

September 29, 2006



# Financial Management

Management of the Purchase Card  
Program at the North American  
Aerospace Defense Command and  
United States Northern Command  
(D-2006-124)

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### **Acronyms**

AFI	Air Force Instruction
A/OPC	Agency/Organization Program Coordinator
GAO	Government Accountability Office
GPC	Government Purchase Card
NORAD	North American Aerospace Defense Command
ORF	Official Representation Funds
US NORTHCOM	United States Northern Command



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
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September 29, 2006

MEMORANDUM FOR COMMANDER, NORTH AMERICAN AEROSPACE  
DEFENSE COMMAND AND UNITED STATES  
NORTHERN COMMAND  
ASSISTANT SECRETARY OF THE AIR FORCE  
(FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Report on Management of the Purchase Card Program at North American  
Aerospace Defense Command and United States Northern Command  
(Report No. D-2006-124)

We are providing this report for review and comment. The 21<sup>st</sup> Contracting Squadron did not respond to the draft report; however, we considered comments from the North American Aerospace Defense Command and United States Northern Command when preparing the final report. Comments from the Assistant Secretary of the Air Force (Acquisition) were received too late to be considered in preparing the final report.

DoD Directive 7650.3 requires all issues to be resolved promptly. Comments by North American Aerospace Defense Command and United States Northern Command to Recommendation A.1.a. were not responsive. We request that the North American Aerospace Defense Command and United States Northern Command and the 21<sup>st</sup> Contracting Squadron provide comments on the final report by October 30, 2006.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to [Auddfs@dodig.mil](mailto:Auddfs@dodig.mil). Copies of the management comments must contain the actual signature of the authorizing official.

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Marvin Peek at (703) 325-5777 (DSN 221-5777) or Mr. Ben Meade at (303) 676-7423 (DSN 926-7423). See Appendix D 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 "Paul J. Granetto", is positioned above the printed name.

Paul J. Granetto, CPA  
Assistant Inspector General  
Defense Financial Auditing  
Service

## **Department of Defense Office of Inspector General**

**Report No. D-2006-124**

**September 29, 2006**

(Project No. D2005-D000FD-0182.000)

### **Management of the Purchase Card Program at the North American Aerospace Defense Command and United States Northern Command**

#### **Executive Summary**

**Who Should Read This Report and Why?** DoD civilian and military personnel who are authorized to use a Government purchase card or supervise any aspect of the Government Purchase Card Program should read this report. This report discusses the internal controls and the management of the Government purchase card at North American Aerospace Defense Command (NORAD) and the United States Northern Command (US NORTHCOM).

**Background.** NORAD is a bi-national military organization established in 1958. DoD established US NORTHCOM in 2002 to consolidate under a single unified command existing missions that were previously executed by other military organizations. Both organizations have the same commander. From October 1, 2003, through March 31, 2005, 205 Government purchase card holders at NORAD and US NORTHCOM expended \$5.17 million with 12,344 transactions. Oversight of the NORAD/US NORTHCOM Government Purchase Card Program is conducted by the Air Force agency program coordinator of the 21<sup>st</sup> Contracting Squadron. The Government Purchase Card Program at NORAD/US NORTHCOM has not been subject to prior external audits.

Public Law 107-314, Section 1007(a) (8) (A), "Bob Stump National Defense Authorization Act for Fiscal Year 2003," requires that the Department of Defense Inspector General perform periodic audits to identify potentially fraudulent, improper, and abusive uses of purchase cards.

**Results.** We applied business rules to determine high-risk transactions from the 205 cardholders at NORAD/US NORTHCOM and found that 29 had transactions that indicated possible misuse. The 29 cardholders conducted 3,960 transactions that included:

- 440 transactions with insufficient documentation,
- 80 improper uses of the purchase card,
- 33 unauthorized transactions, and
- 5 abusive uses of the purchase card.

The 21<sup>st</sup> Contracting Squadron did not provide effective oversight, and NORAD/US NORTHCOM personnel did not follow Air Force guidance or institute effective procedures and internal control over the purchase card program. We considered the lack of internal controls at the 21<sup>st</sup> Contracting Squadron to be a material internal control

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weakness. To minimize fraud, waste, and abuse, NORAD/US NORTHCOM, the agency/organization program coordinator, and approving officials must take action to establish required internal controls (finding A).

The Command Staff Protocol Administrative Office did not institute proper procedures in expending Official Representation Funds. As a result, there were 16 events with undocumented and questionable benefits to the mission of NORAD/US NORTHCOM, 12 unauthorized transactions, and 19 abusive transactions for excessive amounts of alcohol. Cardholders were not properly monitored and specific guidance on alcoholic expenditures and hosting events was unclear, resulting in broad interpretations of allowable events. NORAD/US NORTHCOM will remain vulnerable to questionable use of Official Representation Funds, unauthorized purchases, and abusive spending on alcoholic beverages unless internal controls are strengthened and definitive policy is issued (finding B).

**Management Comments and Audit Response.** The Chief of Staff of NORAD/US NORTHCOM concurred with the recommendations except the recommendation to suspend use of Official Representation Funds until adequate controls have been established to prevent misuse. The Chief of Staff stated that NORAD/US NORTHCOM has already changed key areas of leadership and greatly improved the process and developed guidance on management of Official Representation Funds. Management comments were generally responsive, except for the statement that they will “consider” adding a critical element to appropriate positions on the first recommendation. We do not agree that considering the addition of a critical element adequately addresses the recommendation. No comments were received from 21<sup>st</sup> Contracting Squadron. We received comments from the Assistant Secretary of the Air Force (Acquisition) concurring with the findings and recommendations. She stated that the Air Force Program Coordinator will ensure appropriate actions are taken with respect to the findings in the report. However, the comments were received too late to be discussed or included in our report, and did not show specific actions to be taken in regard to the recommendations addressed to the 21<sup>st</sup> Contracting Squadron. We request that NORAD/US NORTHCOM and the 21<sup>st</sup> Contracting Squadron provide comments on the final report by October 30, 2006. See Finding sections for a discussion of the management comments and the Management Comments section of the report for the complete text of the comments.

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## **Background**

The North American Aerospace Defense Command (NORAD) mission is to provide continuous worldwide detection, validation, and warning of potential aerospace attacks on North America and maintain continental aerospace control. The NORAD commander is appointed by, and reports directly to, the United States President and the Canadian Prime Minister.

United States Northern Command (US NORTHCOM) conducts operations to deter, prevent, and defeat threats and aggression aimed at the United States and its territories and interests. If directed by the President or Secretary of Defense, US NORTHCOM provides military assistance to civil authorities when required. Both NORAD and US NORTHCOM are headquartered at Peterson Air Force Base in Colorado Springs, Colorado. The US NORTHCOM commander also commands NORAD, and many of the staff also occupy the same positions in both commands.

The Government purchase card (GPC) is the primary payment and procurement method for NORAD/US NORTHCOM for purchases under \$2,500. NORAD/US NORTHCOM personnel expended \$5.17 million during October 1, 2003, through March 31, 2005, using the GPC. Individual transaction oversight is provided at each Service installation by the agency/organization program coordinator (A/OPC), approving official, and cardholder. Personnel assigned to these roles are responsible for providing reasonable assurance that purchase card transactions are appropriate and meet a valid Government need. The Purchase Card Program at NORAD/US NORTHCOM is administered by the 21<sup>st</sup> Contracting Squadron, which includes the A/OPC. The A/OPC is responsible for the oversight of the Purchase Card Program for NORAD/US NORTHCOM at Peterson Air Force Base, Colorado Springs, Colorado.

## **Objectives**

The audit objectives were to determine whether NORAD/US NORTHCOM personnel were using and managing their GPC Program in accordance with applicable regulations, policies, and procedures. We also reviewed the adequacy of the Managers' Internal Control Program as it relates to our audit objectives. See Appendix A for a discussion of the audit scope and methodology. See Appendix B for prior audit coverage.

## **Review of Internal Control**

DoD Directive 5010.38, "Management Control Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management

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controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.<sup>1</sup>

**Scope of the Managers' Internal Control Program Review.** We reviewed the adequacy of the Managers' Internal Control Program as it relates to the GPC program. Specifically, we determined whether 21<sup>st</sup> Contracting Squadron implemented internal controls for Government purchase card use. We also reviewed management's self-evaluation of required internal controls.

**Adequacy of Internal Controls.** We identified material internal control weaknesses in the Government Purchase Card Program managed by the 21<sup>st</sup> Contracting Squadron. The deficiencies are detailed in finding A. Implementation of audit report recommendations will correct the weaknesses identified in the report. A copy of the report will be provided to 21<sup>st</sup> Contracting Squadron.

**Adequacy of Management's Self Evaluation.** During FY 2005, 21<sup>st</sup> Contracting Squadron conducted an ongoing review of the management controls for the GPC program. No material weaknesses were reported in the May 25, 2005, assurance statement that states: "The results of this assessment provide reasonable assurance that this organization maintains the controls necessary to support our program and mission responsibilities."

Although no material weaknesses were recognized in 21<sup>st</sup> Contracting Squadron's management control evaluation, our audit identified several internal control weaknesses.

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<sup>1</sup> Our review of internal controls was done under the auspices of DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996. DoD Directive 5010.38 was canceled on April 3, 2006. DoD Instruction 5010.40, "Managers' Internal Control (MIC) Program Procedures," was reissued on January 4, 2006. The cancellation and revision had no impact on the audit findings.



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## A. Use of and Controls over Government Purchase Cards

We applied business rules to determine high-risk transactions (See Appendix A) from the 205 cardholders at NORAD/US NORTHCOM and found that 29 had transactions that indicated possible misuse. The 29 cardholders conducted 3,960 transactions and we identified:

- 440 transactions with insufficient documentation,
- 80 improper uses of the purchase card,
- 33 unauthorized transactions, and
- 5 abusive uses of the purchase card.

These irregularities occurred because NORAD/US NORTHCOM did not follow Air Force guidance or institute effective procedures and internal controls over the GPC Program, and the 21<sup>st</sup> Contracting Squadron did not provide effective oversight of the program. Unless the overall purchase card control environment is strengthened and management engages in proactive oversight, NORAD/US NORTHCOM cannot ensure continuous program monitoring necessary to effectively minimize improper, unauthorized, and abusive transactions.

### Criteria

**DoD Guidance.** “Department of Defense Government Charge Card Guidebook for Establishing and Managing Purchase, Travel, and Fuel Card Programs,” January 20, 2006, was published to help DoD personnel establish and manage charge card programs. Although this guidance was published after the GPC transactions in the audit report took place, the guide neither supersedes nor takes precedence over more restrictive Component procedures and does not change the conclusions in the report. Rather, it is designed to provide additional guidance for the establishment and management of card programs.

**Air Force Instruction (AFI) 64-117.** AFI 64-117, “Air Force Government-Wide Purchase Card (GPC) Program,” January 31, 2006,<sup>2</sup> provides guidance on the use of the GPC. The GPC may be used to purchase authorized supplies, equipment, and non-personal services up to the micro-purchase threshold of \$2,500. Purchases over the \$2,500 threshold require authorization by a contracting officer. The GPC cannot be used to purchase such items as utility services and items for personal use. Additionally, the GPC cannot be used in making recurrent buys that circumvent the \$2,500 threshold. The Air Force requires a distinct separation of duties for purchase, acceptance, and payment on all contract actions. Internal controls are established through general policies and procedures for program management that includes review and surveillance

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<sup>2</sup> Air Force Instruction 64-117 was modified on January 31, 2006, superseding AFI 64-117, dated December 6, 2002. The revised instruction did not include major changes, which would have altered the conclusions in this report.

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responsibilities. Supporting documentation for purchases must be retained by the cardholder and approving official for 3 years after final payment.

The AFI also states that approving officials are responsible for individual cardholder oversight, ensuring that internal controls—such as testing purchase validity and regulation compliance—are implemented. The AFI also requires approving officials to conduct reviews of 100 percent of cardholder files at least every 12 months. The approving official is also required to verify the monthly account statement. All transactions and significant events must be clearly documented and available for examination. In addition, all documentation and records must be properly managed and maintained.

The A/OPC is responsible for the operation and overall implementation of the purchase card program. The A/OPC responsibilities include providing mandatory purchase card training, surveillance, and business advice for cardholders and approving officials. Cardholders and approving officials must have at least a 4-hour initial training session followed by an annual training update. Surveillance will be accomplished by the A/OPC on each approving official at least every 12 months. In addition, the A/OPC must document violations and take immediate action to resolve all noncompliance issues.

## Government Purchase Card Irregularities

**We reviewed the transactions of cardholders at the 10 NORAD/US NORTHCOM Components using business rules to determine high-risk transactions.** Twenty-nine had irregularities totaling \$496,981.<sup>3</sup> Irregularities include purchases lacking supporting documentation and improper, unauthorized, and abusive purchases as shown in the following table. The table in Appendix C shows a further breakdown of the number of transaction irregularities by each of the 10 Components.

The Government Accountability Office's Purchase Card Audit Guide uses the following definitions when describing misuse of GPCs.

- An improper purchase is one that is for Government use, but is not permitted by law, regulation, or organizational policy.
- An unauthorized purchase is use of the GPC to acquire goods or services that are unauthorized and intended for personal use or gain<sup>4</sup>.
- An abusive purchase is a purchase of authorized goods or services that are excessive or for a questionable Government need, or both.

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<sup>3</sup> Of the \$496,981 transaction irregularities in the table, \$27,607 had more than one deficiency.

<sup>4</sup> The Purchase Card Audit Guide uses the term fraudulent purchases. This report uses the more narrow unauthorized purchases portion of the definition by excluding the phrase "...constitute a fraud against the government." Page 25 of the Audit Guide requires "...referral to investigative authorities in cases of suspected fraud." Any transactions involving possible fraud are referred to investigators.

NORAD/US NORTHCOM GPC Transaction irregularities			
	Number of Transactions	Amount	Description
Missing or Insufficient Documentation	440	\$310,423	Transactions without or incomplete documentation.
Improper Purchases	80	147,538	Computers, visual equipment, purchases exceeding \$2,500 threshold, and split purchases.
Unauthorized Purchases	33	29,293	Televisions, cable bills, and Palm Pilots.
Abusive Purchases	5	9,727	Janitorial services including \$910 at \$65 per hour to clean glass table tops.
<b>Total</b>	<b>558</b>	<b>\$496,981</b>	

**Purchase Card Documentation.** Supporting documentation for 440 transactions totaling \$310,423 was missing from the files of the approving officials for 7 of the 10 Components reviewed. For example:

- Two approving officials in the J2 and J6 Components could not locate any documentation for 382 GPC transactions totaling \$215,383 from five former cardholders. Cardholders made these purchases from merchants such as Best Buy, Comp USA, Dell Computer, and Verizon.
- In the J8 Component, a purchase for 50 mid-back chairs costing \$493.68 each (total cost of \$24,684) was approved by the approving official. However, the total cost was written on the purchase approval form, and no invoice was on hand. The cardholder told us that he did not know he was required to obtain and maintain an invoice.
- The Joint Task Force-North Component did not provide receipts for \$40,869 in hotel room expenses.

AFI 64-117 requires that the approving official retain supporting documentation on former cardholders for at least 3 years. Maintaining documentation is essential to ensure that an adequate audit trail exists.

**Improper Purchases.** AFI 64-117 requires authorization from the base visual information manager before purchasing visual information products. However, cardholders in the Command Staff, Command Protocol, and Cheyenne Mountain Operations Center circumvented this required internal control by purchasing visual equipment, totaling \$8,204, without the required authorization.

Eight of ten Components lacked pre-authorization for purchases over the \$2,500 threshold amount. AFI 64-117 requires that all GPC purchases exceeding \$2,500 be reviewed by the A/OPC. However, 12 cardholders made purchases exceeding \$2,500 without obtaining required approval. For example, a cardholder in the Cheyenne Mountain Operations Center did not obtain required approval for the purchase of two document shredders for \$7,529.

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In addition, seven cardholders in five of ten Components split 11 purchases into 58 transactions to circumvent the established \$2,500 micro-purchase limit. For example:

- A cardholder in the Cheyenne Mountain Operations Center made four clothing purchases exceeding \$8,411 from a single vendor. The cardholder was aware of the single purchase limit because the purchases were made on the same day, approximately 2 minutes apart.
- A cardholder from the Command Staff split a purchase for painting services at \$32 per hour totaling \$3,418 into three transactions. The approving official approved payment after receiving a note from the cardholder stating the purchase was deliberately split to avoid the \$2,500 micro-purchase limit.

**Unauthorized Purchases.** AFI 64-117 does not permit the use of a GPC to pay cable television services and recurring purchases that exceed \$2,500 annually. However, a cardholder in the J-6 Component used a GPC to pay monthly cable bills for NORAD/US NORTHCOM totaling \$19,577 for the 18-month period reviewed.

Furthermore, four cardholders at the Cheyenne Mountain Operations Center purchased five televisions, totaling \$7,199, including two 42" plasma screens totaling \$5,370. According to the approving official, an inventory listing with serial number does not exist. We were unable to verify the government use and location of the televisions.

**Abusive Purchases.** A NORAD/US NORTHCOM staff member used a GPC to pay \$910 for services to clean glass on conference room tables. A company specializing in high-rise window cleaning was hired for \$65 per hour to clean the table glass. The staff member hired this company despite the fact that this service is already covered in the existing janitorial contract.

## Lack of Internal Controls

Factors that contributed to the internal control weaknesses throughout the GPC Program included:

- inadequate training,
- uninvolved and unmotivated approving officials, and
- ineffective and inconsistent surveillances.

**Training.** The initial training provided by the A/OPC to new cardholders and approving officials is inadequate. During the audit, we attended a 4-hour classroom training required for new cardholders and considered the course insufficient. Specifically, 3 hours and 15 minutes were spent on 17 topics covering the regulations governing the GPC program; however, 45 minutes was spent discussing the purchase of environmentally friendly items.

In addition to the initial training, the A/OPC is responsible for providing refresher training to all approving officials and cardholders on an annual basis. In an attempt to meet this requirement, the A/OPC posts a monthly newsletter on the website and e-mails the letter to approving officials for distribution to cardholders. However, 4 of 28

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cardholders surveyed stated they were unaware of the newsletter. Delegating the responsibility of cardholder refresher training to the approving officials was not effective and did not comply with AFI 64-117.

**Approving Officials.** Use of approving officials should be an important facet of the internal control program in identifying and reporting cardholder misuse. However, two cardholders from the J-5 and J-8 Components conducted annual inspections of their own transactions. During an interview, the J-5 Component cardholder admitted to completing the surveillance checklist for the approving official, thereby undermining the segregation of duties control. Furthermore, approving officials from multiple Components approved transactions without supporting documentation. These examples demonstrate that some of the approving officials are not fulfilling their role in the internal controls of the purchase card program.

AFI 64-117 requires approving officials to maintain GPC documentation for cardholders whose accounts have been closed because they have been reassigned, transferred, or retired. However, as previously stated, two approving officials from the J-2 and J-6 Components had no purchase documentation for 382 transactions from 5 cardholders, totaling \$215,383.

Approving officials' duties for the GPC program are critical to the success of internal controls, but these duties are not a critical element in evaluating their performance. Approving officials are likely to be more conscientious when reviewing cardholder transactions if such responsibilities affect their performance rating.

**Surveillance.** At the 21<sup>st</sup> Contracting Squadron, the A/OPC, the surveillance manager, and the assistant A/OPC provided GPC program oversight to the approving officials and cardholders of NORAD/US NORTHCOM. Surveillance is the backbone of the internal controls for the GPC program. However, the surveillance manager conducted inconsistent and inadequate surveillances, and did not always detect deficiencies found during surveillances. In addition, surveillance was not conducted for 4 of the 18 months included in the scope of the audit.

The A/OPC used a checklist for guidance in conducting surveillances. The checklist was completed and attached to a memorandum providing a summary of the surveillance. We identified instances where the memorandums and checklists did not correlate. For example, the A/OPC noted two discrepancies on a surveillance memorandum; however, surveillance checklists included no discrepancies. Completed checklists did not document the specific transactions reviewed or the time period for which the review was conducted. In addition, the checklist did not identify the cardholder being reviewed. During our interview, the A/OPC commented that surveillances were conducted every 12 months, but he could not explain which or how many transactions were reviewed because this information was not incorporated into the checklist. The checklists would be more effective if they included the cardholder name, period of review, or transactions reviewed.

The A/OPC did not detect a segregation of duties breach in two instances where cardholders performed the approving officials' duties. Both of the segregation of duties deficiencies went undetected despite the fact that self-inspection was clearly indicated on the checklists. The inability of the A/OPC to adequately complete the surveillance process is a breakdown in internal controls, leaving NORAD/US NORTHCOM vulnerable to fraud, waste, and abuse.

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Surveillances were suspended for 4 months during the 18-month period we reviewed because the surveillance manager position was vacant. The A/OPC is a temporary GS-11 position not to exceed 1 year. During the vacancy, surveillances were not performed, and the indefinite suspension was announced via e-mail.

## Conclusion

Cardholders made unacceptable purchases. Approving officials who were required to monitor these purchases approved them without adequate scrutiny. The A/OPC task is to train the cardholders and approving officials, and to conduct surveillances to verify that procedures are implemented effectively. However, the approving officials' lack of involvement combined with the ineffective training and surveillances resulted in a breakdown of internal controls for the GPC program at NORAD/US NORTHCOM.

## Management Comments on the Finding and Audit Response

**Management Comments.** NORAD/US NORTHCOM partially concurred with the finding regarding improper purchases, and stated that lack of documentation suggested improper purchases *may* have occurred, but cardholders who are still present in the Command stated that they did get some type of authorization prior to making purchases, but failed to document the approval properly. Management further stated that in rare instances, split purchases might be necessary when conducting operations.

**Audit Response.** The purchases shown in the report were improper because the cardholders did not get the required authorization or cardholders split purchases into multiple transactions to circumvent the \$2,500 limit for micro-purchases shown in AFI 64-117. We are not aware of any circumstances that would allow cardholders to intentionally circumvent the required approval for purchases for more than the \$2,500 threshold by splitting large purchases to ensure each transaction is below the \$2,500 limit. AFI 64-117 allows purchases in excess of the \$2,500 limit when properly authorized. We hope that the recommendations to the 21<sup>st</sup> Contracting Squadron to establish standard operating procedures and improve surveillance will ensure that NORAD/US NORTHCOM personnel do not circumvent established internal controls under the guise of operational requirements.

**Management Comments.** NORAD/US NORTHCOM disagreed that cleaning table tops was already included in an existing contract. Management stated that the cleaning of conference room tables was not covered in the existing janitorial contract.

**Audit Response.** Our discussions with both the Contracting Officer and the Quality Assurance Evaluator for janitorial services on March 22, 2006, indicated that cleaning glass fixtures, including table surfaces, was included in the contract for janitorial services.

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## Recommendations, Management Comments, and Audit Response

**A.1. We recommend that the Commander of North American Aerospace Defense Command and United States Northern Command:**

**a. Modify the position descriptions of approving officials for the Purchase Card Program to include a critical element to reflect responsibilities associated with the program.**

**Management Comments.** NORAD/US NORTHCOM concurred, stating that the recommendation could be applicable to civilian positions, but needs an adequate parallel for military personnel holding the responsibility. Management will look for an appropriate tool to provide that parallel and will consider adding this critical element to appropriate positions.

**Audit Response.** The NORAD/US NORTHCOM comments were nonresponsive. We do not agree that considering the addition of a critical element adequately addresses the recommendation. The intent of the recommendation is to raise the profile of the approving official's duties, military or civilian. A firm commitment and an expected completion date for implementing the recommendation would be responsive.

**b. Take disciplinary action against cardholders and approving officials who do not follow the requirements in Air Force Instruction 64-117.**

**Management Comments.** NORAD/US NORTHCOM concurred, and will, on a case-by-case basis, determine the spectrum of appropriate corrective actions after considering the chain of command and Staff Judge Advocate recommendations.

**A.2. We recommend that the Commander of the 21<sup>st</sup> Contracting Squadron:**

**a. Prepare and disseminate a written standard operating procedure providing specific guidance for cardholders, approving officials, and the agency/organization program coordinator and the subordinate staff. The standard operating procedure should as a minimum:**

**(1) Amplify the requirements found in Air Force Instruction 64-117 to help ensure that oversight is performed and documented as required by the Instruction. For example, the standard operating procedures should summarize when authorizations are required before purchases are made.**

**(2) Extend the current 4-hour initial training requirement for new cardholders and approving officials to allow enough time to adequately cover all the required areas.**

**(3) Require that effective refresher training of purchase cardholders and approving officials is conducted. Such training could include sending informational e-mails directly to cardholders, annual 2-hour classes tailored to approving officials or cardholders, and special training for cardholders and approving officials that have deficiencies, based on surveillances.**

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**(4) Require approving officials to transfer all documentation supporting purchase card transactions to the agency/organization program coordinator upon transfer or reassignment to ensure the availability of documentation for oversight and audit.**

**b. Revise position descriptions for the agency/organization program coordinator, surveillance manager, and assistant surveillance manager, making them commensurate with responsibilities and authority.**

**c. Establish procedures that will minimize any gaps in the appointment of surveillance managers of the Purchase Card Program.**

**Management Comments.** The 21<sup>st</sup> Contracting Squadron did not comment on the draft report. The Assistant Secretary of the Air Force (Acquisition) provided comments concurring with the findings and recommendations. She stated that the Air Force Program Coordinator will ensure appropriate actions are taken with respect to the findings in the report. However, the comments were received too late to be discussed or included in our report, and did not show specific actions to be taken in regard to the recommendations addressed to the 21<sup>st</sup> Contracting Squadron. We request that the 21<sup>st</sup> Contracting Squadron provide comments on the final report.



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## **B. Official Representation Fund Transactions**

The Command Staff Protocol Administrative Office did not institute proper procedures to prevent questionable and unsupported use of Official Representation Funds (ORF). Specifically, events were hosted without documenting the benefits to the Government, and unauthorized transactions occurred. Also, excessive costs were incurred at restaurants, or excessive amounts of alcoholic beverages were purchased for Quarters One Dinners. These conditions occurred because cardholders were not properly monitored by the Command Staff Protocol Administrative Office, and specific guidance on alcoholic expenditures and hosting events was unclear. NORAD/US NORTHCOM will remain vulnerable to questionable use of appropriated funds, unauthorized purchases of personal items, and abusive spending on alcoholic beverages unless use is strictly monitored, and specific guidance is provided.

### **Regulatory Guidance on Use of Official Representation Funds**

As a general rule, GPC use for entertainment purposes is unauthorized; however, exceptions are permitted when spending appropriated contingency funds for official representation purposes. Congress appropriated ORF to host official receptions, dinners, and similar events; and to otherwise extend official courtesies to guests of the United States and DoD for the purpose of maintaining the standing and prestige of the United States and DoD.

DoD Directive 7250.13, "Official Representation Funds (ORF)," February 17, 2004, updated January 12, 2005, requires that the use of ORF be monitored personally by the commanding officer to ensure that expenditures are of the highest order of propriety and integrity. Furthermore, events are to be modest in nature and comply with the socially acceptable mores of American society while serving the objectives of the United States and the interests of the U.S. taxpayer. The Directive allows official courtesies to be offered to visiting foreign dignitaries and officials, and Federal, State, and local dignitaries who have made a substantial contribution to the nation or to the Department of Defense.

Chairman of the Joint Chiefs of Staff Instruction 7201.01A, "Combatant Commanders' Official Representation Funds," October 15, 2003, requires the commanding officer (or authorized designee), Command Protocol Officer, the Command Comptroller, and the Command Judge Advocate to review each event that uses ORF prior to its occurrence. To meet this requirement, NORAD/US NORTHCOM circulated a staff summary sheet for review and approval by each of the authorizing officials prior to the event. At a minimum, the staff summary sheet is required to include detailed event information, including date, location, attendees, total cost estimate, and a stated justification for the event.

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## Command Staff Protocol Administrative Office

The Command Staff Protocol Administrative Office administers and monitors the ORF purchase card. The NORAD/US NORTHCOM had an annual budget of \$66,400 for the ORF for FY 2004 and \$42,614 for FY 2005. The staff directly involved in the administration of ORF is the cardholder (Command Protocol Specialist), the approving official (Deputy Director, Command Protocol), and the Director, Command Protocol. The Command Protocol Specialist creates the staff summary sheet after notification that an event is to take place and makes many of the purchases for the event. The approving official reviews and approves valid purchases made by the cardholder. The Director of the Command Protocol Office supervises the preparation of the staff summary sheet.

## Use of Official Representation Funds

Because of the unique and discretionary use of ORF, we reviewed each of the 202 GPC transactions and the 54 ORF events hosted from October 1, 2003, to March 31, 2005. We identified:

- 16 questionable events;
- 12 unauthorized transactions for beer, groceries, and other expenses; and
- 19 abusive transactions for excessive amounts of alcoholic beverages.

The use of ORF was authorized without adequate review of event justification. The Command Comptroller, the Command Judge Advocate, and the Command Protocol Officer authorized ORF spending based upon the staff summary sheet description rather than the event's compliance with DoD policy. Without proper scrutiny by authorizing officials, funds appropriated for entertaining visiting dignitaries were used to provide meals and excessive amounts of alcoholic beverages to local civilians and military personnel. As documented in this report, the staff summary sheet reviews were inadequate because of the events that were authorized.

**Questionable Events.** NORAD/US NORTHCOM hosted events that appeared to be mainly for the entertainment and benefit of DoD personnel. The Command Protocol Officer, the Command Comptroller, and the Command Judge Advocate authorized each event even though the events lacked adequate supporting documentation.

For example, NORAD/US NORTHCOM and Air Force Space Command hosted a "Holiday Reception" for 250+ retired military officers that totaled \$4,717 on Saturday, December 13, 2003. The Command Staff Protocol Administrative Office requested authorization for the reception by e-mail on Friday, December 12, 2003, after authorizing officials had gone home for the day. Unable to review the request prior to the event, the Command Comptroller and the Command Judge Advocate<sup>5</sup> provided authorization for the Saturday holiday reception on Monday, December 15, 2003.

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<sup>5</sup> An e-mail from the Chief Administrative Law Division, Judge Advocate's office to the NORAD/US NORTHCOM Protocol Officer stated there was nothing in the approval request to justify expenditure of ORF. However, the staff summary sheet indicated approval by the Office of the Judge Advocate.

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NORAD/US NORTHCOM and Air Force Space Command also hosted a holiday reception that totaled \$5,000 on December 18, 2004, with numerous beer and wine selections. The guest list comprised approximately 330 NORAD/US NORTHCOM and Air Force Space Command officers along with 375 “honored” guests that included local ranchers, attorneys, and business owners in the community.

In addition, the Commander, NORAD/US NORTHCOM, hosted 14 Quarters One Dinners costing a total of \$7,144 honoring senior staff members and “honored guests.” However, the staff summary sheets did not show the specific organizations and titles for the guests, the benefits toward mission accomplishment, or how the guests contributed to the nation or DoD. For example:

- A dinner on November 8, 2003, was approved for “several civic leaders” at a cost of \$306.07, but no documentation was available to show which individuals attended the dinner.<sup>6</sup>
- Another dinner was approved to honor the Deputy Commander of US NORTHCOM on August 5, 2004. E-mail correspondence documents personnel from the Protocol Office searching for “civic leaders” to attend the dinner. One e-mail stated “If they accept, I’ll have the proper ratio to ORF this dinner...”<sup>7</sup> Protocol Office explained to us that the dinner was an opportunity to introduce the Deputy Commander to the local civic leaders of Colorado Springs; however, only two civic leaders, accompanied by their spouses, attended.

DoD Directive 7250.13, Enclosure 1, does not permit ORF to be spent on events honoring staff members. In addition, Chairman of the Joint Chiefs of Staff Instruction 7201.01A requires documentation identifying the benefits toward mission accomplishment as well the name, title, and organization represented for each visitor being hosted. Based on our review of available documentation, civic leaders appeared to be invited to ensure that a proper ratio of Government to non-Government personnel were present.

**Unauthorized Purchases.** Chairman of the Joint Chiefs of Staff policy permits ORF use only for official events that are hosted and attended by a combatant command general or flag officer. ORF expenditures for personal use are not permitted. However, a command protocol specialist used the ORF GPC for unauthorized purchases on numerous occasions. For example:

- A command protocol specialist used the ORF GPC to charge \$1,104 for alcoholic beverages, meals, and green fees during a trip to Las Vegas, Nevada, and Nellis Air Force Base by the Commanding General and ten civic leaders. However, there was no staff summary sheet or approval for these purchases as an official representation event.
- A command protocol specialist purchased 2 ½ cases of beer at an off-base liquor store and groceries totaling \$297. Receipts were attached to staff summary sheets, and the costs were included under official representation events. The

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<sup>6</sup> In May 2006, 6 months after field work was completed on the audit, the Protocol Office finally provided a list of personnel that had been invited to the event.

<sup>7</sup> DoD Directive 7250.13 states that “In parties of fewer than 30 persons, a minimum of approximately 20 percent of invitees expected to attend should be honored or distinguished guests and members of their party.”

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protocol specialist did not normally purchase beverages and groceries, nor was it customary for alcoholic beverages to be purchased off-base; although the purchases were approved by the approving official, she was unaware of the transactions and could not justify the purchases.

- On one occasion, a command protocol specialist purchased grocery items such as Gorton's Fish, Hot Pockets, and Gummi Bears. The receipts for the purchases were attached to staff summary sheets for official representation events.

The approving official for ORF did not actively participate in the management and oversight of cardholder activity, and did not reconcile GPC receipts for ORF events resulting in payment approval for unauthorized purchases.

**Abusive Purchases.**<sup>8</sup> Nineteen GPC transactions for 14 events using ORF include excessive costs at restaurants or excessive amounts of alcoholic beverages at Quarters One Dinners. DoD policy permits installation commanders to use ORF to entertain on a modest basis. However, we reviewed eight events held at public restaurants, totaling \$7,624 to entertain 28 "honored guests" and 69 DoD personnel, and found:

- Two events where the total cost exceeded \$100 per person,
- three events where alcoholic beverage costs exceed \$40 per person, and
- six events where alcoholic beverage costs totaled approximately 50 percent of the entire meal cost.

For example, a staff summary sheet showed entertaining nine "honored guests" from the "Defense Commission Members Chamber of Deputies, Mexico," and nine DoD personnel for dinner at a local upscale restaurant. The cost of the event was \$2,182 (more than \$120 per person), which included \$1,150, or 53 percent, for alcoholic beverages (more than \$63 per person), clearly exceeding the GAO benchmark.

In addition, we found 13 GPC transactions totaling \$3,565, involving excessive alcoholic beverage purchases for Quarters One Dinners. The dinner is an official representation event where the commanding officer hosts a dinner for visiting dignitaries at his quarters. House aides purchase groceries and alcoholic beverages and prepare event meals. For example, a Quarters One Dinner entertaining four local civic leaders and six DoD personnel included purchases of alcohol equating to approximately 245 ounces of spirits and 36 cans of beer, or more than 28 drinks per individual.

NORAD/US NORTHCOM did not have specific guidance for ORF entertainment expenditures resulting in a wide range of directive interpretation. Command personnel interpreted guidelines such as "modest in nature" and "socially acceptable mores of American society" in a manner that accommodated the entertainment desires of the command. However, any justification for consuming an average of more than 28 drinks per individual during dinner as "modest" or "socially acceptable" is dubious.

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<sup>8</sup> Government Accountability Office (GAO) report, "Purchase Card Control Weaknesses Leave the Air Force Vulnerable to Fraud, Waste, and Abuse," December 2002, provides a benchmark for waste and abuse of \$100 per person for dinner and \$40 per person for alcoholic beverages.

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## Conclusion

ORF were being misused because of the lack of management oversight, the lack of proper review by authorizing officials, and the lack of specific guidance. Misuse of ORF violates DoD regulations and could violate Federal laws such as the Antideficiency Act. Although the ORF regulations allow the use of appropriated funds for alcoholic beverages and entertainment, reasonable limitations for event type and cost should be instituted. Because of the questionable, unauthorized, and abusive transactions documented in this report, and the possibility of these transactions igniting media hype effecting resentment and consternation from United States taxpayers, the Commander of NORAD/US NORTHCOM should suspend use of these funds until he is satisfied that adequate internal controls have been established.

## Management Comments on the Finding and Audit Response

**Management Comments.** Management nonconcurred that ORF were being misused. Although they agreed that a negative perception could be conveyed by the historical lack of documentation, internal controls and documentation significantly improved immediately following the audit period examined. The current process is functioning very well.

**Audit Response.** Although NORAD/US NORTHCOM agreed that documentation was lacking, the failure to admit any misuse of ORF suggests that they did not take the findings in our report seriously. Because our report covered only a specific period of time, we do not know how the current process is working.

## Recommendations, Management Comments, and Audit Response

**B.1. We recommend that the Commander of North American Aerospace Defense Command/United States Northern Command;**

**a. Take immediate action to suspend use of Official Representation Funds until adequate internal controls have been established to prevent misuse.**

**Management Comments.** NORAD/US NORTHCOM nonconcurred and stated that the audit failed to account for changes and improvements since the audit period examined, and suspension would have a negative effect upon critical operations. Several program changes and changes of personnel in key positions have taken place, and the J8 has developed guidance and instruction on ORF management.

**Audit Response.** Although management nonconcurred with the recommendation, changing key positions and issuing new guidance appear to satisfy the intent of the recommendation.

**b. Require the Comptroller, Judge Advocate, and the Protocol Officer to base approval of events using official representation funds based on the guidance in Chairman of the Joint Chiefs of Staff Instruction 7201.01A, Appendix B to the enclosure.**

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**Management Comments.** NORAD/US NORTHCOM concurred and stated that problems in the past have been recognized and corrected and it is now clear to each ORF representative in the Comptroller, Judge Advocate, and Protocol offices of their responsibility to ensure every request for ORF meets the requirements of the Instruction.

**c. Provide specific guidance concerning the spending limitations for meals and alcoholic beverages when using official representation funds.**

**Management Comments.** NORAD/US NORTHCOM concurred and stated that Command has developed expenditure guidelines that provide a number of considerations that must be reviewed prior to approval of funds. The policy also provides funding limitation suggestions on meal and alcohol costs for each event. Specific justification is required if suggested costs are exceeded.

**B.2. We recommend that the Command Staff Protocol Administrative Office;**

**a. Ensure that all applicable requirements of DoD Directive 7250.13 and Chairman of the Joint Chiefs of Staff Instruction 7201.01A are met prior to approving official representation events.**

**Management Comments.** NORAD/US NORTHCOM concurred and stated that the Command Protocol Office is not the approving official for ORF. However, the Commander NORAD/US NORTHCOM has authorized specific individuals to approve ORF expenditures. The Protocol office will check to ensure that all requests are in accordance with the guidance in the Joint Chief of Staff Instruction.

**Audit Response.** The NORAD/US NORTHCOM comments were responsive. However, it should be noted that there are five signatures in the approval process of an ORF event, and three of those signatures are from the Command Protocol Office. The signatures are for the Protocol Director, Deputy Director, and the Protocol Specialist. Therefore, the Command Protocol Office does have responsibility in approving the use of ORF.

**b. Document the DoD-wide implications and benefits of the requested representation event on each staff summary sheet.**

**Management Comments.** NORAD/US NORTHCOM concurred and stated that in the past, it was assumed that the "Purpose Statement" met the requirement for justifying why the request was necessary. However, they now provide a clear justification statement for each request.

**c. Reconcile the total expenditures to the authorized amount immediately following each official representation event.**

**Management Comments.** NORAD/US NORTHCOM concurred and stated that the Command Protocol policy now requires that all ORF expenditures be reconciled no later than 5 days following an event. If more time is required, this must be reported to the Director and the Protocol ORF manager.

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**B.3. We recommend that the Government Purchase Card approving official for Official Representation Funds;**

**a. Reconcile purchase card transactions with Official Representation Fund staff summary sheets prior to approving payment to ensure the prevention and detection of unauthorized purchases by requiring that;**

- **items purchased correspond with the type of event being held,**
- **dates on receipts correspond with the event dates, and**
- **receipt amounts agree with authorized amounts on the staff summary sheet with an explanation of all overages.**

**Management Comments.** NORAD/US NORTHCOM concurred and stated that the J8 ORF manager, Command Protocol manager, and the Protocol GPC approving official meet monthly to review all ORF requests, purchases, and receipts to ensure that expenditures agree with amounts authorized, and if they do not agree, justification is provided.

**Audit Response.** The NORAD/US NORTHCOM comments are responsive. A record of the monthly meetings should be maintained in the Command Protocol Office of action items for future reference.

**b. Reject all items purchased unless an official need is documented, and take appropriate disciplinary action when necessary.**

**Management Comments.** NORAD/US NORCOM concurred and stated that no “authorized” [*sic*] purchases will be approved, and appropriate actions will be taken.

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## Appendix A. Scope and Methodology

We acquired from data mining a universe of 12,344 purchase card transactions valued at \$5.17 million made by 205 NORAD/US NORTHCOM cardholders during the 18 month period ending March 31, 2005. We applied business rules to determine transactions that were high risk based on dollar amount, date of purchase, vendor, and other indicators of possible GPC misuse. Applying these business rules, the population was reduced to 1,490<sup>1</sup> transactions with a total value of \$2.51 million. The 1,490 transactions were associated with 46 cardholders, and after further analysis we determined there were potentially high risk transactions associated with 29 of these cardholders. We reviewed all of the 3,690 transactions associated with the 29 cardholders. We conducted field work from June 20, 2005, through October 7, 2005, at Peterson Air Force Base, Cheyenne Mountain Operations Center (both are located in Colorado Springs, Colorado), and Joint Task Force-North at Fort Bliss, El Paso, Texas. Also, we selected transactions and interviewed related approving officials, cardholders, contracting personnel and other NORAD/US NORTHCOM employees. In addition, we evaluated the Management Control Program to assess effectiveness within the GPC Program.

We also identified and reviewed all 202 purchase card transactions associated with 54 official representation events initiated by the Command Staff Protocol Administrative Office during October 1, 2003, to March 31, 2005. Transactions were selected and the cardholder and approving official were interviewed. We also evaluated internal controls at the Command Staff Protocol Administrative Office with respect to the ORF to assess effectiveness within the GPC Program.

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

**Use of Computer-Processed Data.** We received computer-processed data for NORAD/US NORTHCOM from the DoD Office of Inspector General, Data Mining Directorate. During the review, we established reliability by comparing the data to source documentation such as receipts, pre-approval, reconciliation, purchase waiver, etc. The comparison disclosed that data were sufficient to support the conclusions. However, we did not perform any formal reliability assessment of the computer-processed data.

**Government Accountability Office High-Risk Area.** The GAO has identified several high-risk areas in DoD. This report provides coverage of a Defense Financial Management high-risk area.

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<sup>1</sup> While reviewing these transactions, we found 100 percent of the documentation missing for five cardholders. Therefore, we included these transactions in our totals for missing or insufficient documentation.



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## Appendix B. Prior Coverage

During the last 5 years the GAO, Department of Defense Inspector General, and the Air Force Audit Agency have issued 18 reports discussing the Department of Defense Purchase Card Program. Unrestricted Government Accountability Office reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted IG DoD reports can be accessed at <http://www.dodig.mil/audit/reports>.

### GAO

Report No. GAO-04-156, "Purchase Cards: Steps Taken to Improve DoD Program Management but Actions Needed to Address Misuse," December 2004

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

Report No. GAO-03-292, "Purchase Cards: Control Weaknesses Leave the Air Force Vulnerable to Fraud, Waste, and Abuse," December 2002

Report No. GAO-02-1041, "Purchase Cards: Navy is Vulnerable to Fraud and Abuse but is Taking Action to Resolve Control Weaknesses," September 2002

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

Report No. GAO-02-506T, "Purchase Cards: Continued Control Weaknesses Leave Two Navy Units Vulnerable to Fraud and Abuse," March 2002

Report No. GAO-02-32, "Purchase Cards: Control Leave Two Navy Units Vulnerable to Fraud and Abuse," November 2001

### DoD Inspector General

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

Report No. D-2004-096, "Controls Over Purchase Cards at Naval Medical Center San Diego," June 29, 2004

Report No. D-2004-076-T, "How to Save the Taxpayers Money Through Prudent Use of the Purchase Card," April 28, 2004

Report No. D-2004-016, "Purchase Card Use at the Space and Naval Warfare Systems Command, Information Technology Center, New Orleans, Louisiana," November 14, 2003

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Report No. D-2004-002, "Selected Purchase Card Transactions at Washington Headquarters Services and Civilian Personnel Management Service," October 16, 2003

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

Report No. D-002-075, "Controls Over the DoD Purchase Card Program," March 29, 2002

Report No. D-2002029, "Summary Report: DoD Purchase Card Program Audit Coverage," December 27, 2001

**Air Force Audit Agency**

Air Force Report No. F2003-0002-FC3000, "Memorandum Report: Joint Purchase Card Project," December 2, 2002

Air Force Report No. F2002-0006-C06400, "Air Force Purchase Card Program," August 6, 2002

Air Force Report No. F2004-0007-FC3000, "Air Force Government Purchase Card Internal Controls," September 9, 2001

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## Appendix C. Purchase Card Irregularities by Component

Component	Missing Documentation	Unauthorized Purchases	Abusive Purchases	Improper Transactions	Total
Command Staff	4	-	5	10	19
Command Protocol	9	-	-	2	11
Legal Advisor	-	-	-	1	1
Chaplain's Office	-	-	-	1	1
Cheyenne Mountain Operations Center	1	6	-	12	19
Standing Joint Forces HQ North	41	-	-	37	78
J-2 Intelligence	11	-	-	11	22
J-4 Logistics	-	-	-	1	1
J-6 Architectures & Integration	371	27	-	5	403
J-8 Programs & Resources	3	-	-	-	3
Total Transactions	440	33	5	80	558

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## **Appendix D. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense for Acquisition, Technology, and Logistics  
Director, Acquisition Resources and Analysis  
Under Secretary of Defense (Comptroller)/Chief Financial Officer  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)  
Director, Program Analysis and Evaluation

### **Joint Staff**

Director, Joint Staff

### **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  
Commander, 21<sup>st</sup> Space Wing  
Commander, 21<sup>st</sup> Contracting Squadron

### **Combatant Commands**

Commander, North American Aerospace Defense Command and United States  
Northern Command

### **Non-Defense Federal Organization**

Office of Management and Budget

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## **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



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# North American Aerospace Defense Command and United States Northern Command Comments



**NORTH AMERICAN AEROSPACE DEFENSE COMMAND  
AND  
UNITED STATES NORTHERN COMMAND**



16 Aug 2006

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

FROM: Chief of Staff, NORAD and USNORTHCOM  
250 Vandenberg Street, Ste B016  
Peterson AFB CO 80914-3801

SUBJECT: DoD IG Draft Audit Report, Report on Management of the Purchase Card  
Program at North American Aerospace Defense Command and United  
States Northern Command

1. The subject draft audit report has been reviewed and comments are attached which address Government Purchase Card Program findings at NORAD and USNORTHCOM.
2. Questions should be directed to CDR Grant Brigger, NC/IGI, at DSN 692-4052, commercial (719) 554-4052 or via the N-NC/IG at (719) 556-6352.

// Signed //  
PAUL J. SULLIVAN  
Major General, USAF  
Chief of Staff

Attachment  
Response to IG Audit Report

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**DoD IG Audit Report on Management  
of the Government Purchase Card Program at  
North American Aerospace Defense Command and United States  
Northern Command**

**FINDING A:** Cardholders made unacceptable purchases. Approving officials who were required to monitor these purchases approved them without adequate scrutiny. The A/OPC (21CONS) task is to train the cardholders and approving officials, and to conduct surveillances to verify that procedures are implemented effectively. However, the approving officials' lack of involvement combined with the ineffective training and surveillances resulted in a breakdown of internal controls for the GPC program at NORAD and USNORTHCOM.

**N-NC Response: Concur.**

**RECOMMENDATIONS:**

A.1. We recommend that the Commander of North American Aerospace Defense Command and United States Northern Command:

a. Modify the position descriptions of approving officials for the Purchase Card Program to include a critical element to reflect responsibilities associated with the program.

b. Take disciplinary action against cardholders and approving officials who do not follow the requirements in Air Force Instruction 64-117.

**N-NC Response to Recommendation to A.1.a.:** N-NC will work with 21st Contracting Squadron to improve training and surveillance on the GPC program. The recommendation to modify position descriptions could be applicable to civilian positions, especially with the inception of National Security Personnel System (NSPS), but needs an adequate parallel for military personnel holding the responsibility. N-NC will look for an appropriate tool to provide that parallel, and will consider adding this critical element to appropriate positions.

**N-NC Response to Recommendation to A.1.b.:** On a case by case basis, considering chain of command and Staff Judge Advocate recommendations, N-NC will consider the spectrum of appropriate corrective actions.

**GOVERNMENT PURCHASE CARD IRREGULARITIES:**

a. Purchase Card Documentation:



(1) Finding. "Supporting documentation for 441 transactions totaling \$310,423 was missing from the files of the approving officials for 7 of the 10 Components reviewed."

(2) Comment. **N-NC Concurs.**

(3) Action. Rectifying each situation will be handled on a case by case basis. Internal controls requiring proper documentation are being reiterated and are expected to be maintained and audited.

b. Improper Purchases:

(1) Finding. "AFI 64-117 requires authorization from the base visual information manager before purchasing visual information products. However, cardholders in the Command Staff, Command Protocol, and Cheyenne Mountain Operations Center circumvented this required internal control by purchasing visual equipment, totaling \$8,204, without the required authorization. Eight of ten Components lacked pre-authorization for purchases over the \$2,500 threshold amount. AFI 64-117 requires that all GPC purchases exceeding \$2,500 be reviewed by the A/OPC. However, 12 cardholders made purchases exceeding \$2,500 without obtaining required approval. For example, a cardholder in the Cheyenne Mountain Operations Center did not obtain required approval for the purchase of two document shredders for \$7,529. In addition, seven cardholders in five of ten Components split 11 purchases into 58 transactions to circumvent the established \$2,500 micro-purchase limit."

(2) Comment. **N-NC partially concurs with the Finding.** Lack of documentation suggests improper purchases may have occurred, but cardholders who are still present in the command stated that they did get some type of authorization prior to making purchases, but failed to document the approval properly. In rare instances, split purchases might be necessary when conducting operations.

(3) Action. Rectifying each situation will be handled on a case by case basis, and in many cases it has already been accomplished. Cardholders/approving officials are required to obtain authorization in accordance with AFI 64-117, paragraph 2.2, for those transactions.

c. Unauthorized Purchases:

(1) Finding. "AFI 64-117 does not permit the use of a GPC to pay cable television services and recurring purchases that exceed \$2,500 annually. However, a cardholder in the J-6 Component used a GPC to pay monthly cable bills for NORAD and USNORTHCOM totaling \$19,577 for the 18-month period reviewed. Furthermore, four cardholders at the Cheyenne Mountain Operations Center purchased five televisions, totaling \$7,199, including two 42" plasma screens totaling \$5,370. According to the approving official, an inventory listing with serial number does not exist. We were unable to verify the government use and location of the televisions."

(2) Comment. **N-NC concurs that a GPC cardholder must have approval from the A/OPC in order to purchase services or recurring services that exceed \$2500 annually.** It is important to realize that the services referenced were lumped and paid by a single point of contact in order to minimize administrative efforts and to support the necessary assets throughout the command.

(3) Action. Rectifying each situation will be handled on a case by case basis. Inventory records are a tool being considered as part of the remedy.

d. Abusive Purchases:

(1) Finding. "A NORAD/US NORTHCOM staff member used a GPC to pay \$910 for services to clean glass on conference room tables. A company specializing in high-rise window cleaning was hired for \$65 per hour to clean the table glass. The staff member hired this company despite the fact that this service is already covered in the existing janitorial contract."

(2) Comment. **N-NC does not concur.** The subject glass cleaning of conference room tables is not covered in the existing janitorial contract.

(3) Action. We will support review by the 21st Contracting Squadron. Appropriate response will be considered following the review.

**LACK OF INTERNAL CONTROLS:**

a. Training:

(1) Finding. "The initial training provided by the A/OPC to new cardholders and approving officials is inadequate."

(2) Comment. **N-NC concurs.** Training for personnel can be improved.

(3) Action. N-NC will work with 21st Contracting Squadron to achieve better results and maintain appropriate records.

b. Approving Officials:

(1) Finding. "Use of approving officials should be an important facet of the internal control program in identifying and reporting cardholder misuse. AFI 64-117 requires approving officials to maintain GPC documentation for cardholders whose accounts have been closed because they have been reassigned, transferred, or retired. However, as previously stated, two approving officials from the J-2 and J-6 components had no purchase documentation for 382 transactions from 5 cardholders, totaling \$215,383."

(2) Comment. **N-NC concurs.** Accounts which have been closed, regardless of reason, have not been properly transferred or retired.

(3) Action. N-NC will work with 21st Contracting Squadron to address findings and deficiencies found during routine surveillances conducted during the preceding year.

c. Surveillance:

(1) Finding. "At the 21st Contracting Squadron, the A/OPC, the surveillance manager, and the assistant A/OPC provided GPC program oversight to the approving officials and cardholders of NORAD/US NORTHCOM. Surveillance is the backbone of the internal controls for the GPC program. However, the surveillance manager conducted inconsistent and inadequate surveillances, and did not always detect deficiencies found during surveillances. In addition, surveillance was not conducted during a 4-month period during our 18-month review. The A/OPC used a checklist for guidance in conducting surveillances. The checklist was completed and attached to a memorandum providing a summary of the surveillance. We identified instances where the memorandums and checklists did not correlate. For example, the A/OPC noted two discrepancies on a surveillance memorandum; however, surveillance checklists included no discrepancies. Completed checklists did not document the specific transactions reviewed or the time period for which the review was conducted. In addition, the checklist did not identify the cardholder being reviewed. The A/OPC did not detect a segregation of duties breach in two instances where cardholders performed the approving officials' duties. Both of the segregation of duties deficiencies went undetected despite the fact that self-inspection was clearly indicated on the checklists. The inability of the A/OPC to adequately complete the surveillance process is a breakdown in internal controls, leaving NORAD/US NORTHCOM vulnerable to fraud, waste, and abuse. Surveillances were suspended for 4 months during the 18-month period we reviewed because the surveillance manager position was vacant. The A/OPC was a temporary GS-11 position not to exceed 1 year. During the vacancy, surveillances were not performed, and the indefinite suspension was announced via email."

(2) Comment. **N-NC concurs.** Surveillance must be improved.

(3) Action. N-NC will work with 21st Contracting Squadron to achieve better surveillance and help monitor for inconsistencies.

3. **FINDING B:** "Operational Representation Funds (ORF) were being misused because of the lack of management oversight, the lack of proper review by authorizing officials, and the lack of specific guidance. Misuse of ORF violates DoD regulations. Although the ORF regulations allow the use of appropriated funds for alcoholic beverages and entertainment, reasonable limitations for event type and cost should be instituted. Because of the questionable, unauthorized, and abusive transactions documented in this report, and the possibility of these transactions igniting media hype

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effecting resentment and consternation from United States taxpayers, the Commander of NORAD-USNORTHCOM should suspend use of these funds until he is satisfied that adequate internal controls have been established.

**Response: N-NC does not concur.** Although N-NC agrees that a negative perception could be conveyed by the historical lack of documentation, internal controls and documentation were significantly improved immediately following the audit period examined. The current process is functioning very well.

**RECOMMENDATIONS:**

B.1. Recommendations for the Commander of North America Aerospace Defense Command-United States Northern Command:

**a. Suspend use of ORF**

(1) Recommendation: Take immediate action to suspend use of Official Representation Funds until adequate internal controls have been established to prevent misuse.

(2) Comment: **N-NC does not concur.** This audit fails to account for changes and improvements since the audit period examined, and suspension would have a negative effect upon critical operations.

(3) Action: We agree that discrepancies were found in the ORF program during the period of 1 October 2003 to 31 March 2005; however, we believe the administrative discrepancies discovered do not warrant the suspension of the ORF program. The ORF program has undergone change in several key areas of leadership and administrative practices and this has greatly improved the ORF process. The following key positions have changed:

Change of Command in November 2004 - New Commander and philosophy

New NC Deputy Commander in June 2004 - Former Army IG, familiar with ORF

New Protocol ORF manager in July 2004 - New "set-of-eyes" greater attention to detail

New Director of Protocol March 2005 - Years of ORF experience - Another new "set-of-eyes"

The N-NC Directorate of Programs, Resources, and Analysis (J8), Comptroller Division is, in keeping with the CJCSI 7201.01A, the proponent for the Command ORF Program. In conjunction with the N-NC JA and the N-NC CP, J8 has developed guidance and instruction on ORF Management.

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Because of these changes and the fact that all discrepancies noted occurred prior to the actions above, we believe significant improvements have been made and the program in place is IAW all prescribing directives; therefore, there is no requirement to suspend the current program.

**b. Base approval of ORF events IAW CJCSI 7201.01A**

(1) Recommendation: Require the Comptroller, Judge Advocate, and the Protocol Officer to base approval of events using official representation funds based on the guidance in Chairman of the Joint Chiefs of Staff Instruction (CJCSI) 7201.01A, Appendix B to the enclosure.

(2) Comment: **N-NC concurs.**

(3) Action: During the inspection period it was discovered that Staff Summary Sheets requesting ORF were being routed and approved without a clear "Justification" being provided as recommended in the CJCSI. This discrepancy has been corrected and now all ORF request are IAW the CJCSI. It is clear to each ORF representative in the Comptroller, Judge Advocate, and Protocol offices that it is their responsibility to ensure every ORF request meets all requirements of CJCSI 7201.01A.

**c. Spending limitations for meals and alcoholic beverages**

(1) Recommendations: Provide specific guidance concerning the spending limitations for meals and alcoholic beverages when using official representations funds.

(2) Comment: **N-NC concurs.**

(3) Action: Department of Defense Directive 7250.13 states:

The use of ORF shall be monitored closely to ensure that expenditures made for official hosted functions in connection with official events comply with socially acceptable mores of American society and that the policy objectives of the United States and interest of the U.S. taxpayer jointly are served.

This DoD policy (socially acceptable mores of American society) provides the ORF user with a very wide range, however, the ORF user works with a very wide range of guests. It is very clear that the cost for a dinner event for the President of a foreign country would be considerably higher than for the Director of a defense agency. The policy allows the local Commander the authority to make the proper decision.

However, to ensure the interest of the United States and the interest of the U.S. taxpayer are jointly served, the Command has developed a ORF Expenditure Guidelines that provides a number of considerations that must be reviewed prior to approval of funds. This policy also provides funding limitation suggestions on meal and alcohol costs that are considered for each event. These costs are suggested



guidelines, if the need arises to exceed the suggested cost, it must be justified in the request.

**B.2. Recommendations for the Command staff Protocol Administrative Office:**

**a. Ensure all requests are IAW DoD 7250.13 and CJCSI 7201.01A prior to approval.**

(1) Recommendation: Ensure that all applicable requirements of DoD Directive 7250.13 and Chairman of the Joint Chiefs of Staff Instruction 7201.01A are met prior to approving official representation events.

(2) Comment: **N-NC concurs.**

(3) Action: The Command Protocol Office is not the approving official for ORF. The Commander has authorized, in writing, the following individuals to approve ORF expenditures.

Deputy Commander, USNORTHCOM	\$10,000 and below
Chief of Staff, USNORTHCOM	\$10,000 and below
Deputy Chief of Staff, USNORTHCOM	\$5,000 and below

The ORF approval process is clear and concise at NORAD and USNORTHCOM. The requestor of ORF funds (in most cases Protocol) will develop a request IAW CJCSI 7201.01A and forward it to the J8. The J8 office will review the request for compliance with the CJCSI and ensure that funds are available. The request is then forwarded to the N-NC/JA office whose primary responsibility is to ensure the request is IAW the CJCSI, particularly to ensure the guests are authorized ORF recipients. The request is forwarded to the Protocol office. Protocol checks to ensure the request is IAW the CJCSI and to ensure mementos are available, if required. After the request is coordinated with each of these directorates, it is then forwarded to the proper level for approval.

**b. Document the DoD-wide implications and benefits of the request**

(1) Recommendation: Document the DoD-wide implications and benefits of the requested representation event on each staff summary sheet.

(2) Comment: **N-NC concurs.**

(3) Action: It was discovered the request for ORF approval did not contain a clear "Justification" describing why the request was necessary. It was correctly assumed that the "Purpose Statement" met this requirement. A clear "Justification" statement is now provided for each request.

**c. Reconcile expenditures immediately**

(1) Reconcile the total expenditures to the authorized amount immediately following each official representation event

(2) Comment: **N-NC concurs.**

(3) Action: Command Protocol policy is that all ORF expenditures should be reconciled NLT 5 duty days following an event. If more time is required this must be reported to the Director and Protocol ORF manager.

**B.3. Recommendations for the GPC approving official for ORF**

**a. Reconcile GPC transactions with ORF request prior to approving payment.**

(1) Recommendation: Reconcile purchases card transactions with Official Representation Fund staff summary sheets prior to approving payment to ensure the prevention and detection of unauthorized purchases by requiring that:

Items purchased correspond with the type of event being held

Dates on receipts correspond with event dates

Receipt amounts agree with authorized amounts on the staff summary sheet with an explanation of all overages.

(2) Comment: **N-NC concurs.**

(3) Action: Currently, the J8 ORF manager, the Command Protocol manager and the Protocol GPC approving official for ORF meet monthly to discuss and review the following:

A complete review of all ORF requests since the last meeting

Review all receipts, dates, and purchases made to ensure they correspond with event

Review all receipts to ensure agreement with amounts authorized or justification is provided, if required, prior to payment approval

The monthly meeting is very helpful for training, identifying administrative errors, and opening lines of communication.

**b. Reject all unauthorized purchases and take appropriate actions**

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(1) Recommendation: Reject all items purchased unless an official need is documented, and take appropriate disciplinary action when necessary.

(2) Comment: **N-NC concurs.**

(3) Action: No authorized ORF GPC purchases will be approved and appropriate actions will be taken.



## **Team Members**

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