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Acronyms

APC	Agency Program Coordinator
DoDDS	Department of Defense Dependents Schools
DoDEA	Department of Defense Education Activity
FAR	Federal Acquisition Regulation
GPC	Government Purchase Card
IG	Inspector General
MCC	Merchant Category Code
OIG	Office of Inspector General



INSPECTOR GENERAL
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March 10, 2008

MEMORANDUM FOR DIRECTOR, DOD EDUCATION ACTIVITY
DIRECTOR, DOD DEPENDENTS SCHOOLS-EUROPE

SUBJECT: Report on Government Purchase Card Controls at Headquarters, DoD
Dependents Schools-Europe (Report No. D2008-062)

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 (614) 751-1400, ext. 212. See Appendix B for the report distribution. The team members are listed inside the back cover.

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Report No. D-2008-062
(D2007-D000FJ-0180.000)

March 10, 2008

Government Purchase Card Controls at Headquarters, DoD Dependents Schools-Europe

Executive Summary

Who Should Read This Report and Why? DoD Education Activity cardholders, billing officials, and approving officials should read this report because it discusses the administration and internal controls for the DoD Dependents Schools European Government Purchase Card Program.

Background. The DoD Dependents Schools-Europe headquarters includes an area office in Wiesbaden, Germany, and a procurement office in Mainz-Kastel, Germany. For this report, we reviewed transactions from both the area office and the procurement office. Headquarters cardholders incurred \$37,196,492.62 in charges against their purchase cards for the period of review, March 1, 2006, through April 29, 2007. A Government Purchase Card can be used either as a method of procurement or as a method of payment.

Results. For the transactions we reviewed, Headquarters, DoD Dependents Schools-Europe effectively managed its Government Purchase Card Program. Our audit of the purchase card transactions did not identify any material internal control weaknesses. We reviewed 163 transactions (valued at \$8,561,833.09) and, except for one transaction, all the transactions were proper, legal, and reasonable, and satisfied a bona fide need. One purchase transaction had a discrepancy; however, the DoD Dependents Schools-Europe agency program coordinator identified the improper purchase, and management took appropriate action to correct it prior to our review. See the Background section of the report for a discussion of the review of internal controls.

Management Comments. We provided a draft of this report on December 6, 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 (OIG) is required by section 2784, title 10, United States Code 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 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.

Government Purchase Card. The General Services Administration SmartPay program provides purchase cards to Federal employees to make official Government purchases.

The Government Purchase Card (GPC) is the preferred method to order and to pay for micro-purchases, according to Federal Acquisition Regulation (FAR) 13.2, “Actions At or Below the Micro-Purchase Threshold.” Use of the purchase card as a procurement and payment tool for micro-purchases is also outlined in FAR 13.301, “Governmentwide Commercial Purchase Card.”

FAR 2.101, “Definitions,” September 28, 2006, defines a micro-purchase as “an acquisition of supplies or services using simplified acquisition procedures” that are available for purchases that do not exceed a given micro-purchase threshold. The micro-purchase threshold during our period of review was initially \$2,500. The threshold was increased to \$3,000 in September 2006. The increased threshold did not affect the results of our review. For purchases made outside the United States, the GPC single purchase limit is \$25,000. Defense Federal Acquisition Regulation Supplement 213.301, “Governmentwide commercial purchase card,” February 12, 2007, allows cardholders to make a purchase that exceeds the micro-purchase threshold but does not exceed \$25,000 for purchases made outside the United States for use outside the United States.

The GPC 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 subordinate field activity of the Under Secretary of Defense for Personnel and Readiness. 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.

DoD Dependents Schools Europe. For this report, we reviewed internal controls and GPC transactions at the area and procurement offices at Headquarters, DoD Dependents Schools (DoDDS) Europe . The area office is located in Wiesbaden, Germany. Its cardholders use their purchase cards to acquire goods and services. The procurement office is located in Mainz-Kastel, Germany. Its cardholders primarily use their purchase cards as a method of payment for contracts.

Objectives

Our audit objective was to assess whether the use of GPC at Headquarters, DoDDS-Europe was in compliance with applicable laws and regulations. We also reviewed management controls over the use of the GPC. See Appendix A for a discussion of the scope and methodology.

Review of Internal Controls

The Headquarters, DoDDS-Europe internal controls over the use of its GPC were adequate. Our review of 163 purchase card transactions disclosed no material internal control weaknesses.

Controls Over the Use of the Government Purchase Cards at Headquarters, DoDDS-Europe

Headquarters, DoDDS-Europe effectively managed its GPC Program. We examined a total of 163 purchase card transactions (50 area office transactions valued at \$118,940.26 and 113 procurement office transactions valued at \$8,442,892.83). Our review of the 163 purchase card transactions did not identify any material internal control weaknesses. All the transactions except for one were proper, legal, and reasonable, and satisfied a bona fide need. One purchase transaction had a discrepancy; however, the DoDDS-Europe agency program coordinator (APC) identified the improper purchase, and management took appropriate action. Therefore, the Headquarters, DoDDS-Europe GPC Program complied with applicable DoD and DoDEA regulations governing the use of the GPC.

Purchase Card Transactions

From March 2006 through April 2007, Headquarters, DoDDS-Europe had 2,328 purchase card transactions valued at \$37,196,492.62. Headquarters, DoDDS-Europe consisted of two offices: an area office and a procurement office.

Area Office Transactions. From the universe of 1,058 purchase card transactions (valued at \$1,088,995.11) from area office cardholders, we judgmentally selected 50 transactions for review as shown in Table 1.

Table 1. DoDDS-Europe Area Office Sample Transactions		
Area Office	Transactions Reviewed	Transactions Dollar Value
Director's Office	5	\$ 10,236.47
Education Division	10	30,013.73
Human Resources Division	10	6,968.02
Information Technology	10	47,983.68
Logistics Division	10	11,544.29
Resource Management Office	5	12,194.07
Total	50	\$118,940.26

Procurement Office Transactions. From the universe of 1,270 purchase card transactions (valued at \$36,107,497.51), we judgmentally selected 113 transactions for review as shown in Table 2. We made our selections based on either a transaction merchant category code (MCC) or a contractor, based on volume of purchase card payments to a particular contractor.

Table 2. DoDDS-Europe Procurement Office Sample Transactions		
Sample Group (MCC or Contractor)	Transactions Reviewed	Transactions Dollar Value
Sample Groups With Multiple Merchants		
Car rentals	8	\$ 54,237.10
Convenience checks	4	5,496.62
Educational services	9	127,332.01
Finance charges	4	109.94
Hotels	11	447,670.69
Tours	3	670,413.60
Transportation	3	492,341.83
Single Merchant Sample Groups		
Broadland Guarding	35	2,306,623.77
GTSI	17	3,825,409.20
Naval Exchange Rota	6	2,874.30
Pacific Star	4	422,215.00
Side Bar	2	31,838.40
Sun Fund	2	14,654.37
Tampa Bay Academy	4	39,267.00
Wenger	1	2,409.00
Total	113	\$8,442,892.83

Purchase Card Controls

For the 163 purchase card transactions selected for review, we determined whether the transactions were legitimate and whether purchases had the required pre-approvals. Additionally, we evaluated the overall control environment for both the area and procurement offices. Our audit criteria was taken from the “Department of Defense Government Charge Card Guidebook for Establishing and Managing Purchase, Travel, and Fuel Card Programs,” January 20, 2006, (DoD Charge Card Guidebook) and “Department of Defense Education Activity Government Purchase Card Users Manual,” August 15, 2005, (DoDEA GPC Users Manual). Specifically, we tested the following key requirements.

Legitimate Government Transaction. The DoD Charge Card Guidebook requires cardholders to ensure that all purchase card purchases are proper, legal, and reasonable, and satisfy a bone fide need. The DoD Charge Card Guidebook also specifies that approving officials are responsible for ensuring that their cardholders’ transactions are legal, proper, mission essential, and correct in accordance with governmental rules and regulations. Additionally, the DoDEA GPC Users Manual lists the key steps in making a purchase using the GPC. A key step is for the cardholder to obtain prior approval from the approving official

before the cardholder makes a purchase. Cardholders are required to submit a completed DoDEA Form 8052, "Request For Approval Prior to GPC Purchase," to the approving official for approval and signature. DoDEA Form 8052 includes a block for the cardholder to describe the products or services to be purchased.

Area Office. To determine whether the 50 area office GPC transactions were legitimate, we reviewed either the DoDEA Form 8052 or an alternate form (that is, "DoDDS Governmentwide Commercial Purchase Card Purchase Request-Approval-Documentation-Reporting Form") that was being used by one of the cardholders. The documents we reviewed contained sufficient evidence for us to conclude that all but one of the transactions were legitimate and had the required pre-approvals. The DoDDS-Europe APC had already identified the one transaction that had a discrepancy, and management had taken appropriate corrective action (additional details provided in the discussion of DoDEA GPC Inspections).

Procurement Office. To determine whether the 113 procurement office GPC transactions were legitimate, we reviewed the contract's statement of work for the description of the goods or services. We also reviewed related contract file documentation such as contractor invoices, receiving reports, and authorization for payment letters. For further clarification, we discussed the contract and GPC payment with the cardholder and the APC. The documentation we reviewed contained sufficient evidence for us to conclude that all 113 transactions were legitimate.

In addition to determining the legitimacy of each GPC payment, we verified that each contract reviewed had the required payment clause. The DoDEA GPC Users Manual requires that "FAR 52.232-36 Payment by Third Party (May 1999)" be included in the contract if the GPC is used as a method of payment. The contracts in our sample had the third-party clause in the contract, were modified to include this clause, or had "payment by a Visa card" notated in the payment block (block 18A) of Standard Form 1449, "Solicitation/Contract/Order For Commercial Items."

Purchase Logs. The DoD Charge Card Guidebook requires cardholders to maintain either an electronic or a manual log for each purchase card transaction. We verified that each of the 17 cardholders selected for review maintained purchase logs and complied with DoD policy. As part of our review of the individual transactions, we verified that the cardholders entered each purchase transaction in their respective purchase log.

Bank Statement Reconciliation, Review, and Approval. The DoD Charge Card Guidebook requires cardholders to reconcile their bank statements to their purchase logs. The cardholders are also required to forward their reconciled bank statements to their approving official for review. The approving official is required to approve or reject each transaction for each of their cardholders and to certify the bank statements as legal, proper, and correct.

As part of our review of the 163 GPC transactions, we reviewed the related monthly bank statements. We determined that the 17 responsible cardholders reconciled their bank statements against their purchase logs, forwarded the

statements to their approving official, and the approving official certified each of the monthly statements as reviewed and approved them by signing the statements.

Span of Control. The DoD Charge Card Guidebook indicated that the DoD standard for the span of control is a ratio of not more than seven cardholders for each approving official.

We determined that the span of control for Headquarters, DoDDS-Europe was appropriate by reviewing its organizational charts. For example, the education section of the area office had two approving officials and four cardholders. The procurement office had two branches. The chief of each branch was the approving official. One branch had four cardholders and the other branch had two cardholders.

Training. The DoDEA GPC Users Manual requires all Government Purchase Card Program participants to complete three mandatory training courses before they are issued a letter of appointment. The three mandatory courses are:

- Defense Acquisition University on-line course titled “Government Purchase Card Tutorial;”
- on-line Section 508 compliance training titled “Micro-purchases and Section 508;” and
- DoDEA APC-unique training, which includes DoDEA-wide policies and procedures and any special requirements for the region.

We reviewed the cardholder and approving official training files maintained by the APC. Our review of the training files for 6 of the 17 cardholders and their responsible approving officials showed that they were current in their training. Therefore, we concluded that the cardholders met their training requirements and the APC monitored the training.

DoDEA GPC Inspections. The DoDEA GPC Users Manual requires APCs to evaluate (inspect) the effectiveness, viability, and success of its GPC programs. Our review of the Headquarters, DoDDS-Europe APC schedule of inspections showed that she planned for and effectively conducted required GPC inspections. To illustrate, before our review, she had already identified the one GPC transaction in our sample that was improper and had taken appropriate corrective action.

The DoD Charge Card Guidebook defines an improper purchase as a transaction intended for Government use but is not permitted by law, regulation, or organization policy. One transaction in our sample, a purchase of light refreshments, appeared to be improper. The DoDEA GPC Users Manual states that the Comptroller General has held that agencies may not use appropriated funds to pay for light refreshments for business meetings conducted by Government agencies at an employee’s duty station.

The improper GPC transaction in our sample was an agreement entered between a DoDDS-Europe cardholder and a hotel at the duty station to rent a conference

room and to provide light refreshments for the meeting participants. During the all-day meeting, the participants (including the GPC approving official) ate lunch at the hotel's restaurant. The APC discovered the improper purchase in February 2007 while inspecting the cardholder's GPC transactions. Because the approving official approved the purchase of light refreshments and lunch in conjunction with the meeting, the APC recommended that the approving official reimburse the Government for the improper purchase of refreshments and meals in the amount of \$172.52. The approving official reimbursed the U.S. Treasury in April 2007.

Conclusion

Headquarters, DoDDS-Europe internal controls over the use of its purchase cards were generally effective. Our review of 163 GPC transactions and the overall control environment revealed proper compliance with applicable regulations and no material weaknesses.

Appendix A. Scope and Methodology

We conducted this performance audit from June 2007 through December 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.

We judgmentally selected a total of 163 purchase card transactions from Headquarters, DoDDS-Europe area and procurement offices for review. The area office is located in the American Arms Office Tower, Wiesbaden, Germany, and the procurement office is located in Mainz-Kastel, Germany.

Area Office Transactions. We judgmentally selected 50 transactions (valued at \$118,940.26) made by area office cardholders. Our sample included 49 purchase transactions and 1 rebate transaction. We selected these transactions from a universe of 1,058 transactions valued at \$1,088,995.11. The transactions covered the period March 1, 2006, through April 29, 2007. We reviewed transactions from cardholders from each of the area office subordinate work areas: Information Technology, Education, Logistics, Human Resources, Resource Management, and the Director's office.

Procurement Office Transactions. We judgmentally selected 113 payment transactions (valued at \$8,442,892.83) made by procurement office cardholders. Our sample included 98 contract payment transactions, 2 convenience checks, 2 foreign drafts, 4 financial transactions (related to the use of convenience checks and foreign drafts), and 7 duplicate charges or credits for the duplicate charges (to ensure that any duplicate charges were corrected). We selected these transactions from a universe of 1,270 transactions valued at \$36,107,497.51. These transactions covered the period March 1, 2006, through April 27, 2007.

To perform this audit, we reviewed documents for the purchase and payment transactions at the Headquarters, DoDDS-Europe procurement office. We reviewed purchase card requests, contracts, authorization for payment letters, vendor invoices or receipts, purchase card logs, receiving reports, U.S. Bank purchase card monthly statements, and other documents as needed for each sample item. We interviewed the APC and other officials involved with the Headquarters, DoDDS-Europe GPC Program.

Use of Computer-Processed Data. We neither evaluated the general and application controls of the U.S. Bank system that processes purchase card transactions and cardholder and approving official data nor did we evaluate the general and application controls of Defense Manpower Data Center. The Defense Manpower Data Center obtains purchase card information from U.S. Bank and provides it to the DoD OIG Data Mining Division. The DoD OIG Data Mining Division then provided the data to us. We determined data reliability by comparing the data provided to us with source documents. Source documents

included vendor invoices and monthly statements from U.S. Bank. Not evaluating the controls did not affect the results of the audit.

Use of Technical Assistance. The DoD OIG Data Mining Division assisted with the audit. The DoD OIG Data Mining Division provided us with the Headquarters, DoDDS-Europe purchase card transactions and lists of cardholders and approving officials.

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, the Department of Defense Inspector General (IG) issued five reports discussing DoDEA Government Purchase Card Programs. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports/index.html>.

DoD IG

DoD IG Report No. D-2008-013, “Government Purchase Card Controls at DoD Schools in Japan,” November 8, 2007

DoD IG Report No. D2008-004, “Government Purchase Card Controls at DoD Schools in Guam,” October 24, 2007

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

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

DoD IG 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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