
July 21, 2006



Acquisition

Purchase Card Program Controls at Selected
Army Locations
(D-2006-099)

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Acronyms

AAA	Army Audit Agency
A/OPC	Agency/Organization Program Coordinator
BPA	Blanket Purchase Agreement
GAO	Government Accountability Office
IG	Inspector General
SOP	Standing Operating Procedure



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DEPARTMENT OF DEFENSE
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July 21, 2006

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Report on Purchase Card Program Controls at Selected Army Locations
(Report No. D-2006-099)


We are providing this report for review and comment. We considered management comments on a draft of this report in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Acting Director of the Army Contracting Agency comments were partially responsive. We request additional comments on Recommendation 1.b. by August 21, 2006.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to AudACM@dodig.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET)

We appreciate the courtesies extended to the staff. Questions should be directed to Ms. Deborah Carros at (703) 604-9217 (DSN 664-9217). See Appendix C for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:


Sp4 Richard B. Jolliffe
Assistant Inspector General
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Department of Defense Office of Inspector General

Report No. D-2006-099

July 21, 2006

(Project No. D2005-D000CK-0250.000)

Purchase Card Program Controls at Selected Army Locations

Executive Summary

Who Should Read This Report and Why? Purchase card program managers, certifying officials, approving officials, alternate approving officials, and cardholders responsible for implementing and overseeing purchase card processes at Fort Carson, Fort McPherson, and Fort Stewart should read this report because it identifies problems with internal controls.

Background. This audit is in response to a request from the DoD Purchase Card Program Management Office. The DoD Purchase Card Program Management Office requested we perform a comprehensive review of the Army purchase card program and specifically the control environment supporting the purchase card program at Fort Stewart, Georgia.

From October 1, 2004, through April 30, 2005, Fort Carson, Fort McPherson, and Fort Stewart cardholders made 73,652 transactions, valued at \$97.8 million. We reviewed 9,865 purchase transactions, valued at \$22.4 million, on 80 accounts.

Results. Controls over the purchase card programs at Fort Carson, Fort McPherson, and Fort Stewart were inadequate, and program oversight was weak. Purchase card program management officials did not have adequate policies and procedures in place for retaining cardholder documentation. Specifically, 596 purchase transactions were misuses of the purchase card, and 27 of the 107 cardholder files requested for review could not be located. For the 9,865 purchase transactions reviewed, 7,714 had adequate supporting documentation, 1,433 had incomplete supporting documentation, and 718 had no supporting documentation.

In addition, purchase card program management officials at all three locations had not implemented adequate cardholder training, performed required annual approving official account inspections, or effectively managed the span of control over purchase card accounts. Specifically, 20 of the 107 selected cardholders did not receive the required initial or refresher training; 757 of the 853 approving official accounts were not inspected in FY 2005, as required; 23 approving officials were responsible for more than the standard cardholder to approving official ratio; and the agency/organization program coordinators at Fort McPherson were responsible for more than the standard for span of control for purchase card accounts.

Fort Stewart purchase card program management officials initiated efforts to improve internal controls during the audit in response to recommendations made by the Army Audit Agency in September 2005. These efforts included developing a robust program for cardholder training, establishing a plan to achieve 100 percent inspections of

approving official accounts, and implementing a plan to reduce the approving official span of control to a manageable level. These efforts, if fully implemented, should strengthen program controls and significantly improve program oversight.

Unless purchase card program management officials strengthen internal controls and program oversight, the Army cannot ensure the continuous program improvement and risk mitigation necessary to prevent fraud, waste, or mismanagement. U.S. Army Contracting Agency officials must establish controls for training all cardholders and approving officials, reviewing all approving official accounts annually, and reducing the approving official span of control to a manageable level. U.S. Army Contracting Agency officials need to implement guidance for retention of transaction documentation. (See the Finding section of the report for the detailed recommendations.)

Management Comments. The Acting Director of the Army Contracting Agency and the Deputy Assistant Secretary of the Army for Financial Operations commented on the report recommendations and concurred with the recommendations. However, we do not consider the Acting Director of the Army Contracting Agency comments to be completely responsive. Specifically, the Acting Director of the Army Contracting Agency concurred with the recommendation to ensure the agency/organization program coordinator inspect all purchase card approving official accounts annually, and provided an alternate plan for reviewing the approving official accounts annually. However, the Army Government Purchase Card Standing Operating Procedure requires the Level 4 agency/organization program coordinator to have full responsibility of auditing approving official accounts annually. In addition, the current draft revision of the Army Standing Operating Procedure states that the agency/organization program coordinator's responsibilities cannot be delegated. As a result, we request the Acting Director of the Army Contracting Agency to provide additional comments to the final report addressing the recommendation by August 21, 2006. See the Finding section of the report for a discussion on management comments and the Management Comments section of the report for a complete text of comments.

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Background

We conducted this audit in response to a request from the DoD Purchase Card Program Management Office. The DoD Purchase Card Program Management Office requested we perform a comprehensive review of the Army purchase card program and specifically the control environment supporting the purchase card program at Fort Stewart, Georgia. The DoD Purchase Card Program Management Office requested the audit because the Army Audit Agency (AAA) had identified significant misuses of the Government purchase card within the Aviation Division at Fort Stewart due to weak or nonexistent internal controls.¹ The DoD Purchase Card Program Management Office agreed that we could expand the scope to include Fort Carson and Fort McPherson, which we visited as part of the “Audit of Controls Over the Army, Navy, and Air Force Purchase Card Programs” (Project No. D2005-D000CK-0202.000).

Government Purchase Card Programs. Federal purchase card programs, which have been in existence Government-wide since 1989, were established to streamline acquisition processes by providing a low-cost, efficient vehicle for obtaining goods and services directly from vendors. The General Services Administration reported that the Government saves approximately \$1.4 billion annually in administrative costs by using purchase cards. In addition, the program earned the Government rebates of \$50.9 million in FY 2005. The purchase card is authorized for use in making and paying for purchases of supplies, services, or construction in accordance with the Federal Acquisition Regulation. Federal Acquisition Regulation Subpart 13.2 states that the purchase card will be the preferred method to purchase and to pay for micro-purchases. A “micro-purchase” is defined as an acquisition of supplies or services using simplified acquisition procedures, the aggregate amount of which does not exceed the micro-purchase threshold of \$2,500, except for construction where the threshold is \$2,000.

With the establishment of the General Services Administration SmartPay Program in 1998, contracts were awarded to five service providers: Bank of America, Bank One, Citibank, Mellon Bank, and U.S. Bank. Federal Government departments and agencies were to choose the service provider with capabilities meeting agency requirements. The Army purchase card program operates under a Government-wide General Services Administration contract with U.S. Bank. The Army’s purchase card activity for FY 2005 totaled 4.5 million transactions valued at \$3.5 billion.

DoD Program Participants and Responsibilities. The Under Secretary of Defense for Acquisition, Technology, and Logistics and the DoD Purchase Card Program Management Office have overall responsibility for the DoD purchase card program. The U.S. Army Contracting Agency, under the Assistant Secretary of the Army (Acquisition, Logistics, and Technology), has overall responsibility for the Army purchase card program. Fort Carson falls under the U.S. Army Contracting Agency, Northern Region; Fort McPherson and Fort Stewart fall

¹ AAA Report No. A-2005-0199-ALA, “The Army’s Purchase Card Program, Aviation Division, Fort Stewart/Hunter Army Airfield, Georgia,” June 13, 2005.

under the U.S. Army Contracting Agency, Southern Region. Authority is further delegated to the contracting offices to ensure that adequate resources are dedicated to the purchase card program within each installation to allow effective completion of purchase card administration. However, the responsibility for the management and day-to-day operations of the purchase card program lies with the agency/organization program coordinators (A/OPCs). Furthermore, A/OPCs, approving officials, and cardholders at the installation level are collectively responsible for providing reasonable assurance that purchase card transactions are appropriate and meet a valid Government need.

Objectives

The audit objective was to determine whether controls over the Army purchase card program are effective. Specifically, we reviewed existing operational and internal controls over the purchase card programs at Fort Carson, Colorado; Fort McPherson, Georgia; and Fort Stewart, Georgia. See Appendix A for a discussion of the scope and methodology. See Appendix B for prior coverage related to the objectives.

Purchase Card Program Controls

Controls over the purchase card programs at Fort Carson, Fort McPherson, and Fort Stewart were inadequate, and program oversight was weak. Specifically,

- 596 purchase transactions were misuses of the purchase card;
- 27 of the 107 cardholder files requested for review could not be located;
- 20 of the 107 selected cardholders did not receive the required initial or refresher training;
- 757 of the 853 approving official accounts were not inspected in FY 2005, as required;
- the A/OPCs at Fort McPherson were responsible for more than the standard for span of control for purchase card accounts; and
- 23 approving officials were responsible for more than the standard cardholder to approving official ratio.

These control weaknesses occurred because purchase card managers did not effectively implement Army purchase card program guidance and did not adequately enforce existing controls throughout the purchase card program. Unless purchase card program management officials strengthen internal controls and program oversight, the Army cannot ensure the continuous program improvement and risk mitigation necessary to prevent fraud, waste, or mismanagement.

Army Purchase Card Guidance

Department of Army, “Government Purchase Card Standing Operating Procedure,” July 31, 2002. The Army Standing Operating Procedure (SOP) defines the requirements for establishing, maintaining, and operating the purchase card program. The Army SOP requires A/OPCs at the installation level to manage the day-to-day operations of the purchase card program. These responsibilities include developing and implementing local procedures, providing initial and biannual refresher training to all cardholders and approving officials, conducting annual reviews of all approving official accounts, and maintaining an appropriate span of control.

Fort Carson Standing Operating Procedure for Government Purchase Card Program, February 2003. The Fort Carson SOP supplements the Army SOP and establishes and prescribes procedures for use of the purchase card for all cardholders and approving officials managed by Fort Carson’s Directorate of Contracting. The Fort Carson SOP states that the Directorate of Contracting is responsible for ensuring that adequate internal controls are in place and working

to provide reasonable assurance that resources are protected from fraud, waste, and misuse. The Directorate of Contracting is further responsible for training and instructing participating personnel and reviewing cardholder records. Approving officials are responsible for ensuring that each purchase card transaction meets the legal requirements for authorized purchases, is approved prior to purchase, and contains adequate documentation.

Fort McPherson Simplified Customer Service Guide to Government Purchase Card Procedures, Revised October 2003. The Fort McPherson Guide supplements the Army SOP and establishes policies and procedures for use of the purchase card. The Fort McPherson Guide requires A/OPCs to conduct training and annual inspections of all approving official accounts under their control. Approving officials are responsible for ensuring cardholders comply with purchasing procedures and reviewing and certifying the monthly billing statement. Cardholders are required to maintain a purchasing file to include a written certification of funds for each purchase, receipts, cardholder statements of any questionable items, and a purchase log.

Fort Stewart Standing Operating Procedure for Use of the Government Purchase Card, February 22, 2005. The Fort Stewart SOP supplements the Army SOP and establishes policies and procedures for the use and management of the purchase cards for Fort Stewart, Hunter Army Airfield, and tenant activities within the Fort Stewart area of support. The Fort Stewart SOP states that the A/OPC is responsible for training cardholders and approving officials, conducting an annual review of each assigned approving official, and maintaining an appropriate span of control between approving officials and cardholders. The approving official is responsible for reviewing all transactions for each assigned cardholder and ensuring cardholders fulfill their responsibilities. The cardholder is responsible for using the card to purchase or pay for official supplies and services in support of the agency's mission, screening for mandatory sources, obtaining all required prepurchase approvals, and maintaining receipts and other supporting documentation.

Purchase Card Misuse

From October 1, 2004, through April 30, 2005, Fort Carson, Fort McPherson, and Fort Stewart cardholders made 73,652 transactions, valued at \$97.8 million. Specifically,

- Fort Carson cardholders made 23,210 transactions, valued at \$21.1 million. We reviewed 1,259 purchase transactions, valued at \$0.7 million, on 21 accounts.
- Fort McPherson cardholders made 24,650 transactions, valued at \$38.8 million. We reviewed 3,776 purchase transactions, valued at \$2.2 million, on 43 accounts.

-
- Fort Stewart cardholders made 25,792 transactions, valued at \$37.9 million. We reviewed 4,830 purchase transactions, valued at \$19.5 million, on 16 accounts.

Purchase card managers did not effectively implement Army purchase card program guidance. We identified 596 misuses of the Government purchase card at Fort Carson, Fort McPherson, and Fort Stewart. Misuses include split purchases, use of nonmandatory sources of supply, and unauthorized purchases.

Split Purchases. The Army SOP prohibits splitting requirements among multiple credit card purchases of same or similar items with the intent to stay under the dollar threshold of the cardholder's single purchase limit. Eleven cardholders made 80 split transactions, valued at \$134,539.

Two Fort Carson cardholders made 10 split transactions, valued at \$11,102, to stay below the individual cardholder's single purchase limit. For example, one cardholder, whose single purchase limit was \$2,500, made six consecutive purchase transactions for vehicle supplies to the same vendor on the same day for a total of \$5,275.38.

Five Fort McPherson cardholders made 28 split transactions, valued at \$50,866, to stay below the individual cardholder's single purchase limit. For example, one cardholder, whose single purchase limit was \$25,000, made 16 purchases totaling \$31,740.22 to the same vendor within 5 months for furniture for a single directorate.

Four Fort Stewart cardholders made 12 split transactions, valued at \$21,232, to stay below the individual cardholder's single purchase limit. For example, one cardholder, whose single purchase limit was \$2,500, purchased a tractor mower for \$2,184.99 and minutes later made a separate purchase for mower accessories in the amount of \$764.98, totaling \$2,949.97. In addition, one Fort Stewart cardholder made 30 split transactions, valued at \$51,339, to stay below the \$2,000 micro-purchase threshold for construction.

Use of Nonmandatory Sources of Supply. The U.S. Army Contracting Agency awarded 19 mandatory Army Blanket Purchase Agreements (BPAs) for office products on September 1, 2004. An Office of the Assistant Secretary of the Army for Acquisition, Logistics, and Technology memorandum, dated September 13, 2004, states that, with limited exceptions, all Army purchases for office products must be made against the mandatory BPAs and all orders must be placed through the DoD Electronic Mall.² The terms and conditions of the Army BPAs require vendors to offer competitive pricing as well as a \$50 minimum order when purchasing office products. An exception to the mandatory use of the BPAs occurs when an office product appears to be priced above fair market value. The cardholder may then purchase the item from a vendor other than a BPA vendor. The terms and conditions of the Army BPAs further require shipments be made within 24 hours and delivered in good condition within 2 working days of

² DoD Electronic Mall is an official U.S. Government information technology interface to facilitate the procurement of goods and services by authorized personnel. These goods and services are to be procured for official Government related purposes only.

shipping. Another exception to the mandatory use of the BPAs occurs when a need is so urgent that an office product is required the same day. The cardholder may then purchase the item through another source. When an urgent purchase is made, the cardholder file should appropriately document the reason for buying the item from a non-BPA vendor.

For the 9,865 purchase transactions reviewed, 428 were purchases for office products from non-BPA vendors and without the necessary justification. Specifically, Fort Carson cardholders made 38 purchases, Fort McPherson cardholders made 289 purchases, and Fort Stewart cardholders made 101 purchases for office products from non-BPA vendors and without the necessary justification. Fort McPherson and Fort Stewart cardholders stated they were unaware of the requirement to use Army BPAs for office products and that DoD Electronic Mall was not user-friendly. Fort Carson and Fort McPherson cardholders stated that it was often not practical to wait for a need for a \$50 minimum of office products when they could purchase the same item from a local vendor at a lower cost. In addition, Fort McPherson cardholders did not favor using mandatory BPAs, stating that items were rarely received within the required time period.

Unauthorized Purchases. The Army SOP requires cardholders to obtain prepurchase approval and documentation for requirements that appear to be outside of normal needs of the requesting organization to support what may appear to be questionable purchases. This documentation must address the need for the item that is being acquired. Cardholders are responsible for ensuring that purchases requiring preapproval are properly documented, and necessary approvals are obtained prior to making the purchase. Furthermore, the Army SOP prohibits cardholders from purchasing items for personal convenience or not for official Government use with the purchase card. However, an exception occurs when an otherwise “personal” purchase is deemed proper by the respective agency official as mission-essential and a necessary expense of operating a facility. These mission-essential items require documented prepurchase approval and must be secured in the office at the end of the day for use during the work and duty day.

For the 9,865 purchase transactions reviewed, 40 transactions made at Fort Carson and Fort McPherson required preapproval (for example, food, seasonal decorations, trophies, awards, plaques, and mementos); however, cardholder files did not contain the required documentation or adequate justification for what appeared to be questionable purchases. For example, one cardholder purchased crystal and silver bowls, clocks, and paperweights in the amount of \$1,348.40 as gifts for foreign dignitaries without preapproval. Another cardholder purchased hats and t-shirts in the amount of \$2,492 without justification or preapproval. Cardholders at Fort McPherson and Fort Stewart made an additional 48 purchases for personal items, and cardholder files did not have justification for purchasing these items or evidence of prepurchase approval. For example, cardholders purchased disposable tableware, napkins, storage bags, aluminum foil, coffee creamer, facial tissues, air fresheners, and personal calendars without justification or preapproval. Cardholders stated the kitchen supplies were purchased for the community breakroom for use by all employees. In addition, Fort McPherson and Fort Stewart program officials stated that the items were not specifically listed in

the Army SOP as prohibited; therefore, they believed the purchases were allowable.

The Army SOP contains a representative but not all-inclusive list of prohibited personal items. It is not necessary for the Army to cover every possible improper expense in the Army SOP. Improper expenses violate the law. Cardholders at Fort McPherson and Fort Stewart inappropriately used Government funds to purchase kitchen supplies for employee breakrooms. These purchases are potential Antideficiency Act violations, and the Army should conduct an investigation under the Financial Management Regulation provisions.

Retention of Cardholder Documentation

Purchase card program management officials did not have adequate policies and procedures in place for retaining cardholder documentation.

Inadequate Cardholder Documentation. Cardholders at the three Army locations did not retain adequate documentation in their files to support purchase card transactions in accordance with Army guidance. Specifically, for the 9,865 purchase transactions reviewed, 7,714 had adequate supporting documentation, 1,433 had incomplete supporting documentation, and 718 had no supporting documentation. The Army SOP states that the cardholder is responsible for maintaining receipts and other supporting documentation. Installation-level purchase card guidance requires that the cardholder receive a written purchase request from an authorized activity and individual prior to making purchases. Furthermore, cardholders who do not have adequate documentation, such as purchase requests, invoices, and receipts, must maintain on file an explanation that includes a description of the item, the purchase date, the vendor's name, and justification for no supporting documentation.

Missing Cardholder Files. The Army SOP states that certified billing statements and supporting documents will be retained for 6 years and 3 months after final payment in accordance with the DoD Financial Management Regulation. However, 27 of the 107 cardholder files requested for review could not be located. Purchase card officials explained that they could not locate the missing cardholder files because cardholders had retired or deployed. When units are deployed, cardholders place the documentation in storage or leave it with the rear detachment; the documentation may be constantly moved from building to building and files can easily be misplaced.

Fort McPherson and Fort Stewart policies and procedures do not address retention of cardholder documentation for cardholders who transfer, deploy, retire, or leave Government service.

The Fort Carson SOP states that when cardholders depart or are on leave, temporary duty, etc., cardholders must leave documentation with the approving official for review of the purchases. The Fort Carson SOP further states that if the cardholder and the approving official are absent, the approving official must ensure that an alternate approving official is in place to certify the approving

account statement. However, Fort Carson purchase card personnel did not follow the procedures. If cardholders do not strictly adhere to policies about retaining cardholder documentation, the A/OPCs cannot perform required reviews.

Purchase Card Program Controls and Oversight

Controls over the purchase card programs at Fort Carson, Fort McPherson, and Fort Stewart were inadequate, and program oversight was weak. Specifically, purchase card program management officials had not implemented adequate cardholder training, performed required annual approving official account inspections, or effectively managed the span of control over purchase card accounts.

Cardholder Training. The Army SOP states that the A/OPC is responsible for providing initial and biannual refresher training to all cardholders and approving officials. Individuals are required to attend and complete training on the purchase card program prior to being delegated authority. Refresher training should cover the changes that affect the purchase card program, as well as special requests or needs of the group being trained. However, 20 of the 107 selected cardholders did not receive the required initial or refresher training. Specifically, 10 cardholders at Fort Carson, 3 cardholders at Fort McPherson, and 7 cardholders at Fort Stewart did not receive the required initial or refresher training.

Approving Official Account Inspections. The Army SOP requires the A/OPC to inspect 100 percent of approving official accounts on an annual basis throughout the fiscal year, document deficiencies, and make the review available for external review. At a minimum, these inspections must address compliance with formal purchase card purchase and payment procedures, validation of spending limits, span of control, and property accountability. In addition, A/OPCs are required to review an adequate number of randomly selected transactions from each approving official account to verify that cardholders are following correct procedures and processes. However, A/OPCs did not perform the mandatory inspection of 757 of the 853 approving official accounts in FY 2005. Specifically, 196 approving official accounts at Fort Carson, 244 approving official accounts at Fort McPherson, and 317 approving official accounts at Fort Stewart were not inspected in FY 2005. A/OPCs at Fort Carson and Fort McPherson stated they were in the process of establishing a plan to achieve 100 percent inspections of approving official accounts by the end of the fiscal year.

Span of Control. The Army SOP establishes a standard span of control per A/OPC of 300 purchase card accounts, including cardholder and approving official accounts. The Army SOP further indicates that the span of control must not exceed the Army standard by more than 10 percent, or 330 accounts per A/OPC. The A/OPC span of control at Fort Carson and Fort Stewart were within acceptable limits. However, the primary and alternate A/OPCs at Fort McPherson were responsible for more than the standard for span of control for purchase card accounts. Specifically, Fort McPherson had 962 accounts (649 cardholder

accounts and 313 approving official accounts) under the control of a primary and an alternate A/OPC.

In addition, the Army SOP establishes a standard span of control of not more than seven cardholders per approving official, and requires that any approving official exceeding this standard obtain a waiver to policy. Twenty-three approving officials were responsible for more than the standard cardholder to approving official ratio. Specifically, 9 approving officials at Fort Carson, 11 approving officials at Fort McPherson, and 3 approving officials at Fort Stewart exceeded the Army standard cardholder to approving official ratio. The majority of these approving officials maintained multiple approving official accounts to stay within the standard span of control. For example, 1 approving official at Fort McPherson had 2 separate managing accounts with a total of 14 cardholder accounts. Another approving official had seven separate managing accounts with a total of eight cardholder accounts under her purview. In addition, the approving officials had not requested and obtained waivers to the span of control policy.

Approving officials with an unreasonable number of cardholders assigned to their account may not promptly review and certify monthly billing statements for cardholders as required. A ratio that is too large decreases the approving officials' ability to effectively manage cardholders assigned to them, as evidenced by the number and types of misuses we identified. The total number of transactions, as well as the number of assigned cardholders, must be considered when determining an acceptable cardholder to approving official ratio.

Corrective Actions Taken by Fort Stewart Purchase Card Program Officials

Fort Stewart purchase card program management officials initiated efforts to improve internal controls during the audit in response to recommendations made by the AAA in September 2005. These efforts included developing a robust program for cardholder training, establishing a plan to achieve 100 percent inspections of approving official accounts, and implementing a plan to reduce the approving official span of control to a manageable level. These efforts, if fully implemented, should strengthen program controls and significantly improve program oversight.

Cardholder Training. Fort Stewart purchase card program management officials developed a robust program to ensure all cardholders and approving officials receive the required training in accordance with Army guidance. The draft Army Regulation on the Government Purchase Card Program, effective December 6, 2005, requires individuals to complete a mandatory Web-based Defense Acquisition University tutorial on the purchase card program and locally developed training prior to being delegated micro-purchase authority. The draft regulation also requires all cardholders and approving officials to receive refresher training annually, instead of biannually; this refresher training can be provided locally by the A/OPC or through the Defense Acquisition University tutorial. Fort Stewart's newly developed training program complied with the regulation. The program included an 8-hour initial training class offered once a

month by the A/OPC. Individuals were required to complete the Defense Acquisition University tutorial prior to attending the class. The Director of Contracting delegates authority to the individuals once the training is completed. The program also included a 4-hour refresher training class conducted by the A/OPC; all cardholders and approving officials must complete the Defense Acquisition University tutorial prior to attending the refresher class. In addition, Fort Stewart purchase card program management officials recently developed an internal database to monitor all cardholders and approving officials, including tracking the completion of purchase card training.

Approving Official Account Inspections. Fort Stewart purchase card program management officials established a plan to achieve 100 percent inspections of approving official accounts. Fort Stewart personnel reserved one day per week to perform account inspections. Fort Stewart's newly developed internal database will also be used to track approving official account inspections, including the approving official name, the office, the account number, the inspection date, and whether the account required a follow-up review within 90 days to determine whether deficiencies were improved.

Span of Control. Fort Stewart purchase card program management officials implemented a plan to reduce the approving official span of control to a manageable level. Specifically, program officials reduced the number of approving officials who had exceeded the span of control from 17 to 3 since October 2004.

Summary

Purchase card managers did not effectively implement Army purchase card program guidance and did not adequately enforce existing controls throughout the program. As a result, purchase requirements were split, mandatory sources were not used, cardholders made unauthorized purchases, and the required supporting documentation was not properly retained. In addition, cardholder training was insufficient, required annual inspections of approving official accounts were not effective, and the span of control was excessive.

Purchase card program policies and procedures need to be effectively implemented, program management must emphasize program oversight responsibility, and controls need to be enforced. We commend Fort Stewart purchase card program officials for their efforts to initiate corrective actions and address inadequate controls and weak oversight. Fort Stewart officials need to fully implement and enforce the newly established controls to strengthen the program. Unless purchase card program management officials strengthen internal controls and program oversight, the Army cannot ensure the continuous program improvement and risk mitigation necessary to prevent fraud, waste, or mismanagement. Therefore, managers at all levels must emphasize proper management of the program. The recommendations contained in this report, if fully implemented, will strengthen purchase card program controls.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Director, U.S. Army Contracting Agency, Northern Region, require that the Director for the contracting activities at Fort Carson establish controls to:

a. Ensure all cardholders and approving officials receive the required purchase card training.

Management Comments. The Acting Director of the Army Contracting Agency concurred and stated a 100 percent review of the cardholder files was performed and documents were reverified to identify training that was accomplished and still required. The Acting Director stated effective April 3, 2006, weekly refresher training is being conducted for cardholders and approving officials. The training was designed to provide special emphasis in the areas the draft report identified as noncompliant with the Army Government Purchase Card Standing Operating Procedure (that is, split purchases, obtaining prior purchase approval, ensuring records are properly documented, and maintaining proper retention of cardholder and approving official documentation on the installation when an individual leaves).

Audit Response. The comments are responsive, and no additional comments are required.

b. Ensure the agency/organization program coordinator inspects all purchase card approving official accounts annually.

Management Comments. The Acting Director concurred and stated that a “Tiger Team” was established in April 2006 to assist the agency/organization program coordinators in performing audits of approving official accounts. The Tiger Team was tasked with conducting the annual reviews of the approving official accounts. The Acting Director stated the goal of the team is to complete a 100 percent inspection of the accounts within the next 6 to 9 months. The Acting Director stated the team will be responsible for auditing the approving official accounts annually. In addition, the Acting Director stated the Fort Carson Director of Contracting or a Branch Chief will audit a monthly listing of purchase card transactions to check for split purchases and other suspect purchases.

Audit Response. Although the Acting Director concurred with the recommendation, we do not consider the comments responsive. Although the initiative of developing the Tiger Team to assist with the annual audits of the approving official accounts is commendable, the Army Government Purchase Card Standing Operating Procedure requires the Level 4 agency/organization program coordinator to have full responsibility of auditing approving official accounts annually. In addition, the current draft revision to the Army Standing Operating Procedure states that the agency/organization program coordinator’s responsibilities cannot be delegated. The responsibility for conducting annual approving official account audits should remain with the agency/organization program coordinator as stated in the Army Government Purchase Card Standing

Operating Procedure. We request the Acting Director of the Army Contracting Agency provide additional comments in response to the final report. Specifically, the comments should address the action required to ensure the agency/organization program coordinator inspects all purchase card approving official accounts annually.

c. Reduce the approving official span of control to a manageable level, in accordance with purchase card guidelines.

Management Comments. The Acting Director concurred and stated as of May 1, 2006, the purchase card accounts were reviewed. If an approving official had oversight of more than seven cardholders, the cardholder accounts were closed or reassigned to other approving officials to ensure compliance with the draft Army purchase card regulation span of control guidelines.

Audit Response. The comments are responsive and no additional comments are required.

2. We recommend that the Director, U.S. Army Contracting Agency, Southern Region:

a. Require the Director for the contracting activities at Fort McPherson establish controls to ensure all cardholders and approving officials receive the required purchase card training.

Management Comments. The Acting Director of the Army Contracting Agency concurred and stated the U.S. Army Contracting Agency, Southern Region, Level 3 agency/organization program coordinator will coordinate with the Level 4 Fort McPherson agency/organization program coordinator to assist with the development of classroom training that provides all cardholders and approving officials comprehensive guidance on the authorized use of the purchase card.

Audit Response. The comments are responsive and no additional comments are required.

b. Require the Director for the contracting activities at Fort McPherson establish controls to ensure all purchase card approving official accounts are inspected annually.

Management Comments. The Acting Director concurred and stated the Director of the U.S. Army Contracting Agency, Southern Region, will provide guidance to the Fort McPherson Director of Contracting to ensure all purchase card approving official accounts are inspected annually.

Audit Response. The comments are responsive and no additional comments are required.

c. Require the Director for the contracting activities at Fort McPherson establish controls to reduce the agency/organization program coordinator and approving official span of control to a manageable level, in accordance with purchase card guidelines.

Management Comments. The Acting Director concurred and stated the U.S. Army Contracting Agency, Southern Region, Level 3 agency/organization program coordinator will provide guidance to the Fort McPherson Level 4 agency/organization program coordinator on methods to ensure the number of open accounts is required to maintain the mission of the unit or activity. The Acting Director stated the Fort McPherson Level 4 agency/organization program coordinator will be encouraged to terminate accounts as appropriate for lack of activity. In addition, the Acting Director stated if the span of control continued to exceed Army standards, the Level 3 agency/organization program coordinator would provide the Director of the U.S. Army Contracting Agency, Southern Region, with options to improve span of control.

Audit Response. The comments are responsive and no additional comments are required.

d. Require Directors for the contracting activities at Fort McPherson and Fort Stewart to establish written policies and procedures for retaining purchase card transaction documentation for cardholders who transfer, retire, deploy, etc.

Management Comments. The Acting Director concurred and stated the U.S. Army Contracting Agency, Southern Region, Level 3 agency/organization program coordinator will provide guidance to the Fort McPherson and Fort Stewart Level 4 agency/organization program coordinators to update their training and local standing operating procedures to include guidance on retaining purchase card files, transfers, retirements, and deployments.

Audit Response. The comments are responsive and no additional comments are required.

3. We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) initiate a preliminary investigation of the prohibited purchases identified at Fort McPherson and Fort Stewart and the potential for Antideficiency Act violations within 10 days to determine whether a violation has occurred.

Management Comments. The Deputy Assistant Secretary of the Army for Financial Operations concurred and stated the Army would initiate a preliminary investigation of the potential Antideficiency Act violations once the DoD Office of Inspector General issued the final report.

Audit Response. The comments are responsive and no additional comments are required.

Appendix A. Scope and Methodology

We reviewed purchase card program controls at Fort Carson, Fort McPherson, and Fort Stewart. In addition, we analyzed data provided by the DoD Inspector General (IG) Data Mining Division to select cardholder accounts at each location for purchases made from October 1, 2004, through April 30, 2005. Specifically, we selected 43 Fort Carson cardholder accounts, 46 Fort McPherson cardholder accounts, and 18 Fort Stewart cardholder accounts based on analysis of:

- potential split transactions,
- purchases over the cardholder single purchase limit,
- questionable vendors, and
- weekend and holiday purchases.

Purchase card program personnel could not locate cardholder files for 22 of the 43 Fort Carson accounts, 3 of the 46 Fort McPherson accounts, and 2 of the 18 Fort Stewart accounts. As a result, we reviewed 80 cardholder accounts, including 9,865 purchase transactions, valued at \$22.4 million, made from October 1, 2004, through April 30, 2005. We reviewed purchase request documents, invoices, receiving reports, and other supporting documentation provided by Fort Carson, Fort McPherson, and Fort Stewart personnel. We also reviewed training documents for the 107 selected cardholder accounts, approving official account inspection documents, and listings of all cardholder and approving official accounts. We interviewed key personnel from all three locations.

We performed this audit from July 2005 through April 2006 in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data. To achieve the audit objective, we relied on computer-processed data from U.S. Bank, which was provided to us by the Defense Manpower Data Center. We did not perform a formal reliability assessment of the computer-processed data. However, we were able to establish data reliability for the information by comparing purchase card transaction data with source documentation. We did not find material errors that would preclude the use of computer-processed data to meet the audit objective or that would change the conclusion in this report.

Government Accountability Office High-Risk Area. The Government Accountability Office (GAO) has identified several high-risk areas in DoD. This report provides coverage of the DoD Contract Management high-risk area.

Appendix B. Prior Coverage

During the last 5 years, GAO, DoD IG, and AAA have issued 15 reports discussing purchase card program controls within the Army specifically and DoD in general. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>.

GAO

GAO Report No. GAO-04-430, "Contract Management: Agencies Can Achieve Significant Savings on Purchase Card Buys," March 12, 2004

GAO Report No. GAO-04-156, "Purchase Cards: Steps Taken to Improve DoD Program Management, but Actions Needed to Address Misuse," December 2, 2003

GAO Report No. GAO-03-56, "Contract Management: Government Faces Challenges in Gathering Socioeconomic Data on Purchase Card Merchants," December 13, 2002

GAO Report No. GAO-02-732, "Purchase Cards: Control Weaknesses Leave Army Vulnerable to Fraud, Waste, and Abuse," June 27, 2002

DoD IG

DoD IG Report No. D-2004-104, "Purchase Card Use and Contracting Actions at the U.S. Army Corps of Engineers, Louisville District," July 27, 2004

DoD IG Report No. D-2003-109, "Summary Report on the Joint Review of Selected DoD Purchase Card Transactions," June 27, 2003

DoD IG Report No. D-2002-075, "Controls Over the DoD Purchase Card Program," March 29, 2002

DoD IG Report No. D-2002-029, "DoD Purchase Card Program Audit Coverage," December 27, 2001

Army

AAA Report No. A-2005-0308-ALA, "Army Government Purchase Card Program, Fort Stewart, Georgia," September 21, 2005

AAA Report No. A-2005-0199-ALA, "The Army's Purchase Card Program, Aviation Division, Fort Stewart/Hunter Army Airfield, Georgia," June 13, 2005

AAA Report No. A-2003-0456-FFG, "Army Government Purchase Card," September 30, 2003

AAA Report No. A-2002-0535-IMU, "Controls for the International Merchant Purchase Authorization Card Program Logistics Assistance Group-Europe," August 21, 2002

AAA Report No. A-2002-0492-AMW, "Government Purchase Cards Army Working Capital Fund," July 26, 2002

AAA Report No. A-2002-0491-AMW, "Government Purchase Cards Tobyhanna Army Depot," July 25, 2002

AAA Report No. A-2002-0361-AMW, "Government Purchase Cards Anniston Army Depot," May 13, 2002

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
 Director, Defense Procurement and Acquisition Policy
 Director, Purchase Card Program Management Office
Under Secretary of Defense (Comptroller)/Chief Financial Officer
 Deputy Chief Financial Officer
 Deputy Comptroller (Program/Budget)

Department of the Army

Auditor General, Department of the Army
Assistant Secretary of the Army (Acquisition, Logistics, and Technology)
 Director, U.S. Army Contracting Agency
 Director, U.S. Army Contracting Agency, Northern Region
 Director, U.S. Army Contracting Agency, Southern Region
Assistant Secretary of the Army (Financial Management and Comptroller)

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Auditor General, Department of the Air Force

Combatant Command

Inspector General, U.S. Joint Forces Command

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 Homeland Security and 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 Management, Finance, and Accountability,
Committee on Government Reform
House Subcommittee on National Security, Emerging Threats, and International
Relations, Committee on Government Reform

Assistant Secretary of the Army for Acquisition, Logistics, and Technology Comments



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
ACQUISITION LOGISTICS AND TECHNOLOGY
US ARMY CONTRACTING AGENCY
5109 LEESBURG PIKE SUITE 302
FALLS CHURCH VA 22041-3201

JUL 07 2006

SFCA-ZA

MEMORANDUM FOR PROGRAM DIRECTOR, ACQUISITION AND CONTRACT
MANAGEMENT, DEPARTMENT OF DEFENSE
INSPECTOR GENERAL, 400 ARMY NAVY DRIVE,
ARLINGTON, VIRGINIA 22202

SUBJECT: Response to the Department of Defense, Inspector General
(DODIG) Report Number D2005-D000CK-0250, Purchase Card
Program Controls at Selected Army Locations

The Army Contracting Agency (ACA), has reviewed subject report and responds as follows:

Recommendation A.1.a – The Director, U.S. Army Contracting Agency, Northern Region, will require that the Director for the contracting activities at Fort Carson ensure all cardholders and approving officials receive the required Government Purchase Card (GPC) training.

Concur. A 100 percent review of cardholder files has been performed and documents have been re-verified to clearly identify training that has been accomplished and to identify training that is required. Effective April 3, 2006, weekly refresher training is being conducted for cardholders and billing officials. This training is designed to provide special emphasis in the areas the IG identified as being non-compliant with the Army GPC Standard Operation Procedure (SOP) and the local GPC SOP; i.e., split purchases, obtaining proper approval(s) prior to purchasing an item(s), ensuring purchase records are properly documented, maintaining proper retention of billing official/cardholder documentation on the installation when an individual leaves, etc.

Recommendation A.1.b – The Director, U.S. Army Contracting Agency, Northern Region, will require that the Director for the contracting activities at Fort Carson ensure all GPC approving officials accounts are inspected annually.

Concur. In April 2006, a special "Tiger Team" was established to assist the Agency/Organization Program Coordinators (A/OPCs) in performing audits of approving official accounts. This team, consisting of staff members representing all the Director of Contracting Branches, is tasked with conducting the annual reviews of the approving official accounts. The goal is that the team will complete 100 percent inspection of these accounts within the next 6-9 months.

This will establish a baseline for the "Tiger Team". Once this is accomplished, the Team will be responsible for continual auditing of approving official accounts annually thereafter. In addition, a monthly listing of GPC purchases will be audited by the Fort Carson Director of Contracting or a Branch Chief to spot check for split purchases and other purchases that appear suspect.

Recommendation A.1.c – The Director, U.S. Army Contracting Agency, Northern Region, will require that the Director for the contracting activities at Fort Carson reduce the Approving Official span of control to a manageable level, in accordance with GPC guidelines.

Concur. As of May 1, 2006, GPC accounts had been reviewed and where an approving official had oversight of more than seven cardholders, cardholder accounts were closed and/or reassigned to other billing officials to be in compliance with the span of control guidelines prescribed in the draft Army GPC regulation.

The Director, U.S. Army Contracting Agency, Southern Region will:

Recommendation A.2.a – The Director, U.S. Army Contracting Agency, Southern Region will require the Director for the contracting activities at Fort McPherson establish controls to ensure all cardholders and approving officials receive the required GPC training.

Concur. The ACA-SR GPC Level III A/OPC will coordinate with the Fort McPherson GPC Level IV to assist with the development of classroom training that provides all cardholders and approving officials comprehensive guidance on the authorized use of the GPC. Training curriculum will include the importance of ensuring that GPC files contain all documentation necessary to support the cardholder's transactions.

Recommendation A.2.b – The Director, U.S. Army Contracting Agency, Southern Region will require the Director for the contracting activities at Fort McPherson establish controls to ensure all GPC approving official accounts are inspected annually.

Concur. The ACA-SR GPC Level III A/OPC will provide guidance to the Fort McPherson GPC Level IV on methods to establish surveillance schedules and on the use of random sampling as identified in AR 715-XX to perform 100 percent surveillance of all approving official accounts on an annual basis.

Recommendation A.2.c – The Director, U.S. Army Contracting Agency, Southern Region will require the Director for the contracting activities at Fort McPherson establish

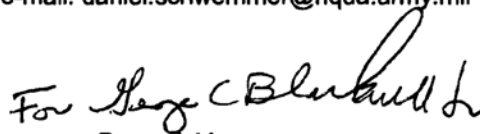
controls to reduce the A/OPC and approving official span of control to a manageable level, in accordance with GPC guidelines.

Concur. The ACA-SR GPC Level III A/OPC will provide guidance to the Fort McPherson GPC Level IV on methods to ensure that the number of open accounts are required to maintain the mission of the unit or activity. The Level IV A/OPC will be encouraged to terminate accounts as appropriate for lack of use and to combine some accounts for greater efficiencies. If the span of control still exceeds the Army standards, the Level III A/OPC will provide the ACA-SR Director with options to improve the span of control for the Fort McPherson GPC Program.

Recommendation A.2.d – The Director, U.S. Army Contracting Agency, Southern Region will require Directors for the contracting activities at Fort McPherson and Fort Stewart establish written policies and procedures for retaining GPC transaction documentation for cardholders who transfer, retire, deploy, etc.

Concur. The ACA-SR GPC Level III A/OPC will provide guidance to the Fort McPherson and Fort Stewart GPC Level IVs to update their training and local GPC Standard Operation Procedures (SOPs), to include guidance on retention of GPC files for transfers, retirements, and deployments.

My action officer regarding this subject is Mr. Daniel Schwemmer, commercial (703) 681-7577, DSN 751-7577 or e-mail: daniel.schwemmer@hqda.army.mil



Bryon J. Young
Acting Director
Army Contracting Agency

KE6-1226

Assistant Secretary of the Army for Financial Management and Comptroller Comments



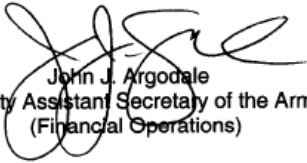
REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
FINANCIAL MANAGEMENT AND COMPTROLLER
109 ARMY PENTAGON
WASHINGTON DC 20310-0109
MAY 26 2006

MEMORANDUM FOR PROGRAM DIRECTOR, ACQUISITION AND CONTRACT MANAGEMENT, DEPARTMENT OF DEFENSE INSPECTOR GENERAL, 400 ARMY NAVY DRIVE, ARLINGTON, VIRGINIA 22202-4704

SUBJECT: Report on Purchase Card Program Controls at Selected Army Locations (Project No. D2005-D000CK-0250.000)

1. Reference. DoD IG Draft Report Project No. D2005-D0005CK-0250.000, dated April 24, 2006.
2. Official Army Position. Concur with referenced draft report, Recommendation 3. Army will initiate preliminary investigation(s) of the potential Antideficiency Act Violations once DoD IG has issued the final report.
3. My points of contact for this action are Ms. Claire Nelson or Ms. Martha Evanoff, who can be reached at (703) 693-3383 or (703) 693-2805, email: claire.nelson@hqda.army.mil or martha.evanoff@hqda.army.mil.


John J. Argodale
Deputy Assistant Secretary of the Army
(Financial Operations)

Team Members

The Department of Defense Office of the Deputy Inspector General for Auditing, Acquisition and Contract Management Directorate prepared this report. Personnel of the Department of Defense Office of Inspector General who contributed to the report are listed below.

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