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PURCHASE CARDS

Steps Taken to Improve DOD Program Management, but Actions Needed to Address Misuse



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Highlights of [GAO-04-156](#), a report to congressional committees

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Why GAO Did This Study

This study responds to a legislative mandate, which directs the Comptroller General to review the actions taken by the Department of Defense (DOD) to implement provisions included in the Bob Stump National Defense Authorization Act for fiscal year 2003 (Public Law 107-314) concerning management of the purchase card program. This study also discusses DOD efforts to implement provisions in the DOD Appropriations Act for fiscal year 2003 (Public Law 107-248) as well as recommendations and the status of disciplinary actions taken against individuals identified in prior GAO reports as having used the government purchase card for potentially fraudulent, improper, and abusive or questionable purposes.

What GAO Recommends

This report provides the Congress with status of actions taken, and recommends that the military services monitor whether the disciplinary guidelines established in response to the fiscal year 2003 Bob Stump National Defense Authorization Act are properly implemented. DOD was pleased that the report recognized the department's efforts to address previously cited managerial and internal control deficiencies. DOD did not comment on GAO's recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-04-156.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gregory Kutz, (202) 512-9505, or kutzg@gao.gov.

What GAO Found

DOD has initiated actions to implement all of the requirements in the National Defense Authorization Act for fiscal year 2003 and the DOD Appropriations Act for fiscal year 2003. While it has largely completed revamping its policies and other requirements, it still had considerable work to complete in order to implement managerial and oversight mechanisms, such as strategic sourcing, monitoring, and auditing. However, to implement the legislative requirement that DOD evaluate credit worthiness prior to issuing a purchase card, DOD is allowing cardholders to self-certify their credit worthiness rather than conducting credit checks on cardholders, as is typically done in the private sector.

DOD started actions to implement nearly all of the 109 GAO recommendations, some of which may closely relate to the legislative provisions. DOD and the military services have taken disciplinary actions against cardholders whom a court of law determined had fraudulently used their purchase cards. They have also started to educate cardholders and approving officials on the proper use of the purchase card.

The military services have not taken strong disciplinary actions against cardholders GAO identified as making improper and abusive or questionable purchase card acquisitions. The military services determined that many of these purchases did not directly violate existing policies. Consequently, the services modified these policies to provide a basis for disciplinary actions for similar purchases in the future.

Disciplinary Actions Taken for Improper and Abusive or Questionable Purchases

Improper and abusive or questionable transactions	Air Force			Total
	Army	Navy	Air Force	
Number of transactions GAO identified	34	59	27	120
Value of transactions (in thousands)	\$999	\$1,103	\$961	\$3,062
Fired	0	0	0	0
Suspended from work	0	0	0	0
Repay for cost of improper charge	1	0	2	3
Give item to government	0	0	6	6
Written reprimand	2	0	0	2
Verbal reprimand	1	1	1	3
Credit card revocation	1	4	2	7
Credit card suspension	1	0	0	1
Required to take training	8	20	11	39
Questionable but authorized by service policy	0	0	3	3
Still under investigation/review	0	3	0	3
No action taken	27	36	5	68

Source: Responses provided by the Army, Navy, and Air Force.

Note: Total actions taken exceed transactions identified because multiple actions were taken for some transactions.

Contents

Letter	1
Results in Brief	2
Background of the Purchase Card Program	4
DOD Has Taken Actions to Implement the Requirements of Public Laws 107-314 and 107-248	9
Status of Our Recommendations to Improve Purchase Card Operations	12
Conclusions	16
Recommendations for Executive Action	16
Agency Comments and Our Evaluation	16

Appendixes

Appendix I: Objectives, Scope, and Methodology	19
Appendix II: Status of Army Actions to Implement GAO Recommendations	21
Appendix III: Status of Navy Actions to Implement GAO Recommendations	25
Appendix IV: Status of Air Force Actions to Implement GAO Recommendations	37
Appendix V: Comments from the Department of Defense	47
Appendix VI: GAO Contacts and Staff Acknowledgments	49
GAO Contacts	49
Acknowledgments	49

Tables

Table 1: Number and Value of Fiscal Year 2002 Purchase Card Transactions	4
Table 2: Legislative Mandates in the Fiscal Year 2003 National Defense Authorization and DOD Appropriations Acts	8
Table 3: Sample Schedule of Potential Charge Card Offenses and Remedies/Penalties	11
Table 4: Status of Recommendations Made to the Military Services to Improve the Management of the Purchase Card Program	12
Table 5: Disciplinary Actions Taken Against Cardholders	14

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Congressional Committees

In the past few years, the use of purchase cards has dramatically increased as federal agencies have sought to eliminate the lengthy process and paperwork long associated with making small purchases. The Department of Defense (DOD), in particular, accounts for a large percentage of the federal government's purchase card use. For fiscal year 2002, DOD reported that an average of about 207,000 cardholders used purchase cards to make about 11 million transactions at a cost of nearly \$7 billion. In prior years, the DOD purchase card program at DOD has not been well managed. As we stated in various testimonies¹ and reports² issued between July 2001 and December 2002, significant breakdowns in internal controls over the Army, Navy, and Air Force management of the purchase card program left the services vulnerable to fraud, waste, and abuse. To address the issues identified, we made over 100 recommendations targeted at improving the design and implementation of controls over card use and establishing guidelines for disciplining those who misused their government purchase cards.

In response to these concerns, the Bob Stump National Defense Authorization Act for Fiscal Year 2003 (National Defense Authorization Act), Section 1007, required DOD to improve the management of the purchase card program. As directed by the conference report³

¹U.S. General Accounting Office, *Purchase Cards: Control Weaknesses Leave Two Navy Units Vulnerable to Fraud and Abuse*, GAO-01-995T (Washington, D.C.: July 30, 2001); *Purchase Cards, Continued Control Weaknesses Leave Two Navy Units Vulnerable to Fraud and Abuse*, GAO-02-506T (Washington, D.C.: Mar. 13, 2002); *Purchase Cards: Control Weaknesses Leave Army Vulnerable to Fraud, Waste, and Abuse*, GAO-02-844T (Washington, D.C.: July 17, 2002); *Purchase Cards: Navy Vulnerable to Fraud and Abuse but Is Taking Action to Resolve Control Weaknesses*, GAO-03-154T (Washington, D.C.: Oct. 8, 2002).

²U.S. General Accounting Office, *Purchase Cards: Control Weaknesses Leave Two Navy Units Vulnerable to Fraud and Abuse*, GAO-02-32 (Washington D.C.: Nov. 30, 2001); *Purchase Cards: Control Weaknesses Leave Army Vulnerable to Fraud, Waste, and Abuse*, GAO-02-732 (Washington, D.C.: Jun. 27, 2002); *Purchase Cards: Navy Is Vulnerable to Fraud and Abuse but Is Taking Action to Resolve Control Weaknesses*, GAO-02-1041 (Washington D.C.: Sept. 27, 2002); *Purchase Cards: Control Weaknesses Leave the Air Force Vulnerable to Fraud, Waste, and Abuse*, GAO-03-292 (Washington, D.C.: Dec. 20, 2002).

³H.R. Conf. Rep. No. 107-772, at 686 (2002).

accompanying the act, this report provides a status of DOD actions to comply with the requirements of Section 1007. Additionally, this report summarizes the actions taken by the Army, Navy, and Air Force to respond to the legislative mandates in the DOD Appropriations Act, 2003. The report also provides the status of DOD efforts to implement the recommendations we made in the reports issued during fiscal years 2002 and 2003 aimed at improving the military service's management of the purchase card program. Finally, we list any action the military services took against individuals we identified in our testimonies and reports as having made or authorized potentially fraudulent, improper, abusive, or questionable purchase card transactions.

To meet the objectives of this assignment, we requested that DOD and the military services provide us with the (1) status of DOD and the military services' efforts in implementing the provisions of the National Defense Authorization Act for fiscal year 2003 and the DOD Appropriations Act, 2003, (2) status of actions taken to implement the recommendations included in the four GAO reports, and (3) administrative or disciplinary actions taken against individuals we identified as having made potentially fraudulent, improper, and abusive or questionable transactions. While DOD and the military services provided evidence documenting actions taken to improve the purchase card program and to prevent individuals and companies from further obtaining fraudulent, improper, and abusive or questionable items with a DOD purchase card, we did not make any field visits to independently validate whether DOD had effectively implemented the reported changes.

We conducted our review from June through September 2003 in accordance with U.S. generally accepted government auditing standards. We requested comments on a draft of this report from the Secretary of Defense or his designee. We received written comments from the Director of DOD's Purchase Card Joint Program Management Office, which are reprinted in appendix V. We have incorporated suggested changes as appropriate.

Results in Brief

DOD and the military services have taken positive steps to improve the controls over the purchase card program in response to requirements in the fiscal year 2003 National Defense Authorization and DOD Appropriations acts. In general, DOD has made the most progress in establishing or modifying policies and procedures and has comparatively more to do in the managerial or oversight-related areas. The only area in which actions do

not seem to embrace the intent of the laws is that DOD is allowing cardholders to self certify their credit worthiness rather than obtaining credit reports, as is typical practice in private sector companies.

As for implementing our recommendations, the military services have implemented or initiated actions to implement nearly all 109 of the recommendations we made, some of which are overall legislative requirements. The military services have issued revised purchase card policies and procedures, retrained cardholders and approving officials, and reduced the number of purchase card accounts and the credit limits on those accounts. These actions better articulate what the purchase card can and cannot be used for, and reduce the risks and financial exposure of the program. Understandably, some of the management-intensive efforts are not yet mature. The recommendations they have not yet implemented include obtaining discounts from frequently used vendors; establishing servicewide databases for data mining; investigating suspected and known fraud cases; and linking cardholders', approving officials, and agency program coordinators' performance appraisals to performance standards. The military services told us they plan on having most of the legislative provisions and our recommendations fully implemented by June 2004.

Our reports and testimonies also raised concerns about the disciplinary actions against those who misused purchase cards. In general, the efforts to date could be characterized as an all or nothing approach. We found that the military services generally took strong disciplinary actions, such as jail time for military personnel or dismissal of civilian employees, if a court of law determined fraudulent use of the purchase cards. There was little indication, however, that the military services took disciplinary actions against those who made or authorized transactions that we characterized as being improper, abusive, or questionable. According to the military services, they did not take disciplinary actions because many of the improper and abusive or questionable purchases that we identified in the reports and testimonies were not in direct violation of then existing policies and procedures. Therefore, the military services told us that rather than disciplining cardholders and approving officials, the military services modified their purchase card policies and procedures to prohibit similar purchases in the future.

This report contains three recommendations for DOD to monitor whether the disciplinary guidelines established in response to the fiscal year 2003 National Defense Authorization Act are properly implemented. In response to this report, DOD was pleased that the report recognized the

department's efforts to address previously cited managerial and internal control deficiencies. DOD did not comment on our recommendations.

Background of the Purchase Card Program

The DOD purchase card program is part of the Governmentwide Commercial Purchase Card Program, which was established to streamline federal agency acquisition processes by providing a low-cost, efficient vehicle for obtaining goods and services directly from vendors. The purchase card can be used for both micropurchases and payment of other purchases. Although most cardholders have single purchase transaction limits of \$2,500, some have limits of \$25,000 or higher. The *Federal Acquisition Regulation*, Part 13, "Simplified Acquisition Procedures," establishes criteria for using purchase cards to place orders and make payments. DOD has issued supplemental guidance to the *Federal Acquisition Regulation* that contain sections on simplified acquisition procedures.

General Services Administration (GSA) reports show that DOD used purchase cards for nearly 11 million transactions, valued at almost \$6.8 billion and representing nearly 45 percent of the federal government's fiscal year 2002 purchase card activity. According to unaudited GSA data, the Army, Navy, and Air Force made about \$2.7 billion, \$1.9 billion, and \$1.6 billion, respectively, in purchase card acquisitions during fiscal year 2002. Other DOD agencies, such as the Defense Logistics Agency and the Defense Finance and Account Service, made the remaining \$564 million in purchase card acquisitions.

Table 1: Number and Value of Fiscal Year 2002 Purchase Card Transactions

DOD component	Number of transactions (in thousands)	Cost of transactions (in millions)	Percentage of DOD purchase card costs
Army	4,553	\$2,717	40%
Navy	2,764	\$1,875	28%
Air Force	3,016	\$1,601	24%
Other DOD agencies	647	\$564	8%
Total	10,980	\$6,757	100%

Source: GSA.

The overall management of DOD's purchase card program has been delegated to the DOD Purchase Card Joint Program Management Office, which is in the Office of the Assistant Secretary of the Army for Acquisition Logistics and Technology. At each service installation, personnel in three positions—program coordinator, cardholder, and approving official—are collectively responsible for providing reasonable assurance that purchase card transactions are appropriate and meet a valid government need. The installation program coordinator is responsible for the day-to-day management, administration, and oversight of the program, including developing local operating procedures, issuing and canceling cards, and providing training to cardholders and approving officials. Cardholders—members and civilian personnel—use purchase cards to order goods and services for their units and their customers, to be picked up or delivered to themselves or to an end user. The cardholders are responsible for recording the transactions in their purchase log, obtaining documented independent confirmation that the items have been received and accepted by the government, and notifying the property book-officer of accountable items received so that these items can be recorded in the accountable property records. Approving officials, who typically are responsible for more than one cardholder, are to review cardholders' transactions and the cardholders' reconciled statements and certify the official consolidated bill for payment. Approving officials are to ensure that (1) all purchases made by the cardholders within his or her cognizance are appropriate and that the charges are accurate and (2) the monthly summary statement is certified for payment on time by the Defense Finance and Accounting Service (DFAS). DFAS relies on the approving official's certification of the monthly bill as support to make the payment.

Our Previous Findings on DOD's Purchase Card Program

Between July 2001 and December 2002, we testified four times and issued four reports highlighting a weak control environment and breakdowns in specific internal controls over the purchase card program at the Army, Navy, and Air Force. Based on statistical sampling and selected reviews of at-risk transactions we identified through data mining, we reported that these weaknesses left the purchase card program at the three services vulnerable to fraudulent, improper, and abusive purchases. The testimonies and reports we issued pointed to common weaknesses. We identified (1) a proliferation of cardholders, (2) lack of documented evidence of training of cardholders and approving officials, (3) inadequate program monitoring, and (4) lack of disciplinary actions against cardholders who abused the purchase cards. We made recommendations to each of the services for improving the purchase card program.

Proliferation of Cardholders

We reported that the proliferation of cardholders resulted in an unmanageable approving official span of control and excessive credit limits compared to historical spending. This problem originated from the fact that the services did not have specific policies governing the number of cards to be issued or criteria for identifying employees eligible for the privilege of cardholder status. Consequently, as of September 2002, the Air Force reported that it had about 77,000 purchase card accounts—translating to about 1 purchase card for every 7 employees. By contrast, the Navy, which in 2000 had 1 cardholder for every 3 employees in some of its units, had taken positive steps to reduce the number of its purchase cardholders to only about 1 cardholder for every 31 employees by September 2002. The proliferation of cardholders also resulted in a span of control problem for some approving officials. For example, at the end of fiscal year 2002, some officials at two Air Force installations had multiple job responsibilities in addition to being approving officials for more than 20 cardholders, making it difficult for them to systemically scrutinize each purchase card statement they had to certify for payment.

We also found that the credit limits on the purchase cards exceeded procurement needs. We saw little evidence that limits were set based on an analysis of individual cardholders' needs or past spending patterns. For example, at the Marine Corps, the credit limit as of March 2002 exceeded average fiscal year 2001 monthly expenditures by a ratio of 34 to 1, while at an Air Force location, the credit limit exceeded fiscal year 2001 monthly purchases by a ratio of 20 to 1. At the Army, we saw infrequently used cards that, nevertheless, had spending limits set at the maximum. In some cases, we were told that the monthly limits were based on anticipated peak spending to avoid possible limit changes. Limits that are higher than justified by the cardholder's authorized and expected use unnecessarily increase the government's exposure to fraudulent, improper, and abusive purchases. Limiting credit available to cardholders is a key factor in managing the purchase card program and in minimizing the government's financial exposure.

Inadequate Training of Cardholders and Approving Officials

We reported that cardholders, approving officials, and/or agency program coordinators did not receive adequate training necessary to carry out their responsibilities. Specifically, we found that 51 percent of the fiscal year 2001 transactions at one Air Force location, 56 percent of the transactions at the Marine Corps, and as high as 87 percent of the transactions at one Navy command, were made by cardholders or approved for payment by approving officials for whom there was no documented evidence of either initial training or refresher training at the time the transactions were made.

At the Army, cardholders received initial training, but were seldom provided refresher training as required by DOD guidance. Further, we noted that, even though the functions performed by the agency program coordinators, approving officials, and cardholders were substantially different, the training curriculum for the three positions was identical. The services did not have specific guidance or training concerning the role and responsibilities of agency program coordinators or approving officials.

Inadequate Purchase Card Program Monitoring

We reported that all of the military services needed to improve the quality of their monitoring and oversight of the purchase card program. At the time of our audits, the purchase card program offices of the military services did not systematically monitor the purchase card program. We also reported that when a military services' purchase card program office or audit agency did uncover control weaknesses or improper and abusive or questionable activity, the results of those efforts were not always used to improve program management.

Lack of Disciplinary Actions

We also noted in our reports and testimonies that individuals who misused the purchase card were not always subject to strong disciplinary action or consequences. For example, we found that cardholders who purchased and officials who authorized items with excessive cost or without documented government need, including designer brief cases, folios, and palm pilot carrying cases from Coach, Dooney and Bourke, and Louis Vuitton; personal clothing including golf shirts and ski clothing; food including beer, wine, and cigars; and Bose stereo headset and clock radios, were not disciplined for their actions. We reported that without disciplinary actions, improper, abusive, and questionable purchases like those mentioned above will likely continue.

Legislative Requirements for Improvements in the DOD Purchase Card Program

In response to the concerns we expressed about DOD's management of the purchase card program, the Congress included Section 1007 in the National Defense Authorization Act for fiscal year 2003 (Public Law 107-314) and Section 8149 in the fiscal year 2003 DOD Appropriations Act (Public Law 107-248) to require DOD to take specific actions to improve the management of the purchase card program, and in particular the weaknesses we identified. As shown in table 2, these laws limit the number of purchase cards and require DOD to train purchase card officials, monitor purchase card activity, discipline cardholders who misuse the purchase card, and assess the credit worthiness of cardholders.

Table 2: Legislative Mandates in the Fiscal Year 2003 National Defense Authorization and DOD Appropriations Acts

Defense Authorization Act	DOD Appropriation Act
Limit the number of purchase cards	
<ul style="list-style-type: none"> • Conduct periodic reviews to determine whether each purchase cardholder has a need for the purchase card. • Establish specific policies on the number of purchase cards issued by various organizations and categories of organizations, the credit limits authorized for various categories of cardholders, and categories of employees eligible to be issued purchase cards, and that those policies are designed to minimize the financial risk to the federal government of the issuance of the purchase cards and to ensure the integrity of purchase card holders. 	Limit the total number of DOD credit cards (purchase cards and travel cards) in fiscal year 2003 to not exceed 1,500,000.
Train cardholders and approving officials	
Provide appropriate training to each purchase cardholder and each official with responsibility for overseeing the use of purchase cards issued by DOD.	
Monitor purchase card program	
The Inspector General of DOD, the Inspector General of the Army, the Naval Inspector General, and the Inspector General of the Air Force perform periodic audits to identify—	
<ul style="list-style-type: none"> • potentially fraudulent, improper, and abusive uses of purchase cards; • any patterns of improper card holder transactions, such as purchases of prohibited items; and • categories of purchases that should be made by means other than purchase cards in order to better aggregate purchases and obtain lower prices. 	
Disciplining cardholders	
<ul style="list-style-type: none"> • Establish regulations that provide for appropriate adverse personnel actions or other punishment to be imposed in cases in which military and civilian employees of the DOD violate purchase card regulation or are negligent or engage in misuse, abuse, or fraud with respect to a purchase card, including removal in appropriate cases. • Provide that a violation of such regulations by a person subject to the Uniform Code of Military Justice be punishable as a violation of Article 92 of this code. 	Establish guidelines and procedures for disciplinary actions to be taken against department personnel for improper, fraudulent, or abusive use of government purchase charge cards. <ul style="list-style-type: none"> • Guidelines shall include appropriate disciplinary actions for use of charge cards for purposes, and at establishments, that are inconsistent with the official business of the department or with applicable standards of conduct. • The disciplinary actions may include— <ul style="list-style-type: none"> • review of the security clearance of the individual involved and • modification or revocation of such security clearance in light of the review.
Credit Worthiness	
<ul style="list-style-type: none"> • Evaluate the creditworthiness of an individual before issuing the individual a government purchase charge card. • Do not issue a government purchase charge card if the individual is found not creditworthy as a result of the evaluation. 	

Source: GAO analysis of the Fiscal Year 2003 National Defense Authorization Act and DOD Appropriation Act.

DOD Has Taken Actions to Implement the Requirements of Public Laws 107-314 and 107-248

During fiscal year 2003, DOD and the military services took actions to implement all of the requirements mandated by the fiscal year 2003 National Defense Authorization and DOD Appropriations acts. In several cases, although DOD and the services have issued policies and guidelines that implement the legislative mandates, sufficient time has not passed for the objective of the legislative mandate to be achieved.

Limit the Number of Purchase Cards Issued

DOD has substantially reduced the number of purchase cards issued. According to GSA records, DOD had reduced the total number of purchase cards from about 239,000 in March 2001 to about 145,000 in March 2003. DOD also informed us that it manages the gross number of purchase and travel cards in accordance with the DOD Appropriations Act, 2003. To that end, DOD had reduced the total number of purchase and travel cards to about 1.23 million, about .27 million less than the 1.5 million statutory limit. DOD also issued policy guidance on April 25, 2002, to field activities to (1) perform periodic reviews of all purchase card accounts to reestablish a continuing bona fide need for each card account, (2) cancel accounts that were no longer needed, and (3) devise additional controls over infrequently used accounts to protect the government from potential cardholder or outside fraudulent use. The policy cited as an acceptable control for infrequently used cards the reduction of the spending limit to \$1 until such time as the card is needed.

Train Cardholders and Approving Officials

To implement the requirement to train each purchase cardholder and each official with responsibility for overseeing the use of purchase cards, DOD's Defense Acquisition University has made available several on-line, self-paced purchase card courses on its Web site. The on-line curriculum included a GSA module targeted to cardholders on how to use the card responsibly, a DOD course for cardholders and billing officials on the mandatory requirements and other guidelines of the purchase card program, and a GSA module aimed at providing advanced training to agency program coordinators who have completed basic training on the purchase card program. Further, on September 27, 2002, DOD issued a memorandum requiring all cardholders, approving officials, and certifying officials to complete the training module.

Monitor Purchase Card Program

To address the requirement that the Inspectors General of DOD and the military services periodically audit the program to identify potentially fraudulent, improper, and abusive uses of the purchase cards, as well as any patterns of improper cardholder transactions, DOD indicated that its Office of Inspector General and the Navy have prototyped and are now expanding a data-mining capability to screen for and identify high-risk card transactions (such as potentially fraudulent, improper, and abusive use of purchase cards including prohibited purchases) for subsequent investigation. According to DOD, this capability will eventually be implemented across the department. In addition, on June 27, 2003, the DOD Inspector General issued a report⁴ summarizing the results of in-depth review of purchase card transactions made by 1,357 purchase cardholders. The report identified 182 cardholders who potentially used their purchase cards inappropriately or fraudulently.

With respect to the National Defense Authorization Act's requirement to use strategic sourcing (i.e., that the Inspectors General identify categories of purchases that should be made by means other than purchase cards in order to better aggregate purchases and obtain lower prices), DOD issued a memorandum on June 5, 2003, reiterating a prior decision requiring all DOD components to review fiscal year 2002 purchase card transaction files and stratify the volume of purchases by vendors. According to the memorandum, these data will be used to determine if any componentwide contracts should be established to optimize purchasing power. DOD also indicated that each of the military departments have initiated a strategic sourcing plan, contract, or Blanket Purchase Agreement (BPA) to take advantage of purchase card demand (sales volume) data. As an example, DOD said that the Army had awarded a BPA for office supplies in 2002 to address long-standing concerns over cardholder compliance with mandatory sourcing requirements. Likewise, the Air Force entered into a BPA with a large provider of office supplies and anticipates others. The Navy is expected to make similar BPA arrangements when its sales volume analysis is completed. According to DOD, the strategic sourcing initiative is still in the infancy stage, but the department is committed to expanding opportunities to leverage its purchase card purchasing power. The issue of strategic sourcing of purchase card transactions is also the subject of an audit that we initiated at the request of the Chairman and Ranking Minority

⁴Department of Defense, Office of the Inspector General, *Summary Report on Joint Review of Selected DOD Purchase Card Transactions*, D2003-109 (Washington, D.C.: June 27, 2003).

Member of the House Committee on Government Reform, Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations.

Disciplining Cardholders

With respect to establishing regulations that provide for appropriate adverse personnel actions or other punishment for misuse, abuse, or fraud with respect to purchase cards, DOD has issued disciplinary guidelines, separately, for civilian and military employees. In both updated guidelines, DOD continues to emphasize its policy that improper, fraudulent, abusive, or negligent use of a government charge card is prohibited. This includes any use of government charge cards at establishments or for purposes that are inconsistent with the official DOD business or with applicable regulations. The intent of the guide is to ensure that management emphasis is given to the important issue of personal accountability. The civilian guide has a sample range of potential charge card offenses and remedies or penalties for such offenses as shown in table 3.

Table 3: Sample Schedule of Potential Charge Card Offenses and Remedies/Penalties

Offenses	First offense	Second offense	Third offense
Unauthorized use of or failure to appropriately control use of Government Purchase Card as a cardholder, approving official responsible for use or oversight of the card.	Letter of Counseling to removal	14-day suspension to removal	30-day suspension to removal

Source: DOD memorandum.

According to the disciplinary guidelines, there is no single response for all cases. Instead, a progression of increasingly severe disciplinary measures is often appropriate in the case of minor instances of misuse, but more serious cases may warrant the most severe sanctions in the first instance. The disciplinary guide for military employees indicates that actions available when military personnel misuse a purchase or travel card include counseling, admonishment, reprimand, nonjudicial punishment (Article 15, Uniform Code of Military Justice – UCMJ), court-martial, and administrative separation. In addition to corrective disciplinary actions, military personnel who misuse their government charge cards may have their access to classified information modified or revoked if warranted in the interests of national security. These guidelines emphasized that while the merits of each case may be different, timeliness, proportionality, and the exercise of good judgment and common sense are always important.

Credit Worthiness

Finally, with regard to the requirement that DOD evaluate the credit worthiness of cardholders, DOD told us that a senior focus group consisting of acquisition, financial management, and general counsel executives had concluded that there are conflicts between this legislation and the Fair Credit Reporting Act. The department is pursuing an alternative solution that would rely on a self-certification process by prospective cardholders. The legality and practicality of this alternative are being staffed and coordinated. This process, however, is in stark contrast to the standard industry practice of conducting credit checks on credit card applicants.

Status of Our Recommendations to Improve Purchase Card Operations

According to information provided by representatives of the Army, Navy, and Air Force, the three services have either completed or initiated actions to implement nearly all of the 109 recommendations we made to improve the management of the purchase card program. As shown in table 4, we made 22 recommendations to the Army to improve its purchase card program and the Army provided us with information that it had implemented 18 of those recommendations and initiated actions to implement the remaining 4 recommendations. In addition, the Navy told us that it had implemented 38 of our 48 recommendations, and initiated actions to implement the 10 other recommendations. Similarly, the Air Force reported that it had implemented 24 of our 39 recommendations and initiated actions to implement the 15 other recommendations.

Table 4: Status of Recommendations Made to the Military Services to Improve the Management of the Purchase Card Program

Recommendations	Army	Navy	Air Force	Total
Made	22	48	39	109
Fully implemented	18	38	24	80
Partially implemented	4	10	15	29

Source: GAO analysis of military services responses.

The recommendations that the Army, Navy, and Air Force told us they have implemented related to issuing new purchase card policies and procedures, retraining cardholders and approving officials, and reducing the number of purchase card accounts to improve management of the purchase card program. The recommendations they have not fully implemented generally

were those dealing with leveraging purchase card buying power, establishing servicewide databases for data mining, investigating suspected and known fraud cases, and linking the cardholders', approving officials, and agency program coordinators' performance appraisals to performance standards.

The Air Force and Navy reported to us that they planned to complete implementation of most of the remaining GAO recommendations by June 2004. The Air Force planned to complete implementation of all of the partially completed recommendations by January 4, 2004. The Navy indicated that some of the recommendations would be implemented by June 2004. The Army and the Navy did not provide a date for when some of the partially completed recommendations would be implemented, but indicated that there was an ongoing effort to identify opportunities to leverage purchasing power, develop data mining, analysis, and investigation functions, and develop databases of known fraud cases to improve internal controls.

Appendixes II, III, and IV summarize GAO recommendations and the military services' representations of actions taken. We have not verified whether the military services are effectively implementing the policies and procedures that we recommended they establish and/or modify.

Limited Disciplinary Actions Taken

In our purchase card reports and testimonies, we identified 51 cases where cardholders had used the government purchase card to make fraudulent or potentially fraudulent purchases and 120 cases where cardholders had made improper and abusive or questionable purchases. In general, when a court of law determined that a cardholder fraudulently used the purchase card, all the military services took strong disciplinary actions (i.e., assessed fines, and in the case of uniformed personnel, sentenced the individual to jail/confinement). We also found that the military services either took strong disciplinary actions or were actively investigating the cases we reported as potentially fraudulent. For example, our two Navy reports identified 26 fraudulent and potentially fraudulent transactions totaling more than \$1,342,000. The Navy reported that in response, it fired six cardholders, reduced the grade of others, confined several uniformed servicemen to from 14 months to 60 months, and required repayment to the government of over \$460,000. Other actions taken on fraudulent or potentially fraudulent transactions included suspending or revoking purchase card privileges, requiring repayment to the government for the cost of the items obtained, giving the items obtained back to the

government, and written reprimands. In eight instances where no action was taken against cardholders we categorized as having used the purchase card in a fraudulent or potentially fraudulent manner, the military services and the credit card company determined that the fraud was committed by a third party, and the government had no responsibility for the charge. The military services were still investigating 15 cases for fraud.

However, as shown in table 5, the military services often did not discipline the 120 individuals that we identified as having made improper, abusive, or questionable transactions. Further, the discipline, if it was imposed at all, was usually retraining. The responses the military services provided to our inquiries concerning disciplinary actions indicated that in three instances the cardholder had to repay the government for the cost of the improper, abusive, or questionable item(s) we identified. Of the remaining cardholders, 7 had their purchase card privileges revoked, 5 received verbal or written reprimands, and 6 had to return items that we deemed improper, abusive, or questionable to the government.

Table 5: Disciplinary Actions Taken Against Cardholders

Dollars in thousands				
Type of disciplinary action taken	Army	Navy	Air Force	Total
Potentially fraudulent transactions				
Number of potentially fraudulent transactions identified by GAO	13	26	12	51
Value of potentially fraudulent transactions identified by GAO	\$209,561	\$1,342,257	\$71,749	\$1,623,567
No action taken because it was third party fraud	2	3	3	8
Fired	5	6	0	11
Suspended from work	0	0	0	0
Court-martial, confinement, probation, reduction in grade, and restitution	3	7	1	11
Repay the cost of the fraudulent items	2	0	1	3
Give item to government	0	0	0	0
Written reprimand	3	1	0	4
Verbal reprimand	0	0	0	0
Credit card revocation	9	1	1	11
Credit card suspension	6	0	1	7
Required to take training	0	2	1	3
Still under review/investigation	7	6	2	15
No action taken	0	5	4	9

(Continued From Previous Page)

Dollars in thousands

Type of disciplinary action taken	Army	Navy	Air Force	Total
Improper, abusive, or questionable transactions				
Number of transactions identified by GAO	34	59	27	120
Value of transactions identified by GAO	\$999,094	\$1,102,647	\$960,704	\$3,062,445
Fired	0	0	0	0
Suspended from work	0	0	0	0
Repay for cost of improper, abusive, or questionable charge	1	0	2	3
Give item to government	0	0	6	6
Written reprimand	2	0	0	2
Verbal reprimand	1	1	1	3
Credit card revocation	1	4	2	7
Credit card suspension	1	0	0	1
Required to take training/guidance	8	20	11	39
Still under review/investigation	0	3	0	3
Written policy authorized purchase – no disciplinary action taken	0	0	3	3
No action taken	27	36	5	68

Source: Responses provided by the Army, Navy, and Air Force.

Note: Total actions taken exceed transactions identified because multiple actions were taken for some transactions.

Further, in their response to our inquiries concerning the disciplinary actions taken against cardholders who we identified as making improper, abusive, or questionable purchases, the military services stated that they did not take any action in over half of the transactions we identified. We believe that these items were imprudent use of tax dollars, but the military services claimed that policies existing at the time the purchases were made permitted the acquisitions. Therefore, the military services did not think that they had the authority to discipline the cardholders or approving officials. Rather, the military services told us they modified their policies and procedures to prohibit similar acquisitions in the future. The Navy, for example, told us that it had issued numerous e-mails and updated its policies to indicate that some products purchased in the past were now prohibited, and that it planned to better monitor purchases so that none of these purchases would occur in the future. While clarifying purchase card policies and procedures is appropriate, failure to take any disciplinary actions against individuals who purchased or authorized the purchase of items that clearly exceed the needs of the government (designer briefcases) or were excessive in cost (\$350 clock radios) does not serve as a deterrent to future abuse or the waste of tax dollars.

Conclusions

DOD and the military services have taken strong actions to improve the controls over the purchase card program. DOD has initiated actions to implement all of the requirements that were mandated in the fiscal year 2003 National Defense Authorization and DOD Appropriations acts. In addition, DOD and the military services have taken actions on nearly all of 109 recommendations that GAO made in its four reports on the purchase card program, and DOD has plans to have most of the recommendations implemented by June 2004. While the military services have generally taken strong disciplinary actions against cardholders who we identified as having made fraudulent or potentially fraudulent purchases, the military services generally have done little or nothing to discipline cardholders who have made improper, abusive, or questionable purchases.

Recommendations for Executive Action

To help provide reasonable assurance that DOD holds cardholders and approving officials accountable for improper and abusive purchase card acquisitions, we recommend that the Secretary of Defense direct the service secretaries and the heads of DOD agencies to establish procedures to:

- monitor the results of purchase card reviews conducted by the military services and the DOD agencies,
- track whether the major commands and units are consistently applying DOD's disciplinary guidelines to those who made and/or authorized improper or abusive acquisitions, and
- notify the appropriate officials at the major commands or units if DOD's disciplinary guidelines are not being consistently applied.

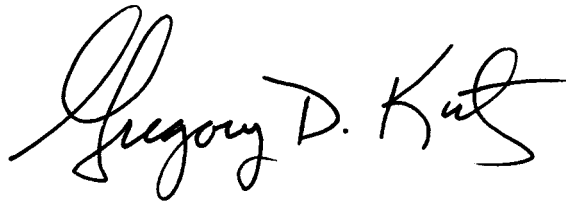
Agency Comments and Our Evaluation

In comments on a draft of this report, reprinted in appendix V, DOD stated that while more needs to be done, it appreciated our recognition of the department's efforts to address previously cited managerial and internal control deficiencies. In its response, DOD requested that we add some perspective to table 5 that shows the extent to which DOD had not taken disciplinary actions on purchases that we had characterized as improper, abusive, or questionable because the military services belief that they had documented policies that specifically authorized the purchases we questioned. To provide this additional perspective, we modified table 5 to separately identify the three transactions that we considered abusive or

questionable that the military services believe were specifically authorized by existing Air Force regulations. While we believe that this differentiation is useful, we continue to question whether the purchase card was the appropriate vehicle to make the purchases we identified as abusive or questionable in our prior report. We also modified the report's title to be focused on future program improvements. DOD did not comment on our recommendations to monitor implementation of the disciplinary guidance.

We will send copies to interested congressional committees; the Secretary of Defense; the Under Secretary of Defense, Comptroller; the Under Secretary of Defense for Acquisition Technology and Logistics; the Secretary of the Army; the Secretary of the Navy; the Secretary of the Air Force; the Director of the Defense Finance and Accounting Service; and the Director of Management and Budget. We will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

Please contact Gregory D. Kutz at (202) 512-9505 or kutzg@gao.gov, or John V. Kelly at (202) 512-6926 or kellyj@gao.gov if you or your staffs have any questions concerning this report. Major contributors to this report are acknowledged in appendix VI.



Gregory D. Kutz
Director
Financial Management and Assurance



Robert J. Cramer
Managing Director
Office of Special Investigations

List of Committees

The Honorable John Warner
Chairman

The Honorable Carl Levin
Ranking Minority Member
Committee on Armed Services
United States Senate

The Honorable Ted Stevens
Chairman

The Honorable Daniel Inouye
Ranking Minority Member
Subcommittee on Defense
Committee on Appropriations
United States Senate

The Honorable Duncan Hunter
Chairman

The Honorable Ike Skelton
Ranking Minority Member
Committee on Armed Services
House of Representative

The Honorable Jerry Lewis
Chairman

The Honorable John Murtha
Ranking Minority Member
Subcommittee on Defense
Committee on Appropriations
House of Representative

Objectives, Scope, and Methodology

This study responded to the legislative mandate in the conference report to the Bob Stump National Defense Authorization Act of 2003, that directs the Comptroller General to review the actions taken by the Department of Defense (DOD) to comply with the requirements of Section 1007 of the act and submit a report on those actions to the congressional defense committees no later than December 2, 2003. At the request of the committee, this report also summarizes the actions taken by the Army, Navy, and Air Force to respond to the legislative mandates in Section 8149 of fiscal year 2003 DOD Appropriations Act, and actions taken by the military services to implement the recommendations we made in four reports issued during fiscal years 2002 and 2003 aimed at improving the military services' management of the purchase card program. Finally, the report also discusses the actions taken by the military services against individuals we identified in our testimonies and reports as having made potentially fraudulent, improper, abusive, or questionable purchase card transactions.

To meet the objectives of this assignment, we requested that DOD and the military services provide us the (1) status of DOD and the military services' efforts in implementing certain provisions of the National Defense Authorization Act for fiscal year 2003 and the fiscal year 2003 DOD Appropriations Act, (2) status of actions taken to implement the recommendations included in our four reports, and (3) administrative or disciplinary actions taken against individuals we identified as having made potentially fraudulent, improper, and abusive or questionable transactions. While we asked DOD and the military services to provide evidence documenting actions taken to improve the purchase card program and prevent individuals and companies from further obtaining fraudulent, improper, and abusive or questionable items with a DOD purchase card, we did not make any field visits to independently validate whether DOD had effectively implemented the reported changes.

We briefed DOD managers, including DOD officials in the Office of the Undersecretary of Defense (Comptroller), and the Inspector General; Army officials in the Office of Deputy Chief of Staff for Logistics; Navy officials in the Office of the Assistant Secretary of the Navy for Research Development and Acquisition; and Air Force officials in the Office of the Deputy Chief of Staff for Installation and Logistics. We conducted our review from June through September 2003 in accordance with U.S. generally accepted government auditing standards. We requested comments on a draft of this report from the Secretary of Defense or his designee. We received written comments from the Director of DOD's Purchase Card Joint Program

Appendix I
Objectives, Scope, and Methodology

Management Office, which are reprinted in appendix V. We have incorporated suggested changes as appropriate.

Status of Army Actions to Implement GAO Recommendations

GAO recommendation	Status of GAO recommendation, as reported by the Army	GAO observation on the status of recommendation
<i>Purchase Cards: Control Weaknesses Leave Army Vulnerable to Fraud, Waste, and Abuse</i> (GAO-02-732, June 27, 2002)		
Overall program management and environment		
Address key control environment issues in Army-wide standard operating procedures. At a minimum, the following key issues should be included in the procedure:		
1. Controls over the issuance and assessment of ongoing need for cards.	Identified in Army Standard Operating Procedure (SOP) Section 15. Also reinforced by Army in memorandum issued May 22, 2002, requesting that heads of contracting activities ensure cards are issued only to individuals with bonafide needs and that the limits reflect actual needs and available funding.	Reported implemented
2. Cancellation of cards when a cardholder leaves the Army, is reassigned, or no longer has a valid need for the card.	Identified in Army SOP Section 15.	Reported implemented
3. Span of control of the approving officials.	Identified in Army SOP Section 5.	Reported implemented
4. Appropriate cardholder spending limits.	Identified in Army SOP Sections 15 and 16. Also reinforced by Army in memorandum issued May 22, 2002, requesting heads of contracting activities to ensure cards are issued only to individuals with bonafide needs and that the limits reflect actual needs and available funding.	Reported implemented
5. Help ensure that program coordinators and approving officials have the needed authority, including grade level, to serve as the first line of defense against purchase card fraud, waste, and abuse by issuing a policy directive that specifically addresses their positions, roles, and job descriptions. Policies should also be established that hold these officials accountable for their purchase card program duties through performance expectations and evaluations	Issued Memorandum endorsed by General John Keane, Vice Chief of Staff articulating the focus on the number of purchase card organizations for each card account (300), and the skill sets typically require a GS-11 and also required in-depth skills in financial and contracting policy and procedures with strong verbal communications skills. The DOD Concept of Operations (CONOPS) report has been updated to further identify skill sets for the billing official and cardholders.	Reported implemented
6. Assess the adequacy of human capital resources devoted to the purchase card program, especially for oversight activities, at each management level, and provide needed resources.	Memorandum signed by Vice Chief of Staff, July 8, 2002, directed Army commanders to provide adequate resources for purchase card program coordinators to ensure a system of strong internal controls. This was also reemphasized in the Army SOP.	Reported implemented
7. Develop and implement a program oversight system for program coordinators that includes standard activities and analytical tools to be used in evaluating program results.	Identified in Army SOP Section 9.	Reported implemented

**Appendix II
Status of Army Actions to Implement GAO
Recommendations**

(Continued From Previous Page)

GAO recommendation	Status of GAO recommendation, as reported by the Army	GAO observation on the status of recommendation
8. Develop performance measures and goals to assess the adequacy of internal control activities and the oversight program.	Identified in Army SOP Section 9 and appendixes J and I. Also reinforced in Secretary of the Army memorandum dated January 28, 2003.	Reported implemented
9. Require reviews of existing cardholders and their monthly spending limits to help ensure that only those individuals with valid continuing purchasing requirements possess cards and that the monthly spending limits are appropriate for the expected purchasing activity. These reviews should result in canceling unneeded cards Army-wide and especially at Fort Hood where we found a significant problem.	September 2002 the Army had 101,398 cardholders. Army canceled 35,778 since September. Additionally, agency program coordinators are required to review this as part of their surveillance reviews as identified in the Army SOP.	Reported implemented
<p>Direct the implementation of specific internal control activities for the purchase card program in an Army-wide standard operating procedure. While a wide range of diverse activities can contribute to a system that provides reasonable assurances that purchases are correct and proper, at a minimum, the following activities should be included in the promulgated procedure:</p>		
10. Advance approval of purchases, including blanket approval for routine, low dollar purchases.	Identified in SOP Sections 12 and 18.	Reported implemented
11. Independent receiving and acceptance of goods and services.	Identified in SOP 13.	Reported implemented
12. Independent review by an approving official of the cardholder's monthly statements and supporting documentation.	Identified in SOP Section 11.	Reported implemented
13. Approving official reconciling the charges on the monthly statement with invoices and other supporting documentation and forwarding the reconciled statement to the designated disbursing office for payment as required by governmentwide and DOD regulations.	Identified in SOP Section 11.	Reported implemented
14. Cardholders obtaining and retaining invoices that support their purchases and provide the basis for reconciling cardholder statements.	Identified in SOP Section 12.	Reported implemented

**Appendix II
Status of Army Actions to Implement GAO
Recommendations**

(Continued From Previous Page)

GAO recommendation	Status of GAO recommendation, as reported by the Army	GAO observation on the status of recommendation
15. Develop and implement procedures and checklists for approving officials to use in the monthly review of cardholders' transactions. These procedures and checklists should specify the type and extent of review that is expected and the required review documentation.	Identified in SOP Appendix E.	Reported implemented
16. Reiterate records retention policy for purchase card transaction files and require that compliance with record retention policy be assessed during the program coordinator's annual review of each approving official.	Identified in SOP Section 19.	Reported implemented
17. Require the development and implementation of coordination and reporting procedures to help ensure that accountable property bought with the purchase card is brought under appropriate control.	Identified SOP Section 8.	Reported implemented
18. Require additional prior documented justification and approval of those planned purchases that are "questionable" that fall outside the normal procurements of the cardholder in terms of either dollar amount or type of purchase.	Identified in SOP Section 18 and Appendix D.	Reported implemented
19. Analyze the procurements of continuing requirements through micropurchases and require the use of appropriate contracting processes to help ensure that such purchases are acquired at the best prices.	Ongoing effort. If the Army identifies leveraging opportunities, they will be implemented through some form of contracting process. The Army issued 12 mandatory Blanket Purchase Agreements for office products and supplies in September 2002. The army has also teamed with the Army Comptroller's office in awarding a support contract to assess the Army's purchasing data to determine if leveraging opportunities exist.	Reported partially implemented
20. Develop an Army-wide database on known fraud cases that can be used to identify potential deficiencies in existing internal control and to develop and implement additional control activities, if warranted or justified.	The Army participates in the DOD charge card special focus group to look at this issue DOD-wide. However, the Army has teamed with the Army Criminal Investigative Command and the Public Affairs office to identify, report, and publish newsworthy fraud cases and to inform Army soldiers and Department of the Army civilian personnel, their supervisors, and the public of corrective actions taken to resolve misuse of the Army Purchase Card.	Reported partially implemented

**Appendix II
Status of Army Actions to Implement GAO
Recommendations**

(Continued From Previous Page)

GAO recommendation	Status of GAO recommendation, as reported by the Army	GAO observation on the status of recommendation
<p>21. Develop and implement an Army-wide data mining, analysis, and investigation function to supplement other oversight activities. This function should include providing oversight results and alerts to major commands and installations when warranted.</p>	<p>Ongoing. Army will continue to work with the DOD Charge Card Focus Group.</p> <p>The Army participates in the DOD Charge Card Focus Group to look at this issue DOD-wide. DOD is currently working with the DOD IG to test a Navy prototype data-mining system. A July 2003 Draft Army Audit Report <i>Audit of Army Government Purchase Card</i> (using DOD IG data-mining techniques) stated that about 6 percent (281) of the 4,537 reviewed Army purchase card transactions were improper. Over half of those instances were instances of compromised purchase cards used by third parties for charges and in billing adjustments that returned about 98 percent of the improperly charged Army funds. This left about 3 percent of purchases that were improper, which is less than commercial industry standards of 4.2 percent identified in the 2003 Purchase Card Benchmark survey results, a VISA survey conducted by Palmer and Mahendra Gupta dated July 21, 2002.</p>	<p>Reported partially implemented</p>
<p>22. Incorporate GAO recommendations, to the extent applicable, into the Charge Card Task Force's future recommendations to improve purchase card policies and procedures throughout DOD.</p>	<p>The Army participates in the DOD Charge Card Focus Group to look at these issues DOD-wide.</p>	<p>Reported partially implemented</p>

Source: GAO analysis of DOD responses.

Status of Navy Actions to Implement GAO Recommendations

GAO recommendation	Status of GAO recommendation, as reported by the Navy as of August 29, 2003	GAO observation on the status of recommendation
<i>Purchase Cards: Control Weaknesses Leave Two Navy Units Vulnerable to Fraud and Abuse (GAO-02-32, Nov. 30, 2001)</i>		
Proliferation of cardholders		
1. Establish specific policies and strategies governing the number of purchase cards to be issued with a focus on minimizing the number of cardholders.	The revised eBusiness Operations Office Instruction (EBUSOPSOFFINST) 4200.1 incorporates the Department of Defense "Span of Control Goals" which resulted in approving officials having a reasonable number of cardholders. The Navy executes the DOD Purchase Card Program in a decentralized manner consistent with DOD policy. This allows individual commands to issue purchase cards to employees as mission requirements warrant. No less than semiannually, Agency Program Coordinators (APC) review the continuing need for each account under their purview.	Reported implemented
2. Develop criteria for identifying employees eligible for the privilege of cardholder status. As part of the effort to develop these criteria, assess the feasibility and cost-benefit of performing credit checks on employees prior to assigning them cardholder responsibilities to ensure that employees authorized to use government purchase cards have demonstrated credit worthiness and financial integrity.	The criterion on eligibility for cardholder's duties has been developed and is incorporated in Department of Navy (DON) PC desk guides. The issue of credit checks was deferred to DOD. DOD is seeking additional legislative action required to implement credit checks.	Reported partially implemented
3. Develop policies and strategies on credit limits provided to cardholders with a focus on minimizing specific cardholder spending authority and minimizing the federal government's financial exposure.	EBUSOPSOFFINST 4200.1, chapter 2, paragraph 3, defines DON policy. In addition, the EBUSOPSOFF monitors credit limits quarterly and takes action when it appears that existing credit limits exceed mission requirements. Credit limits are now a critical element in the revised semiannual review procedures.	Reported implemented
4. Confirm that required training has been completed and documented.	EBUSOPSOFFINST 4200.1, chapter 3, paragraph 9, addresses mandatory requirements for training. In addition, chapter 4, paragraph 1b.2, mandates that program compliance with applicable training be reported as part of the semiannual APC review. Major claimants have been reporting status of training completion via the semiannual review report and have reported corrective actions are necessary.	Reported implemented

**Appendix III
Status of Navy Actions to Implement GAO
Recommendations**

(Continued From Previous Page)

GAO recommendation	Status of GAO recommendation, as reported by the Navy as of August 29, 2003	GAO observation on the status of recommendation
5. Incorporate into purchase card training programs any relevant changes in policies and procedures made as a result of the recommendations in this report.	Policy changes resulting from previous GAO audit recommendations were incorporated into revised desk guides and training modules as well as the September 2002 revision of the DON EBUSOPSOFFINST 4200.1. Furthermore, a second combined Purchase Card/Travel Card APC conference was held in San Diego Nov. 5-8, 2002. A third combined conference was held in Philadelphia, Mar 17-20, 2003. On Sept 27, 2002, the Navy commenced distribution of training CDs that contained four training modules for purchase cardholders and approving officials (AO). A total of 30,000 CDs were distributed at that time. In December, 2002, the remaining three training modules were completed and posted to the DON eBusiness Web site for downloading of complete training modules. A second version of the Navy training CD was released and distributed at the March 2003 APC conference. This version contains seven training modules and a desk guide for each module for use by APCs. Each module contains both a Citidirect (shore) and WINSAALTS (afloat) version.	Reported implemented
Rebates		
6. Investigate ways to maximize potential rebates, such as (1) working with Citibank to facilitate timely receipt of monthly purchase card statements and (2) reducing the time associated with mailing and receipt of hard copy billing statements.	A plan for the "on-line statement process" (electronic certification) was presented to APCs at the March 2003 APC conference in Philadelphia. All general fund activities are expected to be performing electronic certification by Sept. 30, 2003. All others, including outside the continental United States (OCONUS), nonappropriated fund (NAF), and Navy working capital fund (NWCF) activities, are expected to be performing electronic certification by June 30, 2004. In April 2003, a Navy Working Capital Fund users conference convened to discuss issues, explore problem areas, and develop an implementation plan. The electronic certification tool provides Navy purchase card customers with the ability to significantly decrease payment timelines, thereby optimizing rebate amounts.	Reported partially implemented
7. Establish effective policies and procedures for routinely calculating and verifying Citibank rebates.	The Defense Contract Audit Agency (DCAA) was assigned the task of auditing the integrity of the rebate computation process. A number of systems issues have been discussed with the banks and DCAA has finalized its audit recommendations. The Navy and the PC Program Management Office are assessing the results.	Reported partially implemented

**Appendix III
Status of Navy Actions to Implement GAO
Recommendations**

(Continued From Previous Page)

GAO recommendation	Status of GAO recommendation, as reported by the Navy as of August 29, 2003	GAO observation on the status of recommendation
8. Develop guidance for routine distribution of rebate earnings to Navy units and activities.	The Navy made a determination to retain the rebates at the department level in lieu of disbursing them to lower echelons.	Reported implemented
Monitoring and review		
9. Establish in Navy Supply Systems Command (NAVSUP) Instruction 4200.94 further guidelines for an effective internal review program, such as having reviewers analyze monthly summary statements to identify (1) potentially fraudulent, improper, and abusive purchases and (2) any patterns of improper cardholder transactions, such as purchases of food or other prohibited items.	EBUSOPSOFFINST 4200.1, chapter 4, addresses this issue.	Reported implemented
10. Revise NAVSUP Instruction 4200.94 to require that (1) written reports on the results of internal reviews along with any recommendations for corrective actions be prepared and submitted to local management and cognizant commands and (2) commands identify and report systemic weaknesses and corrective action plans to the Naval Supply Systems Command for monitoring and oversight.	EBUSOPSOFFINST 4200.1, chapter 4, addresses this issue. Semiannual program reviews have been established and reports are being submitted to the DON EBUSOPSOFF.	Reported implemented
11. Require purchase card agency program coordinators to report in writing to the unit commander and the Commander of Naval Supply Systems Command any internal control weakness identified during the semiannual program reviews.	EBUSOPSOFFINST 4200.1, chapter 4, addresses this issue. Semiannual program reviews have been established and reports are being submitted to the DON EBUSOPSOFF.	Reported implemented
12. Disclose systemic purchase card control weaknesses along with corrective action plans in the Secretary of the Navy's Annual Statement of Assurance, prepared under 31 U.S.C. 3512 (d).	The Navy included systemic purchase card weaknesses identified in the semiannual report in the Secretary of the Navy's Annual Statement of Assurance.	Reported implemented
Receipt of goods and services		
13. Revise NAVSUP Instruction 4200.94 to eliminate ambiguous language suggesting that advance independent authorization of a purchase can be substituted for independent confirmation that goods and services ordered and paid for with a purchase card have been received and accepted by the government.	EBUSOPSOFFINST 4200.1 is a comprehensive instruction that addresses the roles of each participant in the purchase card process, with specific guidance addressing the responsibilities of each program participant. EBUSOPSOFFINST 4200.1, chapter 2, section 4d—Approving Official Duties, states that the AO will “ensure proper receipt, acceptance, and inspection is accomplished on all items being certified for payment.” Additionally, EBUSOPSOFF 4200.1, chapter 3, section 7—Establishing Internal Management Controls, discusses the separation of functions between receipt and acceptance of goods and services.	Reported implemented

**Appendix III
Status of Navy Actions to Implement GAO
Recommendations**

(Continued From Previous Page)

GAO recommendation	Status of GAO recommendation, as reported by the Navy as of August 29, 2003	GAO observation on the status of recommendation
14. Implement procedures to require and document independent confirmation of receipt of goods and services acquired with a purchase card.	EBUSOPSOFFINST 4200.1, chapter 3, paragraph 7c, under Establishing Internal Management Controls separation of function, addresses this issue.	Reported implemented
15. Revise NAVSUP Instruction 4200.94 to require that (1) cardholders notify approving officials prior to payment that purchase card statements have been reconciled to supporting documentation, (2) approving officials certify monthly statements only after reviewing them for potentially fraudulent, improper, and abusive transactions, and (3) approving officials verify, on a sample basis, supporting documentation for various cardholders' transactions prior to certifying monthly statements for payment.	EBUSOPSOFFINST 4200.1 has been revised to reflect the issues noted. The specific provisions are cited below: (1) Chapter 2, Section 6e, Cardholders Duties—Review the monthly purchase card statement to ensure that all charges are proper and accurate; (2) Chapter 2, Section 6f, Cardholders Duties—Forward the monthly purchase card statement to the AO with the appropriate supporting documentation, (i.e., sales slips, documentation of receipt and acceptance, purchase log) promptly to maximize rebates and minimize prompt payment penalties; (3) Chapter 2, Section 4.c, Approving Official Duties—Notify the Commanding Officer and APC in the event of any suspected unauthorized purchase (purchases that would indicate noncompliance, fraud, misuse, and/or abuse); (4) Chapter 2, Section 4.b, Authorizing Official Duties—Verify supporting transaction documentation on all card accounts prior to certifying the monthly invoice.	Reported implemented
16. The Navy Comptroller withdrew the June 3, 1999, policy memorandum or revised the policy guidance to be consistent with the preceding recommendation for revising payment certification guidance in NAVSUP Instruction 4200.94.	The Navy Comptroller policy letter dated June 3, 1999, was rescinded effective March 12, 2002.	Reported implemented
Proper and timely accounting		
17. Monitor and confirm that purchase card transactions are recorded to projects that benefited from the goods and services or to relevant overhead accounts promptly, in accordance with internal control standards and federal accounting standards.	Both Public Works Center, San Diego, and Naval Space and Warfare Systems Command (SPAWAR) Systems Center, San Diego, concurred and are complying. Internal operating procedures at both sites include guidance on the issue.	Reported implemented
18. Revise NAVSUP Instruction 4200.94 to require that purchase card expenses be properly classified in the Navy's detailed accounting records.	EBUSOPSOFFINST 4200.1, chapter 2, paragraph 4, addresses this issue.	Reported implemented

**Appendix III
Status of Navy Actions to Implement GAO
Recommendations**

(Continued From Previous Page)

GAO recommendation	Status of GAO recommendation, as reported by the Navy as of August 29, 2003	GAO observation on the status of recommendation
19. Verify that the detailed purchase card transaction records reflect the proper object classification of expense.	Both Public Works Center, San Diego, and SPAWAR Systems Center, San Diego, concurred and are complying. The Navy issued policy as an interim change to NAVSUP Instruction 4200.94—Standards of Compliance for Timely Recording and Classifying of Navy Purchase Card Commitments and Obligations, which reiterates existing Navy and DOD Financial Management Regulation policy on the issue.	Reported implemented
Accountable property		
20. Require and verify that accountable property obtained using a purchase card is promptly recorded in property records as it is acquired, in accordance with DOD and Navy policies and procedures.	The EBUSOPSOFFINST 4200.1 definition of accountable property reads as follows: <u>Accountable Property</u> : A term used to identify property recorded in a formal property management or accounting system. Accountable Property includes all property purchased, leased (capital leases), or otherwise obtained, having a unit acquisition cost of \$5,000 or more (land, regardless of cost), and items that are sensitive, or classified. Additional and/or separate records or other recordkeeping instruments shall be established for management purposes, or when otherwise required by law, policy, regulation, or Agency direction, including, but not limited to pilferable items (items that have a ready resale value or application to personal possession and which are, therefore, especially subject to theft). Additionally, EBUSOPSOFFINST 4200.1, chapter 2, sections 6d and f, require a detailed purchase log to identify all purchase card transactions, including defined "Pilferable Personal Property." Purchase log data are also forwarded to the AO as part of its purchase review process. A similar change is included in the draft revision to Secretary of Navy (SECNAV) Instruction 7320.10, which is currently in the coordination phase.	Reported implemented
Fraudulent, improper, and abusive transactions		
21. Immediately cancel all known active compromised purchase card accounts.	All compromised accounts are closed.	Reported implemented
22. Determine whether purchases of excessive cost, questionable government need, or both, such as items for personal use, including personal digital assistants (such as Palm Pilots) and flat screen computer monitors, that were identified by GAO, are proper government purchases. If not, the Commander should prohibit their purchase.	EBUSOPSOFFINST 4200.1, chapter 4, paragraphs 1 and 2 require a monthly 100 percent APC review and a semiannual APC review that addresses this issue.	Reported Implemented

**Appendix III
Status of Navy Actions to Implement GAO
Recommendations**

(Continued From Previous Page)

GAO recommendation	Status of GAO recommendation, as reported by the Navy as of August 29, 2003	GAO observation on the status of recommendation
23. Establish written policies and criteria requiring documented justifications and procurement management approval for types of items that can be acquired with a government purchase card.	EBUSOPSOFFINST 4200.1, Enclosure 2, contains a list of generally prohibited items. Due to differing mission requirements and unique requirements throughout the Department of the Navy and DOD, it is difficult to develop a general list of what items can be purchased with or without special justification. Ticket purchases to Disneyland may be an appropriate purchase not requiring special justifications within a Non-Appropriated Funded activity, but may require such documentation at an Appropriated Funded activity. These decisions are best left to the local command.	Reported implemented

**Appendix III
Status of Navy Actions to Implement GAO
Recommendations**

(Continued From Previous Page)

GAO recommendation	Status of GAO recommendation, as reported by the Navy as of August 29, 2003	GAO observation on the status of recommendation
<p>24. Examine purchase card acquisition guidance to determine whether the purchase card is the right vehicle for acquiring certain goods and services, such as vehicle and equipment maintenance, installation of upgraded computer software, and other recurring or installationwide services, or whether these items should be subject to negotiated contracts.</p>	<p>The cardholder training CD in use Navy-wide contains specific information on the requirement to verify other contracting sources prior to making all purchases. EBUSOPSOFFINST 4200.1 chapter 2, section 6.b, Purchase Cardholder Duties, includes a requirement to “screen all requirements for their availability from mandatory Government sources of supply.” Additionally, the Naval Facilities Engineering Command (NAVFAC) has undertaken an initiative to facilitate client ordering of Indefinite Delivery Indefinite Quantity (IDIQ) services from Base Operations Support (BOS) contracts using the Department of Defense Electronic Mall (DOD EMALL). The NAVFAC Electronic Facilities support Contracts (e-FSC) initiative was created to facilitate direct client ordering by governmentwide commercial purchase cards (GCPC), thereby streamlining the BOS IDIQ ordering process and providing better compliance with DFARS 213.270 (Use of the Governmentwide Commercial Purchase Card). Each NAVFAC contract’s IDIQ schedule that is posted to the DOD EMALL is from a competed contract that has satisfied Competition In Contracting Act (CICA) requirements. This distinguishes NAVFAC contracts on the DOD EMALL from blanket purchase agreements (BPA) and other contracting instruments since orders off of the IDIQ catalogs are not considered stand-alone (open-market) purchases. The e-FSC initiative is currently in its early stages. NAVFAC is in the process of adding the Payment by Third Party clause (48 C.F.R. 52.232-36) and an e-FSC requirement to all new BOS solicitations and selected existing BOS contracts from installations and regions across the DON. As new BOS IDIQ schedules continue to be uploaded to the DOD EMALL, NAVFAC anticipates that within the next year many BOS contracts at most major installations will be available for electronic ordering by GCPC. This strategic initiative is expected to result in significant labor-hour savings and expedite the order and delivery process.</p>	<p>Reported implemented</p>

**Appendix III
Status of Navy Actions to Implement GAO
Recommendations**

(Continued From Previous Page)

GAO recommendation	Status of GAO recommendation, as reported by the Navy as of August 29, 2003	GAO observation on the status of recommendation
25. Work with the Under Secretary for Acquisition, Technology, and Logistics and DOD's Purchase Card Joint Program Office to determine whether the purchase card should be used to acquire computers and other equipment or property items individually that could be more economically and efficiently procured through bulk purchases.	The DOD EMALL is now available to the Navy and its use and availability are being articulated to Navy purchasers as a single point for commercial purchases, including computers, using the government purchase card. Most recently, a DOD EMALL representative spoke at the March 2003 APC conference. The DON EBUSOPSOFF is in the process of querying all Level III APCs to identify all strategic sourcing agreements in their respective claimancies. This information will then be shared Navywide.	Reported implemented
26. Revise NAVSUP Instruction 4200.94 to make it consistent with the Federal Acquisition Regulation, 48 C.F.R. 13.301(a), which states that the "card may be used only for purchases that are otherwise authorized by law or regulation." The clarifying guidance should specifically state that in the absence of specific statutory authority, purchases of items for the personal benefit of government employees, such as flowers or food, are not permitted and are therefore improper transactions.	EBUSOPSOFFINST 4200.1, chapter 1, paragraph 4, contains clarifying guidance.	Reported implemented
Split purchases		
27. Prohibit splitting purchases into multiple transactions as required by the Federal Acquisition Regulation and emphasize this prohibition in purchase card training provided to cardholders and approving officials.	EBUSOPSOFFINST 4200.1, chapter 1, paragraph 5a, addresses this specific issue. In addition, training modules emphasize the prohibition on split purchases, as do all monthly and semiannual program reviews. Also, APCs have an on-line tool to monitor split purchases.	Reported implemented
28. Require approving officials to monitor monthly purchase card statements and identify and report to them regarding any split purchases and the names of cardholders who made the transactions.	EBUSOPSOFFINST 4200.1, chapter 2, paragraph 4, requires the approving official to verify supporting documentation on all card accounts prior to certifying the monthly accounts. Detecting potential split purchases and notifying AOs to review these transactions will be a capability of the data-mining tool. The tool will push the suspected split purchase down to the AO for review. The data-mining tool will identify the cardholder(s) who are splitting purchase requirements, along with the disciplinary actions associated with the transaction.	Reported partially implemented
29. Incorporate GAO recommendations, to the extent applicable, into the Commander of the Naval Supply Systems Command's future revisions to NAVSUP Instruction 4200.94, to include specific consequences for noncompliance with these guidelines and not enforcing the guidelines.	Guidance for actions that may be taken for noncompliance with the regulations have been incorporated as disciplinary guidelines in the draft revision of EBUSOPSOFFINST 4200.1A.	Reported partially Implemented

**Appendix III
Status of Navy Actions to Implement GAO
Recommendations**

(Continued From Previous Page)

GAO recommendation	Status of GAO recommendation, as reported by the Navy as of August 29, 2003	GAO observation on the status of recommendation
<i>Purchase Cards: Navy Is Vulnerable to Fraud and Abuse but Is Taking Action to Resolve Control Weaknesses</i> (GAO-02-1041, Sept. 27, 2002)		
Overall program management and environment		
30. Direct all agency program coordinators to review the number of cardholders who report to an approving official and make the changes necessary to prevent approving officials from having the responsibility of reviewing more cardholders than allowed by Navy and DOD policies.	On September 19, 2002, DON issued EBUSOPSOFFINST 4200.1 that mandates a maximum span of control of card accounts to approving officials (AO) of 7:1: this metric (span of control ratio of 7:1) is monitored by the Navy on a monthly basis and corrective action is taken as required.	Reported implemented
31. Establish a database that maintains information on all purchase card training taken by cardholders, approving officials, and agency program coordinators. Require that agency program coordinators update that database whenever these purchase card program officials take training.	DON EBUSOPSOFF is building and will maintain an automated centralized training database using an e-mail response mechanism. Training completion responses are currently being accumulated and held off-line until the centralized training database is completed. After completion, e-mail responses will be electronically processed and student records will be recorded in the database.	Reported partially implemented
32. Establish specific training courses for cardholders, approving officials, and agency program coordinators tailored to the specific responsibilities associated with each of these roles.	Role-based training for APCs, Aos, and cardholders have been developed and distributed to all participants on CD ROM and are also posted to the DON EBUSOPSOFF Web site for downloading. This version contains seven training modules and a desk guide for each module for use by APCs. Each module contains both a Citidirect (shore) and WINSAALTS (afloat) version.	Reported implemented
33. Direct agency program coordinators to review an approving official's overall workload and determine whether the approving official has the time necessary to perform the required review functions.	EBUSOPSOFFINST 4200.1 mandates a maximum 7:1 ratio (seven accounts for each AO). Additionally, approximately 1 year ago, a one-time purge was done to realign the hierarchies in accordance with this policy. Compliance is monitored by EBUSOPSOFF twice a month with data from Citidirect. When an AO is found to be operating outside the ratio, they are notified and are required to take corrective action. Also on October 29, 2001, DON issued a policy letter PC02-05 and PCPN #69 requiring all agency program coordinators to review an approving official's overall workload and determine whether the approving official has the time necessary to perform the required review functions. If the determination is that an approving official does not have the necessary time, the APC will address this situation with the approving official's commander or supervisor.	Reported implemented

**Appendix III
Status of Navy Actions to Implement GAO
Recommendations**

(Continued From Previous Page)

GAO recommendation	Status of GAO recommendation, as reported by the Navy as of August 29, 2003	GAO observation on the status of recommendation
34. Establish job descriptions that identify responsibility and performance standards for cardholders, approving officials, and agency program coordinators.	Established recommended guidelines in the DON PC desk guides.	Reported implemented
35. Link the cardholders', approving officials, and agency program coordinators' performance appraisals to achieving their performance standards.	The Office of the Secretary of Defense, Personnel and Readiness, has advised that inclusion of purchase card duties in the performance goals is solely a supervisory responsibility, just as the inclusion of other performance outcomes, and should not be separately mandated. The DON EBUSOPSOFF cannot mandate this requirement. Performance goals are established by supervisors and employees and are a reflection of the employee's major duties/responsibilities and the desired performance outcomes based on those duties. The goals established and the performance appraisals given are unique to the individual. However, roles and responsibilities have been outlined in DON PC desk guides. Internal management controls have been identified (e.g., span of control ratios, credit limit determination, delinquency management, separation of functions).	Reported partially implemented
36. Work with the Naval Audit Service and Command Evaluation staff to begin periodic audits of the purchase card program to provide Navy management at the command and unit levels an independent assessment of the control environment and whether the agency program coordinators, approving officials, and cardholders are adhering to control procedures.	The DON EBUSOPSOFF and the Assistant Secretary of the Navy (Research Development & Acquisition) Acquisition Business Management (ABM) offices are engaged with the Naval Audit Service (NAVAUDSVC) to finalize a schedule of purchase card command assessments. Ongoing audits: NAVAUDIT Activity reviews Validate filters Rebates GAO Leveraging buying power DODIG Convenience checks OCONUS transactions	Reported implemented
37. Identify vendors with which the Navy or Marine Corps uses purchase cards to make frequent purchases, evaluate Navy purchasing practices with those vendors, and forward the results of that evaluation to the Assistant Secretary of the Navy for Research, Development, and Acquisition to contract with them, when applicable, to optimize Navy purchasing power.	The data mining of purchase card transactions was completed in September 2002 and May 2003. Total transactions by vendor were extracted from the bank database and forwarded to the Office of the ASN (ACQ) for further review to determine whether Navy-wide contracts should be established.	Reported implemented

**Appendix III
Status of Navy Actions to Implement GAO
Recommendations**

(Continued From Previous Page)

GAO recommendation	Status of GAO recommendation, as reported by the Navy as of August 29, 2003	GAO observation on the status of recommendation
38. Modify the definition of "Pilferable Personal Property" in SECNAV Instruction 7320.10 dated August 1, 2001, by eliminating the requirement that a portable item easily converted to personal use also be difficult to repair or replace, and specifically identify items such as computers, cameras, personal digital assistants, and audiovisual equipment as meeting the definition of being pilferable and thus accountable.	The EBUSOPSOFFINST 4200.1 definition of accountable property reads as follows: <u>Accountable Property</u> : A term used to identify property recorded in a formal property management or accounting system. Accountable Property includes all property purchased, leased (capital leases), or otherwise obtained, having a unit acquisition cost of \$5,000 or more (land, regardless of cost), and items that are sensitive, or classified. Additional and/or separate records or other recordkeeping instruments shall be established for management purposes, or when otherwise required by law, policy, regulation, or Agency direction, including, but not limited to pilferable items (items that have a ready resale value or application to personal possession and which are, therefore, especially subject to theft). Additionally, EBUSOPSOFFINST 4200.1, chapter 2, sections 6d and f, requires a detailed purchase log to identify all purchase card transactions, including defined "Pilferable Personal Property." Purchase log data are also forwarded to the AO as part of the AO purchase card review process. A similar change is included in the draft revision of SECNAV Instruction 7320.10, which is currently in the coordination phase.	Reported implemented
Specific internal control activities		
Modify NAVSUP Instruction 4200.94 to provide cardholders, approving officials, and agency program coordinators detailed instructions on the following:		
39. Timely and independent receiving and acceptance of items obtained with a purchase card and documenting the results of that process.	Complete – This subject was addressed in the DONEBUSOPSOFF Instruction 4200.1 dated September 19, 2002.	Reported implemented
40. Screening purchases for the availability from required vendors and documenting the results of the screening.	Complete – This subject was addressed in the DONEBUSOPSOFF Instruction 4200.1 dated September 19, 2002.	Reported implemented
41. Promptly reconciling the monthly purchase card statements to supporting documentation and documenting the results of that reconciliation.	Complete – This subject was addressed in the DONEBUSOPSOFF Instruction 4200.1 dated September 19, 2002.	Reported implemented
42. Promptly reviewing a cardholder purchase card statement by the approving official prior to certifying the statement for payment and documenting the results of that review.	Complete – This subject was addressed in the DONEBUSOPSOFF Instruction 4200.1 dated September 19, 2002.	Reported implemented

**Appendix III
Status of Navy Actions to Implement GAO
Recommendations**

(Continued From Previous Page)

GAO recommendation	Status of GAO recommendation, as reported by the Navy as of August 29, 2003	GAO observation on the status of recommendation
43. Prompt cardholder notification to property accountability officer of the pilferable property obtained with the purchase card, and approving official responsibility for monitoring that the pilferable property has been recorded in the accountability records.	Complete – This subject was addressed in the DONEBUSOPSOFF Instruction 4200.1 dated September 19, 2002.	Reported implemented
Potentially fraudulent, improper, and abusive or questionable purchases		
44. Modify NAVSUP Instruction 4200.94 to require cardholders to maintain documented justification and advanced approval of purchases that fall outside the normal procurements of the cardholder in terms of either dollar amount or type of purchase.	Complete – This subject was addressed in the DONEBUSOPSOFF Instruction 4200.1 dated September 19, 2002.	Reported implemented
45. Establish a Navy-wide database of known purchase card fraud cases by type of fraud that can be used to identify deficiencies in existing internal control and to develop and implement additional control activities, if warranted or justified.	This is a parallel effort to the Automated Review and Response Oversight Wizard (ARROW) data-mining tool discussed below. ARROW is in the early stages of development. Additionally, the Office of the DOD IG, Investigative Policy and Oversight, has established a Government Purchase Card Fraud Investigations database that is already operational.	Reported partially implemented
46. Establish a Navy-wide data-mining, analysis, and investigation function to supplement other oversight activities. This function should include providing oversight results and alerts to major commands and installations when warranted.	The EBUSOPSOFF, in partnership with DOD IG, is conducting the ARROW data-mining project. Phase I of the data-mining pilot was completed in June 2003 at the Marine Corps site at Camp LeJeune, Fayetteville, N.C. The automated process is functioning as planned and initial reaction to the process from the participants has been positive; however, the fraud indicators were not adequately validated in Phase I. Phase 2 development will focus on validating the proposed fraud indicators. The Phase 2 pilot will begin in January 2004.	Reported partially implemented
47. Modify NAVSUP Instruction 4200.94 to include a schedule of disciplinary actions as a guide for taking action against cardholders who make improper or abusive acquisitions with the purchase card.	A schedule of disciplinary actions has been incorporated in the revised EBUSOPSOFF instruction 4200.1A.	Reported implemented
48. Incorporate GAO recommendations, to the extent applicable, into the Charge Card Task Force's future recommendations to improve purchase card policies and procedures throughout DOD.	The Navy sent this recommendation to OUSD for action.	Reported partially implemented

Source: GAO analysis of military service responses.

Status of Air Force Actions to Implement GAO Recommendations

GAO recommendation	Status of GAO recommendation, as reported by the Air Force	GAO observation on the status of recommendation
<i>Purchase Cards: Control Weaknesses Leave the Air Force Vulnerable to Fraud, Waste, and Abuse</i> (GAO-03-292, Dec. 20, 2002)		
Overall program management and environment		
Direct the Assistant Secretary of the Air Force for Acquisition and the Deputy Assistant Secretary for Contracting to take the following actions:		
1. Establish specific policies and strategies governing the number of purchase cards to be issued with a focus on minimizing the number of cardholders.	Air Force Policy Memo #03-C-05, issued March 18, 2003, directed that the number of cards issued should be minimized. Item closed.	Reported implemented
2. Direct all command and installation-level agency program coordinators to review purchase card use with a view towards eliminating unneeded purchase card accounts.	Air Force Policy Memo #03-C-05, issued March 18, 2003, directed that Installation Purchase Card Managers eliminate unneeded purchase card accounts. Item closed	Reported implemented
3. Eliminate purchase cards used to facilitate line-item accounting.	Air Force Policy Memo #03-C-05, issued March 18, 2003, directed that Installation Purchase Card managers, in conjunction with Financial Services officers, review all purchase cardholders with multiple accounts and eliminate those accounts existing to facilitate line-item accounting. Item closed.	Reported implemented
4. Direct all agency program coordinators to review the number of cardholders who report to an approving official and make the changes necessary so that approving officials do not have responsibility for reviewing more cardholder accounts than allowed by Air Force and DOD policies.	Air Force Policy Memo #03-C-05, issued March 18, 2003, directed that Installation Purchase Card managers and coordinators review the number of cardholders who report to an approving official and make the changes necessary so that approving officials do not have responsibility for reviewing more cardholder accounts than allowed by Air Force and DOD policies. Item closed.	Reported implemented
5. Review existing credit limits and monthly spending and develop policies and strategies on credit limits provided to cardholders with a focus on minimizing specific cardholder spending authority and minimizing the federal government's financial exposure.	Air Force Policy Memo #03-C-05, issued March 18, 2003, directed that installation purchase card program managers shall to review existing credit and monthly spending limits against current spending patterns and determine if cardholder spending authority can be reduced in the interest of minimizing the federal government's financial exposure.	Reported implemented
6. Deactivate purchase card accounts of alternate cardholders and approving officials when primary cardholders and approving officials are available.	Air Force Policy Memo #03-C-05, issued March 18, 2003, directed that alternate cardholders and billing official accounts be suspended when primary cardholders and billing officials are available. Item closed.	Reported implemented

**Appendix IV
Status of Air Force Actions to Implement
GAO Recommendations**

(Continued From Previous Page)

GAO recommendation	Status of GAO recommendation, as reported by the Air Force	GAO observation on the status of recommendation
7. Establish specific training courses for cardholders, approving officials, and agency program coordinators tailored to the specific responsibilities associated with each of those roles.	Air Force Policy Memo #03-C-05, issued March 18, 2003, directed that, in addition to already instituted mandatory training through the Defense Acquisition University for cardholders, billing officials, and financial services officers, all A/OPCs are required to take the A/OPC training developed by GSA. Item closed.	Reported implemented
8. Require installation program coordinators to track and monitor corrective actions on purchase card audit and annual surveillance findings and provide periodic status reports to their installation contracting directors.	Air Force Policy Memo #03-C-05, issued March 18, 2003, directed that Installation Purchase Card managers track and monitor corrective actions on purchase cards and annual surveillance findings and provide quarterly status reports to their installation Contracting Director. Item closed.	Reported implemented
9. Develop and implement a program oversight system for program coordinators that includes standard activities and analytical tools to be used in evaluating program results.	Air Force Policy Memo #03-C-05, issued March 18, 2003, directed mandatory use of the review checklist in the GPC Surveillance Guide. Item closed.	Reported implemented
10. Require reports on annual surveillance results to include an assessment of control environment issues, including the ratio of cardholders to employees, ratio of approving officials to cardholder accounts, ratio of monthly credit limits to actual spending, and number of cardholders and approving officials requiring training.	Air Force Policy Memo #03-C-05, issued March 18, 2003, directed that reports on annual surveillance results include an assessment of control environment issues, including the ratio of cardholders to employees, ratio of approving officials to cardholder accounts, ratio of monthly credit limits to actual spending, and number of cardholders and approving officials requiring training. Item closed.	Reported implemented
11. Assess the adequacy of human capital resources devoted to the purchase card program, especially for oversight activities at each management level, and provide needed resources where appropriate.	Air Force Policy Memo #03-C-05, issued March 18, 2003, directed that the Directors of Contracting address the adequacy of personnel devoted to the purchase card program, especially for oversight activities, at each management level, and work to increase manpower authorizations where appropriate.	Reported implemented
Direct the Assistant Secretary of the Air Force for Acquisition and the Deputy Assistant Secretary for Contracting to make the following revisions to Air Force Instruction 64-117, Air Force Government-wide Purchase Card Program:		
12. Correct faulty records retention guidance by referring to specific guidelines in the <i>Federal Acquisition Regulation</i> , National Archives and Records Administration federal records retention guidelines, DOD's <i>Financial Management Regulation</i> , and other federal guidelines as appropriate.	Per the Air Force response to the GAO final report, correction was incorporated into the December 6, 2002, revision to AFI 64-117. Item closed.	Reported implemented

**Appendix IV
Status of Air Force Actions to Implement
GAO Recommendations**

(Continued From Previous Page)

GAO recommendation	Status of GAO recommendation, as reported by the Air Force	GAO observation on the status of recommendation
13. Require purchase card program management and administrative records generated by installation program coordinators and approving officials, such as records of cardholder and approving official appointments and training, cardholder delegations of authority, and purchase card surveillances, to be retained for 3 years.	Anticipate publication of revised AFI in March 2004. Air Force Instruction 64-117, <i>Air Force Government-wide Purchase Card Program</i> , will be revised to require purchase card program management and administrative records generated by installation program coordinators and approving officials, such as records of cardholder and approving official appointments and training, cardholder delegations of authority, and purchase card surveillances, to be retained for 3 years.	Reported partially implemented pending March 2004 issuance of revised Air Force Instruction 64-117.
14. Stipulate, in the body of the Instruction, that approving officials are required to have annual purchase card refresher training.	Anticipate publication of revised AFI in March 2004. Air Force Instruction 64-117, <i>Air Force Government-wide Purchase Card Program</i> , will be revised to specify that approving officials are required to have annual purchase card refresher training.	Reported partially implemented pending March 2004 issuance of revised Air Force Instruction 64-117.
15. Require that the surveillance checklist, which is included in an appendix to the Air Force Instruction, be used to guide and document surveillance results.	Anticipate publication of revised AFI in March 2004. Air Force Instruction 64-117, <i>Air Force Government-wide Purchase Card Program</i> , will be revised to require that the surveillance checklist be used to guide and document surveillance results.	Reported partially implemented pending March 2004 issuance of revised Air Force Instruction 64-117.
16. Require reports on the results of annual surveillances to be signed by installation contracting directors to demonstrate management oversight and "tone at the top."	Anticipate publication of revised AFI in March 2004. Air Force Instruction 64-117, <i>Air Force Government-wide Purchase Card Program</i> , will be revised to require reports on the results of annual surveillances to be signed by the contracting squadron commander/chief of the contracting office.	Reported partially implemented pending March 2004 issuance of revised Air Force Instruction 64-117.
17. Require reports on surveillance results to be addressed to unit commanders.	Anticipate publication of revised AFI in March 2004. Air Force Instruction 64-117, <i>Air Force Government-wide Purchase Card Program</i> , will be revised to require reports on surveillance results to be addressed to unit commanders.	Reported partially implemented pending March 2004 issuance of revised Air Force Instruction 64-117.

**Appendix IV
Status of Air Force Actions to Implement
GAO Recommendations**

(Continued From Previous Page)

GAO recommendation	Status of GAO recommendation, as reported by the Air Force	GAO observation on the status of recommendation
18. Require reports on surveillance results to include recommendations for unit commander action, where approving officials and cardholders have failed to follow Air Force policy—particularly policy related to federal regulations, such as micropurchase requirements and mandated sources of supply.	Anticipate publication of revised AFI in March 2004. Air Force Instruction 64-117, <i>Air Force Government-wide Purchase Card Program</i> , will be revised to require reports on surveillance results to include recommendations for unit commander action, where approving officials and cardholders have failed to follow Air Force policy related to federal regulations.	Reported partially implemented pending March 2004 issuance of revised Air Force Instruction 64-117.
To resolve noncompliance with requirements in law for proper certification of purchase card payments, we recommend that the Secretary of the Air Force take the following actions:		
19. Direct the Assistant Secretary of the Air Force for Acquisition and the Deputy Assistant Secretary for Contracting to work with the Under Secretary of Defense (Comptroller) to resolve inconsistencies between DOD and Air Force policies and procedures for reconciling purchase card statements prior to payment.	The Under Secretary of Defense (Comptroller) requested an opinion from the Deputy General Counsel (Fiscal) (DGC(F)) to determine whether “pay and confirm” is in compliance with Title 10, United States Code (U.S.C.), section 2784. In its response, the DGC(F) stated that the business practice of paying a purchase card statement of account before receipt of a reconciled statement and detailed supporting documentation is supported by governmentwide policy, and not otherwise prohibited by statute. Counsel did caution that the practice is contingent upon maintaining appropriate internal controls sufficient to ensure that the benefits associated with this practice outweigh the risk of loss. Item closed.	Reported implemented
20. Develop a strategy for achieving Air Force compliance with requirements in the law that DOD purchase card policies and procedures require reconciliation of purchase card statements prior to payment.	The Under Secretary of Defense (Comptroller) requested an opinion from the Deputy General Counsel (Fiscal) (DGC(F)) to determine whether “pay and confirm” is in compliance with Title 10, United States Code (U.S.C.), section 2784. In its response, the DGC(F) stated that the business practice of paying a purchase card statement of account before receipt of a reconciled statement and detailed supporting documentation is supported by governmentwide policy, and not otherwise prohibited by statute. Counsel did caution that the practice is contingent upon maintaining appropriate internal controls sufficient to ensure that the benefits associated with this practice outweigh the risk of loss. Item closed.	Reported implemented

**Appendix IV
Status of Air Force Actions to Implement
GAO Recommendations**

(Continued From Previous Page)

GAO recommendation	Status of GAO recommendation, as reported by the Air Force	GAO observation on the status of recommendation
21. Establish appropriate criteria, including types of items and dollar thresholds for documenting independent receipt and acceptance of items obtained with a purchase card.	<p>Anticipate publication of revised AFI in March 2004.</p> <p>The Deputy Assistant Secretary of Contracting will revise Air Force Instruction 64-117 to provide cardholders, approving officials, and installation program coordinators appropriate criteria, including types of items and dollar thresholds for documenting independent receipt and acceptance of items obtained with a purchase card.</p>	Reported partially implemented pending March 2004 issuance of revised Air Force Instruction 64-117.
22. Establish specific procedures for documenting independent receiving, such as requiring the approving official or supervisor to sign and date the vendor invoice, sales receipt, or credit card receipt, or requiring the approving official to sign the cardholder's monthly purchase log to verify that items noted as having been received were actually received.	<p>Anticipate publication of revised AFI in March 2004.</p> <p>The Deputy Assistant Secretary of Contracting will revise Air Force Instruction 64-117 to provide cardholders, approving officials, and installation program coordinators with detailed instructions on procedures for documenting independent receiving, such as requiring the approving official or supervisor to sign and date the vendor invoice, sales receipt, or credit card receipt, or requiring the approving official to sign the cardholder's monthly purchase log to verify that items noted as having been received were actually received.</p>	Reported partially implemented pending March 2004 issuance of revised Air Force Instruction 64-117.
23. Require cardholders to maintain documentation of timely and independent receiving and acceptance of items obtained with a purchase card.	<p>Anticipate publication of revised AFI in March 2004.</p> <p>Deputy Assistant Secretary of the Air Force (Contracting) will revise Air Force Instruction 64-117 to require cardholders to maintain documentation of independent receiving and acceptance of items obtained with a purchase card.</p>	Reported partially implemented pending March 2004 issuance of revised Air Force Instruction 64-117.
24. Require reconciliation of monthly purchase card statements associated with accounts that were "shut down" (suspended) in July 2002 due to lack of cardholder reconciliation and approving official review.	A SAF/AQC letter, dated March 27, 2003, was sent to the purchase card points of contact at the Air Force major commands requesting that they direct their A/OPCs to review all accounts subject to automatic suspension in July 2002 due to lack of cardholder reconciliation and approving official review to ensure that they have been manually reconciled. Item closed.	Reported implemented

**Appendix IV
Status of Air Force Actions to Implement
GAO Recommendations**

(Continued From Previous Page)

GAO recommendation	Status of GAO recommendation, as reported by the Air Force	GAO observation on the status of recommendation
25. Verify that all potentially fraudulent and erroneous transactions that have been detected are disputed and properly resolved.	<p>Anticipate publication of revised AFI in March 2004.</p> <p>The Deputy Assistant Secretary of Contracting will revise Air Force Instruction 64-117 to instruct cardholders, approving officials, and installation program coordinators to verify that all potentially fraudulent and erroneous transactions that have been detected are disputed and properly resolved.</p>	Reported partially implemented pending March 2004 issuance of revised Air Force Instruction 64-117.
26. Require timely cardholder notification to the property accountability officer of pilferable property, such as fax machines, digital cameras, and palm pilots obtained with the purchase card.	<p>Anticipate publication of revised AFI in March 2004.</p> <p>The Deputy Assistant Secretary of Contracting will revise Air Force Instruction 64-117 to provide cardholders, approving officials, and installation program coordinators with detailed instructions to require timely cardholder notification to the property accountability officer of accountable pilferable property obtained with the purchase card.</p>	Reported partially implemented pending March 2004 issuance of revised Air Force Instruction 64-117.
27. Encourage installation contracting officers to consider the benefits of central purchasing and receiving and acceptance of computer equipment by installation information technology units to facilitate recording computer equipment in accountable property records at the time it is received.	Air Force Policy Memo #03-C-05, issued March 2003, encouraged installation Contracting Officers to consider the benefits of central purchasing and receiving and acceptance of computer equipment by installation information technology units to facilitate recording computer equipment in accountable property records at the time it is received. Item closed.	Reported implemented

**Appendix IV
Status of Air Force Actions to Implement
GAO Recommendations**

(Continued From Previous Page)

GAO recommendation	Status of GAO recommendation, as reported by the Air Force	GAO observation on the status of recommendation
28. Define and list examples of sensitive and pilferable property purchased with a government purchase card, including cell phones, digital cameras, fax machines, palm pilots, and copiers and printers, and require prompt recording of these items in installation property systems.	<p>Anticipate publication of revised AFI in March 2004.</p> <p>Air Force Instruction 64-117 will be revised to define and list examples of sensitive and pilferable property purchased with a government purchase card, including cell phones, digital cameras, fax machines, palm pilots, and copiers and printers. Sub-paragraph 5.3.1 of DODI 5000.64 allows additional and/or separate records or other recordkeeping instruments when required by law, policy, regulation, Agency direction, or for management purposes (e.g., pilferable item, property hazardous to health and human safety). Property not meeting the minimum accountability threshold is still subject to appropriate internal controls which, depending on the property, can include an accountable property record. SAF/AQCP is working with USAF/ILGP, Materiel Management Policy Division, to establish clear accountability and/or visibility criteria that will meet the intent of GAO's accountability concerns.</p>	Reported partially implemented pending March 2004 issuance of revised Air Force Instruction 64-117.
29. Establish policies and procedures for recording all pilferable and sensitive property, including digital cameras, palm pilots, and cell phones, in installation-accountable property records. At a minimum, require installations to follow DOD policies and procedures on accountable property.	<p>Anticipate publication of revised AFI in March 2004.</p> <p>Current guidance (DODI 5000.64, AFI 33-112, AFI 23-111, and AFI 23-110) all indicate that organizational commanders must account for property issued to them or procured by them. These guidelines do not mandate a mechanism to ensure accountability is established for items procured from outside of the standard base supply system. SAF/AQCP is working with USAF/ILGP, Materiel Management Policy Division, to establish clear accountability and/or visibility criteria that will meet the intent of GAO's accountability concerns. These changes will be incorporated into AFI 64-117.</p>	Reported partially implemented pending March 2004 issuance of revised Air Force Instruction 64-117.
30. Direct the Air Force Audit Agency and Air Force Office of Special Investigations to establish an Air Forcewide database of known fraud cases by type of fraud, including purchase card fraud, that can be used to identify systemic weaknesses and deficiencies in existing internal control and to develop and implement additional control activities, if warranted or justified.	The Air Force Office of Special Investigations (AFOSI), in conjunction with the other Defense Criminal Investigative Organizations (DCIO), now reports information on initiated and ongoing Government Purchase Card (GPC) investigations quarterly to the Department of Defense Inspector General for macro-level analysis of systemic weaknesses in the GPC program DOD-wide.	Reported implemented

**Appendix IV
Status of Air Force Actions to Implement
GAO Recommendations**

(Continued From Previous Page)

GAO recommendation	Status of GAO recommendation, as reported by the Air Force	GAO observation on the status of recommendation
We recommend that the Assistant Secretary of the Air Force for Acquisition and the Deputy Assistant Secretary for Contracting take the following actions:		
31. Establish an Air Force-wide database of known purchase card fraud cases by type of fraud, including vendor fraud and compromised accounts, that can be used to identify deficiencies in existing internal control and implement additional control activities, if warranted.	The DOD IG has been directed to develop a centralized purchase card database on known fraud cases and audit results that can be used to identify potential deficiencies in existing internal controls. The Air Force will evaluate the Air Force cases and audits to determine the effectiveness of existing internal controls and implement additional control activities, if warranted.	Reported implemented
32. Identify vendors with which the Air Force used purchase cards to make frequent, recurring purchases, evaluate Air Force purchasing practices with those vendors, and where appropriate, develop contracts with those vendors to optimize Air Force purchasing power.	Air Force Policy Memo #03-C-11, issued May 22, 2003, directed that A/OPCs identify vendors with which they used purchase cards to make frequent, recurring purchases, evaluate purchasing practices with those vendors, and where appropriate, develop contracts with those vendors to optimize Air Force purchasing power. Item closed.	Reported implemented
33. Review organizational use of the purchase card and revoke purchase cards issued to organizations that do not have authority to participate in the governmentwide purchase card program.	Anticipate publication of revised AFI in Mar 04. The Deputy Assistant Secretary for Contracting will review organizational use of the purchase card and revoke purchase cards issued to organizations that do not have authority to participate in the governmentwide purchase card program. However, AF/HC does not agree that the Chaplain Service had no authority to use GPCs. DODD 1015.1. recognizes Chaplain Religious Funds and states that "funds are administered and managed in accordance with separate DOD Component regulations" (Par. 2.2. and 2.2.11.). Based on DODD 1015.1, AFI 52-101 (May 19, 1997) was issued that stated "The International Merchant Purchase Authorization Card (IMPAC) is the official Chaplain Service funds credit card" (Para. 4.3.). AF/HC will recommend reinstatement of the Chaplain Funds into the revised publication of DODD 1015.1, Establishment, Management, and Control of Nonappropriated Fund Instrumentalities. AFI 52-101 is in the process of being updated to reflect the current DOD and AF policies regarding the GPC.	Reported partially implemented pending March 2004 issuance of revised Air Force Instruction 64-117.

**Appendix IV
Status of Air Force Actions to Implement
GAO Recommendations**

(Continued From Previous Page)

GAO recommendation	Status of GAO recommendation, as reported by the Air Force	GAO observation on the status of recommendation
34. Cancel convenience check privileges of cardholders who have continued to improperly use convenience checks.	Air Force Policy Memo #03-C-05, issued March 18, 2003, directed that installation purchase card managers cancel convenience check privileges of cardholders who have misused convenience checks more than once. Item closed.	Reported implemented
35. Require accounting adjustments to be made to correct transactions that were charged to the wrong appropriation account with respect to fiscal year and purpose of the expenditures.	A SAF/AQC letter, dated March 27, 2003, was sent to SAF/FMP requesting that an accounting adjustment be made to correct any GPC transactions that were charged to the wrong appropriations account with respect to fiscal year and items purchased. Item closed.	Reported implemented
36. Establish appropriate, consistent Air Force-wide policy as a guide for taking disciplinary actions with respect to cardholders and approving officials who make or approve fraudulent, improper, or abusive purchase card transactions.	The Deputy Assistant Secretary of the Air Force (Contracting) does not make Air Force-wide policy as a guide for taking disciplinary actions with respect to cardholders and approving officials who make or approve fraudulent, improper, or abusive purchase card transactions. Guidelines for procedures regarding the violation of Air Force GPC procedures are already contained in AFI 64-117. In addition, the Deputy Assistant Secretary of the Air Force (Contracting) has issued a memorandum requiring a summary of each case of purchase card fraud and each instance of repeated misuse of the purchase card and a quarterly briefing by the contracting squadron commander to the installation commander including the disciplinary action taken. Item closed.	Reported implemented
37. Require cardholders and/or approving officials to reimburse the government for any unauthorized or erroneous purchase card transactions that were not disputed.	Air Force Policy Memo #03-C-05, issued March 18, 2003, directed that installation purchase card managers remind all cardholders and billing officials that they are "accountable officials" in accordance with Attachment 2, paragraph 1.b. of AFI 64-117, and as such, may be pecuniarily liable for erroneous payments (see DOD Financial Management Regulation, Volume 5, Chapter 33, August 1998, page 33-1) and may be required to reimburse the government for any unauthorized or erroneous purchase card transaction that was not disputed within the 60-day grace period. In addition, all "benefiting individuals" who have requested personal items to be purchased for their use may also be required to reimburse the government for such purchases. Item closed.	Reported implemented

**Appendix IV
Status of Air Force Actions to Implement
GAO Recommendations**

(Continued From Previous Page)

GAO recommendation	Status of GAO recommendation, as reported by the Air Force	GAO observation on the status of recommendation
38. Require benefiting individuals to reimburse the government for the cost of any personal items that they requested or directed a cardholder to purchase for them.	Air Force Policy Memo #03-C-05, issued March 18, 2003, directed that installation purchase card managers remind all cardholders and billing officials that they are “accountable officials” in accordance with Attachment 2, paragraph 1.b. of AFI 64-117, and as such, may be pecuniary liable for erroneous payments (see DOD Financial Management Regulation, Volume 5, Chapter 33, August 1998, page 33-1) and may be required to reimburse the government for any unauthorized or erroneous purchase card transaction that was not disputed within the 60-day grace period. In addition, all “benefiting individuals” who have requested personal items to be purchased for their use may also be required to reimburse the government for such purchases. Item closed.	Reported implemented
39. Incorporate GAO recommendations, to the extent applicable, into the Charge Card Task Force’s future recommendations to improve purchase card policies and procedures throughout DOD.	This recommendation was directed to the Under Secretary of Defense (Comptroller), not to the Air Force.	Reported partially implemented

Source: GAO analysis of DOD responses.

Comments from the Department of Defense



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
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103 ARMY PENTAGON
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NOV 14 2003

Mr. Gregory D. Kutz
Director
Financial Management and Assurance
United States General Accounting Office
Washington, DC 20548

Dear Mr. Kutz:

This is in response to your draft report entitled *Purchase Cards: Steps Taken to Improve DoD Program Management, But Little Done to Address Prior Misuse* (GAO-04-156). The Department of Defense appreciates the opportunity to provide comments to this draft report.

The Department takes quite seriously its stewardship of the Government purchase card program and the attendant public trust. We believe that we have implemented a wide-ranging and comprehensive package of regulatory, policy, and administrative initiatives to underpin the integrity of this card program. Although there is more yet to be done, we are pleased that this draft report recognizes the Department's efforts to address previously cited managerial and internal control deficiencies.

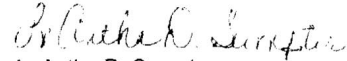
However, we do take exception to the original title of your draft report. The "But Little Done to Address Prior Misuse" portion of the title leaves the incorrect perception that the Department has done little to correct previously cited deficiencies in our program. In addition, it does not correspond to the overall favorable tenor of your report as to actions that the Department has taken to address problems in our program. We are pleased that you have tentatively agreed to amend the title to "But Action Needed to Address Misuse."

We believe that your original characterization (table 5 of the draft report) of the disciplinary actions taken with respect to improper, abusive or questionable transactions cited in previous GAO audits did not take into account that a number of these transactions were in fact legitimate and authorized by existing Component policy at the time the purchase was made. We are pleased that you have agreed to add another category to this table (tentatively titled "Documented Component Policy Authorized Purchase – No Disciplinary Action Taken") and that you have agreed to re-categorize transactions from the No Action Taken category to this new category provided that the Component can document to your satisfaction that the purchase in question was authorized under an existing policy.

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Again, we appreciate the opportunity to comment on the draft report.

Sincerely



LeAntha D. Sumpter
Director, Purchase Card
Joint Program Management Office

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