
September 27, 2006



Acquisition

Expanded Micro-Purchase Authority
for Purchase Card Transactions
Related to Hurricane Katrina
(D-2006-111)

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Acronyms

A/OPC	Agency/Organization Program Coordinator
OMB	Office of Management and Budget
PCPMO	Purchase Card Joint Program Management Office
USD(AT&L)	Under Secretary of Defense for Acquisition, Technology, and Logistics



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September 27, 2006

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,
TECHNOLOGY, AND LOGISTICS
DIRECTOR, DOD PURCHASE CARD JOINT PROGRAM
MANAGEMENT OFFICE
ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE INFORMATION SYSTEMS
AGENCY
DIRECTOR, NATIONAL GEOSPATIAL-INTELLIGENCE
AGENCY
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Report on the Expanded Micro-Purchase Authority for Purchase Card
Transactions Related to Hurricane Katrina (Report No. D-2006-111)

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 National Geospatial-Intelligence Agency comments were partially responsive. We request the Director of the National Geospatial-Intelligence Agency provide comments on Recommendation A.5.b. by November 27, 2006. In addition, we revised recommendations B.1.a. and B.2.a based on comments from the Army. However, Army comments on the draft of this report conformed to requirements, and no additional comments are required.

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 L. 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:

A handwritten signature in black ink, reading "Richard B. Jolliffe".

Richard B. Jolliffe
Assistant Inspector General
for Acquisition and Contract Management

Department of Defense Office of Inspector General

Report No. D2006-111

September 27, 2006

(Project No. D2006-D000CK-0019.000)

Expanded Micro-Purchase Authority for Purchase Card Transactions Related to Hurricane Katrina

Executive Summary

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

Background. This report is one in a series of planned audit reports that the DoD Office of Inspector General will issue discussing recovery efforts as a result of Hurricane Katrina. We conducted this audit in response to a request from the DoD Purchase Card Joint Program Management Office. The DoD Purchase Card Joint Program Management Office requested that we review whether purchase cardholders made purchase card transactions in support of Hurricane Katrina rescue and relief operations pursuant to Section 101 of Public Law 109-62, "Second Emergency Supplemental Appropriations Act to Meet Immediate Needs Arising from the Consequences of Hurricane Katrina." Specifically, the DoD Purchase Card Joint Program Management Office requested that we determine whether purchase card transactions made in support of Hurricane Katrina were reasonable, appropriate, and consistent with DoD purchase card policies and procedures.

From September 1 through September 30, 2005, Army, Air Force, and Defense agency cardholders made 34,060 purchase card transactions in excess of \$2,500. We reviewed 1,850 purchase card transactions, valued at \$18,498,573 that 591 cardholders made at 12 military installations and 3 Defense agencies.

Results. Army, Air Force, and Defense agency purchase card transactions that were reviewed and made in support of Hurricane Katrina rescue and relief operations were generally reasonable and appropriate; however, purchase card program managers did not—

- capture all of the purchase card transactions associated with Hurricane Katrina;
- identify Hurricane Katrina-related purchase card transactions consistently;
- generally conduct timely follow-up transaction reviews as required; and

- issue required delegation of authority letters to cardholders with authorized increased single purchase limits for making Hurricane Katrina-related purchases.

In addition, Army, Air Force, and Defense agency cardholders made Hurricane Katrina-related purchases in excess of their purchase authority; and, Army and Air Force cardholders made Hurricane Katrina-related purchases without adequate supporting documentation and sufficient justification. As a result, the Army, Air Force, and Defense agencies cannot determine the total number and dollar value of purchase card transactions associated with Hurricane Katrina rescue and relief operations. Furthermore, unless contingency-related purchase card guidance is revised and purchase card managers significantly improve efforts to disseminate and implement guidance, Army, Air Force, and Defense agency purchase card program officials cannot mitigate the risk of fraud, abuse, or mismanagement related to future disaster rescue and relief operations (finding A).

Army and Air Force cardholders made 269 improper purchase card transactions unrelated to Hurricane Katrina at 11 of the 12 military installations reviewed. Each of those 269 transactions exceeded the \$2,500 single micro-purchase threshold the Federal Acquisition Regulation mandates. Army and Air Force cardholders executed—

- 39 transactions exceeding the \$2,500 single purchase limit authorized by the delegation of authority letter;
- 11 transactions without using a Government contract;
- 4 transactions with inadequate sole-source justification; and
- 215 transactions without obtaining 3 sources of competition when purchasing from Federal Supply Schedules.

Unless purchase card program management officials at the 11 military installations establish a robust oversight presence and significantly strengthen internal controls, the Army and Air Force purchase card program officials cannot mitigate the risk of fraud, waste, and abuse (finding B).

Management Comments. The Director, Defense Procurement and Acquisition Policy, the Acting Director, Army Contracting Agency, the Assistant Secretary of the Air Force for Acquisition, the Director for Procurement Chief, Defense Information Technology Contracting Organization, and the Director of the National Geospatial-Intelligence Agency generally concurred with the recommendations to the draft report. The Acting Director, Army Contracting Agency, partially concurred with one recommendation and stated Air Force policies would not be distributed. We agreed and revised the recommendation to be Army specific. The Director of the National Geospatial-Intelligence Agency concurred with the recommendation to conduct follow-

up reviews in accordance with Office of Management and Budget requirements for all Hurricane Katrina purchases and stated the reviews had been conducted. However, the reviews did not address specific Office of Management and Budget requirements; therefore, we request the Director provide additional comments by November 27, 2006. (See the Finding section of the report for a discussion of management comments and the Management Comments section for the complete text of comments.)

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Background

This report is one in a series of planned audit reports that the DoD Office of Inspector General will issue discussing Hurricane Katrina recovery efforts. We conducted this audit in response to a request from the DoD Purchase Card Joint Program Management Office (PCPMO). The DoD PCPMO requested that we review whether purchase cardholders made purchase card transactions in support of Hurricane Katrina rescue and relief operations pursuant to Section 101 of Public Law 109-62, "Second Emergency Supplemental Appropriations Act to Meet Immediate Needs Arising from the Consequences of Hurricane Katrina." Specifically, DoD PCPMO requested that we determine whether purchase card transactions made in support of Hurricane Katrina recovery efforts were reasonable, appropriate, and consistent with DoD purchase card policies and procedures.

Government Purchase Card Programs. Federal purchase card programs, which have been in existence throughout the Government since 1989, were established to streamline acquisition processes by providing a low-cost, efficient vehicle for obtaining goods and services directly from vendors. 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, Actions At or Below the Micro-Purchase Threshold, states that the purchase card will be the preferred method to purchase and pay for micro-purchases. The Federal Acquisition Regulation defines a "micro-purchase" 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. In addition, the Federal Acquisition Regulation Subpart 13.3, Simplified Acquisition Methods, states that an agency's procedures should not limit use of the Government commercial purchase card for micro-purchases. In addition, agency procedures should encourage use of the card by contracting officers in greater dollar amounts. The General Services Administration reported that by using purchase cards the Government saves approximately \$1.4 billion annually in administrative costs. In addition, the purchase card program earned the Government refunds of \$50.9 million in FY 2005.

The General Services Administration established the General Services Administration SmartPay® program in 1998 in which contracts were awarded to five service providers for purchase card services: 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, Air Force, and Defense agencies including the Defense Commissary Agency, the Defense Information Systems Agency, and the National

Geospatial-Intelligence Agency, operate under a Government General Services Administration contract with U.S. Bank.

DoD Program Participants and Responsibilities. The Deputy Secretary of Defense established the DoD PCPMO in March 1998. The Under Secretary of Defense for Acquisition Technology and Logistics and the DoD PCPMO have overall responsibility for the DoD purchase card program. The PCPMO is staffed with representatives from each Military Department, the Defense Logistics Agency, and the Defense Finance and Accounting Service. The PCPMO reports directly to the Director, Defense Procurement and Acquisition Policy, within the office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD[AT&L]). The head of each DoD Component and Defense agency designates an office that will manage the purchase card program and should ensure purchase card policies and procedures are implemented, purchase cardholders are properly trained, and other day-to-day duties of an organization's purchase card program are properly managed. DoD Agency/Organization Program Coordinators (A/OPCs) at the Component, Defense agency, Major Command, and installation levels are responsible for purchase card program management.

Increased Micro-Purchase Authority for Hurricane Katrina Rescue and Relief Operations. Federal authorities issued the following series of policy memorandums on purchase card use in response to Hurricane Katrina

- On September 2, 2005, the USD(AT&L) authorized an increase in the micro-purchase threshold from \$2,500 to \$15,000 for purchases made in support of Hurricane Katrina rescue and relief operations;
- On September 8, 2005, Congress enacted Public Law 109-62, "Second Emergency Supplemental Appropriations Act to Meet Immediate Needs Arising from the Consequences of Hurricane Katrina," that authorized an increase in the micro-purchase threshold from \$2,500 to \$250,000 for transactions made in support of Hurricane Katrina rescue and relief operations;
- On September 13, 2005, the Office of Management and Budget (OMB) issued policies and procedures for implementing the increased micro-purchase threshold;
- On September 16, 2005, the USD(AT&L) authorized DoD contracting officers who were Government Commercial Purchase Card users to use the purchase card for Hurricane Katrina-related purchases of commercial items up to the increased micro-purchase threshold of \$250,000;

-
- On September 21, 2005, the Director of the PCPMO issued policies and procedures for implementing the increased micro-purchase threshold;
 - On October 3, 2005, OMB requested that agencies not use the increased micro-purchase threshold Public Law 109-62 authorized unless the purchase was an exceptional circumstance; and
 - On October 5, 2005, the USD(AT&L) rescinded the authorization for micro-purchases up to \$250,000; however, the USD(AT&L) still authorized an increase in the micro-purchase threshold from \$2,500 to \$15,000 for purchases made in support of Hurricane Katrina rescue and relief operations in accordance with the Federal Acquisition Regulation.

Hurricane Katrina Cardholder and Transaction Data. DoD did not have a repository for Hurricane Katrina-related purchase card transaction data. In addition, U.S. Bank did not have a unique indicator for identifying Hurricane Katrina-related cardholders or transactions. When queried, the Army, Air Force, and Defense agency¹ Component Level II A/OPCs did not collect or track Hurricane Katrina-related cardholder or transaction data. As a result, we requested and received all Army, Air Force, and Defense agency purchase card transactions in excess of \$2,500 made from September 1 through September 30, 2005, from U.S. Bank. We also requested a list of Army, Air Force, and Defense agency cardholders who received increased single purchase limits for making Hurricane Katrina-related purchase card transactions from the Component Level II A/OPCs. We reviewed all Army, Air Force, and Defense agency cardholders who made purchases in excess of \$2,500 from September 1 through September 30, 2005, at the locations of the cardholders with increased thresholds.

We did not include purchase card transactions made by Navy cardholders in the scope of this audit. The Naval Audit Service initiated an audit on September 30, 2005 on purchase card transactions made in support of Hurricane Katrina.

Objectives

The overall audit objective was to determine whether DoD purchase card transactions in support of Hurricane Katrina rescue and relief operations were reasonable, appropriate, and consistent with DoD policies and procedures.

¹ For specific Defense agencies included in the scope of this review, see finding A and Appendix A.

Specifically, we reviewed purchase card transactions to determine whether the transactions were made pursuant to Section 101 of the Second Emergency Supplemental Appropriations Act. See Appendix A for a discussion of the audit scope, scope limitation, and methodology.

A. Purchase Card Use in Support of Hurricane Katrina

Army, Air Force, and Defense agency purchase card transactions that were reviewed and made in support of Hurricane Katrina rescue and relief operations were generally reasonable and appropriate. However, purchase card program managers did not—

- capture all purchase card transactions associated with Hurricane Katrina;
- identify Hurricane Katrina-related purchase card transactions consistently;
- generally conduct timely follow-up transaction reviews as required; and
- issue required delegation of authority letters to cardholders with authorized increased single purchase limits for making Hurricane Katrina-related purchases.

In addition, Army, Air Force, and Defense agency cardholders made purchases in excess of their single purchase limit authority; and Army and Air Force cardholders made Hurricane Katrina-related purchases without adequate supporting documentation and sufficient justification.

The conditions occurred because purchase card program managers did not implement policies and procedures for capturing and reviewing all of the data for Hurricane Katrina-related purchase card transactions and did not ensure that general controls over purchase card transactions were effectively implemented. In addition, DoD guidance did not provide clear criteria for ensuring that purchase card program managers properly and consistently classified purchase card transactions as Hurricane Katrina-related for reporting and reimbursement purposes. As a result, the Army, Air Force, and Defense agencies cannot determine the total number and dollar value of purchase card transactions associated with Hurricane Katrina rescue and relief operations. Furthermore, unless contingency-related purchase card guidance is revised and purchase card managers significantly improve efforts to distribute and implement guidance, Army, Air Force, and Defense agency purchase card program officials cannot mitigate the risk of fraud, abuse, or mismanagement related to future disaster rescue and relief operations.

Guidance for Hurricane Katrina-Related Purchase Card Use

Executive Office of the President, Office of Management and Budget, Office of Federal Procurement Policy and Financial Management memorandum titled, “Implementing Management Controls to Support Increased Micro-Purchase Threshold for Hurricane Katrina Rescue and Relief Operations,” September 13, 2005. The Office of Management and Budget (OMB) issued policies and procedures for making purchases using the increased micro-purchase threshold in support of Hurricane Katrina rescue and relief operations. The OMB guidance identifies required responsibilities for the heads of agencies, purchase card program officials, approving officials, and cardholders. Agency heads at a level no lower than the head of the contracting activity must identify in writing those individuals authorized to make purchases in support of Hurricane Katrina. In addition, heads of agencies and purchase card program managers must establish and communicate policies and procedures for determining whether transactions supported Hurricane Katrina rescue and relief operations. The guidance further states that the head of each agency must delegate purchase card program officials to conduct follow-up reviews within 60 days of a transaction made in support of Hurricane Katrina rescue and relief operations. The policies and procedures remind approving officials and cardholders to ensure prices are reasonable.

Department of Defense Purchase Card Joint Program Management Office memorandum titled, “Use of the Government Purchase Card in Support of Hurricane Katrina Rescue and Relief Operations,” September 21, 2005. The Director of the DoD PCPMO issued policies and procedures for purchase card program A/OPCs, resource/financial managers, billing/certifying officials, and cardholders for making purchase card transactions in support of Hurricane Katrina rescue and relief operations. A/OPC responsibilities included:

- increasing purchase card spending limits to billing officials and cardholders only where appropriate,
- maintaining a record of all billing official and cardholder accounts with increased single and monthly purchase limits,
- distributing governing policy and guidance for use of the purchase card for Hurricane Katrina-related transactions,
- reissuing delegation of authority letters to reflect increased micro-purchase limits,
- developing and issuing instructions that can identify and capture Hurricane Katrina-related purchase card transactions and dollars, and

-
- developing and issuing guidance on required documentation to identify Hurricane Katrina-related purchases.

DoD PCPMO purchase card policies and procedures (DoD Guidance) require that resource/financial managers assist in identifying and capturing the number and dollar value of all Hurricane Katrina-related purchase card transactions. The guidance also requires that approving officials establish and maintain a discreet record of the number of Hurricane Katrina-related purchase card transactions and dollars spent. The guidance further requires that approving officials properly document, identify, record and maintain Hurricane Katrina-related purchase card transactions. In addition, the guidance directs that a warranted contracting officer or a senior manager at the GS-14 level or above must pre-approve any open market transactions exceeding \$15,000.

DoD Guidance also states that approving officials must ensure that cardholders obtain the appropriate documentation to support a Hurricane Katrina purchase and comply with the appropriate laws and acquisition regulations. In addition, the guidance states that cardholders must identify and justify purchases made in support of Hurricane Katrina. The guidance specifically states that cardholders identify a Hurricane Katrina-related purchase card transaction by including details in the supporting documentation identifying the goods and services purchased, annotating a K next to the purchase in the purchase log, and justifying how the purchase supported Hurricane Katrina rescue and relief operations.

Army, Air Force, and Defense Agency Purchase Card Transactions Reviewed

From September 1 through September 30, 2005, Army, Air Force, and Defense agency cardholders made 34,060 purchase card transactions in excess of \$2,500. We reviewed—

- 746 purchase card transactions 178 cardholders made at 5 Army locations (Camp Shelby in Mississippi, Fort Benning in Georgia, Fort Bragg in North Carolina, Fort Gordon in Georgia, and Fort Hood in Texas);
- 1,085 purchase card transactions 406 cardholders made at 7 Air Force locations (Hill Air Force Base in Utah, Keesler Air Force Base in Mississippi, Lackland Air Force Base in Texas, Little Rock Air Force Base in Arkansas, Moody Air Force Base in Georgia, Peterson Air Force Base in Colorado, and Randolph Air Force Base in Texas); and

-
- 19 purchase card transactions 7 cardholders made at 3 Defense agencies (the National Geospatial-Intelligence Agency, the Defense Information Systems Agency, and the Defense Commissary Agency).

Hurricane Katrina-Related Transactions. For the Army, Air Force, and Defense agency purchase card transactions in excess of \$2,500 reviewed, we were able to determine that 30 Army cardholders made 96 transactions, valued at \$959,150; 20 Air Force cardholders made 94 transactions, valued at \$679,829; and 5 Defense agency cardholders made 9 transactions, valued at \$119,028, in support of Hurricane Katrina rescue and relief operations.

Army, Air Force, and Defense agency purchase card transactions reviewed and made in support of Hurricane Katrina rescue and relief operations were generally reasonable and appropriate. For the Army, Air Force, and Defense agency Hurricane Katrina-related purchase card transactions in excess of \$2,500 reviewed, we did not identify any unreasonable, inappropriate, or fraudulent Hurricane Katrina-related purchases. However, purchase card program officials did not implement policies and procedures for capturing and reviewing all of the data for Hurricane Katrina-related purchase card transactions and did not ensure that general controls over purchase card transactions were effectively implemented.

Purchase Card Managers Did Not Capture Hurricane Katrina Purchase Card Data

Army, Air Force, and Defense agency purchase card program managers, referred to as A/OPCs, did not capture all of the data for Hurricane Katrina-related purchase card transactions. Program managers did not capture all of the data because purchase card program managers did not implement policies and procedures issued specifically for capturing the purchase card transaction data.

Hurricane Katrina-Related Transaction Data. DoD guidance requires that the A/OPCs develop and issue instructions that will enable identification and capture of all Hurricane Katrina-related purchase card transactions and dollars. For the 5 Army, 7 Air Force, and 3 Defense agency activities reviewed, 21 A/OPCs² were responsible for managing their respective purchase card programs and capturing the data for Hurricane Katrina-related purchase card transactions. However, 18 of those 21 A/OPCs did not capture all Hurricane Katrina-related purchase card

² The 21 A/OPCs responsible for managing the purchase card programs consisted of 10 A/OPCs at 5 Army installations, 7 A/OPCs at 7 Air Force installations, and 4 A/OPCs at 3 Defense agencies (one at the Defense Commissary Agency, two at the Defense Information Systems Agency, and one at the National Geospatial-Intelligence Agency).

transactions. See Appendix B for the number of A/OPCs responsible for selected transactions by location visited.

Army Transactions. For the 10 Army A/OPCs responsible for capturing data for Hurricane Katrina-related purchase card transactions at the 5 Army installations reviewed, 7 A/OPCs did not capture any of the required data, 2 A/OPCs captured only purchase card transactions in excess of \$2,500, and 1 A/OPC did not have cardholders who made Hurricane Katrina-related purchases. See Table 1 for details on the A/OPCs and their specific Army installations. For the seven Army A/OPCs who did not capture data for Hurricane Katrina-related purchase card transactions, five A/OPCs stated they received the DoD Guidance but did not review it. In addition, one A/OPC at Camp Shelby was not sure how to capture the data, and the A/OPC at Fort Benning stated that end-of-year audits were a higher priority. The two Army A/OPCs who captured purchase card transactions in excess of \$2,500 stated they interpreted the DoD Guidance as applicable only to transactions in excess of \$2,500. As a result, the Army did not capture all of the data for Hurricane Katrina-related purchase card transactions at five Army installations and, therefore, cannot determine the total number and dollar value of Army purchase card transactions associated with Hurricane Katrina rescue and relief operations.

Table 1. Army A/OPCs Responsible for Capturing Hurricane Katrina-Related Purchase Card Transaction Data.

Army Location	Did Not Capture	Captured Transactions in Excess of \$2,500	Did Not Have Hurricane Katrina Purchase Card Transactions
Camp Shelby	2		
Fort Benning	1		
Fort Bragg	2		
Fort Gordon	1	1	
Fort Hood	1	1	1
Total	7	2	1

Air Force Transactions. For the seven Air Force A/OPCs responsible for capturing data for Hurricane Katrina-related purchase card transactions at the seven Air Force installations reviewed, three A/OPCs did not capture any of the required data, and four A/OPCs captured only purchase card transactions in excess of \$2,500. See Table 2 for details on the A/OPCs and their specific Air Force installations. The three Air Force A/OPCs who did not capture data for Hurricane Katrina-related purchase card transactions stated they received the

DoD Guidance but did not review it. The four A/OPCs who captured purchase card transactions in excess of \$2,500 interpreted the DoD Guidance as applicable only to transactions in excess of \$2,500. As a result, the Air Force did not capture all of the data for Hurricane Katrina-related purchase card transactions at seven Air Force installations and, therefore, cannot determine the total number and dollar value of Air Force purchase card transactions associated with Hurricane Katrina rescue and relief operations.

Table 2. Air Force A/OPCs Responsible for Capturing Hurricane Katrina-Related Purchase Card Transaction Data.

Air Force Location	Did Not Capture	Captured Transactions in Excess of \$2,500
Hill Air Force Base	1	
Keesler Air Force Base		1
Lackland Air Force Base		1
Little Rock Air Force Base		1
Moody Air Force Base	1	
Peterson Air Force Base	1	
Randolph Air Force Base		1
Total	3	4

Defense Agency Transactions. For the four A/OPCs responsible for capturing all of the data for Hurricane Katrina-related transactions at the Defense Commissary Agency, the Defense Information Systems Agency, and the National Geospatial-Intelligence Agency, one A/OPC at the Defense Information Systems Agency did not capture any of the required data; one Defense Information Systems Agency A/OPC captured only purchase card transactions in excess of \$2,500; the Defense Commissary Agency and the National Geospatial-Intelligence Agency A/OPC captured all the data for Hurricane Katrina-related purchase card transactions, as required. See Table 3 for details on the A/OPCs and their specific Defense agencies. The Defense Information Systems Agency A/OPC who did not capture data for Hurricane Katrina-related purchase card transactions stated he had received the DoD Guidance but did not review it. The Defense Information Systems Agency A/OPC who captured purchase card transactions in excess of \$2,500 interpreted the DoD Guidance as applicable only to transactions in excess of \$2,500. As a result, the Defense Information Systems Agency did not capture all of the data for Hurricane Katrina-related purchase card transactions and, therefore, cannot determine the total number and dollar value of

purchase card transactions associated with Hurricane Katrina rescue and relief operations.

Table 3. Defense Agency A/OPCs Responsible for Capturing Hurricane Katrina-Related Purchase Card Transaction Data.

Defense Agency	Did Not Capture	Captured Transactions In Excess Of \$2,500	Captured All Purchase Card Transaction Data
Defense Commissary Agency			1
Defense Information Systems Agency	1	1	
National Geospatial-Intelligence Agency			1
Total	1	1	2

Resource Management Personnel Captured Hurricane Katrina-Related Costs

Although purchase card program personnel did not capture all data for Hurricane Katrina-related purchase card transactions as required, resource management personnel stated that they collected and reported Hurricane Katrina-related costs. As previously stated, of the 21 A/OPCs responsible for capturing data for Hurricane Katrina-related purchase card transactions, 18 did not capture all of the data. However, resource management personnel at the five Army installations, seven Air Force installations, and the three Defense agencies we reviewed collected and reported Hurricane Katrina costs.

The DoD Guidance requires that resource/financial managers assist A/OPCs to identify and capture all Hurricane Katrina-related purchase card transactions and dollars. However, internal Army guidance requires that resource management personnel collect and report Hurricane Katrina costs without regard to method of payment.

Army Resource Management Data Collection. Nine resource managers³ were responsible for assisting in identifying and capturing Hurricane Katrina-related purchase card transactions at the five Army installations we reviewed. Of those nine resource managers, seven captured Hurricane Katrina-related costs according to method of payment, which included purchase card transactions. Two resource managers at Fort Bragg captured Hurricane Katrina-related costs, but not according to method of payment.

Air Force Resource Management Data Collection. One resource manager at each of the seven Air Force installations reviewed assisted in identifying and capturing Hurricane Katrina-related purchase card transactions. Of those seven resource managers, six captured Hurricane Katrina-related costs according to method of payment, which included purchase card transactions. The resource manager at Peterson Air Force Base captured Hurricane Katrina-related costs, but not according to method of payment.

Resource management personnel at six⁴ of the seven Air Force installations reported estimated Hurricane Katrina-related costs rather than actual costs. Resource management personnel stated that Air Force Major Commands requested Hurricane Katrina-related cost reports, and at the time of the requests, actual costs were not available from the cardholders. The resource management personnel at the six installations did not adjust or report actual costs to the Major Commands once actual costs were identified.

Defense Agency Resource Management Data Collection. At the three Defense agencies reviewed, three resource managers assisted in identifying and capturing Hurricane Katrina-related purchase card transactions. One resource manager at the Defense Commissary Agency, one resource manager at the Defense Information Systems Agency, and one resource manager at the National Geospatial-Intelligence Agency captured Hurricane Katrina-related costs; however, the resource managers at the Defense Commissary Agency and National Geospatial-Intelligence Agency did not capture Hurricane Katrina costs by method of payment.

The nine Army, seven Air Force, and four Defense agency A/OPCs responsible for Hurricane Katrina-related purchase card transactions stated that cardholders reported data for Hurricane Katrina-related purchase card transactions directly to resource managers and that A/OPCs did not manage or, in some cases, have

³ At the five Army installations reviewed, one resource manager at Camp Shelby, two resource managers at Fort Benning, three resource managers at Fort Bragg, one resource manager at Fort Gordon, and two resource managers at Fort Hood were responsible for identifying and capturing Hurricane Katrina-related costs.

⁴ Resource management personnel at Hill, Keesler, Lackland, Little Rock, Moody, and Randolph Air Force Bases reported estimated Hurricane Katrina-related expenses rather than actual costs.

knowledge about, the data reported. As a result, the completeness and accuracy of the resource management data relied on complete and accurate reporting by cardholders.

We did not validate whether the data Army, Air Force, and Defense agency resource management personnel collected were accurate or complete because resource management personnel collected and reported Hurricane Katrina-related costs from all payment methods and our review was limited to purchase card transactions. However, 18 Army, Air Force, and Defense agency A/OPCs did not capture all of the data for Hurricane Katrina-related purchase card transactions. Consequently, data not captured were not reported, as required. In addition, we looked at resource management data at each of the five Army installations, seven Air Force installations, and the three Defense agencies for previously identified Hurricane Katrina-related purchase card transactions and found that one Army and two Air Force installations were missing some transaction data. As a result, the Army and Air Force did not have the data necessary for accurately determining the total purchase card dollar value of Hurricane Katrina costs.

Identification of Hurricane Katrina-Related Purchases

Army and Air Force cardholders and their supervisors did not identify Hurricane Katrina-related purchase card transactions consistently. Cardholders followed supervisor directions or used personal discretion to identify which transactions to report to resource management activities. That condition occurred because DoD Guidance did not provide clear criteria for ensuring purchase card program managers properly and consistently classified purchase card transactions as Hurricane Katrina-related for reporting and reimbursement purposes.

Army Transactions. Six Army cardholders and their supervisors at Fort Hood did not identify Hurricane Katrina-related purchase card transactions consistently. The DoD Guidance requires that A/OPCs develop and issue instructions that will enable identification and capture of all Hurricane Katrina-related purchase card transactions and dollars, and that cardholders identify and justify purchases supporting Hurricane Katrina. However, the guidance did not provide clear criteria for ensuring that purchase card program managers properly and consistently classified purchase card transactions as Hurricane Katrina-related; and only 1 of 10 A/OPCs at the activities reviewed, developed, and issued instructions for identifying and capturing data for Hurricane Katrina-related purchase card transactions.

Resource management personnel at Fort Hood received internal Army guidance stating that Hurricane Katrina-related purchases were not reimbursable if the items purchased provided mission support beyond the rescue and relief efforts.

Resource management personnel concluded that cardholders should not report nonreimbursable purchases as Hurricane Katrina-related costs. For example, one Fort Hood cardholder from the Veterinary Command purchased portable furniture to support distressed animals affected by Hurricane Katrina. The approving official told the cardholder not to report those purchases as Hurricane Katrina-related because the purchase was related to the Veterinary Command mission. As a result, the approving official determined that the purchase was nonreimbursable and, therefore, not reported as a Hurricane Katrina purchase card transaction. Another Fort Hood cardholder purchased sustainment kits for the deployed units located in the Hurricane Katrina disaster area. The cardholder did not report the purchase as Hurricane Katrina-related because purchasing sustainment kits was part of the cardholder's mission. As a result, the cardholder determined that the purchase was not reimbursable and, therefore, not reported as a Hurricane Katrina purchase card transaction.

Air Force Transactions. Of the sites reviewed, two cardholders from Little Rock Air Force Base and two cardholders from Moody Air Force Base did not consistently identify Hurricane Katrina-related purchase card transactions.

Little Rock Air Force Base Transactions. The two cardholders from Little Rock Air Force Base purchased portable latrines, uniforms, and tactical supplies. Cardholder documentation for the transactions indicated the purchases were related to Hurricane Katrina; however, the cardholders did not identify the purchases as Hurricane Katrina-related to the A/OPC or resource management personnel for reporting purposes. The cardholders did not provide a reason for failing to identify the purchases as Hurricane Katrina-related.

Moody Air Force Base Transactions. One cardholder transaction at Moody Air Force Base was for the rental of portable air conditioning units to support Hurricane Katrina rescue and relief operations. The cardholder did not identify the purchase as Hurricane Katrina-related to the A/OPC or resource management personnel. The cardholder stated the portable air conditioning units were rented to support the Hurricane Katrina efforts; however, the units were shipped to the base and never taken to the disaster relief area. The cardholder stated he used the Federal Emergency Management Agency Web site to determine if his purchase could be considered reimbursable. Based on his interpretation, the cardholder did not identify the purchase as Hurricane Katrina-related because he determined the purchase was not reimbursable. Another Moody Air Force Base cardholder purchased field gear consisting of insect protector nets, earplugs, and wet weather ponchos. The cardholder provided transaction documentation indicating the purchase was related to Hurricane Katrina; however, the cardholder did not identify to the A/OPC or resource management personnel that the purchase was Hurricane Katrina-related.

In addition, the cardholder did not provide a reason for not identifying the purchases as Hurricane Katrina-related.

Army and Air Force cardholders did not identify or report all Hurricane Katrina-related purchase card transactions. Consequently, resource management personnel will not be able to capture all Hurricane Katrina-related costs.

Purchase Card Transaction Follow-Up Reviews

Army, Air Force, and Defense agency purchase card A/OPCs did not conduct follow-up reviews of Hurricane Katrina-related purchase card transactions, as required. That condition occurred because purchase card managers did not implement policies and procedures for reviewing Hurricane Katrina-related purchase card transactions. The OMB purchase card guidance requires that officials conduct follow-up reviews no later than 60 days after any given transaction. Specifically, OMB requires that reviews determine whether cardholders made purchases consistent with agency policies and procedures, identified Hurricane Katrina-related purchase card transactions, provided maximum practicable opportunity for small business participation, and contained sufficient transaction documentation.

Army Follow-Up Reviews. Of the nine Army A/OPCs responsible for purchase card program management at the installations reviewed, seven did not conduct follow-up reviews on Hurricane Katrina-related transactions. Specifically, two A/OPCs at Camp Shelby, one A/OPC at Fort Benning, one A/OPC at Fort Bragg, one A/OPC at Fort Gordon, and two A/OPCs at Fort Hood did not conduct the required follow-up reviews on any Hurricane Katrina-related purchase card transactions. The A/OPCs stated they did not conduct the required follow-up reviews because they were unaware of the requirement even though they received the DoD Guidance. In addition, one A/OPC at Fort Bragg and one A/OPC at Fort Gordon conducted follow-up reviews of Hurricane Katrina purchase card transactions, but only for transactions in excess of \$2,500 and not within the OMB requirement of 60 days. In addition, the reviews did not address specific OMB follow-up review requirements.

The A/OPCs conducting reviews on transactions in excess of \$2,500 stated they interpreted the DoD Guidance as applicable only to cardholders with increased thresholds above \$2,500. No follow-up reviews were conducted on Hurricane Katrina-related purchase card transactions at the Army sites reviewed within 120 days of September 30, 2005.

Air Force Follow-Up Reviews. Of the seven Air Force A/OPCs responsible for purchase card program management at the installations reviewed, four did not

conduct follow-up reviews on Hurricane Katrina-related transactions. Specifically, A/OPCs at Lackland, Moody, Peterson, and Randolph Air Force Bases did not conduct the required follow-up reviews on any Hurricane Katrina-related purchase card transactions. The four A/OPCs at those bases stated they did not conduct the required follow-up reviews because they were unaware of the requirement. The A/OPCs at Hill, Little Rock, and Keesler Air Force Bases conducted follow-up reviews, but only for transactions in excess of \$2,500 and not within the 60-day time frame OMB required. The three A/OPCs at those bases stated they interpreted the DoD Guidance as applicable only to cardholders with increased thresholds above \$2,500. In addition, the reviews on transactions in excess of \$2,500 did not address specific OMB follow-up review requirements. For example, the A/OPC at Hill Air Force Base performed a follow-up review on one cardholder who made Hurricane Katrina-related purchases, but the follow-up review questions did not specifically address whether the cardholder identified Hurricane Katrina-related purchase card transactions, provided maximum practicable opportunity for small business participation, and provided sufficient transaction documentation as OMB required.

Defense Agency Follow-Up Reviews. Of the four Defense agency A/OPCs responsible for purchase card program management, two did not conduct follow-up reviews of Hurricane Katrina-related purchase card transactions. Specifically, one A/OPC at the Defense Information Systems Agency and one at the National Geospatial-Intelligence Agency A/OPC did not conduct the required follow-up reviews. Both A/OPCs stated they did not conduct the required follow-up reviews because they were unaware of the requirement even though they received the DoD Guidance. At the Defense Information Systems Agency, one A/OPC conducted the required follow-up reviews, but only for Hurricane Katrina-related purchase card transactions in excess of \$2,500. The A/OPC reviewed the transactions in March 2006, 164 days after the transactions occurred. The A/OPC stated she interpreted the DoD Guidance as applicable only to cardholders with increased thresholds above \$2,500. The A/OPC reviews addressed compliance with specific Hurricane Katrina-related OMB mandated requirements, but did not include transactions under \$2,500.

The Defense Commissary Agency A/OPC properly conducted the follow-up reviews within the required 60-day time frame on all 56 Hurricane Katrina-related purchase card transactions and assessed compliance with Hurricane Katrina-related OMB requirements.

Although some Army, Air Force, and Defense Information Systems Agency A/OPCs conducted follow-up reviews for transactions in excess of \$2,500, the A/OPCs did not generally conduct timely reviews or in accordance with OMB requirements. During our review, the Army, Air Force, and Defense agency

A/OPCs developed milestones for completing the required follow-up reviews for Hurricane Katrina-related purchase card transactions. However, A/OPCs will not be able to conduct follow-up reviews for all Hurricane Katrina-related purchase card transactions because 18 of the 21 A/OPCs reviewed did not capture all of the data for Hurricane Katrina-related purchase card transactions.

Cardholder Delegation of Authority

Army, Air Force, and Defense agency cardholders made purchases in excess of the single purchase limit authority their A/OPCs established. In addition, Army, Air Force, and Defense agency A/OPCs failed to issue required written delegation of authority letters to cardholders with authorized increased single purchase limits for making Hurricane Katrina-related purchase card transactions. That condition occurred because the A/OPCs did not ensure that general controls over purchase card transactions were effectively implemented.

The DoD Guidance requires that A/OPCs increase purchase card spending limits to billing officials and cardholders only where appropriate and reissue delegation of authority letters to cardholders making purchases in support of Hurricane Katrina rescue and relief operations. In support of Hurricane Katrina rescue and relief operations, DoD PCPMO authorized that U.S. Bank on September 2, 2005, perform a blanket increase to \$15,000 for all cardholder purchase card spending limits. DoD PCPMO rescinded the blanket increase on September 8, 2005.

Army Delegation of Authority. Army cardholders at Fort Bragg made purchases in excess of the single purchase limit authority established by their A/OPCs. In addition, A/OPCs at Camp Shelby and Fort Bragg did not issue required delegation of authority letters to three cardholders for whom the bank increased single purchase limits.

Purchases Made in Excess of Cardholders' Single Purchase Limit Authority Established By Their A/OPCs. The seven Fort Bragg cardholders who made purchases in excess of the single purchase limits their A/OPCs established stated that their approving officials or commanding officers directed that they make the purchases. The cardholders stated that they believed all single purchase limits were increased to \$15,000 for supporting Hurricane Katrina rescue and relief operations, and the items they purchased supported Hurricane Katrina rescue and relief efforts.

Purchases Made Without Required Written Delegation of Authority. A/OPCs at Camp Shelby and Fort Bragg did not issue required delegation of authority letters to one Camp Shelby and two Fort Bragg cardholders, and the cardholders had increased single purchase limits. The A/OPCs at Camp Shelby

and Fort Bragg stated they increased the single purchase limits for cardholders as necessary, but did not reissue required delegation of authority letters because they were unaware of the requirement, although they did receive the DoD Guidance.

Air Force Delegation of Authority. Two Air Force cardholders at Little Rock Air Force Base and three Air Force cardholders at Moody Air Force Base made purchases in excess of the single purchase limit authority the A/OPC established. In addition, A/OPCs at Hill and Peterson Air Force Bases did not issue the required delegation of authority letters to cardholders with increased single purchase limits.

Purchases Made in Excess of Cardholder's Single Purchase Limit Authority Established By Their A/OPCs. The five Air Force cardholders who made purchases in excess of the single purchase limits that their A/OPC established stated their approving officials or commanding officers directed that they make the purchases. The cardholders stated that they believed the bank increased single-purchase limits to \$15,000 to support Hurricane Katrina rescue and relief operations, and that the items they purchased actually supported Hurricane Katrina rescue and relief efforts.

Purchases Made Without Required Written Delegation of Authority. Air Force A/OPCs did not issue the required delegation of authority letters to one cardholder at Hill Air Force Base and three cardholders at Peterson Air Force Base, and the cardholders had increased single purchase limits. The A/OPCs at Hill and Peterson Air Force Bases stated they increased the single purchase limits for cardholders as necessary but did not reissue required delegation of authority letters because they were unaware of the requirement, although they did receive the DoD Guidance.

Defense Agency Delegation of Authority. One cardholder at the Defense Information Systems Agency made purchases in excess of the single purchase limit authority the A/OPC established. In addition, the A/OPCs at the Defense Information Systems Agency did not issue required delegation of authority letters to two cardholders for whom the A/OPC increased their single purchase limits.

Purchases Made in Excess of Cardholder's Single Purchase Limit Authority Established By Her A/OPC. One Defense Information Systems Agency cardholder made purchases in excess of the single purchase limit the A/OPC established and stated that that her approving official directed she make the purchase. In addition, the cardholder stated that she believed the bank increased all single purchase limits to \$15,000 to support Hurricane Katrina rescue and relief operations and that the items she purchased actually supported Hurricane Katrina rescue and relief efforts.

Purchases Made Without Required Written Delegation of Authority.

The A/OPCs responsible for the two Defense Information Systems Agency cardholders who made purchases in excess of \$2,500 in support of Hurricane Katrina rescue and relief operations without required delegation of authority letters stated they had increased the single purchase limits for cardholders and were aware of the increased delegations of authority. However, the A/OPCs stated they did not reissue required written delegation of authority letters for purchasing in support of Hurricane Katrina because they were unaware of the requirement to reissue delegation of authority letters for purchases that supported Hurricane Katrina rescue and relief operations, although they had actually received the DoD Guidance.

A/OPCs for the Army, Air Force, and Defense Information Systems Agency stated that the bank normally denies purchases made in excess of a cardholder's established purchase authority. The A/OPCs stated they believed that the blanket increase of single purchase limits for cardholders by U.S. Bank allowed cardholders to exceed their established single purchase limits. Although the blanket increase was only in effect for 6 days before it was rescinded, the bank could not reverse the blanket increase to affect only the single purchase limits of the cardholder accounts that the blanket increase affected. A/OPCs stated that they worked closely with bank officials to properly increase and decrease single purchase limits for cardholders as necessary.

Inadequate Supporting Documentation and Purchase Justification

Army and Air Force cardholders made Hurricane Katrina-related purchases and did not have supporting documentation and justification information required for Hurricane Katrina-related purchase card transactions. DoD Guidance requires that cardholders obtain appropriate requirements documents and identify and justify purchases specifically related to Hurricane Katrina. In addition, the DoD Guidance requires that cardholders include details on specific goods and services purchased, including how the purchase supported Hurricane Katrina rescue and relief operations.

Cardholders Did Not Provide Adequate Supporting Documentation for Purchases. Of the cardholders making purchases without adequate supporting documentation, nine Army cardholders and one Air Force cardholder made purchase card transactions in excess of \$2,500 in support of Hurricane Katrina without adequate supporting documentation. Specifically, for the Army, 1 cardholder at Camp Shelby made 1 purchase; 6 cardholders at Fort Bragg made 23 purchases; and 2 cardholders at Fort Hood made 20 purchases without adequate supporting documentation. The Camp Shelby cardholder did not

include a request, invoice, or proof of receipt for his purchase. For the 6 cardholders at Fort Bragg making 23 purchases, 4 cardholders made 8 purchases without a documented request or proof of receipt, and 2 cardholders made 15 purchases without proof of receipt. For the 2 cardholders at Fort Hood who made 20 purchases, 1 cardholder made 1 purchase without a request, invoice, or proof of receipt, and both cardholders made 18 purchases without a request. For the Air Force, one cardholder at Randolph Air Force Base made one purchase without adequate supporting documentation. The cardholder was unable to provide an invoice to support his purchase.

Cardholders Did Not Provide Sufficient Justification for Purchases. Of the cardholders making purchases without sufficient justification, four Army cardholders made purchase card transactions in excess of \$2,500 in support of Hurricane Katrina without sufficient justification.

Army Purchases. Of the cardholders making purchases without sufficient justification on how the purchases supported Hurricane Katrina rescue and relief operations, one cardholder at Fort Benning made one purchase and one cardholder at Fort Bragg made one purchase. In addition, one cardholder at Fort Bragg made one purchase and one cardholder at Fort Hood made 10 purchases without any justification of how the purchases supported Hurricane Katrina rescue and relief operations. For example, a Fort Bragg cardholder made a purchase for spill kits, place cards, and Motorola radios. The cardholder provided documentation that supported the purchase but did not show justification on how the items supported Hurricane Katrina rescue and relief operations. However, the cardholder stated the purchase was to support Hurricane Katrina rescue and relief operations. One cardholder at Fort Hood made a purchase for generators. The cardholder provided transaction documentation stating the generators were in support of Hurricane Katrina. The documentation the cardholder provided did not show a justification for how the generators supported Hurricane Katrina rescue and relief operations. The cardholder stated he was unable to provide the precise reason of the generator purchase but believed it was for running electricity in temporary tents.

Air Force Purchases. One cardholder at Moody Air Force Base made one purchase, one cardholder at Peterson Air Force Base made five purchases, and three cardholders at Randolph Air Force Base made five purchases without any justification for how the purchases supported Hurricane Katrina rescue and relief operations. For example, a Peterson Air Force Base cardholder provided transaction documentation stating the purchase was for possible support of Hurricane Katrina, but did not justify how the items supported Hurricane Katrina rescue and relief operations. However, the cardholder stated the items purchased were used to support contracting troops deployed to the disaster area.

Cardholders provided inadequate documentation for Hurricane Katrina-related purchase card transactions and did not include required justification on specific goods and services purchased, including how the purchase supported Hurricane Katrina rescue and relief operations. The Army A/OPCs at Fort Benning, Fort Bragg, and Fort Hood and the Air Force A/OPCs at Moody, Peterson, and Randolph Air Force Bases each stated they did not distribute policies and procedures for documenting and justifying Hurricane Katrina-related purchase card transactions because they were unaware of the requirement, although they received the DoD Guidance. Without adequate supporting documentation and sufficient justification, the Army and Air Force program officials cannot properly review transactions as required to determine whether Hurricane Katrina-related purchase card transactions were executed in accordance with policies and procedures.

Conclusion

We recognize that the nature of executing a natural disaster-related contingency operation does not lend itself to exact and complete documentation and records management. OMB and DoD did not issue guidance for making purchase card transactions in support of Hurricane Katrina rescue and relief operations until 2 and 3 weeks, respectively, after the disaster. Consequently, support for cardholder files and purchase card transactions could not have been strictly maintained and executed in accordance with the policies and procedures the guidance mandates. However, our visits to the installations reviewed did not begin until early December 2005, more than 90 days after Hurricane Katrina. Our results indicate that, overall, Army and Air Force purchase card program managers made minimal effort to implement the OMB and DoD Guidance or to review purchase card transactions within a reasonable time to assess the effectiveness of program controls or management oversight.

The USD(AT&L) memorandum, September 16, 2005, emphasizes the importance of ensuring that the increased threshold as well as statutory flexibilities “are used only for efforts that have a clear and direct relationship to Hurricane Katrina rescue and relief operations and that they are used in a responsible and effective manner with appropriate controls.” Army and Air Force program personnel from the cardholder level to the Component Level II A/OPC failed to follow guidance for tracking purchase card transactions. As a result of not following guidance, the Army and Air Force cannot determine with reasonable certainty the number of transactions or dollar value of those transactions made for Hurricane Katrina rescue and relief operations.

Recommendations, Management Comments, and Audit Response

A.1. We recommend that the Director of the DoD Purchase Card Joint Program Management Office:

a. Revise purchase card transaction guidance for contingency operations to clarify policies and procedures for identifying and tracking of contingency operation purchase card transactions.

Management Comments. The Director, Defense Procurement and Acquisition Policy, concurred and stated that they revised the DoD Government Charge Card Guidebook to include an appendix specifically addressing the use of the government purchase card for contingency and humanitarian operations. The Director also stated the PCPMO guidebook will state that any rescue or relief operation cost, regardless of whether or not it is reimbursable, should be identified.

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

b. Issue guidance referenced in A.1.a. to the Component Level II Agency/Organization Program Coordinators as a standard policy to be implemented in the event of a contingency.

Management Comments. The Director concurred and stated, in the event of another disaster relief situation, they will request the banks to send a mass broadcast to their A/OPCs notifying them of the policy requirements.

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

A.2. We recommend the Director of the Army Purchase Card Program Management Office require the Level II Army Agency/Organization Program Coordinator:

a. Establish and document policies and procedures for implementing purchase card program controls that will ensure Agency/Organization Program Coordinators, Approving Officials, and Cardholders comply with DoD program guidance for contingency operations.

Management Comments. The Acting Director, Army Contracting Agency, concurred and stated he will distribute Army-specific policy within 30 days of

receiving DoD PCPMO clarification of procedures to identify and track contingency operation purchase card transactions.

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

b. Require Level III Agency/Organization Program Coordinators distribute to Level IV Agency/Organization Program Coordinators guidance that provides procedures for obtaining accurate and complete tracking of data for purchase card transactions during contingency operations.

Management Comments. The Acting Director concurred and stated Level III A/OPCs must confirm to the Level II A/OPC that distribution of policy has been completed and receipt acknowledged by all Level IV A/OPCs.

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

c. Require that the appropriate Agency/Organization Program Coordinators conduct in accordance with OMB requirements follow-up reviews for Hurricane Katrina purchase card transactions.

Management Comments. The Acting Director concurred and stated A/OPCs must identify purchases made in support of Hurricane Katrina relief and complete no later than November 15, 2006, a follow-up review on 100 percent of the transactions. The Acting Director also stated that Level III A/OPCs will report to the Level II A/OPCs when the reviews are completed.

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

A.3. We recommend the Director of the Air Force Purchase Card Program Management Office require that the Level II Air Force Agency/Organization Program Coordinator:

a. Establish and document policies and procedures for implementing purchase card program controls that will ensure Agency/Organization Program Coordinators, Approving Officials, and Cardholders comply with DoD program guidance for contingency operations.

Management Comments. The Assistant Secretary of the Air Force for Acquisition concurred and stated they are working closely with the DoD PCPMO to develop guidance, policy, and procedures for consistently capturing natural disaster contingency-related transactions, conducting timely follow-up reviews, monitoring/controlling delegation of authority letters for single-purchase limits,

and strengthening oversight and internal controls to mitigate the risk of fraud, waste, and abuse.

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

b. Require that Level III Agency/Organization Program Coordinators distribute to Level IV Agency/Organization Program Coordinators guidance that provides procedures for obtaining accurate and complete tracking of data for purchase card transactions during contingency operations.

Management Comments. The Assistant Secretary concurred and stated they are working closely with the DoD PCPMO to develop guidance, policy, and procedure to consistently capture natural disaster contingency-related transactions and that will require the Level III A/OPC to properly distribute procedural guidance to Level IV A/OPCs. In addition, the Assistant Secretary stated that Air Force participation in a DoD initiative called the Purchase Card Online System that includes authorization, data mining, and risk assessment as part of a host of internal management control tools will significantly enhance efforts to improve internal controls.

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

c. Require that the appropriate Agency/Organization Program Coordinators conduct in accordance with OMB requirements follow-up reviews for Hurricane Katrina purchase card transactions.

Management Comments. The Assistant Secretary concurred and stated they are working closely with the DoD PCPMO to develop guidance, policy, and procedures for conducting timely follow-up reviews.

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

A.4. We recommend the Director of the Defense Information Systems Agency:

a. Establish and document policies and procedures for implementing purchase card program controls that will ensure Agency/Organization Program Coordinators, Approving Officials, and Cardholders comply with DoD program guidance for contingency operations.

Management Comments. The Director for Procurement Chief, Defense Information Technology Contracting Organization concurred and stated that the

Defense Information Systems Agency is in the process of updating its Purchase Card Deskbook to emphasize contingency situations by incorporating the DoD and OMB purchase card policies, procedures, and guidance. The Director anticipates completion of this action by November 1, 2006.

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

b. Require Level III Agency/Organization Program Coordinators to distribute to Level IV Agency/Organization Program Coordinators guidance that provides procedures for obtaining accurate and complete tracking of data for purchase card transactions during contingency operations.

Management Comments. The Director concurred and stated that the Defense Information Systems Agency will define a method for tracking purchase card contingency operation data and will incorporate the procedures into the Purchase Card Deskbook. The Director anticipates completion of this action by November 1, 2006.

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

c. Require that the appropriate Agency/Organization Program Coordinators conduct in accordance with OMB requirements follow-up reviews for Hurricane Katrina purchase card transactions.

Management Comments. The Director concurred and stated the two Agency Program Coordinators will conduct the required follow-up review for its Katrina purchase card transactions and capture “Lessons Learned” from those reviews and incorporate them into the Purchase Card Deskbook.

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

A.5. We recommend the Director of the National Geospatial-Intelligence Agency:

a. Establish and document policies and procedures for implementing purchase card program controls that will ensure Agency/Organization Program Coordinators, Approving Officials, and Cardholders comply with DoD program guidance for contingency operations.

Management Comments. The Director of the National Geospatial-Intelligence Agency concurred and stated that the National Geospatial-Intelligence Agency established and documented procedures for implementing purchase card program

controls that will ensure A/OPCs, approving officials, and cardholders comply with DoD Guidance for contingency operations; the Director stated that the procedures were incorporated into the National Geospatial-Intelligence Agency Government Purchase Card Supplement to the DoD Charge Card Guidebook. The Director also stated that the procedures were coordinated with the DoD Government Purchase Card Program Management Office, and DoD-level concurrence obtained on April 19, 2006.

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

b. Require that the appropriate Agency/Organization Program Coordinators conduct in accordance with OMB requirements follow-up reviews for Hurricane Katrina purchase card transactions.

Management Comments. The Director concurred and stated they completed the follow-up reviews. In addition, the Director stated that all National Geospatial-Intelligence Agency purchase card officials authorized to make purchases under Special Emergency Procurement Authority were trained in April 2006 to ensure that those personnel were fully aware of their duties and responsibilities.

Audit Response. Although the National Geospatial-Intelligence Agency concurred with the recommendation, we consider the comments partially responsive. The Director stated they conducted follow-up reviews of Hurricane Katrina purchase card transactions; however, the reviews were not conducted in accordance with Office of Management and Budget requirements. Therefore, we request the National Geospatial-Intelligence Agency provide additional comments in response to the final report identifying specific actions to show that follow-up reviews will conform to requirements.

B. Purchase Card Transactions Exceeded the \$2,500 Micro-Purchase Threshold

Army and Air Force cardholders made 269 improper purchase card transactions unrelated to Hurricane Katrina at 4 Army and 7 Air Force installations that exceeded the \$2,500 threshold for single micro-purchases that the Federal Acquisition Regulation mandates. Specifically, Army and Air Force cardholders executed—

- 39 transactions exceeding the \$2,500 single purchase limit authorized by the delegation of authority letter;
- 11 transactions without using a Government contract;
- 4 transactions with inadequate sole-source justification; and
- 215 transactions without obtaining 3 sources of competition when purchasing from Federal Supply Schedules.

Cardholders made those transactions because purchase card program managers did not effectively implement Army and Air Force purchase card guidance and did not enforce existing controls for purchase cards. Unless management officials of the purchase card program at the four Army and seven Air Force installations establish a robust oversight presence and significantly strengthen internal controls, Army and Air Force purchase card program officials cannot mitigate the risk of fraud, waste, and abuse.

Federal Purchase Card Guidance

Federal Acquisition Regulation Part 13, “Simplified Acquisition Procedures,” March 2005. The Federal Acquisition Regulation Part 13, Subpart 13.1 states when making purchases exceeding the simplified acquisition threshold, the contracting officer must consider solicitation of three sources to promote competition to the maximum extent practicable for obtaining supplies and services from the source whose offer is most advantageous to the Government. Whenever practicable, the contracting officer should request quotes from two sources not included in the previous solicitation.

Federal Acquisition Regulation Part 8, “Required Sources of Supplies and Services,” March 2005. The Federal Acquisition Regulation Part 8, Subpart 8.4 states for orders placed under the Federal Supply Schedules, ordering activities

shall procure sole-source requirements only if the need is justified in writing. In addition, the contracting officer for the ordering activity may solicit from one source if the contracting officer determines that the circumstances deem only one source is reasonably available for orders placed above the micro-purchase threshold but not exceeding the threshold for a simplified acquisition. If that occurs, the contracting officer must approve the justification unless a higher approval level is established in accordance with agency procedures.

DoD Purchase Card Guidance

Department of Army, “Government Purchase Card Standard Operating Procedure,” July 31, 2002. The Army Standard Operating Procedure states that contracting officers and other designated contracting personnel may use the card as a method of payment on a contractual document up to the warrant limit of the contracting officer. The Army Standard Operating Procedure also states that cardholders with authority to make purchases above \$2,500 who do not work for contracting organizations will use the purchase card to obtain items only from pre-priced contracts and agreements, including Federal supply schedules and blanket purchase agreements. The Army Standard Operation Procedure requires that A/OPCs establish limits for a cardholder’s single and monthly purchase limits and issue delegation of authority letters that provide cardholders with the authority to make purchases up to the specified purchase limits. The Army Standard Operating Procedure also states when specifically authorized, cardholders not in contracting organizations may only make purchases in excess of \$2,500 from pre-priced contracts and agreements. In addition, the Army Standard Operating Procedure states A/OPCs must conduct an annual review of each assigned billing official; A/OPCs must review an adequate number of randomly selected transactions that can verify cardholders are following correct procedures and processes. The Army Standard Operating Procedure also states the DoD PCPMO office is developing guidance that will assist A/OPCs in determining how many transactions should be reviewed.

Department of Air Force Instruction 64-117, “Air Force Government-wide Purchase Card Program,” December 6, 2002. Air Force Instruction 64-117 states that warranted contracting officers might specify the purchase card as a method of payment on a contractual document up to the warrant limit of the contracting officer. Air Force Instruction 64-117 also states that when purchasing from Federal supply schedules and blanket purchase agreements, cardholders must review prices on at least three contracts or agreements and select the best value item for their requirements. In addition, the cardholder will keep a record of the review with the documentation for the cardholder. Air Force Instruction 64-117 requires that A/OPCs establish limits for a cardholder’s single and monthly purchases and issue delegation of authority letters that provide

cardholders with authority to make purchases up to the specified purchase limits. In addition, Air Force Instruction 64-117 states that when specifically authorized, cardholders not in contracting organizations may only make purchases in excess of \$2,500 from pre-priced contracts and agreements. Air Force Instruction 64-117 states A/OPCs will conduct a review of each billing official at least every 12 months. Billing officials will conduct 100-percent reviews for cardholders at least every 12 months.

Army, Air Force, and Defense Agency Purchase Card Transactions Reviewed

We identified and reviewed 1,651 purchase card transactions in excess of \$2,500 made from September 1 through September 30, 2005, that were unrelated to supporting Hurricane Katrina rescue and relief operations. Specifically, we reviewed—

- 650 purchase card transactions, valued at \$8,445,153, that 148 cardholders made at 5 Army installations (Camp Shelby, Fort Benning, Fort Bragg, Fort Gordon, and Fort Hood);
- 991 purchase card transactions, valued at \$8,234,260, that 386 cardholders made at 7 Air Force installations (Hill, Keesler, Lackland, Little Rock, Moody, Peterson, and Randolph Air Force Bases); and
- 10 purchase card transactions, valued at \$69,985.43, that 4 cardholders made at 2 Defense agencies (The Defense Commissary Agency and the Defense Information Systems Agency).

Army and Air Force Cardholders Made Improper Purchases

For the 1,651 Army, Air Force, and Defense agency purchase card transactions reviewed, Army and Air Force cardholders made 269 improper purchase card transactions unrelated to Hurricane Katrina at 4 Army and 7 Air Force installations that exceeded the \$2,500 threshold for micro-purchases that the Federal Acquisition Regulation mandates. We did not identify improper purchases at Camp Shelby, the Defense Commissary Agency, or the Defense Information Systems Agency.

For the 148 Army cardholders and the 650 Army transactions reviewed, 31 cardholders made 66 improper purchase card transactions. Specifically:

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- 14 cardholders made 16 transactions exceeding the \$2,500 threshold for micro-purchases authorized by each cardholder's delegation of authority,
 - 3 cardholders made 3 transactions without using a Government contract,
 - 1 cardholder made 2 transactions with inadequate sole-source justification, and
 - 13 cardholders made 45 transactions without obtaining 3 sources of competition when purchasing from Federal Supply Schedules.

In addition, for the 386 Air Force cardholders and 991 Air Force transactions reviewed, 116 cardholders made 203 improper purchase card transactions. Specifically:

- 16 cardholders made 23 transactions exceeding the \$2,500 threshold for micro-purchases, which was authorized by each cardholder's delegation of authority,
- 8 cardholders made 8 transactions without using a Government contract,
- 1 cardholder made 2 transactions with inadequate sole-source justification, and
- 91 cardholders made 170 transactions without obtaining 3 sources of competition when purchasing from Federal Supply Schedules.

The Purchase Card Audit Guide that the Government Accountability Office publishes defines an improper purchase as a purchase that is for Government use but is not permitted by law, regulation, or regulation policy.

Cardholders Made Purchases Exceeding Single Purchase Limit Authority.

Of the transactions made, 14 Army cardholders made 16 purchases and 16 Air Force cardholders made 23 purchases that exceeded the single purchase limit of \$2,500 that each cardholder's written delegation of authority authorized. Army and Air Force purchase card regulations state that A/OPCs establish the single and monthly purchase limits for the cardholders and issue delegation of authority letters that provide each cardholder with the authority to make purchases up to the specified purchase limits. Army and Air Force regulations for purchase cards also state that when specifically authorized, cardholders not in contracting organizations may make purchases in excess of \$2,500 only from pre-priced contracts and agreements.

Army Cardholders Exceeded Delegations of Authority. Of 148 Army cardholders at 5 Army installations reviewed, 14 made 16 purchases exceeding their delegation of authority. Specifically, one cardholder at Fort Benning made one purchase, six cardholders at Fort Bragg made six purchases, and eight cardholders at Fort Hood made ten purchases exceeding the \$2,500 single purchase limit that each cardholder's delegation of authority letter specified.

The Army cardholders did not receive authorization to increase their single purchase limits for making purchases in excess of \$2,500. For example, one cardholder at Fort Benning stated she exceeded her \$2,500 single purchase limit because her supervisor directed that she make a furniture purchase with end-of-year funds. The cardholder stated she was unaware of restrictions against making purchases over the \$2,500 single purchase limit her delegation of authority authorized. One Fort Bragg cardholder exceeded his single purchase limit of \$2,500 because his supervisor directed that he purchase a tool repair kit. The cardholder stated he knew his single purchase limit was \$2,500 and that exceeding the limit would violate purchase card policies and procedures. However, the cardholder stated his supervisor directed that he purchase the tool kit and, if necessary, split the purchase into two purchases to stay below the \$2,500 threshold. As a result of our audit, the A/OPC became aware of the violation, and the A/OPC suspended the accounts for both the cardholder and approving official in January 2006.⁵ The A/OPCs at Fort Benning, Fort Bragg, and Fort Hood responsible for implementing Army purchase card regulations stated they were unaware the cardholders made purchases exceeding their delegations of authority.

Air Force Cardholders Exceeded Delegations of Authority. Of 386 Air Force cardholders we reviewed at 5 of the 7 installations, 16 made 23 purchases exceeding their delegation of authority. Specifically, 6 cardholders at Hill Air Force Base made 8 purchases, 2 cardholders at Little Rock Air Force Base made 2 purchases, 8 cardholders at Moody Air Force Base made 11 purchases, 1 cardholder at Peterson Air Force Base made 1 purchase, and 1 cardholder at Randolph Air Force Base made 1 purchase exceeding the \$2,500 single purchase limit stated in the cardholders' delegation of authority letters.

The Air Force cardholders did not receive specific authorization to increase their limit for single purchases in excess of \$2,500. For example, one cardholder at Hill Air Force Base exceeded his single purchase limit of \$2,500 because his supervisor directed that he purchase filters and an X-ray head. Another cardholder at Moody Air Force Base exceeded her single purchase limit of \$2,500 because her supervisor directed that she purchase uniforms, boots, and camel

⁵ Termination of a cardholder or approving official account constitutes disciplinary action as established in the Army Government Purchase Card Standard Operating Procedure.

packs. Both cardholders were aware they were violating the policies and procedures for the purchase card. However, the cardholders stated they believed they had increased limits for single purchases because of the increased micro-purchase threshold for Hurricane Katrina. The cardholder statements that they believed they had increased single purchase limits lack credibility because their purchases were unrelated to supporting Hurricane Katrina-related rescue and relief efforts. The A/OPCs at Hill, Little Rock, Moody, Peterson, and Randolph Air Force Base responsible for implementing Air Force purchase card regulations stated they were unaware the cardholders exceeded their delegations of authority.

Army and Air Force A/OPCs stated that the bank normally denies purchases made in excess of a cardholder's established purchase authority. The A/OPCs believed, however, that the Hurricane Katrina-related blanket increase by U.S. Bank for the limits of each cardholder's single purchase allowed cardholders to exceed their established single purchase limits. Although the blanket increase was rescinded within 6 days, implementation of the rescission took longer.

Purchases Made Without Using a Government Contract. Eleven Army and Air Force cardholders made 11 purchases in excess of \$2,500 without using a Government contract. The Federal Acquisition Regulation states that when a contracting officer exceeds the threshold for micro-purchases, the contracting officer should develop a statement of work and request at least three contractor quotes. The contracting officer is responsible for awarding a contract for purchases in excess of \$2,500 to contractors based on price reasonableness and best value.

Army Cardholders Made Purchases Without Using a Government Contract. Three Army cardholders made three purchases in excess of \$2,500 without using a Government contract at two of the five installations reviewed. Each of the three cardholders had limits for single purchases in excess of \$2,500. Specifically, one Fort Benning cardholder made one \$2,897 purchase at Staples without using a Government contract. The cardholder stated she was unaware of the requirement to purchase against a contract for purchases in excess of \$2,500. A Fort Bragg cardholder made a mission-related purchase for earphones and headsets, valued at \$12,221, that were not purchased using a Government contract. The cardholder obtained three sources of competition for the purchase, and the A/OPC directed that the cardholder contact the Department of Contracting at Fort Bragg to issue a contract. The cardholder stated she did not contact the Department of Contracting because of time constraints. Another Fort Bragg cardholder made a mission-related purchase for flag cases, valued at \$2,896, not purchased using a Government contract. The cardholder was aware of the requirement either to make a purchase in excess of \$2,500 using a Government contract or to contact the Department of Contracting to determine contracting options. However, the cardholder stated that he assumed the vendor

was under a Government contract because the vendor provided the specific flag case measurements required.

Air Force Cardholders Made Purchases Without Using a Government Contract. Eight Air Force cardholders made eight purchases in excess of \$2,500 without using a Government contract at three of the seven installations reviewed. Specifically, four cardholders at Hill Air Force Base made four purchases, one cardholder at Keesler Air Force Base made one purchase, and three cardholders at Peterson Air Force Base made three purchases in excess of \$2,500 without using a Government contract. Each of the eight cardholders had a single purchase limit authority in excess of \$2,500. One cardholder at Peterson Air Force Base purchased a truck repair, valued at \$4,774, without a Government contract. The cardholder stated he was aware that a purchase made in excess of \$2,500 without using a Government contract was a violation of purchase card policy and intended to have the repair performed on two separate occasions and, therefore, ensure that his purchases did not exceed his \$2,500 limit. As a result of our review, the Peterson A/OPC informed the cardholder and approving official that they should not have intended to split the transactions between two separate purchases and should have contacted the Base Contracting at Peterson Air Force Base to follow contracting procedures. The A/OPC provided additional training to the cardholder and approving official on purchase card use. Another cardholder at Peterson Air Force Base made a purchase from Best Buy for a refrigerator and dishwasher valued at \$5,363 without using a Government contract because the cardholder needed the items for the mission. The cardholder stated he made the purchase without using a Government contract because he was unaware of the requirement to issue a contract for purchases in excess of \$2,500. As a result of our review, the Peterson A/OPC issued a disciplinary notice to the cardholder and approving official informing them of the proper contracting procedures. In addition, the cardholder and approving official were re-trained. One cardholder at Keesler Air Force Base purchased gloves and socks valued at \$5,057 from a local department store. The cardholder stated that his supervisor directed that he make the purchase. The Keesler A/OPC learned of this improper purchase during our review and promptly cancelled the cardholder's account.

Inadequate Sole-Source Justification. Two Army and Air Force cardholders made four purchases in excess of \$2,500 with inadequate sole-source justification. According to the Federal Acquisition Regulation, cardholders must solicit three sources of competition for purchases in excess of \$2,500 and justify sole-source purchases in writing. One Army cardholder at Fort Hood made two purchases and one Air Force cardholder at Hill Air Force Base made two purchases without adequate sole-source justification. Both cardholders were contracting officers, and they provided documentation that the purchases were justified for sole-source by indicating in the documentation that the purchase was 'sole source justified.' However, neither cardholder provided justification by explaining how or why the

purchase was justified for sole-source. Unless contracting officer cardholders justify sole-source procurements by explaining how and why the purchase is justified for sole-source, the Army and Air Force cannot ensure the Government is receiving a best value purchase.

Cardholders Did Not Obtain Three Sources of Competition. Of the sites reviewed, 104 Army and Air Force cardholders made 215 purchases in excess of \$2,500 without obtaining 3 sources of competition when purchasing from Federal Supply Schedules. According to the Federal Acquisition Regulation, when purchasing from Federal Supply Schedules, purchases exceeding \$2,500 but not the maximum order threshold, or the cardholder's single purchase limit, the ordering activity must solicit three sources of competition. In addition, Army and Air Force purchase card regulations state cardholders not in contracting organizations will use the purchase card to obtain items only from pre-priced contracts and agreements including Federal supply schedules and blanket purchase agreements. Of the 148 Army cardholders reviewed, 13 made 45 purchases at 4 of the 5 installations without obtaining 3 sources of competition for purchases exceeding \$2,500. In addition, 91 of the 386 Air Force cardholders reviewed made 170 purchases at the 7 installations without obtaining 3 sources of competition for purchases exceeding \$2,500. Table 4 shows the installations reviewed, the number of cardholders by installation that did not obtain three sources of competition, and the number of purchases made at each installation that did not consider the three-source requirement.

Table 4. Purchases That Did Not Obtain Three Sources of Competition.

Installation Reviewed	Cardholders That Did Not Obtain Three Sources of Competition	Purchases That Did Not Have Three Sources of Competition
Fort Benning	1	1
Fort Bragg	6	30
Fort Gordon	1	1
Fort Hood	5	13
Hill Air Force Base	32	64
Keesler Air Force Base	3	6
Lackland Air Force Base	1	1
Little Rock Air Force Base	10	14
Moody Air Force Base	4	22
Peterson Air Force Base	38	59
Randolph Air Force Base	3	4
Total	104	215

As a result, Army and Air Force cardholders made improper purchases when they did not comply with the Federal Acquisition Regulation, as well as Army and Air Force purchase card regulations by making purchases in excess of \$2,500 without obtaining three sources of competition when purchasing from Federal Supply Schedules. Unless Army and Air Force cardholders attempt to obtain three sources of competition, Army and Air Force managers cannot ensure a concerted effort to obtain best value for Government purchases.

Recommendations, Management Comments, and Audit Response

Revised Recommendations. As a result of management comments, we revised draft Recommendation B.1.a. to be applicable only to the Army by taking out “Air Force,” and we revised Recommendation B.2.a. to be applicable only to the Air Force by taking out “Army.”

B.1. We recommend that the Director of the Army Purchase Card Program Management Office:

a. Issue guidance reiterating Federal Acquisition Regulation and Army policies and procedures for making purchases in excess of \$2,500.

Management Comments. The Acting Director, Army Contracting Agency, partially concurred and stated the Army Level II A/OPC will develop and issue guidance that clearly reiterates Federal Acquisition Regulations and Army-specific policies and procedures for making purchases in excess of \$2,500. The Acting Director stated that Air Force policies will not be distributed.

Audit Response. Although the Army partially concurred, we consider the comments responsive and revised the recommendation to be applicable only to the Army.

b. Require that Level II Agency/Organization Program Coordinators distribute guidance to Level III and Level IV Agency/Organization Program Coordinators on specific procedures for making purchases in excess of \$2,500.

Management Comments. The Director concurred and stated the guidance will be provided to all Level III and Level IV A/OPCs throughout the Army.

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

c. Require that Level III and Level IV Agency/Organization Program Coordinators distribute procedures to cardholders and approving officials for making purchases in excess of \$2,500 and include the procedures in cardholder and approving official training.

Management Comments. The Director concurred and stated the guidance will require that Army cardholders and billing officials be provided a copy of the procedures and government purchase card training emphasize the proper procedures for making purchases in excess of \$2,500.

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

B.2. We recommend that the Director of the Air Force Purchase Card Program Management Office:

a. Issue guidance reiterating Federal Acquisition Regulation and Air Force policies and procedures for making purchases in excess of \$2,500.

Management Comments. The Assistant Secretary of the Air Force for Acquisition concurred with the recommendation and stated they are working

closely with the DoD PCPMO reiterating Federal Acquisition Regulation and Air Force policies and procedures for making purchases in excess of \$2,500.

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

b. Require that Level II Agency/Organization Program Coordinators distribute guidance to Level III and Level IV Agency/Organization Program Coordinators on specific procedures for making purchases in excess of \$2,500.

Management Comments. The Assistant Secretary concurred with the recommendation and stated they are working closely with the DoD PCPMO requiring that Level II A/OPCs properly distribute guidance to Level III and Level IV A/OPCs on procedures in excess of \$2,500.

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

c. Require that Level III and Level IV Agency/Organization Program Coordinators distribute procedures to all cardholders and approving officials for making purchases in excess of \$2,500 and include the procedures in cardholder and approving official training.

Management Comments. The Assistant Secretary concurred with the recommendation and stated they are working closely with the DoD PCPMO requiring that procedures are distributed to all cardholders and approving officials, and included in cardholder and approving official training.

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

Appendix A. Scope and Methodology

DoD did not have a repository of data for Hurricane Katrina-related purchase card transactions. In addition, U.S. Bank did not have a unique indicator for identifying Hurricane Katrina-related cardholders or transactions. As a result, we requested from U.S. Bank a list of purchase card transactions in excess of \$2,500 the Army, Air Force, and Defense agencies made from September 1 through September 30, 2005. We also requested a list of Army, Air Force, and Defense agency cardholders who received increased single purchase limits for making Hurricane Katrina-related purchase card transactions from the Component level A/OPCs. For each cardholder the DoD Components and Defense agencies identified, we selected all cardholder accounts at the cardholder's location and reviewed all purchase card transactions in excess of \$2,500 made from September 1 through September 30, 2005.

From September 1 through September 30, 2005, Army, Air Force, and Defense agency cardholders made 34,060 purchase card transactions in excess of \$2,500. We reviewed 1,850 purchase card transactions in excess of \$2,500 made by 591 Army, Air Force, and Defense agency cardholders from September 1 through September 30, 2005. Specifically, we reviewed—

- 746 purchase card transactions, valued at \$9,404,303, made by 178 cardholders at 5 Army locations (Camp Shelby, Fort Benning, Fort Bragg, Fort Gordon, and Fort Hood);
- 1,085 purchase card transactions, valued at \$8,914,814, made by 406 cardholders at 7 Air Force locations (Hill, Keesler, Lackland, Little Rock, Moody, Peterson, and Randolph Air Force Bases); and
- 19 purchase card transactions, valued at \$179,456, made by 7 cardholders at the National Geospatial-Intelligence Agency, the Defense Information Systems Agency, and the Defense Commissary Agency.

We reviewed purchase card bank statements and other source documents such as delegation of authority letters, purchase requests, invoices, and receiving reports associated with the transactions and cardholder files selected. In addition, we reviewed implementation of Hurricane Katrina purchase card policies and procedures applicable to all purchase card transactions. We performed this audit from September 2005 through August 2006 in accordance with generally accepted government auditing standards. However, we limited our scope by excluding Navy purchase card transactions in support of Hurricane Katrina from the audit; the Naval Audit Service initiated a similar audit in September 2005.

Use of Computer Processed Data. To achieve the 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 to source documentation. We did not find errors that would preclude the use of computer-processed data to meet the audit objective or that would change the conclusion in this report.

Use of Technical Assistance. We received technical assistance from our Data Mining Division. The Data Mining Division obtained data for cardholder purchase card transactions from the Defense Manpower Data Center. The Data Mining Division extracted the data for DoD cardholder purchase card transactions in excess of \$2,500 for September 2005 and provided the data to the audit team.

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

Prior Coverage

Since Hurricane Katrina, the Naval Audit Service issued one report on purchase cards used for Hurricane Katrina relief efforts. Unrestricted Naval Audit Service reports can be accessed at <http://www.navy.mil/NavalAudit>.

Navy

Naval Audit Service Report No. N2006-0042, "Department of Navy's Government Commercial Purchase Card Used for Hurricane Katrina Efforts," August 25, 2006

Appendix B. Number of A/OPCs Responsible for Selected Transactions By Location

	Location Visited	Number of A/OPCs Responsible for Selected Transactions Reviewed
Army	Camp Shelby	2
	Fort Benning	1
	Fort Bragg	2
	Fort Gordon	2
	Fort Hood	3
Air Force	Hill Air Force Base	1
	Keesler Air Force Base	1
	Lackland Air Force Base	1
	Little Rock Air Force Base	1
	Moody Air Force Base	1
	Peterson Air Force Base	1
	Randolph Air Force Base	1
Defense Agencies	Defense Commissary Agency	1
	Defense Information Systems Agency	2
	National Geospatial-Intelligence Agency	1
Total Reviewed		21

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, Department of Defense Purchase Card Joint Program Management Office

Under Secretary of Defense (Comptroller)/Chief Financial Officer

Deputy Chief Financial Officer

Deputy Comptroller (Program/Budget)

Director, Program Analysis and Evaluation

Director, Defense Procurement and Acquisition Policy

Department of the Army

Auditor General, Department of the Army

Director, Army Purchase Card Program Management Office

Department of the Navy

Naval Inspector General

Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)

Auditor General, Department of the Air Force

Director, Air Force Purchase Card Program Management Office

Combatant Command

Inspector General, U.S. Joint Forces Command

Other Defense Organizations

Director, Defense Commissary Agency
Director, Defense Information Systems Agency
Director, National Geospatial-Intelligence Agency

Non-Defense Federal Organizations and Individuals

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform

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



ACQUISITION
TECHNOLOGY
AND LOGISTICS

OFFICE OF THE UNDER SECRETARY OF DEFENSE
3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

AUG 25 2006

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDITING,
OFFICE OF THE INSPECTOR GENERAL,
DEPARTMENT OF DEFENSE

THROUGH: DIRECTOR, ACQUISITION RESOURCES AND ANALYSIS

MS
8/28/06

SUBJECT: Draft DoDIG Report D2006-D000CK-0019.000, "Expanded Micro-Purchase
Authority for Purchase Card Transactions Related to Hurricane Katrina"
August 11, 2006

This is in response to your August 11, 2006, memorandum requesting comments
on the subject draft report.

Overall, we concur with the recommendations in the draft report. Our detailed
response to the recommendations is included as an enclosure to this report.

My point of contact for this matter is Ms. Susan Quinlan, SFCA-PC,
703-325-9501.

Shay D. Assad
Director, Defense Procurement
and Acquisition Policy

Attachment:
As stated



DRAFT DODIG REPORT D2006CK-0019
“EXPANDED MICRO-PURCHASE AUTHORITY FOR PURCHASE CARD
TRANSACTIONS RELATED TO HURRICANE KATRINA”
COMMENTS TO THE RECOMMENDATIONS

Recommendation A.1. We recommend that the DoD Joint Purchase Card Program Management Office:

- a. Revise purchase card transaction guidance for contingency operations to clarify policies and procedures for identifying and tracking of contingency operation purchase card transactions.
- b. Issue guidance referenced in A.1.a to the Component Level II Agency/Organization Program Coordinators as a standard policy to be implemented in the event of a contingency.

DPAP Response: Concur.

As stated in the draft report, the Director, Purchase Card Joint Program Management Office, issued a comprehensive policy memorandum on September 21, 2005, Subject: Use of the Government Purchase Card (GPC) in Support of Hurricane Katrina Rescue and Relief Operations, approximately two weeks after the disaster occurred. In addition, the DoD Government Charge Card Guidebook, found at <http://www.acq.osd.mil/dpap/pcard/pcardguidebook.htm>, was revised to include an appendix specifically addressing the use of the GPC for contingency and humanitarian operations. Although the policy states that Billing/Certifying Officials are required to ensure cardholders properly identify and record purchases made using the GPC in support of the Katrina rescue and relief operations, the audit disclosed that there was some confusion as to what constituted rescue and relief operations costs. Specifically, some cardholders thought that only Federal Emergency Management Agency (FEMA) – reimbursable costs were to be identified. Therefore, we will clarify the guidebook to state that any rescue or relief operation cost, regardless of whether or not it is reimbursable, should be identified. For the future, in the event of another disaster relief situation, we will request the banks to send a mass broadcast to their Agency/Organization Program Coordinators notifying them of the policy requirements.

Army Contracting Agency 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

SFCA-ZA

SEP 06 2006

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 D2006-D000CK-0019.000, Expanded Micro-Purchase
Authority for Purchase Card Transactions Related to Hurricane Katrina

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

Recommendation A.2 – We recommend the Director of the Army Purchase Card
Program Management Office require the Level II Army Agency/Organization Program
coordinator:

a. Establish and document policies and procedures for implementing purchase
card program controls that will ensure Agency/Organization Program Coordinators,
Approving Officials, and Cardholders comply with DoD program guidance for
contingency operations.

Concur. Within 30 days of receipt of DoD Purchase Card Joint Program
Management Office clarification of required procedures to identify and track contingency
operation purchase card transactions, Army specific policy will be established and
distributed.

b. Require Level III Agency/Organization Program Coordinators distribute to
Level IV Agency/Organization Program Coordinators guidance that provides procedures
for obtaining accurate and complete tracking of data for purchase card transactions
during contingency operations.

Concur. Level III Agency/Organization Program Coordinators will be required to
confirm to the Level II Agency/Organization Program Coordinator that distribution of
above referenced policy has been completed and receipt acknowledged by all Level IV
Agency/Organization Program Coordinators.

c. Require that the appropriate Agency/Organization Program Coordinators
conduct, in accordance with OMB requirements, follow-up reviews for Hurricane Katrina
purchase card transactions.

Concur. Agency/Organization Program Coordinators will be required to identify all purchases made in support of the Hurricane Katrina relief effort and complete a follow-up review on 100 percent of the transactions no later than November 15, 2006. Level 3 Agency/Organization Programs Coordinators will be required to report to the Level 2 Agency/Organization Program Coordinator when all reviews have been completed.

Recommendation B.1 - We recommend that the Director of the Army Purchase Card Program Management Office:

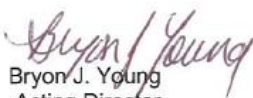
- a. Issue guidance reiterating Federal Acquisition Regulation, Army, and Air Force policies and procedures for making purchases in excess of \$2,500.
- b. Require that Level II Agency/Organization Program Coordinators distribute guidance to Level III and Level IV Agency/Organization program coordinators on specific procedures for making purchases in excess of \$2,500.
- c. Require that Level III and Level IV Agency/Organization Program Coordinators distribute procedures to cardholders and approving officials for making purchases in excess of \$2,500 and include the procedures in cardholder and approving official training.

Partially Concur. B.1.a, b, c. Within 90 days of this response the Army Level II Agency/Organization Program Coordinator will develop and issue guidance which clearly reiterates Federal Acquisition Regulations and Army specific policies and procedures for making purchases in excess of \$2,500. Air Force policies will not be distributed. This guidance will be provided to all Agency/Organization Program Coordinators, Levels III and IV, throughout the Army. This guidance will also require that all Army card holders and billing officials be provided a copy and that all new and refresher Government Purchase Card training emphasize the proper procedures on making purchases in excess of \$2,500.

It is noted that unless the ability to raise cardholder single purchase limits is restricted to the Level IV Agency/Organization Program Coordinator for the accounts they manage, the Level IV Agency/Organization Program Coordinator will not be able to ensure that proper letters of delegation of procurement authority are issued and training of current policies and procedures governing purchases over \$2,500 is accomplished.

-3-

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

KE6-1292

Department of the Air Force Comments



DEPARTMENT OF THE AIR FORCE
WASHINGTON DC

OFFICE OF THE ASSISTANT SECRETARY

05 SEP 2006

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDITING
ATTN: ASSISTANT INSPECTOR GENERAL

FROM: SAF/AQ

SUBJECT: Draft Audit Report, Expanded Micro-Purchase Authority for Purchase Card
Transaction Related to Hurricane Katrina, dated 11 August 2006 (Project No.
D2006D000CK-0019.000)

This is in reply to your memorandum requesting the Assistant Secretary of the Air Force (Financial Management and Comptroller) to provide Air Force comments on subject report. The following comments are provided:

We concur with the findings and recommendations regarding Purchase Card transactions relative to the Hurricane Katrina natural disaster.

The auditors acknowledge that the nature of executing natural disaster-related contingency operation does not lend itself to exact and complete documentation and records management. Guidance and policy was provided by Office of Management and Budget and DoD and disseminated to the field. Unfortunately, the guidance had to be developed after the fact, and was not available to the field until 2-3 weeks after the disaster. Consequently, supporting documentation for cardholder files and purchase card transactions were not strictly maintained and executed in accordance with the policies and procedures the guidance mandated.

We are working closely with the DoD Purchase Card Joint Program Management Office to develop guidance, policy, and procedure to consistently capture natural disaster contingency-related transactions, conduct timely follow-up transaction reviews, monitor/control delegation of authority letters for single-purchase limits, and strengthen oversight and internal controls to mitigate the risk of fraud, waste, and abuse. Current Air Force participation in a DoD initiative called the Purchase Card Online System that includes authorization, data mining, and risk assessment as part of a host of internal management control tools, will significantly enhance our efforts in closing the gaps cited in the audit findings and recommendations.

The SAF/AQ staff is ready to assist in any way to ensure all concerns are addressed prior to the final report publication. My point of contact is Capt Stephanie Baker, and she may be reached at either StephanieL.Baker@pentagon.af.mil or 703-588-2357.

A handwritten signature in cursive script, reading "Sue C. Payton", is positioned above the typed name.

SUE C. PAYTON
Assistant Secretary of the Air Force
(Acquisition)

Defense Information Systems Agency Comments



DEFENSE INFORMATION SYSTEMS AGENCY
P. O. Box 4502
ARLINGTON, VIRGINIA 22204-4502

IN REPLY
NOTIFY TO

Procurement Directorate/Defense Information Technology
Contracting Organization (PLD/DITCO)

AUG 18 2006

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL
(DoDIG) VIA DISA IG

SUBJECT: Expanded Micro-Purchase Authority for Purchase Card Transactions Related
to Hurricane Katrina, 11 Aug 06

Reference: Project No. 2006-D000CK-0019.000

1. In response to the subject draft audit, the Procurement Directorate (PLD) concurs with the Department of Defense Inspector General's (DoDIG) recommendations.
2. DISA's concurrence, discussions, and plans for corrective actions are contained in the enclosed.
3. If you have any questions, please call Mrs. Doris Mayo, PL21 at 703-681-0925.

1 Enclosure a/s

EVELYN M. DEPALMA
Director for Procurement
Chief, Defense Information Technology
Contracting Organization

Copy to:
DISA-IG
CFE
DITCO-NCR, PL6
DITCO-Scott, PL8

Defense Information Systems Agency (DISA)
Concurrence and Responses to Draft Audit Report
Project No. 2006-D000CK-0019.000, 11 Aug 06

DoDIG Recommendation A.4. "We recommend the Director of the Defense Information Systems Agency:"

DoDIG Recommendation A.4.a. "Establish and document policies and procedures for implementing purchase card program controls that will ensure the Agency/Organization Program Coordinators, Approving Officials, and Cardholders comply with DoD program guidance for contingency operations."

DISA's Response. Concur. Although DISA has its own Agency established and documented purchase card procedures titled DISA's Purchase Card Deskbook, these procedures did not address contingency situations like Hurricane Katrina. DISA is in the process of updating its Purchase Card Deskbook to incorporate the DoD and OMB purchase card policies, procedures, and guidance. Anticipated completion is 1 November 2006.

DoDIG Recommendation A.4.b. "Require Level III Agency/Organization Program Coordinators to distribute to Level IV Agency/Organization Program Coordinators guidance that provides procedures for obtaining accurate and complete tracking of data for purchase card transactions during contingency operations."

DISA's Response. Concur. DISA will define a methodology for tracking purchase card contingency operation data and incorporate those procedures into its Purchase Card Deskbook. Anticipated completion is 1 November 2006.

DoDIG Recommendation A.4.c. "Require that the appropriate Agency/Organization Program Coordinators conduct in accordance with OMB requirements follow-up reviews for Hurricane Katrina purchase card transactions."

DISA's Response. Concur. DISA's two Agency Program Coordinators (APCs) will conduct the required follow-up review for its Katrina purchase card transactions and capture "Lessons Learned" from those reviews and incorporate into the Purchase Card Deskbook. Additionally, DISA reviews all purchase card holders and Approving Officials' files and transactions during the performance of its scheduled Procurement Management Reviews (PMRs). Anticipated completion is 1 November 2006.

Enclosure (1)

National Geospatial-Intelligence Agency Comments



NATIONAL GEOSPATIAL-INTELLIGENCE AGENCY
4600 Sangamore Road
Bethesda, Maryland 20816-5003

U-213-06/OIG

SEP 01 2006

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDITING,
INSPECTOR GENERAL, DEPARTMENT OF DEFENSE


SUBJECT: Draft Report on Expanded Micro-Purchases Authority
for Purchase Card Transactions Related to
Hurricane Katrina (Project No. D2006-D000CK-
0019.000)

REFERENCE: DoD IG memorandum, 11 August 2006, subject as
above

1. The National Geospatial-Intelligence Agency (NGA) has reviewed the subject draft report. We appreciate the opportunity to respond to the finding and recommendations.

2. The enclosure contains our comments to the finding and recommendations directed to NGA. Our response, prepared in conformance with the requirements of DoD Directive 7650.3, includes corrective actions taken and planned. We have included documentation which supports NGA implementation of the stated recommendations. NGA is requesting DoD IG review the documentation and if sufficient, close the recommendations.

3. Should you or your staff have any questions regarding our response, please direct them to the NGA Office of Inspector General, Ms. Phyllis B. Sheppard, NGA External Audit Liaison, (301) 227-0710.


for ROBERT B. MURRETT
Vice Admiral, U.S. Navy
Director

Enclosure
As stated

**National Geospatial-Intelligence Agency Response
to Draft Report on
Expanded Micro-Purchase Authority for the Purchase Card
Transactions Related to Hurricane Katrina
(Project No. D2006-D000CK-0019.000)**

NGA Comments to the Finding:

**Purchase Card Manager's Did Not Capture Hurricane Katrina
Purchase Card Data, Pages 8-11**

**Resource Management Personnel Captured Hurricane Katrina-Related
Costs, Pages 11-13**

Purchase Card Transaction Follow-Up Reviews, Pages 15-17

NGA Comments. NGA concurs.

NGA Comments to Recommendations, Page 23

**A.5. We recommend that Director, National Geospatial-
Intelligence Agency:**

**a. Establish and document policies and procedures for
implementing purchase card program controls that will ensure
Agency/Organization Program Coordinators, Approving Officials,
and Cardholders comply with DoD program guidance for contingency
operations.**

NGA Comments. NGA concurs. NGA has established and documented procedures for implementing purchase card program controls that will ensure Agency/Organization Program Coordinators, Approving Officials, and Cardholders comply with DoD program guidance for contingency operations. The policy and guidance entitled, "Appendix B: Using the Purchase Card for Contingency and Humanitarian Aid Operations," was established for the purpose of flowing down DoD requirements, policies, and procedures to the Agency level. Appendix B has been incorporated into the NGA Government Purchase Card Supplement to the DoD Government Charge Card Guidebook for Establishing and Managing Purchase, Travel and Fuel Card Programs (see attachment 1). It was coordinated with the DoD Government Purchase Card Program Management Office, and NGA obtained DoD-level concurrence with this document on 19 April 2006. The appendix has been transmitted and trained to

(not included)

Agency/Organization Program Coordinators, Approving Officials, and Cardholders and posted to the NGA Purchase Card Program web site on 28 July 2006.

b. Require that the appropriate Agency/Organization Program Coordinators conduct in accordance with OMB requirements follow-up reviews for Hurricane Katrina purchase card transactions.

NGA Comments. NGA concurs. The required follow-up reviews have been completed and are reflected at attachment 2. In addition, in April 2006, all NGA Purchase Card officials who are authorized to make purchases under Special Emergency Procurement Authority (SEPA) were trained. The purpose of the training was to ensure that those personnel were fully aware of their duties and responsibilities. Copies of the training material used are at attachment 3.

(not included)

Team Members

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