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Government Purchase Card Controls at DOD Schools in Japan

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Acronyms

DoDEA	Department of Defense Education Activity
DSO	District Superintendent's Office
DTO	District Transportation Office
FAR	Federal Acquisition Regulation



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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ARLINGTON, VIRGINIA 22202-4704

November 8, 2007

MEMORANDUM FOR DIRECTOR, DOD EDUCATION ACTIVITY

SUBJECT: Report on the Audit of the Government Purchase Card Controls at DoD
Schools in Japan (Report No. D-2008-013)

We are providing this report for your information and use. No written response to this report was required, and none was received. Therefore, we are publishing this report in final form.

We appreciate the courtesies extended to the staff. Questions should be directed to James L. Kornides at (614) 751-1400, ext. 211 or Mr. John K. Issel at (614) 751-1400, ext. 212. See Appendix B 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, appearing to read "Paul J. Granetto".

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

Department of Defense Office of Inspector General

Report No. D-2008-013

November 8, 2007

(Project No. D2007-D000FJ-0038.001)

Government Purchase Card Controls at DoD Schools in Japan

Executive Summary

Who Should Read This Report and Why? DoD Education Activity managers, purchase cardholders, and approving officials should read this report because it discusses the administration and management controls for the Japan District Government Purchase Card Program.

Background. The DoD Office of Inspector General is required by Title 10, United States Code Section 2784 to perform periodic audits to identify potentially fraudulent, improper, and abusive uses of purchase cards; any patterns of improper card holder transactions; and categories of purchases that should be made by means other than purchase cards.

The Department of Defense Education Activity-Pacific Area Government Purchase Card Program includes an Area headquarters office in Okinawa and school districts in Korea, Okinawa, Japan, and Guam. This report includes our review of the Japan District. Japan District cardholders incurred about 3,900 transactions worth over \$1.8 million in charges against their purchase cards for the period of review. A Government Purchase Card can be used as a method of procurement or a method of payment.

Results. Controls over the use of the Government Purchase Card by the Japan District were effective for the majority of the transactions we reviewed. We examined 135 Government Purchase Card transactions (valued at \$225,788.36) at the Japan District and found only minor discrepancies. The school district generally complied with applicable DoD and DoD Education Activity regulations governing use of the Government Purchase Card for the transactions we sampled.

Our review of the Japan District Government Purchase Card Program related to the 135 transactions did not identify any material management control weaknesses. See the Background section of the report for the discussion of our review of internal controls.

Management Comments. We provided a draft of this report on September 19, 2007. No written response was required, and none was received. Therefore we are publishing this report in final form.

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Background

The DoD Office of Inspector General is required by Title 10, United States Code Section 2784 to perform periodic audits of the DoD Government Purchase Card Program to identify:

- (A) potentially fraudulent, improper, and abusive uses of purchase cards;
- (B) any patterns of improper card holder transactions, such as purchases of prohibited items; and
- (C) categories of purchases that should be made by means other than purchase cards in order to better aggregate purchases and obtain lower prices.

Use of the Government Purchase Card. The Government Purchase Card is the preferred method to purchase and to pay for micro-purchases, according to the Federal Acquisition Regulation (FAR) 13.2, “Actions At or Below the Micro-Purchase Threshold.” Use of the Government Purchase Card as a procurement and payment tool for micro-purchases is also defined in FAR 13.301, “Government-wide Commercial Purchase Card.” FAR 2.101 “Definitions,” September 28, 2006, defines a micro-purchase as an acquisition of supplies or services that is made using simplified acquisition procedures that are available for purchases that do not exceed a given micro-purchase threshold. The micro-purchase threshold amount during our period of review was \$2,500, and it increased to \$3,000 in September 2006. The new threshold does not affect the results of this audit. For purchases made outside the United States, the threshold is \$25,000. Also, the Government Purchase Card may be used as an ordering and payment mechanism for orders above the micro-purchase threshold. When used as an ordering and payment mechanism, contractors may bill against the card. When the order is delivered, the contractor directly bills the purchase card account instead of issuing an invoice to the agency.

DoD Education Activity. The DoD Education Activity (DoDEA) is a field activity under the Under Secretary of Defense for Personnel and Readiness. DoDEA operates schools throughout the world and provides education for students from preschool through grade 12 for eligible dependents of Armed Forces members and Federal government civilians.

DoDDS-Pacific. DoDEA has three administrative areas:

- DoD Dependents Schools, Pacific, and DoD Domestic Dependent Elementary and Secondary Schools, Guam;
- DoD Dependents Schools, Europe; and
- DoD Domestic Dependent Elementary and Secondary Schools, and DoD Dependents Schools, Cuba.

We reviewed purchase card use in the Pacific Area, which includes three overseas school districts (Japan, Korea, and Okinawa) and a domestic school district (Guam). The Pacific Area headquarters is located at Torii Station, Okinawa, Japan. The Japan District headquarters is on Yokota Air Base, Japan.

Objectives

Our audit objective was to assess whether use of the Government Purchase Card at Department of Defense Education Activity-Pacific was in compliance with applicable laws and regulations. This report addresses the Japan District portion of the audit. We also reviewed management controls over use of the purchase card. See Appendix A for a discussion of the scope and methodology and Appendix A for prior coverage related to the objectives.

Review of Internal Controls

Japan District internal controls over the use of its Government Purchase Cards were generally effective as they applied to our audit objective. Our review of 135 Government Purchase Card transactions disclosed no material internal control weaknesses.

Controls Over the Use of the Government Purchase Card - Japan District

The transactions we reviewed showed that the Japan District effectively managed its Government Purchase Card Program. We examined 135 purchase card transactions, which included 25 transactions from a District Superintendent's Office (DSO) cardholder, 100 transactions from cardholders at 5 of the district's schools, and 10 transactions from 2 District Transportation Office (DTO) cardholders. The total value of the 135 transactions was \$225,788.36. Except for a few minor instances, we concluded that the cardholders in our sample complied with applicable DoD and DoDEA purchase card regulations. Our review of the purchase card transactions did not identify any material internal control weaknesses.

Control Environment

Cardholders and Approving Officials. The Japan DSO, four schools and the DTO are physically located on Yokota Air Base. An additional 17 schools are located on other military bases in Japan. The DSO had two cardholders and one approving official, the Chief of Logistics. The approving official for each school was physically located at the school, and the approving official was either the principal or an assistant principal of that school.

We reviewed the internal control environment for the Japan District. Specifically, we tested the following key elements.

Span of Control. The "Department of Defense Government Charge Card Guidebook for Establishing and Managing Purchase, Travel, and Fuel Card Programs," January 20, 2006 (DoD Government Charge Card Guidebook), requires that not more than seven cardholders exist for each approving official. The Japan District span of control was appropriate. In each school, the cardholder was the supply technician, and the approving official was either the principal or an assistant principal. The DSO had two cardholders, and the approving official was the District Chief of Logistics. The DTO had five cardholders, and the approving official was the District Transportation Supervisor.

Training. Properly trained individuals are necessary for a successful Government Purchase Card Program. According to the DoD Government Charge Card Guidebook, the agency program coordinator is responsible for establishing, maintaining, and monitoring purchase card training. The DoDEA "Government Purchase Card Training Guide," August 2005, requires three mandatory training courses for participants in its Government Purchase Card Program. The three courses were the "Government Purchase Card Tutorial," "Micro-purchases and Section 508," and locally developed training offered by the Pacific Area APC. This last training requirement is focused on DoDEA-wide policies and procedures and any unique requirements for Pacific Area cardholders and approving officials.

The Japan District cardholders and approving officials in our sample were current in their training requirements. We reviewed the training file and other documents

for seven of the eight cardholders in our sample and for the seven approving officials in our sample. We found that they were all current in their training requirements. We did not review training records for the eighth cardholder in our sample because the individual was no longer a current cardholder. We reviewed the training records only for the cardholders and approving officials in our sample. We did not review any training records for alternate approving officials or alternate cardholders.

Purchasing and Reviewing Authorities. The DoD Government Charge Card Guidebook considers support from the highest management levels to be a strong management control. The approving official for the DSO was the Chief of Logistics. The approving official for each of the Japan District schools was either the principal or the assistant principal of the school. The approving official at the DTO was the District Transportation Supervisor. The Chief of Logistics, school principals, and the transportation supervisor are senior managers in the District. High-level management was appropriately involved in the oversight of the Government Purchase Card Program.

Annual Reviews. The DoDEA training guide requires that agency program coordinators in the local area perform annual reviews of its Government Purchase Card Programs. The Pacific Area agency program coordinator conducted the reviews for the Japan District, and his reviews identified some minor concerns at the schools and the DSO. These effective reviews showed that the Pacific Area agency program coordinator has appropriate oversight of the Government Purchase Card Program for the Japan District.

Separation of Duties. Maintaining the proper separation of duties is a mandatory management control. The DoD Government Charge Card Guidebook states that key duties such as making purchases, authorizing payments, certifying funding, and reviewing and auditing functions should be assigned to different individuals to minimize the risk of loss to the government. At the DSO and the five Japan District schools, the cardholders were often the requestors for purchases. However, because the school's purchase cardholder was also the supply technician, these occurrences were not unexpected. For the 135 transactions tested, the Chief of Logistics, the transportation supervisor, or the school's principal or an assistant principal approved the purchases and affirmed that the purchases were proper.

Purchase Card Transaction Results

We examined 135 purchase card transactions from the DoDEA Japan District to assess compliance with applicable guidance. The 135 transactions included 25 transactions from the DSO cardholders and 100 transactions from the cardholders at five of the district's schools. We also reviewed 10 transactions from the DTO.

For each of these transactions, we verified whether it satisfied the following four attributes of a valid purchase card transaction:

Determination of a Legitimate Government Purchase. We determined whether each purchase transaction was a legitimate government purchase by reviewing either DoDEA Form 8052, "Request for Approval Prior to Government Purchase Card Purchase" or the DoD Dependents Schools-Pacific "Government

Purchase Card Pre-Approval Purchase Form.” We were not always able to determine the legitimacy of the purchases by the forms alone and were required to conduct follow-up interviews with Japan District cardholders for purchases we considered questionable. For example, we questioned the purchase of food items from the commissary. The cardholder explained that the food was required by the home economics teacher for her home economics class. We also questioned the repair of a “scooter.” The “scooter” was actually a small truck used by the school to transport cargo, equipment and other items.

Japan District cardholders were required to obtain prior approval from the approving official before making a credit card purchase. Approving officials approved all sampled purchase transactions from the Japan District.

Independent Receipt and Acceptance. We found that cardholders were the requestors for 56 of the purchase transactions in our sample. However, because each school’s cardholder was the supply technician, this was not unexpected. In addition, cardholders made over-the-counter purchases. We consider purchasing and receiving goods to be part of a cardholder’s normal duties. The Japan District mitigated the potential adverse effects of not having independent receipt and acceptance with compensating management and reconciliation controls. These included prior approval by the approving official for all purchases made, reconciliation of the cardholder’s monthly statements, and periodic reviews by the DoDDS Pacific Area Headquarters office.

Cardholder Reconciliation. Cardholders are required to reconcile their monthly statements. U.S. Bank provides monthly statements to cardholders and approving officials. Our audit disclosed that all monthly statements reviewed were appropriately reconciled.

Approving Official Review. DoDEA regulations require approving officials to pre-approve purchase card transactions and to review and sign the monthly statements. Our audit disclosed that all monthly statements were reviewed and approved, with one exception. An approving official did not sign one cardholder’s reconciled monthly statement. However, the approving official had reviewed the purchases on the approving official’s copy of the monthly statement. As such, we considered the failure to sign this individual cardholder’s statement to be an unintentional oversight, and not a recurring problem or internal control weakness.

Conclusion

Japan District internal controls over the use of its purchase cards were generally effective. Our review of 135 purchase card transactions revealed proper compliance with applicable regulations and no material internal control weaknesses.

Appendix A. Scope and Methodology

We conducted this performance audit from March through September 2007 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The audit assessed whether DoD Education Activity Department of Defense Dependent Schools-Pacific, Japan District use of the Government Purchase Card was in compliance with applicable laws and regulations. We also reviewed the management's internal control program over use of the purchase card.

We judgmentally selected 135 purchase card transactions, valued at \$225,788.36, made by cardholders in the Japan District. The transactions we selected covered the period September 1, 2005 through August 30, 2006. During this period, the Japan District had a total of 3,900 purchase card transactions, valued at \$1.8 million. The 135 transactions included 25 transactions from the Japan District Superintendent's Office and 100 transactions from 5 of the district's schools. We also reviewed 10 transactions from the District Transportation Office. Because we used judgmental sampling techniques to select the transactions for our review, we have not made statistical projections.

To perform this audit, we examined documents at the Japan District Superintendent's Office and District Transportation Office on Yokota Air Base. The documents examined included purchase card requests, vendor invoices or receipts, purchase card logs, receiving reports, U.S. Bank purchase card monthly statements, training documents, and other documents as needed for each of our sample items.

Use of Computer-Processed Data. We did not evaluate the controls of the U.S. Bank system that processes purchase card transactions. The Defense Manpower Data Center obtained purchase card information from U.S. Bank and provided it to the DoDIG Data Mining Division. The DoDIG Data Mining Division then provided the data to us. We assessed the data reliability by comparing the transaction data provided to us to source documents in the transaction files. Source documents included vendor invoices and monthly statements from U.S. Bank. The lack of an evaluation of the controls over computer-processed data did not affect the results of the audit.

Use of Technical Assistance. The DoDIG Data Mining Division assisted with the audit by providing us with the DoDEA-Pacific purchase card transactions.

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

Prior Coverage

During the last 5 years, Department of Defense Inspector General (DoD IG) issued 3 reports discussing DoD Education Activity government purchase card programs. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports/index.html>

DoD Inspector General

Report No. D-2008-001, “Government Purchase Card Controls at DoD Schools in Korea,” October 11, 2007

Report No. D-2007-092, “Government Purchase Card controls at DoD Schools on Okinawa,” May 8, 2007

Report No. D-2005-006, “Overseas Purchase Card Transactions by DoD Dependents Schools-Europe,” October 20, 2004

Appendix B. Report Distribution

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