund balance to a minimum, if the fund is reactivated.

e. Prohibit the primary and alternate imprest fund cashiers from making purchases from the imprest fund.

f. Require the primary imprest fund cashier to obtain a signed receipt from the alternate during any absence.

g. Require the primary and alternate imprest fund cashiers to disburse funds only on the day of purchase.

h. Examine and approve replenishment vouchers for the imprest fund.

i. Prohibit buyers from photocopying purchase requests and using them to support other transactions.

j. Designate a receiving official, other than the buyer, for the receipt and inspection of purchased goods.

k. Require the designated receiving official to obtain a signed receipt from the requesting activity upon delivery of the goods to the activity.

l. Review the purchase files periodically to ensure that all required documentation has been filed.

3. Issue a written reminder to buyers that the use of credit cards not assigned to them is prohibited and that misuse may result in disciplinary action under DoD and Washington Headquarters Services regulations.

4. Analyze all cardholders' activities quarterly for appropriateness of transactions.

5. Provide applicable policy and procedures to all buyers and train them in the proper purchasing procedures. As a minimum, training should cover the correction of improper purchasing practices such as splitting of purchases, using inappropriate sources of supply and not rotating vendors.

6. Provide the Support Services Division buyers with the memorandum of understanding on the maintenance and repair of armored vehicles and any future agreements that affect the buyers' responsibilities.

Management Comments

We requested comments from the Director, Washington Headquarters Services. In comments dated April 6, 1994, the Director concurred with the finding and recommendations in the draft report. See Part IV for the full text of management's comments.

Part III - Additional Information

Appendix A. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Type of Benefit
A.1., A.3., A.4.	Internal controls. Issuing new credit cards, securing credit card account numbers, issuing written guidance for the proper use of credit cards, and reviewing cardholders' activities will improve credit card management.	Nonmonetary.
A.2., A.2.a. through A.2.i., A.2.k., A.5., A.6.	Internal controls and compliance. Implementing established guidance and current policies and procedures will improve internal controls over management oversight and SSD operations.	Nonmonetary.
A.2.j.	Internal controls. Designating a receiving official will improve the separation of duties.	Nonmonetary.
A.2.1.	Internal controls. Periodic review of the purchase files will help to ensure that all required purchase documentation has been filed.	Nonmonetary.

Appendix B. Organizations Visited or Contacted

Office of the Secretary of Defense

Office of Protocol, Deputy Secretary of Defense, Washington, DC
Office of the Under Secretary of Defense for Acquisition, Washington, DC
Office of the Director, Net Assessment, Under Secretary of Defense for Policy,
Washington, DC
Comptroller of the Department of Defense, Washington, DC
Office of the Assistant Secretary of Defense (Command, Control, Communications and
Intelligence), Washington, DC
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Office of the Director, Administration and Management, Washington, DC
Washington Headquarters Services, Washington, DC
 Directorate for Budget and Finance
 Directorate for Personnel and Security
 Directorate for Real Estate and Facilities
 Federal Voter Assistance Program

Defense Agencies

Office of Economic Adjustment, Arlington, VA
Headquarters, Defense Finance and Accounting Service, Arlington, VA
 Defense Finance and Accounting Service Center, Denver, CO
 Defense Accounting Office, Bolling Air Force Base, Washington, DC

Non-Defense Federal Organizations

U.S. Court of Military Appeals, Washington, DC
Federal Bureau of Investigation, Washington, DC

Appendix C. Report Distribution

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Part IV - Management Comments

Washington Headquarters Services Comments



ADMINISTRATION
AND MANAGEMENT

OFFICE OF THE SECRETARY OF DEFENSE

WASHINGTON, DC 20301-1950

06 APR 1994



MEMORANDUM FOR ACTING DIRECTOR, FINANCIAL MANAGEMENT DIRECTORATE OFFICE OF THE INSPECTOR GENERAL

SUBJECT: Draft Audit Report on Vendor Payments - Washington
Headquarters Services, Support Services Division
(Project No. 3FH-5025.01)

We have reviewed the draft audit report, subject as above, on purchasing procedures used by the Real Estate and Facilities Directorate, Support Services Division, Washington Headquarters Services. As requested, we are providing comments in accordance with DoD Directive 7650.3. We concur with the recommendations indicated in the report. We also agree that implementation of these recommendations will result in improved management controls and in compliance with regulations. We also concur with the "Description of Benefits" listed in Appendix A.

Our comments are keyed to your recommendations, as follows:

1. Issue new credit cards and provide safeguards to protect account numbers from use by employees not assigned to the account numbers.

Concur: New credit cards were issued to all cardholders by the contractor (Rocky Mountain National Bank) as of 4 March 1994. Cards will be safeguarded when not in use; cardholder files will be locked when not in use. Completion date: March/April 1994.

2.a. Require appropriate officials to review and give prior written approval to all purchase requests.

Concur: The new approving official for Support Services reviews each purchase request and initials only those requests which are approved for purchase, including purchases to be accomplished by credit card. In addition, the Acting Deputy Director, Support Services also reviews and initials all purchase requests. Completion date: July 1993.

2.b. Require the Credit Card Project Director to perform frequent reviews of cardholders' and approving officials' activities.

Concur: The Credit Card Project Director has begun a program of more frequent reviews of cardholder and approving official activities for Support Services and other RE&F components using

the credit card. Completion date: ongoing, but initiated July 1993.

2.c. Require the Head of the Contracting Activity to review delegated authority and all cardholders' limitations and revise them when necessary.

Concur: The Head of the Contracting Activity will review authority delegated to all cardholders and will revise them as necessary. In addition, new letters of delegation will be issued to all cardholders in Real Estate and Facilities, including the Support Services Division. Completion date: May 1994.

2.d. Require officials to periodically analyze imprest fund use to keep the imprest fund balance to a minimum, if the fund is reactivated.

Concur: If the fund in question is reactivated, the fund minimum balance will be the minimum amount necessary to keep the fund in operation.

2.e. Prohibit the primary and alternate imprest fund cashiers from making purchases from the imprest fund.

Concur: If the fund is reactivated there will be a strictly enforced prohibition on primary and alternate cashiers purchasing from the fund.

2.f. Require the primary imprest fund cashier to obtain a signed receipt from the alternate during any absence.

Concur: Should the fund be reactivated, the primary imprest fund cashier would be required to obtain a signed receipt from the alternate cashier during absences.

2.g. Require the primary and alternate imprest fund cashiers to disburse funds only on the day of purchase.

Concur: Upon reactivation of the fund, the primary and alternate cashiers would be instructed to disburse funds only on the day of purchase.

2.h. Examine and approve replenishment vouchers for the imprest fund.

Concur: Upon reactivation of the imprest fund, the Acting Director, SSD, would examine and approve replenishment vouchers for the fund. Note: A standard operating procedure would be developed for the imprest fund, and would incorporate each of the recommendations relative to the imprest fund (2.d. through 2.h.). Completion dates for 2.d. through 2.h.: not applicable at this time.

2.i. Prohibit buyers from photocopying purchase requests and using them to support other transactions.

Concur: Contract specialists have been advised that purchase requests may not be photocopied and used to support other transactions under any circumstances. Completion date: July 1993.

2.j. Designate a receiving official, other than the buyer, for the receipt and inspection of purchased goods.

Concur: The Support Services Division will develop a standard operating procedure to cover the receipt and inspection of items purchased. Completion date: May 1994.

2.k. Require the designated receiving official to obtain a signed receipt from the requesting activity upon delivery of the goods to the activity.

Concur: The designated receiving official will obtain a signed receipt from the requesting activity upon delivery of the goods to the activity, and will incorporate such action as part of the standard operating procedure on delivery and receipt. Completion date: May 1994.

2.l. Review the purchase files periodically to ensure that all required documentation has been filed.

Concur: The Contracting Officer assigned to the Support Services Division has incorporated periodic review of purchase files as a routine procedure in order to determine whether necessary documentation has been filed properly. Completion date: July 1993.

3. Issue a written reminder to buyers that the use of a credit card not assigned to them is prohibited and that misuse may result in disciplinary action under DoD and Washington Headquarters Services regulations.

Concur: The Credit Card Project Director will issue a memorandum to all RE&F credit cardholders, including those in Support Services, regarding this prohibition and the possibility of disciplinary action should misuse occur. Completion date: April 1994.

4. Review all cardholders' activities and take appropriate corrective actions.

Concur: All cardholders' activities will be periodically reviewed to determine compliance with policies, regulations and procedures; appropriate corrective measures will be employed as required. Completion date: ongoing, but initiated April 1994.

5. Provide applicable policy and procedures to all buyers and train them in the proper purchasing procedures.

Concur: Required training and remedial training where necessary will be provided to all employees participating in the acquisition process in Support Services. Completion date: ongoing activity.

6. Provide the Support Services Division buyers with the memorandum of understanding on the maintenance and repair of armored vehicles and any future agreements that affect the buyers' responsibilities.

Concur: Support Services will request copies of this and future agreements and provide them to buyers who are responsible for these vehicles. Completion date: April 1994.

Many of the recommendations for corrective action have already been implemented, as noted. We will continue to implement other recommendations as planned, and will continue to take necessary actions to improve the management of the Support Services Division.

In addition to the above concurrences, we also agree with the internal control weaknesses the report highlighted in Part I, and the comment that implementation of the recommendations in the report will assist in correcting these weaknesses.

We appreciate the opportunity to comment on the draft audit report findings and recommendations, and look forward to receipt of the final document. If you desire further assistance or clarification, please contact Mr. Robert A. Jackson, Acting Deputy Director, Real Estate and Facilities at (703) 697-7241.


D. O. Cooke
Director

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