

# Inspector General

United States  
Department of Defense



## Government Purchase Card Controls at DoD Schools in Guam

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### **Acronyms**

DoDDS	Department of Defense Dependents School
DoDEA	Department of Defense Education Activity
DSO	District Superintendent's Office
FAR	Federal Acquisition Regulation



INSPECTOR GENERAL  
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October 24, 2007

MEMORANDUM FOR DIRECTOR, DOD EDUCATION ACTIVITY  
DIRECTOR, DEPARTMENT OF DEFENSE DEPENDENTS  
SCHOOL - PACIFIC  
DISTRICT SUPERINTENDENT, GUAM DISTRICT

SUBJECT: Report on Government Purchase Card Controls at DoD Schools in Guam  
(Report No. D-2008-004)

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 Mr. James L. Kornides at (614) 751-1400, ext. 211 or Mr. John K. Issel at (614) 751-1400, ext. 212. See Appendix C for the report distribution. The team members are listed inside the back cover.

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## Department of Defense Office of Inspector General

**Report No. D-2008-004**

**October 24, 2007**

(Project No. D2007-D000FJ-0038.003)

### **Government Purchase Card Controls at DoD Schools in Guam**

#### **Executive Summary**

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

**Background.** Title 10, United States Code Section 2784 requires the DoD Inspector General to perform periodic audits to identify: potentially fraudulent, improper, and abusive uses of purchase cards; any patterns of improper cardholder transactions; and categories of purchases that should be made by means other than a purchase card.

The Department of Defense Education Activity - Pacific Area Purchase Card Program includes its headquarters office in Okinawa and its school districts in Okinawa, Japan, Korea, and Guam. For this report, we reviewed only the Guam District. Guam cardholders incurred approximately \$460,000 in charges against their purchase cards for the period of review, September 1, 2005 through August 30, 2006.

**Results.** For the transactions we reviewed, we found that the Guam District effectively managed its Government Purchase Card Program. We examined 85 Government Purchase Card transactions (valued at a total of \$77,112) and found only minor discrepancies. The school district generally conformed to applicable DoD and DoD Education Activity regulations governing use of the Government Purchase Card for the transactions we sampled.

The DoD Education Activity - Guam District's controls were adequate. We identified no material weaknesses in the administration of the Government Purchase Card Program. See the results of our internal control assessment in the "Review of Internal Controls" section on page 2.

**Management Comments.** We provided a draft of this report on August 23, 2007. No written response to this report 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, "Management of Purchase Cards," January 19, 2004, to perform periodic audits of the DoD Purchase Card Program to identify:

- (A) potentially fraudulent, improper, and abusive uses of purchase cards;
- (B) any patterns of improper cardholder transactions, such as purchases of prohibited items; and
- (C) categories of purchases that should be made by means other than a purchase card 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 Federal Acquisition Regulation (FAR) 13.2, "Actions At or Below the Micro-Purchase Threshold," March 22, 2007. FAR 13.301, "Government-wide Commercial Purchase Card," March 22, 2007 defines the use of the purchase card as a procurement and payment tool for micro-purchases. FAR 2.101 "Definitions," August 26, 2005 describes a "micro-purchase" as an acquisition of supplies or services in which the aggregate amount does not exceed \$2,500, except for construction, where the limit is \$2,000. When used as an ordering and payment mechanism, contractors may bill against the card. The vendor directly bills the purchase card account, rather than issuing an invoice to the agency.

**DoD Education Activity.** The DoD Education Activity (DoDEA) is a subordinate field activity of the Under Secretary of Defense for Personnel and Readiness. DoDEA operates two distinct school systems: DoD Dependents Schools (DoDDS) and DoD Domestic Dependent Elementary and Secondary Schools. DoDEA operates schools throughout the world and provides education from preschool through grade 12 for eligible dependents of Armed Forces members and Federal Government civilians.

**DoDDS-Pacific.** DoDEA has three areas: DoDDS-Pacific, DoDDS-Europe, and DoD Domestic Dependent Elementary and Secondary Schools. We are reviewing purchase card use in the Pacific Area, which includes three overseas school districts (Okinawa, Japan, and Korea) and a domestic school district (Guam). The Pacific area headquarters is located at Torri Station, Okinawa, and the Guam District headquarters is located at Agana Heights, Guam.

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## **Objectives**

Our overall 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 Guam District portion of the audit. See Appendix A for a discussion of the scope and methodology. See Appendix B for prior coverage related to the objectives.

## **Review of Internal Controls**

Guam District internal controls over the administration of its purchase cards were adequate as they applied to our audit objective. Our review of 85 purchase card transactions disclosed no material internal control weaknesses.

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## Controls over the Use of the Government Purchase Card - Guam District

The transactions we reviewed showed that the Guam District effectively managed its Government Purchase Card Program. We examined 85 purchase card transactions: 25 transactions from the District Superintendent's Office (DSO) cardholders and 60 transactions from cardholders at the district's four schools. The total value of the 85 transactions was \$77,112. Except for a few minor instances, we concluded that the Guam District complied with applicable DoD and DoD Education Activity (DoDEA) regulations concerning use of the Government Purchase Card. Our review of the purchase card transactions did not identify any material internal control weaknesses.

### Cardholders and Approving Officials in Guam

The DSO and three of its schools each had one primary and one alternate authorized cardholder. The remaining school had only one authorized cardholder. All four schools each had one primary and one alternate approving official on site, and in every case the approving official was either the principal or assistant principal of the school. The DSO had one primary and one alternate approving official; both were located at the DSO.

### Review of Internal Controls

We reviewed the internal control environment for the Guam 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, requires that not more than seven cardholders exist for each approving official. We found that the Guam District span of control was appropriate, with two approving officials (one primary and one alternate) for each primary cardholder. We also found that the cardholder's approving official worked in the same school. In each school, the cardholder was the supply technician, and the approving official was either the principal or an assistant principal. The DSO had one primary cardholder, and the approving official was the assistant superintendent. We concluded that the Guam District had an appropriate span of control.

**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 overseeing and tracking training of all purchase card program participants. The DoDEA publication, "Government Purchase Card Training Guide," August 1, 2005, requires three mandatory training courses for participants in its Government

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Purchase Card Program. The three courses are: the Defense Acquisition University Online Government Purchase Card Tutorial; Section 508 training; and DoDEA-unique training for agency program coordinators.

Guam District cardholders and approving officials met the training requirements. We reviewed each cardholder's and approving official's training file and found that Guam District cardholders and approving officials were current in their training.

**Purchasing and Reviewing Authorities.** The DoD Government Charge Card Guidebook considers support from the highest level of management to be a strong internal control. The approving official at each of the Guam District schools was either the principal or the assistant principal of the school. The approving official for the DSO was the assistant superintendent. The assistant superintendent and principals are the highest management officials within the Guam District. High-level management was appropriately involved in the oversight of the Government Purchase Card Program.

**Annual Reviews.** DoDEA Regulation 8000.1 "Use of the Government-wide Commercial Purchase Card," February 18, 2005, requires that program coordinators perform annual audits of their Government Purchase Card Programs. In 2007 the agency program coordinator conducted the reviews for the Guam District. The reviews of each of the schools and the DSO identified some minor areas of concern. These effective reviews showed that the Pacific Area agency program coordinator has appropriate oversight of the Government Purchase Card Program for the Guam District.

**Separation of Duties.** Maintaining the proper separation of duties is a mandatory internal control. The DoD Government Charge Card Guidebook states that key duties such as making purchases, authorizing payments, certifying funding, and reviewing and auditing functions will be assigned to different individuals to minimize the risk of loss to the Government. In the Guam District, documents showed that duties were properly separated between the purchasing, approving, funding and auditing functions.

## Purchase Card Transaction Results

We reviewed 85 purchase card transactions from the DoDEA Guam District to assess compliance with applicable laws and regulations. The 85 transactions included 25 transactions by the DSO and 15 transactions at each of the district's four schools.

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

**Determination of a legitimate Government purchase.** We determined whether each transaction was a legitimate Government purchase by reviewing either DoDEA Form 8052, "Request for Approval Prior to Government Purchase Card Purchase" or DoD Dependents Schools Pacific "Government Purchase Card Pre-Approval Purchase Form." Guam District cardholders were required to obtain

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prior approval from the approving official before making a credit card purchase. Appropriate officials approved all of the 85 sampled transactions from the Guam District. Our sample was designed to select some unusual purchases which may not have been a legitimate use of the purchase card. However, our review found that each of the purchases was appropriate. For example, we reviewed the rental of a tour bus that was used for 17 days. The assistant superintendent of the schools explained that the bus was used to meet the immediate needs of a special education student who was new to the school. The school's existing buses were not able to accommodate the student. Once the district officials identified the problem and satisfied the immediate need, they issued a transportation contract to obtain Americans with Disabilities Act-compliant transportation for the student. This purchase was appropriate based on the student's needs and was adequately documented.

**Independent receipt and acceptance.** Generally, we found that district cardholders adhered to the requirement for independent receipt and acceptance, but we found exceptions to this control. We found that the cardholder was also the requestor for five of the transactions in our sample. However, because the school's cardholder was also the supply technician, these occurrences were not unexpected. In addition, the cardholder made many purchases at the vendor's location. It is normal for the cardholder to receive purchased items at the point of sale because the items are paid for and received immediately. As such, independent receipt and acceptance are not expected. In all cases, the purchases satisfied a legitimate need, were appropriately approved and were accounted for.

**Physical control and accountability over pilferable and other vulnerable property.** At each school, we tested and verified the existence of items from the sampled transactions that we considered to be pilferable property, including digital cameras and office equipment. The schools in the Guam District had implemented sufficient controls to maintain accountability over those types of pilferable property. School officials responsible for the property issued the items to teachers through a hand receipt system. We were able to physically verify all sampled pilferable property at each school and the DSO.

**Cardholder reconciliation.** Cardholders are required to reconcile and approve 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 and approved.

**Approving official review.** Approving officials are required to pre-approve purchase card transactions. Approving officials are also required to review and sign the monthly statements. We did not find any exceptions to this requirement for the 85 reviewed transactions and the associated cardholder monthly statements.

## Conclusion

Guam District internal controls over the use of its Government Purchase Card Program were effective. Our review of 85 purchase card transactions revealed proper compliance with applicable regulations and no material internal control weaknesses.

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## Appendix A. Scope and Methodology

We conducted this performance audit 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 DoDEA-Pacific, Guam District's use of the Government Purchase Card was in compliance with applicable laws and regulations. We also reviewed internal controls over the purchase card program.

We judgmentally selected 85 purchase card transactions from the Guam District. We selected this sample from transactions made during the period of September 1, 2005 through August 30, 2006. During this period, the Guam District had 1,016 purchase card transactions, totaling approximately \$460,000. The 85 transactions included 25 transactions from the Guam District Superintendent's Office and 15 transactions from each of the 4 Guam District schools.

To perform this audit, we examined documents at the Guam District Superintendent's Office on the Naval Hospital Annex in Guam. The documents we 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. Additionally, we visited each of the four schools in our sample to verify the existence of property purchased and interviewed cardholders and approving officials as needed.

We performed this audit from October 2006 through August 2007. We used judgmental sampling techniques to select the transactions for our review; as a result we have not made statistical projections. Additionally, the scope of our audit was limited in that we did not review the management control program.

**Use of Computer-Processed Data.** We did not evaluate the controls of the U.S. Bank system that processes purchase card transactions. The DoDIG Data Mining Division provided the purchase card data to us. We assessed data reliability by comparing the transaction data provided to source documents in the transaction files. These 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 provided 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 DoD financial management high-risk area.

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## Appendix B. Prior Coverage

During the last 5 years, the Government Accountability Office (GAO) and the Department of Defense Inspector General (DoD IG) have issued 15 reports discussing the use of Government Purchase Cards. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>.

### GAO

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

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

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

### DoD IG

Report No. D-2007-043, "Controls Over the Army, Navy, and Air Force Purchase Card Programs," January 10, 2007

Report No. D-2006-124, "Management of the Purchase Card Program at the North American Aerospace Defense Command and United States Northern Command," September 28, 2006

Report No. D-2006-099, "Purchase Card Program Controls at Selected Army Locations," July 21, 2006.

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

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

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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

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



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## **Appendix C. Report Distribution**

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

Under Secretary of Defense for Acquisition, Technology, and Logistics  
Director, Purchase Card Joint Program Management Office  
Under Secretary of Defense (Comptroller)/Chief Financial Officer  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)  
Under Secretary of Defense for Personnel and Readiness  
Director, DoD Education Activity  
Director, Department of Defense Dependents School – Pacific  
District Superintendent, Guam District

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Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Homeland Security and Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Oversight and Government Reform  
House Subcommittee on Government Management, Organization, and Procurement,  
Committee on Oversight and Government Reform  
House Subcommittee on National Security and Foreign Affairs,  
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