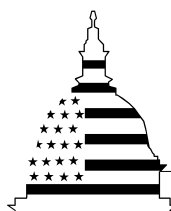


December 2002

PURCHASE CARDS

Control Weaknesses Leave the Air Force Vulnerable to Fraud, Waste, and Abuse



G A O

Accountability ★ Integrity ★ Reliability



Highlights of [GAO-03-292](#), a report to Congressional requesters

Why GAO Did This Study

In July 2001 and March 2002, GAO testified on significant breakdowns in internal controls over purchase card transactions at two Navy sites that resulted in fraud, waste, and abuse. As a result, the Congress asked GAO to audit purchase card controls at DOD. This report focuses on Air Force purchase card controls and addresses whether the overall management control environment and key internal controls were effective in preventing potentially fraudulent, improper, and abusive purchase card transactions.

What GAO Recommends

GAO makes several recommendations to DOD and the Air Force, including the following.

- Reduce the number of purchase card accounts.
- Minimize credit limits.
- Reduce approving official span of control consistent with DOD guidelines.
- Establish specific training courses for cardholders, approving officials, and agency program coordinators tailored to the specific responsibilities associated with their roles.
- Hold cardholders and approving officials accountable for misuse of the purchase card.

DOD and Air Force officials concurred or partially concurred on our recommendations and indicated that some actions have been already been initiated.

www.gao.gov/cgi-bin/getrpt?GAO-03-292

To view the full report, including the scope and methodology, click on the link above. For more information, contact Gregory Kutz, (202) 512-9505.

PURCHASE CARDS

Control Weaknesses Leave the Air Force Vulnerable to Fraud, Waste, and Abuse

What GAO Found

Weaknesses in the overall control environment and breakdowns in key controls relied on to manage the purchase card program leave the Air Force vulnerable to fraud, waste, and abuse. Major contributors to the weak control environment included excessive numbers of purchase cards, with about one purchase card for every seven employees, approving official span of control that far exceeded DOD guidelines, and credit limits that were 12 to 20 times higher than actual spending.

Of the five key control activities tested, the Air Force had significant control breakdowns in at least three of them—(1) receiving of goods and services by someone other than the card holder, (2) cardholder reconciliation, and (3) approving official review of the cardholder's reconciled statements. The highest failure rates—69 to 87 percent—at the four locations tested related to approving official review—viewed by DOD as the first line of defense against misuse of the purchase card.

As shown in the table, the control breakdowns resulted in purchases that were potentially fraudulent, improper, and abusive or questionable. GAO also identified potentially fraudulent transactions for which supporting documentation was not available to show the quantity and type of items purchased. Air Force officials could not recall the purpose of these transactions.

Examples of Potentially Fraudulent, Improper, and Abusive or Questionable Transactions

Types of items purchased	Examples of vendors	Amount
Down payment on a \$10,000 sapphire ring	E-Z Pawn	\$ 2,443
Suitcases, garment and flight bags, briefcases	El Portal, 1-800 Luggage, Patagonia, Franklin Covey	23,760
Clothes for parachutists, pilots, and others	REI, LL Bean, Old Navy, Nordstrom	23,602
2 reclining rocking chairs with full lumbar support and vibrator-massage features	LA-Z-Boy Furniture	1,935
Tractor rentals	Crown Ford; Ford Motor	52,500
Dinner party and show for visiting general, including \$800 for alcohol	Treasure Island Hotel and Casino	2,141

In addition, GAO identified (1) improper transactions related to weaknesses in controls relied on to prevent splitting purchases into multiple transactions to circumvent micropurchase and cardholder transaction limits and (2) the failure to use mandated sources of supply. Finally, GAO found that cardholders who abused or improperly used the purchase card were not subject to strong disciplinary action or consequences.

The Air Force has taken a number of steps to improve control over the purchase card program. For example, it implemented automated controls during fiscal year 2002 to help monitor approving official span of control, credit limits, and cardholder reconciliation and approving official review of monthly statements. If effectively implemented, these controls should help strengthen the overall Air Force purchase card control environment as well as controls over statement reconciliation and approval.

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United States General Accounting Office
Washington, D.C. 20548

December 20, 2002

The Honorable Charles E. Grassley
Ranking Minority Member
Committee on Finance
United States Senate

The Honorable Stephen Horn
Chairman
The Honorable Janice D. Schakowsky
Ranking Minority Member
Subcommittee on Government Efficiency, Financial Management
and Intergovernmental Relations
Committee on Government Reform
House of Representatives

The Department of Defense (DOD) is promoting departmentwide use of government purchase cards for obtaining goods and services. DOD reported that during fiscal year 2001, about 230,000 cardholders used purchase cards to make about 10.7 million transactions for goods and services costing over \$6.1 billion. Within these amounts, the Air Force reported that it used about 80,000 cardholder accounts to make about 3 million purchase card transactions for goods and services costing about \$1.4 billion. Purchase card transactions include acquisitions at or below the \$2,500 micropurchase threshold and payments on contracts. The use of purchase cards has increased dramatically as agencies have sought to eliminate the lengthy process and paperwork associated with making small purchases. The benefits of using purchase cards versus traditional contracting and payment processes are lower transaction processing costs and less red tape for both the government and the vendor community. We support the use of a well-controlled purchase card program to streamline the government's acquisition processes. However, it is important that agencies have adequate internal control procedures to protect the government from fraud, waste, and abuse.

In July 2001 and March 2002, we testified on significant breakdowns in internal control over purchase card transactions at two Navy sites in San Diego, California.¹ As a result of our initial audit of purchase card controls at the two Navy sites and continuing concern about fraud, waste, and abuse in DOD's purchase card program, you requested that we expand our audits of purchase card controls. Our audit of Army² purchase card controls identified a weak internal control environment; ineffective implementation of key control activities; and potentially fraudulent, improper, and abusive purchases. Our broader audit of Navy³ purchase card controls identified continuing control weaknesses and discussed actions underway by the Navy to resolve these weaknesses. This report focuses on Air Force purchase card controls.

The objective of our audit of the Air Force purchase card program was to assess the effectiveness of internal control over purchase card use and payment of purchase card transactions during fiscal year 2001. Specifically, we addressed whether (1) the Air Force's overall control environment and management of the purchase card program were effective, (2) the Air Force's key internal control activities operated effectively and provided reasonable assurance that purchase cards were used appropriately, and (3) indications existed of potentially fraudulent,⁴ improper, and abusive or questionable transactions. We also identified management actions taken by DOD and the Air Force during fiscal year 2002 to improve purchase card controls.

¹ U.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) and *Purchase Cards: Continued Control Weaknesses Leave Two Navy Units Vulnerable to Fraud and Abuse*, [GAO-02-506T](#) (Washington, D.C.: Mar. 13, 2002).

² U.S. General Accounting Office, *Purchase Cards: Control Weaknesses Leave Army Vulnerable to Fraud, Waste, and Abuse*, [GAO-02-732](#) (Washington, D.C.: June 27, 2002) and *Purchase Cards: Control Weaknesses Leave Army Vulnerable to Fraud, Waste, and Abuse*, [GAO-02-844T](#) (Washington, D.C.: July 17, 2002).

³ U.S. General Accounting Office, *Purchase Cards: Navy is Vulnerable to Fraud and Abuse, but Is Taking Action to Resolve Control Weaknesses*, [GAO-03-154T](#) (Washington, D.C.: Oct. 8, 2002) and *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).

⁴ For this report, we limit the use of the term "fraudulent" to describe those instances in which someone has been convicted, or punished, for fraudulent activity under the Uniform Code of Military Justice. In all other instances, we use the phrase "potentially fraudulent."

We identified four major Air Force commands that accounted for about 69 percent of total purchase card charges and 65 percent of total transactions for fiscal year 2001 and selected one location from each of the four commands based on the magnitude of purchase card transactions and payments for case study analysis. For each of the case study locations, we tested a statistical sample of fiscal year 2001 purchase card transactions and conducted other audit work to evaluate the design and implementation of key internal control procedures and activities. The results of our audit of the transactions constituting the statistical samples can only be projected to the individual installations where we performed the testing and cannot be used to project the adequacy of control activities at the command level or the Air Force as a whole. However, the cumulative results of our work offer significant perspective on the adequacy of the design and implementation of purchase card controls across the Air Force.

We also looked for indications of potentially fraudulent, improper, and abusive or questionable purchases as part of our tests of statistical samples of transactions and through analysis of non-representative selections of transactions using data mining. Our data mining focused on identifying transactions with vendors that were likely to sell unauthorized or personal use items for both our case study locations and Air Force-wide. Because of the large number of transactions that met these criteria, we did not look at all potential abuses of the purchase card. Our work was not designed to identify, and we cannot determine, the extent of potentially fraudulent, improper, and abusive or questionable purchases. See appendix I for details on our scope and methodology.

We performed our audit work from January through mid-November 2002 in accordance with U.S. generally accepted government auditing standards, and we performed our investigative work in accordance with standards prescribed by the President's Council on Integrity and Efficiency. We received oral comments on a draft of this report from DOD and Air Force purchase card officials on December 13, 2002. We addressed the comments in the "Agency Comments and Our Evaluation" section.

Results in Brief

Our audit of Air Force controls over fiscal year 2001 purchase card activity identified control environment weaknesses and breakdowns in key controls that leave the Air Force vulnerable to fraud, waste, and abuse. However, we found that the Air Force was aware of many of these problems and had, in several cases, initiated actions to resolve them. Major contributors to the weak control environment included excessive numbers

of purchase cards and approving official span of control, and credit limits that were 12 to 20 times higher than actual spending. As of September 2002, the Air Force had about 77,000 purchase cards—about 1 purchase card for every 7 employees compared to the Navy’s ratio of 1 purchase card for every 31 employees.

We also found that although the Air Force had issued standard, Air Force-wide purchase card operating procedures,⁵ employees responsible for carrying out purchase card program activities frequently did not follow them. For example, many of the problems we identified related to failure to follow purchase card guidelines in the *Federal Acquisition Regulation* and DOD and Air Force policies and procedures, including guidelines on micropurchases and mandated sources of supply. Further, we found that misuse of the purchase card was not always subject to strong disciplinary action or consequences, even though Air Force operating procedures require installation purchase card program coordinators to take appropriate action to document violations and preclude their reoccurrence.

Of the five key control activities we tested, we found that all four Air Force locations had significant control breakdowns in at least three of them—(1) receiving of goods and services by someone other than the cardholder, (2) cardholder reconciliation, and (3) approving official review of cardholders’ monthly reconciled statements. Our statistical test results at the four case study locations showed that failure rates for these controls ranged from 21 to 87 percent, with the highest failure rates—69 to 87 percent—relating to approving official review of reconciled cardholder statements. The high failure rate for approving official review is of particular concern because the Air Force uses a “pay and confirm” policy, which is inconsistent with governmentwide⁶ and DOD guidelines,⁷ on

⁵ Air Force Instruction, 64-117, *Air Force-wide Purchase Card Program*, issued December 6, 2000.

⁶ Section 4535 of volume 1 of the *Treasury Financial Manual*.

⁷ In a letter dated April 30, 2002, DOD informed us that its reengineering memorandums and other pronouncements comply with 10 U.S.C. 2784, which requires the Secretary of Defense to issue regulations that require, among other things, reconciliation of purchase card statements to receipts before the statements are forwarded to the disbursing office.

reconciliation and payment of purchase card bills. Both Treasury guidelines and DOD's Purchase Card Reengineering Implementation Memorandum #3 require that purchase card statements be reconciled and forwarded for payment in a timely manner and allow pay and confirm only in instances where purchased items have not been received before payment is due on the monthly purchase card bills. In contrast, Air Force purchase card policy permits cardholder statements to be reconciled and approved after payment has been made. While conscientious post payment reconciliation and approval processes may provide adequate control, the lack of documented evidence of post payment reconciliation and approval and the undetected, potentially fraudulent transactions identified in our work underscore concerns about noncompliance with DOD and Treasury guidelines. In July 2002, Air Force management asked its purchase card contractor, U.S. Bank, to "shut down" (suspend from use⁸) over 4,000 unreconciled cardholder accounts until the reconciliations were completed and the approving officials had reviewed and approved them. Accounts that had not been reconciled as of the end of August 2002 were canceled.

Further, our audit identified potentially fraudulent, improper, and abusive or questionable purchase card transactions. Some of the potentially fraudulent transactions we identified appear to be due to compromised accounts related to nationwide credit card fraud.⁹ While Air Force cardholders identified some of these potentially fraudulent transactions and took steps to dispute them with U.S. Bank, other potentially fraudulent purchases were not disputed, even though the cardholders, approving officials, or program coordinators were aware of them. Potentially fraudulent transactions that were not disputed included a \$2,443 down payment at a pawn shop on a \$10,000 sapphire ring and several purchases totaling \$3,232 at San Diego area stores, such as Old Navy, Target, K-Mart, and a Ross Store. We also identified potentially fraudulent transactions for which no supporting documentation was available to show the quantity and type of items purchased. Air Force officials could not recall the purpose of these transactions.

⁸ Suspended purchase card accounts are placed in inactive status pending further decisions about their use, such as returning them to active status after a required action has occurred or canceling the accounts.

⁹ U.S. Bank officials told us that in July 2001, they became aware of fraudulent Air Force purchase card transactions due to compromised accounts. The compromised accounts were caused by a fraud ring that used computers to randomly generate purchase card accounts and/or make counterfeit credit cards that resulted in fraudulent charges to credit cards issued nationwide by several banks.

In addition, we identified numerous examples of improper and abusive purchase card transactions. Improper transactions included purchases of food, clothing, luggage, briefcases, and personal items, such as sunglasses. We also identified improper transactions related to weaknesses in controls relied on to prevent splitting purchases into multiple transactions to circumvent micropurchase and cardholder transaction limits and the failure to use mandated sources of supply. One such purchase we identified involved a fiscal 2001 year-end purchase of about \$100,000 in helmets from an installation supply store. The purchase was split into four separate transactions to stay within the cardholder's \$25,000 transaction limit. We also determined that although the purchase was made to prevent unused funds from expiring, all the helmets were not actually needed, and the cardholder left the items in the store until requirements could be better identified. On October 1 and 2, 2001, the cardholder obtained credits for the unneeded items and used the credits to purchase other items. The subsequent credits and reuse of the funds in early October 2001, in effect, converted fiscal year 2001 appropriations to fiscal year 2002 budget authority—a violation of appropriation law.

In addition to improper transactions, we found numerous examples of purchase card transactions that involved waste and abuse. One of the abusive transactions we identified related to a Nellis Air Force Base (AFB) dinner party to entertain a visiting Joint Forces General. Air Force policy permits installation commanders to use representation funds to conduct entertainment on a modest basis. However, we determined that the cost of the dinner party, which totaled \$2,141—over \$100 per person—was excessive. Further, the total cost of the dinner included about \$800 for alcohol—over \$40 per person.

We also found instances of questionable purchases and wasteful spending related to computer equipment. For example, we found that a Travis AFB unit purchased computer equipment costing \$14,128 at the beginning of fiscal year 2001, and, shortly thereafter, decided to convert to Dell computers. As a result, within 1 year of their purchase, these items, as well as a number of other computers, were sent to the Defense Reutilization Marketing Service as excess property. We also found that an Edwards AFB unit purchased several computers at the end of fiscal year 2001 in anticipation of hiring during the first quarter of fiscal year 2002. Hiring was delayed and we found that about half the computer equipment was still stored in boxes 8 months later, raising questions about whether fiscal year 2001 funds should have been used to purchase these items. Appropriated

funds are available only to meet legitimate needs of the agency during the fiscal year for which the funds were appropriated.

The Air Force has taken a number of steps to improve controls over the purchase card program, particularly with respect to the overall purchase card program management control environment. For example, the Air Force worked with its contractor, U.S. Bank, to implement automated controls during fiscal year 2002 to help monitor approving official span of control, credit limits, and cardholder reconciliation and approving official review of monthly purchase card statements. The U.S. Bank controls permit purchase card accounts to be automatically suspended when specified control requirements, such as cardholder reconciliations and approving official span of control, are not followed. If effectively implemented, these controls should help strengthen the overall Air Force purchase card control environment as well as controls over purchase card statement reconciliation and approval. In addition, in response to our DOD purchase card audits, the Congress recently enacted the DOD fiscal year 2003 appropriation and authorization acts, which contain requirements for DOD to develop guidelines on disciplinary actions for employees who abuse or fraudulently use the purchase card. The DOD authorization act also includes a number of provisions for purchase card management improvements.

This report contains recommendations to the Air Force to further improve the overall control environment for its purchase card program; to strengthen key internal control activities; and to increase attention to preventing potentially fraudulent, improper, and abusive and questionable transactions. We also recommend that the DOD task force assess the DOD-wide applicability of both the recommendations addressed to the Air Force and the strengths in the Air Force purchase card program that we identified, such as the use of automated controls. In oral comments on a draft of this report, DOD's Purchase Card Joint Program Management Office and Air Force purchase card officials concurred on 29 of our 39 recommendations and partially concurred with 9 recommendations. At the time we finalized our work, DOD had not provided a response to our remaining recommendation that the Charge Card Task Force assess the recommendations in this report and incorporate them to the extent applicable into its future recommendations to improve purchase card policies and procedures throughout DOD.

For the nine recommendations involving partial concurrences, the issues raised by DOD and Air Force officials generally related to details such as

the terminology or responsible party included in our recommendations. However, in each case, the officials suggested actions that, if effectively implemented, would address the intent of our recommendations. A detailed discussion of the DOD and Air Force comments is presented in the “Agency Comments and our Evaluation” section of this report.

Background

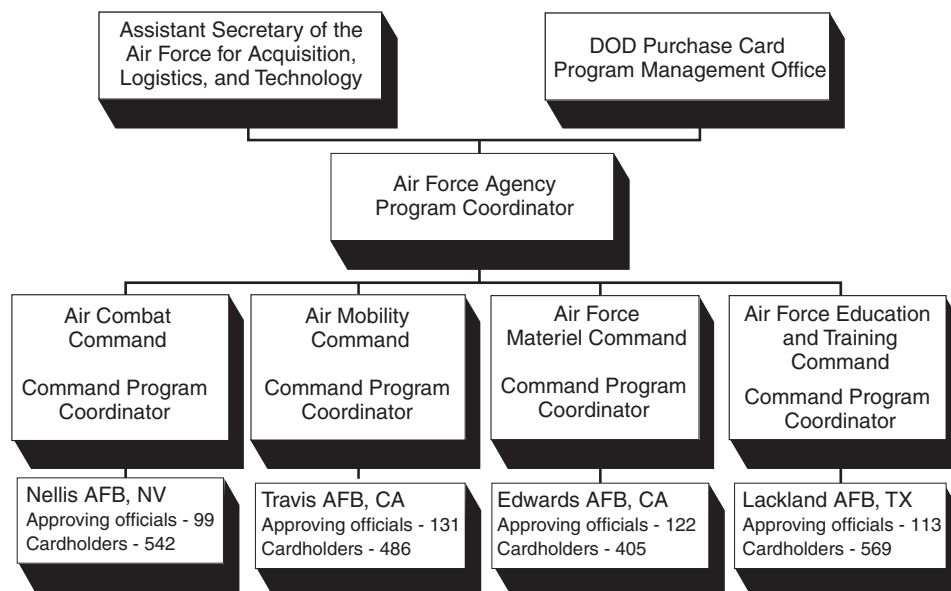
The Air Force purchase card program is part of the governmentwide Commercial Purchase Card Program established to streamline federal agency acquisition processes by providing a low-cost, efficient vehicle for obtaining goods and services directly from vendors. DOD has mandated the use of the purchase card for all purchases at or below \$2,500 and has authorized the use of the card to pay for specified larger purchases. Purchases over the \$2,500 micropurchase threshold must be in accordance with simplified acquisition guidelines in the *Federal Acquisition Regulation*. The purchase card should normally not be used for cash advances; travel-related purchases; rentals or leases of land or buildings; utility services; or hazardous/dangerous items, such as explosives, munitions, toxins, and firearms.

The Air Force purchase card program operates under a task order associated with the General Services Administration’s governmentwide purchase card contract, as do the purchase card programs of all federal agencies. Government acquisition laws and regulations, such as *Federal Acquisition Regulation*, Part 13, “Simplified Acquisition Procedures,” establish the criteria for using purchase cards to place orders and make payments. The Air Force issued Instruction 64-117, *Governmentwide Purchase Card Program*, dated December 6, 2000, to establish responsibilities and procedures and provide administrative guidance for its government purchase card operations. The Air Force Instruction contains standardized Air Force guidance that has been implemented Air Force-wide.

The Assistant Secretary of the Army for Acquisition, Logistics, and Technology in coordination with the Under Secretary of Defense (Comptroller), has overall responsibility for DOD's purchase card program. The DOD Purchase Card Joint Program Management Office, in the office of the Assistant Secretary of the Army for Acquisition, Logistics, and Technology¹⁰ is responsible for overseeing DOD's program. The Air Force agency program coordinator, within the headquarters acquisition office has oversight over the Air Force purchase card program. However, the primary management responsibility for the purchase card program lies with the Assistant Secretary of the Air Force for Acquisition, the Deputy Assistant Secretary for Contracting, and the contracting offices in the major Air Force commands and local installations. Figure 1 shows the Air Force purchase card program management hierarchy as it was during our audit. For the major commands, the figure shows the number of installation program coordinators within the command. For the four installations we audited, the figure shows the number of approving officials and cardholders at each installation.

¹⁰ DOD has assigned agencywide purchase card program management responsibility to the Assistant Secretary of the Army (Acquisition, Logistics, and Technology).

Figure 1: Air Force Purchase Card Program Management Structure



Source: GAO analysis of Air Force purchase card program organization.

At each Air Force installation, a certifying officer in the installation Financial Services Office is responsible for certifying the monthly purchase card statements for payment. This is done within a few days of receipt of the monthly statement. Accuracy of the monthly statements is confirmed after payment has been made. Personnel in three positions—program coordinator, approving official,¹¹ and cardholder—are collectively responsible for providing reasonable assurance that purchase card transactions are appropriate and meet a valid government need. The installation program coordinator, typically a full-time position under the director of the contracting squadron, is responsible for the day-to-day management, administration, and oversight of the program. Installation program coordinators issue and cancel purchase cards, train cardholders and approving officials, and coordinate with other Air Force units and U.S. Bank—the Air Force’s purchase card-issuing bank. Approving officials, who are typically responsible for more than one cardholder, are to review cardholders’ transactions and the cardholders’ monthly, reconciled

¹¹ Approving officials are also referred to as billing officials or accountable officials. These terms are used interchangeably by the Air Force.

purchase card statements and approve the statements as already paid or ensure that any invalid transactions are disputed and credited, either by the merchant or the bank. In accordance with Air Force Instruction 64-117, cardholders are required to reconcile their monthly purchase card statements and approving officials are required to review and approve the reconciled statements within 15 days after receipt of the statements at the installation but not later than the 15th day of the month following the statement date. Approving officials receive a monthly, consolidated statement that covers their cardholders' monthly purchase card statements. Appendix II provides additional details on the Air Force purchase card program.

Weaknesses in Overall Control Environment

Management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management. A positive control environment is the foundation for all other standards. It provides discipline and structure as well as the climate which influences the quality of internal control. GAO's *Standards for Internal Control in the Federal Government* ([GAO/AIMD-00-21.3.1](#), November 1999)

We found overall control environment weaknesses at the four case study locations we audited as well as indications of similar weaknesses in our Air Force-wide analysis that contributed to breakdowns in key control activities and potentially fraudulent, improper, and abusive purchase card transactions. For example, we encountered numerous instances where supporting documentation was not available because installations destroyed purchase card records on a rolling 1-year basis due to faulty records retention guidance in the Air Force purchase card Instruction that did not comply with federal guidelines. We also found weaknesses in the areas of (1) the number of cardholders and accounts, (2) approving official span of control, (3) credit limits compared to historical spending, (4) documentation of cardholder and approving official training, (5) implementation of audit and internal review recommendations, and (6) accountability and disciplinary action. Further, given the magnitude of the purchase card program at the installations we audited, we found the human capital infrastructure for program monitoring and oversight to be inadequate. As discussed in a later section of this report, these control environment weaknesses have contributed to fraudulent, improper, and abusive purchase card activity.

We also found some positive aspects of the Air Force purchase card program, such as Air Force-wide purchase card operating procedures and aggressive Air Force Audit Agency reviews of installation purchase card programs since 1996. The importance of the role of management in establishing a positive internal control environment cannot be overstated. GAO's *Standards for Internal Control in the Federal Government*,¹² discusses management's key role in demonstrating and maintaining an organization's integrity and ethical values, especially in setting and maintaining the organization's ethical tone, providing guidance for proper behavior, and removing temptations for unethical behavior.

Failure to Comply with Federal Records Retention Requirements

During our audit of Air Force fiscal year 2001 purchase card activity, we encountered numerous instances where supporting documentation was not available because installations destroyed purchase card records on a rolling 1-year basis due to faulty records retention guidance in the Air Force purchase card Instruction. Federal records retention requirements in the *Federal Acquisition Regulation*,¹³ the *General Records Schedule*¹⁴ established by the National Archives and Records Administration (NARA), and DOD's *Financial Management Regulation*¹⁵ require records supporting program and contracting activity to be retained for 3 years and records supporting financial transactions to be retained for 6 years and 3 months. However, the records retention guidance in Air Force Instruction 64-117 called for documentation received and generated by the cardholder, such as vendor invoices, sales receipts, and shipping reports, and cardholder logs to be maintained for only 1 year after the final payment. In addition, 36 C.F.R. 1228.30, which covers disposition of federal records, requires agencies to establish a schedule for disposing of their records and obtain approval of their records disposition schedules from the NARA. We saw no evidence that the Air Force developed a records disposition schedule related for purchase card records.

¹² U.S. General Accounting Office, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington D.C.: November 1999).

¹³ *Federal Acquisition Regulation*, Part 4, Section 4.805 states that contracts and related documents at or below the simplified acquisition threshold of \$100,000 must be retained for 3 years.

¹⁴ *General Records Schedule No. 6*, "Accountable Officer's Accounts Records."

¹⁵ DOD *Financial Management Regulation*, Volume 1, Chapter 9, "Financial Records Retention."

While missing records affected all aspects of purchase card controls, the greatest impact was on cardholder and approving official appointments and training and cardholder delegations of purchasing authority. Further, we found that cardholders at Wilford Hall Medical Center, located at Lackland Air Force Base (AFB), did not adhere to the Air Force requirement to retain purchase card transaction records for even the 1-year period. As discussed in the next section of this report on tests of key controls, 52 of the 152 transactions in our Lackland AFB sample were for Wilford Hall purchase card activity, and required supporting documentation was not available for 23 of these 52 transactions.

The Air Force Instruction also called for documentation generated by the installation program coordinator and approving officials, such as records of training, delegations of authority, and surveillances, to be retained only as long as the cardholder and approving official are performing that function. Air Force headquarters officials told us that the Air Force Instruction, which is currently being revised, would include corrections to the records retention guidelines.

Proliferation of Cardholders and Accounts Result in Unreasonable Span of Control

While the number of Air Force purchase cardholders peaked at about 80,000 cardholder accounts in September 2001, the overall number of cardholders from October 2000 through September 2002 has remained about the same. 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. In contrast, the Navy had reduced the number of its purchase cardholders from about 52,000 to about 23,000 and only about 1 of every 31 employees was a purchase cardholder.

We determined that the Air Force 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. Purchase cards were given out on the basis of a request from an individual employee's unit commander. The request was then forwarded to the installation's purchase card Agency program coordinator, who approved the request and began the process for obtaining a new card from U.S. Bank.

In addition to an excessive number of cardholders, we found that some Air Force cardholders had as many as 10 government purchase cards. The Air Force permits cardholders to have numerous purchase card accounts to facilitate accounting for purchase card expenditures related to different funding sources—appropriated and nonappropriated funds—as well as

different accounting lines within the same fund source. Assigning multiple purchase cards is not an appropriate method of accounting for purchase card transactions. Further, this practice places substantial credit risk in the hands of one individual.

Some Approving Officials' Span of Control over Purchase Card Accounts Exceeds DOD Guidelines

In response to concerns about approving official span of control raised during our initial Navy purchase card work, the Director of DOD's Purchase Card Joint Program Management Office issued a memorandum on July 5, 2001, that called for no more than five to seven cardholders per approving official.¹⁶ During fiscal year 2002, the Air Force established goals for reducing the number of cardholder accounts assigned to approving officials. Our analysis of span of control ratios at the four installations we audited disclosed that when looking at average ratios, the Air Force has adhered to the DOD span of control guidelines. However, as shown in table 1, these averages have masked the wide range of ratios across each Air Force installation—some of which exceeded the DOD guidelines. As of August 2002, we found that the four installations we audited had from 22 to 32 approving officials that were responsible for more than 7 cardholder accounts, including four approving officials at two installations—Travis AFB and Edwards AFB—that were responsible for more than 20 cardholder accounts.

Table 1: Ratio of Cardholder Accounts to Approving Officials, August 2002

Air Force location	Average ratio of cardholder accounts to approving officials	Number of approving officials	Number of cardholder open accounts ^a	Percentage and number of approving officials with over seven cardholder monthly account statements to review	Highest ratio of cardholder accounts to approving officials
Edwards	4.3 to 1	122	530	18% (22)	29
Lackland	5.9 to 1	113	662	27% (30)	20
Nellis	6.4 to 1	99	638	32% (32)	19
Travis	5.4 to 1	131	702	20% (26)	31

Source: GAO analysis of U.S. Bank data provided by the Air Force.

^a Includes multiple accounts for individual cardholders.

¹⁶ Memorandum from Director, Purchase Card Joint Program Management Office to assistant secretaries of defense agencies. Subject: Internal and Management Controls – DOD Purchase Card Program (July 5, 2001).

As shown in table 1, the percentage of approving officials whose span of control exceeded DOD guidelines ranged from 18 percent to 32 percent at the four Air Force locations we audited.

Credit Limits Exceed Procurement Needs

Our analysis of purchase card spending compared with credit limits showed that monthly credit limits for the four case study locations far exceeded their actual monthly spending. Limiting credit available to cardholders is a key factor in managing the purchase card program and in minimizing the government's financial exposure. On August 13, 2001, DOD's Director of Defense Procurement sent a memorandum to the directors of all defense agencies stating that supervisors should set reasonable limits based on what each person needs to buy as part of his or her job and that every cardholder does not need to have the maximum transaction or monthly credit limit.

Air Force officials told us that their credit limits appear excessive because these limits include credit limits of primary and alternate, or backup, approving officials and cardholders. The officials explained that they assign primary and alternate approving officials and cardholders to local units to ensure that purchases can continue when primary approving officials or cardholders are on leave, assigned to temporary duty locations, or deployed. The officials also told us that alternate approving officials and cardholders are given the same credit limits as the primary approving officials and cardholders. The Director of DOD's Purchase Card Joint Program Management Office told us that DOD guidelines suggest that credit limits for inactive accounts, including alternate accounts, should be reduced to \$1. However, Air Force officials told us that they do not deactivate alternate accounts or reduce credit limits during periods when alternate purchasing authority is not needed due to frequent schedule changes and the administrative burden associated with turning accounts on and off. As shown in table 2, total financial exposure as measured in terms of purchase card credit limits substantially exceeded historical purchase card spending.

Table 2: Fiscal Year 2001 Historical Purchases vs. Credit Limits for Selected Air Force Case Study Locations

Dollars in millions				
Historical measures	Edwards	Lackland	Nellis	Travis
Total fiscal year 2001 purchases	\$23.8	\$36.2	\$27.7	\$24.7
Average monthly purchases	2.0	3.0	2.3	2.7
Average monthly credit limit ^a	24.1	36.7	42.3	55.4 ^b
Ratio of credit limit to average fiscal year 2001 monthly purchases	12 to 1	12.2 to 1	18.4 to 1	20.5 to 1

Source: GAO analysis of U.S. Bank data provided by the Air Force.

^a We used approving officials' credit limits to calculate average monthly credit limits.

^b Travis AFB did not retain monthly reports for fiscal year 2001; therefore, we used the Travis AFB October 2001 monthly report as an indication of the average credit limit.

Air Force officials told us that to better control cardholder spending limits, they worked with U.S. Bank to develop an automated control that will tie quarterly authorizations of budget authority to cardholder credit limits. According to Air Force officials, this control was implemented during fiscal year 2002.

Lack of Documentation of Cardholder and Approving Official Training and Authority

Effective management of an organization's workforce—its human capital—is essential to achieving results and an important part of internal control. Training should be aimed at developing employee skill levels to meet changing organizational needs. GAO's *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, November 1999)

Documentation of cardholder and approving official training and authority varied widely across the four locations we audited. For example, we found that two of our four case study locations had maintained documentation on cardholder and approving official appointments, cardholder delegations of purchasing authority, and cardholder and approving official training. However, at Edwards AFB and Travis AFB, our test results indicated that 12 percent¹⁷ and 51 percent,¹⁸ respectively, of their fiscal year 2001 purchase card transactions were made by cardholders and/or approving officials who had no documentation showing they had received initial training. Further, none of the four case study locations we audited had adequate documentation to show that both cardholder and approving official training was current for the transactions in our sample.

Air Force Instruction 64-117 requires commanders or chiefs to prepare a Letter of Appointment designating the proposed cardholder and approving official and identifying their name, rank, duty title, telephone number, and e-mail address; the types of purchases to be made; and funds to be used to pay for the purchase card purchases. The installation program coordinator is to coordinate single and monthly purchase limits with the designated billing official and forward documentation to the bank to set up the purchase card account. While the Instruction provides for denial of appointments, it does not provide criteria or qualifications for who may be a cardholder or approving official.

The Instruction also requires that prior to establishing a purchase card account and issuing a purchase card, all prospective cardholders and approving officials must receive training on requirements in the *Federal Acquisition Regulation* and Air Force purchase card and acquisition policies and procedures. Once initial training is received, the Instruction requires all cardholders to receive supplemental training in the form of annual refresher training and it implies that approving officials should have refresher training.¹⁹ The Air Force Instruction requires installation

¹⁷ The range of our confidence interval, at a 95-percent confidence level, was between 5 percent and 23 percent.

¹⁸ The range of our confidence interval, at a 95-percent confidence level, was between 39 percent and 64 percent.

¹⁹ While the Air Force Instruction does not require that approving officials have refresher training, the surveillance checklist, which is included in the Instruction, includes a question on whether approving officials have received refresher training, thus implying that this training is required.

program coordinators to maintain documentation of approving official and cardholder purchase card appointments and training and cardholder delegations of purchasing authority as long as these individuals are serving in those capacities.

Contracting officials at Travis AFB explained that in accordance with Air Force Instruction 64-117, they did not retain records of appointments, training, and delegations of authority for approving officials and purchase cardholders who were no longer performing those duties or were no longer at Travis AFB. We also found that Travis AFB did not maintain central files to document cardholder and approving official appointments and cardholder delegations of purchasing authority, and documentation of training was incomplete or could not be located by individual units at that installation. In addition, Edwards AFB contracting officials told us that they did not retain cardholder and approving official appointment letters. Table 3 shows the results of our statistical tests for documentation of appointments, delegations of purchasing authority, and training for cardholders and approving officials associated with the transactions in our sample.

Table 3: Lack of Documented Appointment Letters, Delegation of Purchasing Authority, and Training for Cardholders and Approving Officials

Key control	Percentage of breakdowns in key purchase card controls ^a			
	Edwards	Lackland	Nellis	Travis
Cardholder and approving official appointment letters	82	0	0	97
Initial training	12	0	0	51
Cardholder delegations of purchasing authority	13	0	1	84

^a The projections represent point estimates for the populations based on our statistical samples rounded to the nearest percentage point. The intervals are two-sided 95-percent confidence intervals.

Source: GAO testing and statistical analysis of Air Force purchase card transaction files.

Although Edwards AFB and Travis AFB officials asserted that their cardholders and approving officials had received required purchase card training, we found numerous improper purchase card transactions related to failure to follow federal guidelines on micropurchases and mandated sources of supply that indicate that cardholders and approving officials either had not been trained, training was inadequate, or cardholders were

not following guidelines addressed in the training classes. For example, we found that cardholders at Edwards AFB were unaware that they are required to obtain competitive price quotes from three different vendors when their purchases exceed the \$2,500 micropurchase threshold. We also found that Travis AFB cardholders frequently were not following these guidelines. Further, we found that the Edwards AFB installation program coordinator routinely waived micropurchase and cardholder transaction limits to permit cardholders to purchase goods and services at higher amounts. We also found that Edwards AFB cardholders frequently did not follow federal guidelines on mandated sources of supply and Travis AFB cardholders did not notify property book officers when they used the purchase card to buy computer equipment and other pilferable property.

In addition, we were unable to determine whether cardholder and approving official training was current due to missing documentation and the use of E-mail notices, bulletins, and newsletters used to update purchase card training at three case study locations. Travis AFB lacked documented evidence that most of its cardholders and approving officials had received annual refresher training and the other three case study locations could not document informal training that was provided outside of classrooms. During fiscal year 2002, due to concerns about whether approving officials and cardholders had received adequate refresher training, Edwards AFB and Nellis AFB began using classroom training and sign-in sheets to document annual purchase card refresher training for both approving officials and cardholders.

**Significant Audit Activity,
but Corrective Actions Not
Always Taken**

Monitoring of internal control should include policies and procedures for ensuring that the findings of audits and other reviews are promptly resolved. GAO's <i>Standards for Internal Control in the Federal Government</i> (GAO/AIMD-00-21 .3.1 November 1999)
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We found that the four case study locations conducted annual purchase card internal reviews, called surveillances, and the Air Force Audit Agency performed aggressive reviews;²⁰ however, we also identified significant repeat findings indicating a lack of commitment to adhere to purchase card regulations and DOD and Air Force policies and procedures. In addition, at one of the four case study locations we audited—Edwards AFB—internal reviewers did not disclose all identified problems in the reports on surveillance results. The Air Force Audit Agency reported²¹ similar findings in its reviews of fiscal year 2000 installation-level purchase card activity. The Air Force auditors concluded that without enforcement of purchase card requirements, such as administratively disciplining the offenders or revoking purchase card privileges, purchase card discrepancies will likely continue. The Air Force Audit Agency reported that inaction by contracting officials reduced the effectiveness of other purchase controls, increased transaction errors, and undermined the Air Force purchase card goals.

As stated in GAO's *Standards for Internal Control in the Federal Government*, monitoring of internal control should include policies and procedures for ensuring that the findings of audits and other reviews are promptly resolved. Managers are to (1) promptly evaluate findings from audits and other reviews, including those showing deficiencies, and recommendations reported by auditors and others who evaluate agency operations, (2) determine proper actions in response to findings and recommendations from audits and reviews, and (3) complete, within established time frames, all actions that correct or otherwise resolve the matters brought to management's attention.

²⁰ The Air Force Audit Agency has performed 253 reviews of installation purchase card controls since fiscal year 1996.

²¹ Air Force Audit Agency, *Air Force Purchase Card Program*, Audit Report F2002-0006-C06400 (Aug. 6, 2002).

Internal Surveillances

The Air Force purchase card Instruction, which was issued in December 2000, requires the installation purchase card program coordinator to perform a surveillance (internal review) of each approving official's billing account²² and 25 percent of the cardholders' accounts at least every 12 months. The Air Force Instruction includes an optional surveillance checklist that covers key purchase card requirements, including most of the control activities covered in our audit. Our review of the surveillances associated with the approving officials and cardholders responsible for the transactions in our case study samples showed that many of the problems identified by installation internal reviewers were consistent with the problems we found in our audit. For example, these surveillance results identified failure to adhere to Air Force guidance on \$2,500 micropurchase limits, purchases from required sources, failure of billing officials to review their cardholders' accounts, prohibited purchases, and failure to maintain purchase logs.

Further, we determined that Edwards AFB intentionally did not address problems related to noncompliance with micropurchase requirements and mandated sources of supply nor did it recommend corrective actions in its reports on surveillance results. For example, 40 of the 44 Edwards AFB surveillance reports that we reviewed stated "no discrepancies were noted," even though documentation supporting this conclusion for 11 surveillance reports indicated that problems, such as splitting purchases to avoid obtaining competitive prices when purchases exceeded the \$2,500 micropurchase threshold and failure to use mandated vendors, were identified. Further, while use of the surveillance checklist is optional, we found that several of the checklists provided as documented support for the surveillances that we reviewed were blank. As a result, we were unable to determine whether a review had been performed, but was not documented, or if no review had been performed as a basis for the conclusions in the associated surveillance letters. When we discussed our concerns with the Director of Contracting at Edwards AFB, the Director told us that internal reviewers do not address splitting purchases to avoid micropurchase requirements and failure to use mandated sources of supply in their surveillance reports because they consider these requirements to be "procedural matters." However, the guidelines on micropurchases and

²² Approving official billing accounts (also referred to as managing accounts) are summary accounts that include the accounts of individual cardholders under the purview of the approving official. To approve the monthly billing account statement, the approving official is required to review the monthly, reconciled statements for each of the cardholder accounts that are included in the approving official's monthly billing statement.

mandated sources of supply are prescribed in law and the *Federal Acquisition Regulation* and are not merely procedural. It is important that surveillance reports identify noncompliance with requirements in law and regulations, which are designed to prevent improper purchases. Air Force headquarters officials agreed with our position.

In addition, we found that installation program coordinators at two of our four case study locations had issued their surveillance reports to approving officials rather than unit commanders. In contrast, Nellis AFB surveillance letters were addressed to unit commanders and were signed by the Contracting Director. Further, the Nellis AFB Contracting Director wrote personal notes on the face of the surveillance letters commending unit commanders for good surveillance results and noting areas that must be improved when the surveillances had identified failure to follow purchase card guidelines. This positive “tone at the top” served to hold unit commanders accountable for effective implementation of their purchase card programs.

Air Force Audit Agency Audits

In its August 2002 report on the results of its audit of fiscal year 2000 purchase card transactions at 46 Air Force installations, Air Force Audit Agency auditors concluded that overall, Air Force guidance established adequate purchase card controls and oversight procedures. At the same time, Air Force auditors found that installation purchase card program coordinators and approving officials did not adhere to this guidance in executing their surveillance responsibilities. For example, consistent with our audit, Air Force auditors found continuing problems with (1) advance approval for purchases of computer equipment, (2) splitting purchases into multiple transactions to circumvent micropurchase and cardholder single transaction limits, (3) accountability for pilferable property items purchased with a purchase card, and (4) purchase card statement reconciliations and approving official review. Further, according to Air Force auditors, of the nearly \$150 million in transactions evaluated, cardholders acquired supplies and services totaling approximately \$25.4 million using purchase methods specifically disallowed under established policy and guidance.

Specifically, Air Force auditors reported the following findings related to their audits of purchase card activity during fiscal year 2000 at Edwards, Lackland, and Travis Air Force bases and purchase activity during fiscal year 2001 at Nellis AFB.

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- At Edwards AFB, Air Force auditors had repeat findings²³ of split purchases and lack of required advance purchase authorizations for purchases of computer equipment. The auditors also found that cardholders were not familiar with micropurchase requirements.
 - At Lackland AFB, Air Force auditors reported²⁴ that the issues of improper reconciliation procedures to validate purchases and charges and ineffective surveillance of cardholders and billing officials were repeat conditions reported in a prior audit report.
 - Air Force auditors reported²⁵ a repeat finding that Travis AFB did not always maintain property accountability for items costing over \$500. In addition, the auditors reported that cardholders did not always obtain required advance authorizations for purchases of computer and communication equipment.
 - Air Force Audit Agency auditors reported²⁶ that the 99th Wing at Nellis AFB effectively controlled purchase card purchases, noting that purchases were properly approved, recorded in cardholder logs, and that approving officials reviewed cardholder records monthly. However, the auditors found that some units improperly purchased bottled water and that opportunity existed for unit commanders to ensure greater visibility over unit purchases by reviewing automated records in U.S. Bank's database.

²³ Air Force Audit Agency, *Installation Report of Audit: Air Force Purchase Card Program, Air Force Flight Test Center, Edwards AFB CA*, Audit Report F2002-0005-DD0000 (Washington, D.C.: Jan. 31, 2002).

²⁴ Air Force Audit Agency, *Installation Report of Audit: Air Force Governmentwide Purchase Card Program, 37th Training Wing, Lackland AFB TX*, Audit Report WR002003 (Washington, D.C.: Oct. 17, 2001).

²⁵ Air Force Audit Agency, *Installation Report of Audit: Air Force Purchase Card Program, 60th Air Mobility Wing, Travis AFB CA*, Audit Report F2002-0019-WM0000 (Washington, D.C.: Nov. 29, 2001).

²⁶ Air Force Audit Agency, *Commanders Audit Program, Report of Audit: Unit Purchase Controls for the International Merchants Purchase Authorization Card, 99th Air Base Wing, Nellis AFB NV*, Audit Report WN001C02 (Washington, D.C.: Apr. 4, 2001).

Weaknesses in Accountability and Lack of Disciplinary Actions

Management plays a key role in demonstrating and maintaining an organization's integrity and ethical values, especially in setting and maintaining the organization's ethical tone, providing guidance for proper behavior, removing temptations for unethical behavior, and providing discipline when appropriate. GAO's *Standards for Internal Control in the Federal Government* ([GAO/AIMD-00-21](#).3.1 November 1999)

During our work, we noted that misuse of the purchase card was not always subject to strong disciplinary action or consequences, even though Air Force Instruction 64-117 requires installation purchase card program coordinators to take appropriate action to document violations and preclude their reoccurrence. The Instruction also requires approving officials to document cardholder violations and forward the information to the program coordinator. The Instruction states that action(s) taken should be commensurate with the violation(s) and gives examples of actions, such as suspending the cardholder or approving official account, requiring remedial training, requiring restitution for any unauthorized purchases, and permanently revoking purchase card privileges. Holding individuals responsible for proper program execution is an integral part of a strong control environment.

Our review of the results of annual purchase card surveillances performed all four case study locations determined that the surveillances found violations of *Federal Acquisition Regulation* guidelines on micropurchases and requirements to use mandated sources of supply. Recommended disciplinary actions for violations of these federal regulations were limited to requiring the offending approving officials and cardholders to take remedial training. For repeat offenders, the surveillance reports generally recommended that the cardholder's and/or approving official's purchase card account(s) be suspended until remedial training was completed. In only a few cases, had surveillance reports recommended canceling the accounts and revoking cardholder privileges, even for repeat offenders. As previously discussed, Edwards AFB surveillances did not include findings on these issues and, therefore, Edwards AFB did not take disciplinary action for failure to follow federal guidelines on micropurchases and using mandated sources of supply.

Further, although three Edwards AFB surveillance reports identified improper use of the purchase card to buy food for employees, pay for party supplies, and purchase invitations for a change of command ceremony, the reports did not recommend disciplinary action, and we saw no evidence that the cardholder or the benefiting individuals were required to pay for

the unauthorized purchases. According to the Edwards AFB Contracting Director, cardholders have been counseled and in some cases referrals were made to unit commanders to take appropriate disciplinary action for improper use of the purchase card. However, Edwards AFB officials provided no documentation that any disciplinary actions were taken.

The Air Force Audit Agency reported that inaction by contracting officials reduced the effectiveness of other purchase controls, increased transaction errors, and undermined the Air Force purchase card goals. Air Force auditors concluded that without enforcement of purchase card requirements, such as administratively disciplining the offenders or revoking purchase card privileges, purchase card discrepancies will likely continue. We agree with the Air Force Audit Agency's conclusions.

In response to our DOD purchase card audits, the Congress has recently addressed the question of discipline for those who misuse the government purchase card. Section 8149(c) of the Department of Defense Appropriations Act, 2003 (fiscal year 2003 appropriations act),²⁷ and section 1007(a) of the Bob Stump National Defense Authorization Act for Fiscal Year 2003 (fiscal year 2003 authorization act)²⁸ provide that the Secretary of Defense establish guidelines and procedures for disciplinary actions to be taken against department personnel for improper, fraudulent, or abusive use of government purchase cards.

Inadequate Infrastructure for Program Monitoring and Oversight

Management should ensure that skill needs are continually assessed and that the organization is able to obtain a workforce that has the required skills that match those necessary to achieve organizational goals....As a part of its human capital planning, management should also consider how best to retain valuable employees, plan for their eventual succession, and ensure continuity of needed skills and abilities. GAO's *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, November 1999)

Ineffective oversight of the purchase card program also contributed to weaknesses in the overall environment. Installation program coordinators are established as the pivotal officials in managing and overseeing the purchase card program. The coordinators at the installations we audited

²⁷ Public Law 107-248, 116 Stat. 1519, 1572.

²⁸ Public Law 107-314 (H. R. Rep. No. 107-702).

had little training on what they should be doing to oversee the program and limited time to carry out oversight activities that are called for in Air Force Instruction 64-117, such as reviewing U.S. Bank exception reports and following up on suspicious transaction activity as well as conducting annual surveillances. Effective oversight activities also would include other management reviews and evaluations to assess risks associated with the number of credit card accounts, credit limits, and approving official span of control and to assess the effectiveness of controls, identify systemic weaknesses, and determine the extent of potentially fraudulent, improper, and abusive or questionable purchases.

We also found that the program coordinators did not have the grade level or organizational authority—"clout"—to routinely deal with unit commanders, approving officials, and resource managers across the installation, who may significantly outrank them, to enforce purchase card guidelines and controls. Program coordinators have the primary responsibility for purchase card program management and significant control over procurement activities carried out by a large number of individuals. For example, during fiscal year 2001, the Nellis AFB program coordinator who was a GS-9, similar in grade to a master sergeant, had responsibility for over 55,000 purchase card transactions totaling over \$27 million involving 638 cardholder accounts and 99 approving officials.

Installation contracting officials told us that program coordinator staffing had not kept pace with the growth in the purchase card program. GSA data show that Air Force purchase card activity has grown from 2.8 million transactions totaling \$1.3 billion at the beginning of fiscal year 2000 to 3.2 million transactions totaling about \$1.4 billion at the end of fiscal year 2001. During fiscal year 2002, Lackland AFB increased the number of staff assigned to the program coordinator's office from three staff assigned in fiscal year 2001 to a total of six staff to provide better oversight of Wilford Hall's purchase card program as well as to monitor purchase card use by units transferred to Lackland AFB when Kelly AFB closed. The other three installations we audited had not increased their program coordinator staffing. As of September 2002, Edwards AFB had three staff assigned, Nellis AFB had two staff, and Travis AFB had one and a half staff to oversee their purchase card programs. Further, at Travis AFB, where military employees have held the program coordinator position, there have been four different individuals assigned to the program coordinator position since October 2000 due to high turnover associated with military positions. As a result, Travis AFB program coordinators spend much of their time learning versus overseeing the purchase card process. Table 4 shows the

grade level, staffing, and span of control data for installation purchase card program coordinators at our four case study locations as of August 2002.

Table 4: Installation Program Coordinator Span of Control as of September 30, 2002

Air Force installation	Grade level of installation program coordinator	Staff in program coordinator's office	Number of approving officials ^a	Number of cardholder accounts ^a	Number of transactions	Value of transactions (in millions)
Edwards AFB	GS-12	3	122	530	39,600	\$21.7
Lackland AFB	GS-11	6	113	662	93,446	43.9
Nellis AFB	GS-9	2	99	638	52,591	30.6
Travis AFB	1 st lieutenant	1.5	131	702	56,682	30.3

Source: GAO analysis of U.S. Bank data.

^a Data presented are as of the end of August 2002.

In September 2002, the Travis AFB Contracting Director told us that he had requested approval to hire a full-time GS-9 staff member to assist the program coordinator. In early November, the Deputy Contracting Director told us that they had received approval hire a GS-11 civilian employee as the installation purchase card program coordinator as well as the GS-9 assistant, beginning in January 2003.

Given the risks associated with ineffective purchase card program management identified in our purchase card work, it is imperative that agencies have sufficient numbers of qualified, experienced purchase card program coordinator staff to help oversee their purchase card programs and that their grade levels be commensurate with their responsibilities.

Tests of Key Control Activities

Internal control activities help ensure that management's directives are carried out. The control activities should be effective and efficient in accomplishing the agency's control objectives. GAO's *Standards for Internal Control in the Federal Government* ([GAO/AIMD-00-21.3.1](#), November 1999)

Our tests of statistical samples of transactions at four Air Force installations found weaknesses in key purchase card control activities. For example, of the five key control activities we tested, we found that all four Air Force locations had significant control breakdowns in at least three of

them. However, on a positive note, our tests of easily pilferable property items included in our statistical sample transactions showed that two of the four Air Force installations we audited were able to account for all the property items that we selected for testing.

Control activities occur at all levels and functions of an agency. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, and the production of records and documentation. For the Air Force purchase card program, we tested those control activities that we considered to be key in creating a system to provide reasonable assurance that transactions are correct and proper throughout the procurement process. The key control activities and techniques we tested include (1) advance approval of purchases, (2) independent receiving and acceptance of goods and services, (3) cardholder reconciliation of monthly statements, (4) independent review by an approving official of the cardholder's reconciled statements and supporting documentation within the Air Force-prescribed time frame, and (5) cardholders obtaining receipts and maintaining invoices that support their purchases and provide the basis for reconciling cardholder statements. Table 5 summarizes the results of our statistical testing. Appendix I includes the specific criteria that we used to conclude on the effectiveness of these controls.

Table 5: Internal Control Activity Statistical Testing Results

Air Force installation	Percentage of breakdowns in key purchase card controls ^a				
	Advance authorization	Independent receiving	Cardholder reconciliations	Approving official review	Supporting invoice/receipt
Edwards	6	68	22	70	9
Lackland	12	61	26	87	30
Nellis	4	53	37	69	0
Travis	2	56	21	73	8

^a The numbers represent point estimates for the population based on our sampling tests rounded to the nearest percentage point. The confidence intervals for our sample estimates are presented in appendix I of this report.

Source: GAO analysis.

The results in table 5 include transactions for which supporting documentation was destroyed due to improper records retention guidance in the Air Force Instruction.

Advance Authorization of Purchases

Our test work showed that, for the most part, the four case study locations we tested had documentation of required advance authorization with estimated failure rates for required advance authorization of purchases ranging from 2 percent to 12 percent. The segregation of duties between officials who authorize a purchase and the cardholder who makes the purchase helps reduce the risk of fraud, waste, and abuse in the purchase card program. The Air Force purchase card program Instruction 64-117 requires cardholders to obtain authorization from the specified controlling/servicing organization on base for certain purchases, including purchases of computer and communication equipment, video equipment, medical items, and hazardous materials, before making the purchase. The Air Force installations we audited documented advance authorizations on forms established specifically for that purpose.

Independent Receiving and Acceptance

The requirement for documentation of independent receiving and acceptance by someone other than the cardholder is not specifically addressed in DOD policy or Air Force purchase card program Instruction 64-117. We believe that independent documentation of receipt of items purchased by a cardholder is a basic internal control activity that provides additional assurance to the government that purchased items are not acquired for personal use and that they come into the possession of the government. Based on our statistical testing, we estimated that the failure rate for independent documentation of receipt and acceptance—receiving of goods and services by someone other than the cardholder—ranged from 53 percent to 68 percent at the four Air Force locations we tested. The types of items in our sampled transactions that lacked independent evidence of receipt and acceptance included computer software and memory cards, a fax machine, a cassette recorder, camera film, hardware, supplies, and tools. These items were purchased at stores such as Homebase, Staples, and Radio Shack. Because the Air Force purchases items for valid, government purposes from stores that are widely used by consumers to acquire items for personal use, verification of receipt of goods and services by an individual other than the cardholder is necessary to reduce the risk of fraudulent transactions.

Cardholder Reconciliation and Approving Official Review

Cardholder reconciliation is a key control activity for detecting invalid transactions, including billing errors and unauthorized purchases. However, based on our statistical testing, we estimated that cardholders at the four case study locations lacked documented evidence of timely reconciliations of monthly purchase card statements from 21 percent to 37 percent of the time. As evidence that purchase card statements were reconciled, we accepted check marks, notes, sequential numbering, and numbering systems that tied transactions on the statement to items on the cardholders' purchase card logs. Independent approving official review of monthly, reconciled cardholder statements is a key control activity for segregation of duties, whereby no one individual has control over all aspects of a transaction. Based on our statistical testing, we estimated that approving officials at the four case study locations lacked documented evidence that they had reviewed monthly, reconciled purchase card statements, or had reviewed them within required time frames, from 69 percent to 87 percent of the time. Our statistical tests of approving official review considered only documented review of statements with evidence of reconciliation. The high failure rates are due, in part, to approving officials' failure to date the reconciled monthly statements when they reviewed them. The failure rate also may be attributable to approving official duties falling into the category of "other duties as assigned" and the span of control issues discussed earlier.

The high failure rate for approving official review is of particular concern because the Air Force uses a "pay and confirm" policy, which is inconsistent with governmentwide and DOD guidelines on reconciliation and payment of purchase card bills. In a letter dated April 30, 2002, DOD informed us that its reengineering memorandums and other pronouncements are in compliance with 10 U.S.C. 2784, which requires the Secretary of Defense to issue regulations that require, among other things, reconciliation of purchase card statements to receipts before the statements are forwarded to the disbursing office. Both section 4535 of volume 1 of the *Treasury Financial Manual* and DOD's Purchase Card Reengineering Implementation Memorandum #3 (change 1, June 30, 1998) require that purchase card statements be reconciled and forwarded for payment in a timely manner and allow "pay and confirm" only with respect to verification of government receipt of the purchased items or services.

In contrast, Air Force purchase card policy permits cardholder statements to be reconciled and approved after payment has been made. While a conscientious postpayment reconciliation and approval process may provide reasonable control, the lack of documented evidence of postpayment reconciliation and approval and the undisputed, potentially fraudulent transactions identified in our work underscore concerns about noncompliance with the law. In July 2002, Air Force management asked its contractor, U.S. Bank, to “shut down” (suspend from use²⁹) over 4,000 unreconciled, unapproved cardholder accounts until the reconciliations were completed and the approving officials had reviewed them. Accounts that had not been reconciled as of the end of August 2002 were canceled. According to an Air Force headquarters official, these accounts would need to be manually reconciled because they are no longer active in U.S. Bank’s system.

Under Air Force “pay and confirm” procedures, the installation Financial Services Office designates a certifying officer to verify availability of funding and certify the monthly installation purchase card invoices for payment prior to receipt of the confirmation of reconciled statements from the approving official. Monthly invoices are to be paid in full and are not to be adjusted for disputed items. Instead, cardholders and approving officials are to resolve any irregularities through a separate dispute process. The Air Force Instruction requires that approving officials review and approve reconciled cardholder statements and submit the confirmed statements to the Financial Services Office within 15 days of receipt of the monthly statement, but no later than the 15th day of the following month—commonly referred to as the 15-day rule. The Financial Services Office files the confirmed statements with a copy of the previously certified statement.

The pay and confirm process has yielded benefits, such as increased rebate earnings, and has almost eliminated late payment interest. However, without effective controls over cardholder reconciliation and approving official review, the pay and confirm process increases the risk that fraudulent, improper, and wasteful purchase card expenditures could occur and go undetected. DOD and Air Force officials told us that they

²⁹ Suspended purchase card accounts are placed in inactive status pending further decisions about their use, such as returning them to active status after a required action has occurred or canceling the accounts.

were concerned about the lack of compliance with requirements for purchase card statement reconciliation and approval.

DOD and U.S. Bank officials told us that this control was implemented upon receipt of the April 25, 2002, monthly purchase card statements. The officials told us that on July 1, 2002, approximately 4,000 cardholder accounts were suspended and no further charges could be made to these accounts until they were reconciled, and reviewed and approved by the approving officials. The officials also told us that reconciliation of these accounts resulted in a high volume of disputed transactions as cardholders began to reconcile their statements and approving officials had to review and approve them, indicating that fraudulent or erroneous transactions may have occurred and had not been previously detected.

On August 22, 2002, DOD's Purchase Card Joint Program Management Office Director told us that 149 of the purchase card accounts that were suspended on July 1, 2002, had not been reviewed and confirmed by the approving officials and, as a result, the accounts had not been reactivated. The DOD Director said that he planned to cancel these accounts because they apparently are not needed. However, the failure to reconcile these accounts raises questions about whether cardholders and/or approving officials may have made fraudulent or improper transactions for which they want to avoid scrutiny. Without reconciliation and independent review, DOD and the Air Force have no assurance that such purchase card activity did not involve fraudulent or improper transactions.

Supporting Invoice or Receipt

As shown in table 5, three of the Air Force case study locations we audited—Edwards, Nellis, and Travis Air Force bases—maintained the vast majority of the receipts for items purchased with the government purchase card. For example, our statistical test results showed the estimated failure rates for this control activity ranged from 0 to about 9 percent across these three locations. Our statistical test results for Lackland AFB showed that this location had an estimated 30 percent failure rate for this control activity. Of the 37 Lackland AFB transactions that were missing receipts, 23 related to Wilford Hall Medical Center transactions. Another three of the transactions in our Lackland AFB sample related to a security forces unit that transferred to another Air Force installation and did not retain purchase card documentation. In testing for evidence of a receipt, we accepted either the original or a copy of the invoice, sales slip, or other store receipt.

GAO's *Internal Control Standards* state, "all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. All documentation and records should be properly managed and maintained." Without supporting sales receipts or invoices, it is not possible to tell the quantity and type of items purchased or whether those items were for government business or of a personal nature. In such cases, a thorough investigation would be needed to determine whether a transaction was proper, or if it represented a potentially fraudulent, improper, or abusive transaction needing corrective action. Further, without a receipt, two other key control activities—*independent receipt and acceptance* and *approving official review*—become ineffective. *Independent receiving* cannot confirm that the purchased items were received and the approving official cannot review a cardholder statement reconciled with the supporting receipt. A near zero failure rate is a reasonable goal considering that receipts are easily obtained or replaced when inadvertently lost.

Controls Over Accountable Property

As shown in table 6, three of the four installations we audited recorded most of the items we selected for testing in their accountable property records. In addition, the Air Force was able to locate and we confirmed that all of the items that were not recorded at two installations were in the possession of the government. However, Air Force officials were unable to locate 4 of the 114 accountable property items we tested at Edwards AFB and 14 of the 70 accountable items we tested at Travis AFB, indicating that these items may have been lost or stolen. The property book officer at Travis AFB told us that cardholders do not always notify the property office and provide documentation of accountable items purchased with the government credit card—even though many of them are easily pilferable and desirable items. As previously discussed, Travis AFB's failure to record in the installation's property records, accountable property purchased using a government purchase card was also an Air Force Audit Agency repeat audit finding.

Table 6: Property Items Not Recorded in Property Records

Air Force installation	Property items selected for testing	Items not on property books	Items that could not be located
Edwards	114	12	4
Lackland	35	1	0
Nellis	68	10	0
Travis	70	49	14

Source: GAO nonrepresentative selection of property items included in statistical samples of Air Force purchase card transactions.

Items such as a digital camera, a laser printer, and computers and monitors were not included in base property records. The Edwards AFB property items that could not be located included two computer servers and two monitors costing a total of \$11,258 that were ordered for other installations. The Travis AFB property items that could not be located included a digital camera costing \$812 that, according to investigative records, was previously reported stolen from an employee's office and eight computers costing \$14,128 that were allegedly sent to the Defense Reutilization Marketing Service (DRMS) as excess items during the year they were purchased. Because serial numbers for the computers had not been recorded, we could not confirm that the eight computers we selected for testing were items that were sent to DRMS. A Travis AFB contracting official told us that these new computers should not have been sent to DRMS as excess property. The official told us that unneeded computer equipment is required to be turned in to the information technology unit for assignment to other installation units. Other missing items included a laptop computer and four computer monitors costing under \$500.

GAO's internal control standards and DOD Instruction 5000.64, *Defense Property Accountability*, require that accountable property be recorded in property records as it is acquired. The DOD Instruction refers to accountable property as "controlled inventory items" and defines these items as those designated as having characteristics that require them to be identified, accounted for, secured, segregated, or handled in a special manner to ensure their safekeeping and integrity. The Instruction defines pilferable items as those that have a ready resale value or application to personal possession and that are, therefore, especially subject to theft. However, the DOD Instruction does not include a list of items that fall into these categories. Accountable property generally includes high-cost

property items and easily pilferable or sensitive items, such as computers and related equipment, cameras, cell phones, and power tools.

Air Force Instruction 33-112, *Computer Systems Management*, requires mandatory inclusion of computer items costing \$500 or more in inventory records. However, the Air Force does not have a policy for recording other types of easily pilferable or sensitive items in its property records. According to an Air Force headquarters acquisition official, decisions on how to control items, such as computers and related equipment, cameras, cell phones, and power tools, are left to the discretion of the installation commanders. As a result, there is no assurance that Air Force installations are following DOD policy. At the four installations we audited, we found that most computers were recorded in either central or unit-level property systems. However, cardholders at the installations we audited were not always aware that items such as digital cameras, fax machines, or computer items costing less than \$500 meet the definition of controlled inventory items and/or pilferable items and thus should be recorded in their property records.

One factor that may explain the positive Air Force test results at three of the four installations we audited is that these installations made greater use of centralized purchasing and receiving for computer equipment. As a result, contracting and information technology units controlled purchasing and receiving for these items and assured that the items were recorded in the property records when they were received. In contrast, at Travis AFB, nearly half of the property items tested were not recorded in property records and management could not locate many of these items. The use of central purchasing and receiving helps to mitigate against control breakdowns where cardholders do not take action to ensure that accountable items are recorded in property records.

Potentially Fraudulent, Improper, and Abusive or Questionable Transactions

We identified numerous purchase card transactions at the four installations we audited and in our Air Force-wide data mining that were potentially fraudulent, improper, and abusive or questionable. Buying items with purchase cards without the requisite control environment and key control activities in place creates unnecessary risk of fraud and abusive and wasteful spending. Also, the lack of records previously discussed raises concerns about whether files could have been destroyed so that potentially fraudulent, improper, or abusive transactions were not documented and subjected to review. In addition, we saw a number of potentially fraudulent transactions at the case study locations we audited and in our Air Force-

wide analysis that related to compromised accounts. We did not review all potentially fraudulent, improper, and abusive transactions identified in our work. As discussed in appendix I, our work was not designed to identify, and we cannot determine, the extent of potentially fraudulent, improper, and abusive or otherwise questionable transactions.

Potentially Fraudulent Purchase Card Transactions

We identified transactions that Air Force officials acknowledged to be fraudulent, as well as potentially fraudulent transactions for which no supporting documentation was available, at all four installations we audited, as well as in our Air Force-wide analysis. Some transactions identified as potentially fraudulent resulted from compromised accounts in which a purchase card or account number was stolen and used by someone other than the cardholder to make unauthorized purchases. We found five potentially fraudulent transactions involving two purchase card accounts that were not disputed with the bank. Further, none of these transactions were referred to Air Force investigators until we questioned them. We considered potentially fraudulent purchases to include those made by cardholders that were unauthorized and intended for personal use. We also considered transactions for which there was no supporting documentation to be potentially fraudulent because, in the absence of supporting documentation, it is not possible to determine whether these transactions represented valid government purchases, fraudulent transactions that went undetected, or fraudulent transactions for which documentation was intentionally destroyed to cover up the fraud. In these instances, cardholders and approving officials were unable to tell us the types of items purchased or the purpose of the transactions. However, we determined that they had not disputed any of these transactions. Potentially fraudulent transactions can also involve vendors charging purchase cards for items that cardholders did not buy. Although collusion can circumvent what otherwise might be effective internal control activities, a robust system of guidance, internal control activities, and oversight can create a control environment that provides reasonable assurance of preventing or quickly detecting fraud, including collusion.

Air Force and U.S. Bank officials told us that in July 2001, U.S. Bank identified numerous fraudulent transactions due to compromised accounts. According to U.S. Bank officials, this was a widespread fraud involving many credit card banks that was apparently related to a fraud ring that used a computer to randomly generate credit card account numbers and/or counterfeit credit cards, which they then used. U.S. Bank officials told us that the compromised accounts initially were believed to

be associated with transactions in a few states, including California and Georgia. However, the fraud was subsequently determined to be a nationwide problem. According to Air Force and U.S. Bank officials, numerous Air Force purchase card accounts were canceled due to this fraud. Given the risk associated with such fraud, it is extremely important that cardholders reconcile their monthly statements in order to detect and dispute potentially fraudulent transactions. Table 7 illustrates the types of potentially fraudulent transactions that we identified.

Table 7: Potentially Fraudulent Air Force Purchase Card Transactions

Air Force locations	Vendor	Total amount
Andrews	E-Z Pawn	\$2,443
Edwards	BEF Corporation	19,000
Travis	Flowers Sent Today, Inc., Flowers Anytime	432
Scott	Ocean Drive Fashions, Inc., Rendezvous on the Beach, Donald Pliner Concept Store, Sunglass Hut, Watch World	2,401
Patrick	Citgo 7-Eleven, Publix, Chevron, Kash N Karry, Speed SM	249
McConnell	Ross Stores, Old Navy, K-Mart, Target	3,232
Luke	Nationwide Gourmet of AZ	100
Lackland	Oakley, Cabela's, Rebel Hobbies, LACAF Golf Course, Franklin Covey, Handspring, Inc., That Fish Place, and Gargoyles	8,707
Nellis	Eb's Stuff	185

Source: GAO analysis of selected Air Force fiscal year 2001 purchase card transactions.

Our Air Force-wide data mining and analysis of purchase card documentation identified potentially fraudulent purchase card transactions at Andrews and McConnell Air Force bases that were never disputed with the bank or credited to the government. Our analysis of documentation related to the potentially fraudulent transactions that were not disputed disclosed the following facts.

- The E-Z Pawn transaction was for a \$2,443 down payment on a \$10,000 sapphire ring. An October 4, 2001, agency program coordinator purchase card surveillance report indicated that the reviewer had questioned the lack of receipt for the E-Z Pawn transaction; however, the surveillance did not question the propriety of this transaction. No

further action was taken, even though pawnshops are coded to a merchant category that is required to be blocked as a means of preventing fraudulent transactions from being processed. In response to our inquiry, the program coordinator told us that there is no evidence that either the cardholder or the approving official disputed the transaction. Also, we found no credit for this transaction in the Air Force purchase card database from U.S. Bank. According to the cardholder, at the time the potentially fraudulent transaction occurred, he did not have possession of the purchase card. The cardholder told us that his purchase card account was being closed due to outsourcing of his unit's function, and he had turned over his purchase card to another individual. The cardholder stated that, as a result, he never received his monthly statement and thus did not perform a reconciliation or identify the potentially fraudulent transaction. We determined that the program coordinator took no further action to ensure that the potentially fraudulent transaction was disputed.

The Air Force headquarters acquisition official who obtained the supporting documentation on these transactions for our review and analysis told us that she referred these transactions to the Air Force Office of Special Investigations and our investigators confirmed that Air Force investigators had opened a case to investigate these frauds.

- The four potentially fraudulent McConnell AFB transactions totaling \$3,232 were made on July 31, 2001. These potentially fraudulent transactions included charges made at San Diego area stores, including \$690 at a Ross Store, \$873 at Old Navy, \$689 at K-Mart, and \$980 at Target. These charges were all made when the purchase card was in the possession of the approving official while the cardholder was assigned to Biloxi, Mississippi, for over 2 months for noncommissioned officer training. Although the approving official stated that his review of the cardholder's August 2001 statement detected the potentially fraudulent transactions, he did not dispute these transactions. The program coordinator told us that disputing erroneous charges is covered repeatedly in cardholder and approving official training. The program coordinator also told us that she counseled the approving official extensively on cardholder and approving official responsibilities. The program coordinator told us that she informed the approving official that she had reduced the credit limit on the account to \$1 to avoid further charges. She also said that she instructed the approving official that he should dispute these transactions in the absence of the cardholder's dispute. However, instead of disputing these transactions,

the approving official waited for the cardholder to return from training in mid-September and asked the cardholder to seek guidance from the program coordinator. A circular discussion ensued about who would take action to dispute the potentially fraudulent transactions, with the approving official stating that the cardholder was to dispute these transactions and the cardholder stating that he thought the program coordinator would dispute the transactions. As a result, the transactions were never disputed and the program coordinator took no further action.

The Air Force headquarters acquisition official who obtained the supporting documentation on these transactions for our review and analysis told us that she referred these transactions to the Air Force Office of Special Investigation. However, Air Force investigators told us they did not initiate an investigation because they believed that the transactions had been credited. Our review of the Air Force purchase card database and discussions with the installation program coordinator determined that the transaction had not been credited and the potential fraud is unresolved. Therefore, we have referred this matter to our investigators for further investigation.

In contrast to the failure to dispute the potentially fraudulent transactions discussed above, the following are examples of potentially fraudulent transactions that Air Force cardholders detected and disputed.

- A \$19,000 charge for a duplicator from BEF Corporation—an imaging technology vendor in Allentown, Pennsylvania—related to a compromised purchase card account. Our investigators confirmed that the Edwards AFB cardholder called the bank and disputed the transaction before the item was delivered. As a result, neither the government nor the bank incurred a loss related to this compromised account. Our investigators confirmed that the cardholder had referred the transaction to Air Force investigators.
- Three unauthorized Travis AFB purchases, including one transaction at Flowers Sent Today, Inc., and two transactions at Flowers Anytime, totaling \$432 were made by an inmate at a local county jail. Travis AFB officials told us that they disputed these transactions because they were unauthorized and they believed that the account had been compromised. These potentially fraudulent transactions were subsequently investigated by U.S. Bank and the purchase card account was canceled.

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- Five potentially fraudulent charges were made to a Scott AFB, Illinois, cardholder's account on August 21 and August 22, 2001, totaling about \$2,400. The charges were made at vendors in the Miami area, including charges at Ocean Drive Fashions, Inc., for \$426, Rendezvous on the Beach for \$224, Donald Pliner Concept Store for \$520, Sunglass Hut for \$586, and Watch World for \$645. Our review of Air Force records showed that the cardholder disputed these transactions and a U.S. Bank investigation of the potentially fraudulent transactions was initiated on November 9, 2001. Our review of U.S. Bank records showed that the purchase card account was credited for the fraudulent transactions on June 6, 2002—nearly a year after the transactions were made.
 - A Patrick AFB cardholder identified unauthorized purchase card transactions totaling \$249 that were made at Citgo 7-Eleven, Publix, Chevron, Kash N Karry, and Speed SM by his wife between April 1 and 6, 2001. According to the unit commander, the cardholder's purchase card privileges were revoked, and the cardholder agreed to pay for his wife's unauthorized charges. However, as of the end of October 2002, we determined that the cardholder had not reimbursed the government for his wife's unauthorized use of the purchase card. We suggested that the employee should submit a check to the installation's Financial Services Office along with an explanation for the payment.

We also contacted the Air Force Office of Special Investigations to inquire about their purchase card fraud cases. Investigators told us that their investigative database did not contain codes that permit them to identify purchase card fraud cases. As a result, the investigators had to manually review all procurement-related cases to attempt to identify cases involving purchase card fraud. Appendix III summarizes some of the purchase card fraud cases that were investigated by the Air Force Office of Special Investigations.

Improper Purchases and Improper Use of the Purchase Card

Besides potentially fraudulent activity, our work also identified numerous examples of transactions related to improper purchases, as well as improper use of the purchase card. Improper purchases are those purchases that, although approved by Air Force officials and justified as intended for government use, are not permitted by law or regulation or DOD or Air Force policy. Improper use of the purchase card related to use of the card as an acquisition tool without a negotiated contract, use of the card by a nongovernment activity, and improper use of convenience checks³⁰ associated with purchase card accounts.

Improper Purchases

We identified the following three types of improper purchases.

- Purchases that did not serve a legitimate government purpose.
- Split purchases in which the cardholder circumvents the micropurchase limit³¹ or other transaction limits.
- Purchases from improper sources. Various federal laws and regulations require procurement officials to acquire certain products from designated sources, such as Javits-Wagner-O'Day Act (JWOD) vendors.³² In addition, agencies are required to purchase furniture, if available, from Federal Prison Industries, Inc. (UNICOR), and DOD policy requires that printing services be obtained in-house through the Defense Automated Printing Service.

We found several instances of purchases, such as clothing, luggage, and food, in which cardholders improperly used their purchase cards, or they purchased goods that were not authorized by law or regulation. The *Federal Acquisition Regulation*, 48 C.F.R. 13.301(a), provides that the

³⁰ Convenience checks are courtesy checks provided by the purchase card-issuing bank, which are charged to a related purchase card account. DOD and Air Force policy permit use of convenience checks within specified purposes and amounts.

³¹ *Federal Acquisition Regulation* guidelines prohibit splitting purchase requirements into more than one transaction to avoid the need to obtain competitive bids on purchases over the \$2,500 micropurchase threshold.

³² The JWOD program is a mandatory source of supply for all federal entities. It generates jobs and training for Americans who are blind or have other severe disabilities by requiring federal agencies to purchase supplies and services furnished by nonprofit agencies, such as the National Industries for the Blind and the National Institute for the Severely Handicapped.

governmentwide commercial purchase card may be used only for purchases that are otherwise authorized by law or regulation. We identified the improper Air Force transactions as part of our analysis of questionable vendor transactions at the four installations we audited and in our Air Force-wide data mining. Table 8 summarizes examples of the improper transactions we identified that do not serve a legitimate government purpose.

Table 8: Improper Air Force Purchase Card Transactions

Types of items purchased	Vendors	Amount
Clothing:		
Physical fitness clothing and fleece jackets for drill instructors	LL Bean, Oakley	\$1,696
Blazer and dresses for participants in Eubank Service Award Ceremony	Filene's Sports Coats, Dress Barn	828
Wool coats for a flight attendant	Hecht's	380
Clothes for parachutists, pilots, and others	REI	20,698
Luggage:		
Samsonite pullman suitcases	El Portal Luggage	5,500
Garment bags	SM Discount Luggage, 1-800	
Pathfinder pullmans for recruiters	Luggage	2,291
Duffel bags	Foley's	620
	Patagonia	685
Food/Water:		
Meals provided during planning meeting and unit luncheons	Marriott Hotel, Rusty Pelican, Where Pigs Fly	2,692
Bottled water	Wishing Well Florist	796
Other:		
Personal exercise equipment	Target	100
Sunglasses	Oakley	540
Briefcases and flight bags	Franklin Covey	14,664

Source: GAO analysis of Air Force fiscal year 2001 transactions and related documentation.

The following examples illustrate the types of purchases included in table 8.

Clothing and sunglasses. We identified numerous purchases of clothing for military personnel that appeared to be personal preference items. We determined that these purchases were improper based on our review of DOD directives,³³ Air Force policies,³⁴ and discussions with Air Force headquarters officials. For example, at Lackland AFB, one of our test locations, we identified purchases of clothing for drill instructors, including physical fitness clothing items from LL Bean costing \$816 and 16 fleece jackets from Oakley costing \$880. We also identified numerous purchases of military clothing items from REI totaling \$20,698, including paratrooper jumpsuits and cold weather pilot jackets. These clothing items are covered under the military pay clothing allowance funded in the Military Personnel, Air Force, appropriation and should not have been purchased with Operation and Maintenance appropriations using the purchase card.

In addition, we found purchases of what we consider to be personal clothing and accessory items that were authorized by installation officials. For example, Hanscom AFB, Massachusetts, authorized the purchase of a blue blazer from Filene's costing \$180 and eight dresses from Dress Barn costing \$648 for civilian employees who participated in the Eubank Service Award Competition.³⁵ Hickam AFB, in Hawaii, purchased two wool coats from Hecht's in Waldorf, Maryland, costing \$380 for a flight attendant assigned to the 65th Airlift Squadron. In addition, the Lackland AFB pararescue team purchased 12 pairs of sunglasses from Oakley costing \$540 and improperly justified them as meeting the requirement for free-fall paratrooper goggles. Oakley sunglasses do not qualify as paratrooper goggles. None of these items are authorized by Air Force policy. Therefore, we concluded that all of these purchases involved personal items, which employees should pay for from their own salaries.

Luggage and briefcases. We identified numerous purchases of luggage deemed necessary for employees who travel frequently, including 50 Samsonite suitcases costing \$5,500 for members of the Thunderbirds team

³³ DOD Directive, Armed Forces Clothing Monetary Allowance Policy, (Number 1338.5, Mar. 9, 1998), and DOD Instruction, Armed Forces Clothing Monetary Allowance Procedures, (Number 1338.18, Jan. 7, 1998).

³⁴ Air Force Instruction 36-2903, *Dress and Personal Appearance of Air Force Personnel* (June 8, 1998) and AFI 36-3014, *Clothing Allowances for Air Force Personnel* (Sept. 1, 1998).

³⁵ The Eubank Service Award was established in 1990 to recognize the best Air Force Services Program at small bases with 5,000 or fewer civilian and military employees.

and garment bags costing \$2,250 for the Bolling AFB band, and purchases of two Pathfinder Pullman suitcases costing \$620 for recruiters. In addition, our review of a limited selection of Franklin Covey transactions identified six purchases of leather briefcases costing \$212 each (after a 20 percent discount) and purchases of 203 flight bags (similar to a briefcase) costing from about \$50 to \$86 each. Luggage and briefcases are considered personal items that should be paid for from employees' salaries.

Food and water for employees. We identified purchases of meals, bottled water, and payment for a unit luncheon. Without statutory authority, appropriated funds may not be used to furnish meals to employees within their normal duty stations.³⁶ We identified improper charges for food provided to employees during an internal government meeting and unit luncheons. For example, Lackland AFB scheduled a strategic planning meeting for local employees of the Tri-Care organization at a Marriott Hotel in San Antonio, Texas. The total cost of the meeting was \$1,052, including \$538 for breakfast and lunch for 18 individuals—3 consultants and 15 employees who were not on travel. In addition, appropriated funds may not be used to purchase bottled water for employees unless they are assigned to a duty station without potable water. Food and bottled water are considered personal items that employees should pay for from their own salaries.

Split Purchases

Another category of improper transactions is a split purchase, which occurs when a cardholder splits a transaction into more than one segment to circumvent the requirement to obtain competitive prices for purchases over the \$2,500 micropurchase threshold or to avoid the other established credit limits. The *Federal Acquisition Regulation* and Air Force Instruction 64-117 prohibit these practices. Once items exceed the \$2,500 threshold, they are to be purchased in accordance with simplified acquisition procedures, which are more stringent than those for micropurchases. Our analysis of purchases made at the four case study locations and our Air Force-wide data mining identified numerous split purchases. In addition, Air Force Audit Agency auditors identified split purchases as a continuing Air Force-wide problem.

One split purchase we identified involved a violation of appropriations law. The purchase was made to avoid the expiration of unused fiscal year 2001 operation and maintenance appropriations. Our inquiries disclosed the

³⁶ 72 Comp. Gen. 178, 179 (1993); 65 Comp. Gen. 508, 509 (1986).

following events surrounding this transaction. On September 30, 2001, at approximately 9:00 p.m. Eastern Standard Time, Air Combat Command headquarters at Langley AFB, Virginia, determined that \$100,000 in fiscal year 2001 operation and maintenance appropriations would expire in 3 hours—at midnight—unless the funds could be obligated and spent quickly. At 6:00 p.m. Pacific Standard Time, the command contacted the USAF Weapons School, 57th Operations Support Squadron at Nellis AFB, Las Vegas, Nevada, with the direction to use the funds before they expired. At approximately 7:00 p.m., the Nellis AFB cardholder purchased 120 helmets at more than \$800 each and several other items totaling just under \$100,000 from the base supply store. The purchase was split into four separate transactions to stay within the cardholder's single transaction limit of \$25,000 per transaction. The items purchased were placed "on hold" and were not taken from the store. Over the next few days—October 1 and October 2—the cardholder "returned" the items, exchanging them for other items totaling the same amounts. In an explanatory memorandum, the cardholder wrote that the unit had not previously identified its unfilled requirements and, therefore, did not have a list of items for purchase if "end-of-year" money was available. The subsequent credits and reuse of the funds in early October 2001, in effect, converted fiscal year 2001 appropriations to fiscal year 2002 budget authority.

Improper Sources

Another type of improper purchase occurs when cardholders do not buy from a mandatory procurement source. Various federal laws and regulations, such as the Javits-Wagner-O'Day Act (JWOD), require government cardholders to acquire certain products from designated sources. The JWOD program is a mandatory source of supply for all federal entities. It generates jobs and training for Americans who are blind or have other severe disabilities by requiring federal agencies to purchase supplies and services furnished by nonprofit agencies, such as the National Industries for the Blind and the National Institute for the Severely Handicapped. Most JWOD program supplies are small-value items such as office supplies, cleaning products, or medical/surgical supplies that nearly always fall into the micropurchase category. We noted that most cardholders at the four installations we audited made purchases from required sources and three of the four installations had JWOD stores on base. However, we found numerous Air Force-wide purchases from Franklin Covey for office supplies, such as calendars and day planners, which could have been purchased from JWOD vendors. We also found that Air Force cardholders charged \$2,220 for 82 high-quality pens from Franklin Covey costing from \$16 to \$60 each. Table 9 summarizes

transactions we identified that were made from other than required sources of supply.

Table 9: Purchases from Other Than Required Sources of Supply

Type of item purchased	Vendor	Total amount
Office supplies	Franklin Covey	\$188,834
Printing	Kinkos, Mayes Printing	336,680

Source: GAO Analysis of Air Force fiscal year 2001 transactions and related documentation.

The failure to purchase designated items from JWOD vendors who support the handicapped undermines public policy objectives to support programs for the handicapped. For example, as discussed in our Army purchase card report,³⁷ the Director of Sales for the National Industries for the Blind told us that this program has experienced large decreases in sales over the past 2 years because cardholders were purchasing from commercial firms rather than buying the mandated products. Further, operating revenues of government service organizations, such as the Defense Automated Printing Service (DAPS), which is a required source of printing services for DOD agencies, and Federal Prison Industries, Inc. (UNICOR), which is a required source for furniture, are significantly reduced to the extent that cardholders do not use these sources for mandated printing and related services.

Improper Use of Purchase Cards and Convenience Checks

In addition to the improper transactions discussed above, our analysis of Air Force-wide purchase card transactions identified the following three types of improper use of the purchase card.

- Use of the purchase card as acquisition tool where a negotiated contract is required,
- Purchase card use by a religious fund activity without authority in law, regulation, or DOD or Air Force policy, and
- Improper use of convenience checks billed to the purchase card account.

³⁷ U.S. General Accounting Office, *Purchase Cards: Control Weaknesses Leave Army Vulnerable to Fraud, Waste, and Abuse*, [GAO-02-732](#) (Washington, D.C.: June 27, 2002).

Table 10: Improper Uses of the Purchase Card and Convenience Checks

Improper use	Vendors	Amount
Multiyear tractor rentals	Crown Ford	\$52,500
Expenses of Chaplain's Office volunteer	Cheap Tickets, United Air Lines, Marriott Hotels, J.C. Penney, K-Mart, Wal-Mart, Sav-On Drugs, JoAnn Fabric and Crafts, Hobby Lobby	6,609
Convenience checks	Payments over \$2,500 and reimbursement of tuition expense to employees	212,898

Source: GAO analysis of Air Force fiscal year 2001 purchase card transactions.

The following examples illustrate the types of purchases included in table 10.

Month-to-Month Equipment Rental. We found that a cardholder at Whiteman AFB, Missouri, improperly used the purchase card as an acquisition vehicle without a negotiated contract. Specifically, the cardholder used the purchase card to rent tractors for use by the installation's waste treatment facility at a cost of about \$10,000 during fiscal year 2001. Our analysis of records related to this lease showed that an initial month-to-month rental of a tractor covered 3 years beginning in November 1997. In November 2000, the cardholder initiated monthly rental of a new tractor for 2 years. According to the installation program coordinator, the current cost to purchase the type of tractor that was rented during fiscal years 2000 and 2001 would be in the \$35,000 to \$45,000 range; however, a lease versus purchase cost-benefit analysis was never performed. We determined that the cost of the two rentals, which together covered a 5-year period, totaled over \$50,000.

Unauthorized Use of the Card by Chaplain's Religious Fund. Our analysis of fiscal year 2001 FE Warren AFB, Wyoming, purchase card transactions totaling over \$6,600 by a Chaplain Office volunteer, who later became a contractor, raised a number of questions about the proper use of the purchase card. Air Force purchase card policies state that commercial purchase cards are provided to military members and federal civilian employees to pay for official government purchases, and that only employees may be cardholders. According to the Chaplain Office officials, these transactions were for authorized purchases. They said they often use parishioners and volunteers to assist them in carrying out religious activities. However, Air Force purchase card policies state that commercial purchase cards are provided to military members and federal

civilian employees to pay for official government purchases. Chaplain Office officials told us that because the Chaplain Religious Fund did not fall under Air Force purchase card authority as either an appropriated fund or a nonappropriated fund activity, they believed they could set up the government purchase card program for their office by working independently with the bank.

We discussed our concerns about Chaplain Office authority to use the government purchase card with Air Force attorneys and acquisition and Chaplain Office officials. After reviewing Air Force policy, Air Force attorneys advised us that the Chaplain's Office did not have authority to use the government purchase card for Chaplain Religious Fund activities.

Convenience Checks. We identified improper use of convenience checks related to payments in amounts over \$2,500, payments for recurring services, and payments to vendors who accept purchase card payments. Air Force Instruction 64-117 limits the use of convenience checks to amounts of no more than \$2,500 per check, prohibits the use of convenience checks for recurring services, and restricts convenience check use to instances where vendors do not accept purchase cards. Splitting amounts across more than one check to keep below the \$2,500 limit also is prohibited. Another area of improper use of convenience checks related to reimbursement of employees for tuition assistance. We determined that reimbursement to employees is not a permitted use of convenience checks. Further, because there is a 1.7 percent fee for using a convenience check, cost-benefit considerations are required when using convenience checks.

Our analysis of fiscal year 2001 convenience check use determined that Air Force purchase cardholders who had convenience check authority had issued 45 convenience checks totaling over \$200,000 for amounts over \$2,500. We also found that a cardholder at Luke AFB, Arizona, improperly used convenience checks for recurring monthly payments on a 2-year automobile lease for authorized use by a military officer. It is common knowledge that car dealerships accept credit cards. At one of our case study locations—Travis AFB—we found that a cardholder had reimbursed employees for \$12,214 in tuition expenses. The cardholder wrote two convenience checks—one check for \$2,090 and another for \$500—to reimburse an employee for a total of \$2,590 in tuition expenses. The cardholder wrote two additional convenience checks—one check for \$6,125 and another for \$3,500—to reimburse two other employees for \$9,614 in tuition expenses. The 1.7 percent fee on the first two checks was

\$44 and the fee on the second two checks was about \$163—significantly more than the Defense Finance and Accounting Service fee of approximately \$7 to process electronic payments.

In its August 2002 purchase card report, the Air Force Audit Agency stated that its review found that cardholders issued convenience checks to pay salaries and wages totaling \$512,378 for dietitians, nurses, and administrative personnel, and to acquire recurring services, such as aircraft washing totaling \$84,830, local area network support costing \$110,495, equipment rentals costing \$20,700, and lawn-care services costing \$43,505. Air Force auditors determined that cardholders expended \$2.6 million for recurring services and incurred unnecessary bank fees of \$15,228 associated with the 1.7 percent service fee.

Abusive or Questionable Use of the Purchase Card

We also identified abusive and questionable transactions at installations we audited and in our Air Force-wide data mining. We defined abusive transactions as those that were authorized, but the items purchased were at an excessive cost (e.g., “gold plated”) or for a questionable government need, or both. Abuse occurs when the conduct of a government organization, program, activity, or function falls short of societal expectations of prudent behavior. Often, improper purchases, such as those discussed in the previous section, are also abusive. For example, the purchases of personal clothing and luggage for employees were also abusive purchases because they were for a questionable government need.

Questionable transactions are those that appear to be improper or abusive but for which there is insufficient documentation to conclude either. We deemed questionable those purchases for which there was not a reasonable and/or documented justification. Questionable purchases often do not easily fit within generic governmentwide guidelines on purchases that are acceptable for the purchase card program. They tend to raise questions about their reasonableness. Many, such as gym-quality exercise equipment for fitness centers, are common Air Force—and DOD—purchases because the Air Force must provide more than merely a work environment for its soldiers. However, others involving excessive purchases of alcohol, payment for taxidermy services, and purchases of expensive leather computer cases discussed in this section, raise questions about whether they are appropriate purchases. Precisely because these types of purchases tend to raise questions and subject the Air Force to criticism, they require a higher level of advance purchase review and documentation than other purchases.

When we examined these types of purchases, we usually did not find evidence of advance purchase justification. In attempting to justify whether purchases were acceptable, improper, or abusive, program coordinators, approving officials, and cardholders often provided after-the-fact rationales for the purchases. We believe that these types of questionable purchases require scrutiny before the purchase, not after. The examples in table 11 illustrate our point.

Table 11: Abusive or Questionable Air Force Purchase Card Transactions

Location	Type of item purchased	Vendor	Total amount
Nellis AFB	Entertainment - dinner party and show for visiting general, including excessive purchases of alcohol totaling \$800	Treasure Island Hotel and Casino	\$2,141
Tyndall AFB	2 reclining rocking chairs with vibrator massage feature	LA-Z-Boy	1,935
Air Force Academy, Colorado Springs	Mounted mule deer head	Timberline Taxidermy	375
Wright-Patterson AFB	Leather laptop case for Brigadier General	Bentley's Luggage	595
Edwards AFB	Pictures for legal office	SkyMall Airline Catalog	1,459
Edwards AFB	Leather backpack for Dell laptop computer	The Complement	224
Edwards, Kelly, Travis and Peterson AFBs	Civilian clothes for military assistants	Old Navy, Eddie Bauer, The Men's Warehouse, Macy's	2,016
Elmendorf, Lackland, Peterson, and Travis AFBs	Costumes for Air Force regional band members	Nordstrom's, Macy's, Purple Pansy, Gentlemen's Choice, Foley's, Men's Warehouse, Dorothy Keck Dance	2,948

Source: GAO Analysis of Air Force fiscal year 2001 transactions and related documentation.

The following examples illustrate the problems associated with some of the transactions we identified as abusive or questionable.

- At Nellis AFB, the purchase card was used to pay for dinner and a show for 18 people costing \$2,141 at Treasure Island—a Las Vegas hotel and casino. The purpose of the event was to entertain the General of U.S. Joint Forces Command, who was visiting the base. Air Force Instruction 65-603, *Official Representation Funds – Guidance and Procedures*, permits the use of government funds for official entertainment. However, we determined that the nature of this entertainment did not meet certain Force guidelines related to

requirements to conduct entertainment on a modest basis that is in the interest of the taxpayer. For example, we determined that the cost of the dinner party, which totaled \$2,141, included about \$800 for alcohol for the 18 people who attended the event—over \$40 per person. We believe the excessive cost of alcohol purchased at this event falls short of societal expectations of prudent behavior and modest cost.

- An Air Force Academy Natural Resource office in Colorado Springs, Colorado, used the purchase card to pay Timberline Taxidermy \$375 to prepare a shoulder mount of a mule deer head. According to the approving official, the deer was “road kill” that he found on the roadside and brought to the Natural Resources Office. The approving official then approved the purchase of the taxidermy service to prepare a stuffed shoulder mount of the deer. The deer head was hung on the wall in the Natural Resources Office. The justification of the purchase of taxidermy services provided to our auditors stated, “The mule deer (*Odocoileus hemionus*) is the most common large mammal present on US Air Force Academy grounds. The mount was created as an educational/interpretive tool and is on display in the USAFA Natural Resources office. The mount can be removed from the office wall for use in educational presentations to the base population (e.g., that only males have antlers which are shed and re-grown each year.) The deer died after being struck by a vehicle and was salvaged by USAFA Natural Resources personnel.” When our auditor asked the cardholder how often the deer head was removed from the office wall and used for educational purposes, the cardholder stated, “not much.” The cardholder, the approving official, and two other Natural Resource employees occupy the office where the deer head currently hangs.
- The Edwards AFB, 412th Test Wing/Electronic Warfare used fiscal 2001 year-end funds to purchase 21 computers and monitors at a total cost of \$47,372. An e-mail message dated September 13, 2001, within the 412th Test Wing had subject lines stating “Last Minute Purchasing” and included one message line that stated, “... I gather they have quite a bit of unspent credit card money and want to move out on it this week.” The 21 computers and monitors were received on October 23, 2001. At the time of our inspection of these items in June 2002, 11 of the computers and 9 of the monitors were located in a storage area and many of the items were still in the original shipping boxes. According to the Contracting Director, the computers were purchased to support hiring of engineers and engineering contractors. However, recruiting efforts were delayed because some applicants did not accept offered

positions and further recruiting efforts were suspended during implementation of a new personnel system in the fall of 2001. The Contracting Director told us that the unit commander directed that the computers be stored in their original boxes for safekeeping until recruiting was completed and the equipment could be assigned to engineering staff, which was accomplished in July or August 2002. The fact that the computers were still in their original boxes at least 9 months after they were ordered raises questions about whether there was a legitimate need for these items to be purchased with fiscal year 2001 appropriations. Appropriated funds are available only to meet legitimate needs of the agency during the fiscal year for which the funds were appropriated.

- Our testing of property items identified two Travis AFB transactions dated October 4, 2000, for purchases of computer equipment totaling \$14,128 that involved wasteful spending. For example, when we attempted to observe the items to confirm their existence, we were told that the unit had decided to convert to Dell computers. As a result, within 1 year of their purchase, these items, as well as a number of other computers, were sent to the Defense Reutilization Marketing Service as excess property.

In addition, we questioned purchases of civilian clothing for military assistants and costumes for regional band members. While DOD and the Air Force have issued policy³⁸ that permits the purchase of these types of clothing and designates them as “uniforms,” we believe this clothing represents personal preference attire and should be paid for by the employees. For example, in addition to standard issue uniform clothing items, military assistants are permitted to purchase slacks or skirts, shirts, and blazers to wear while serving as aides to general officers. In addition, we noted purchases including two tuxedos, six dresses, and earrings as costumes for members of regional Air Force bands. Under Air Force policy, regional bands are permitted to purchase tuxedos and evening gowns to be worn as costumes during performances. While the civilian clothing for military assistants and band costumes are considered government property, which may be reused as appropriate, they are not

³⁸ DOD Directive, *Armed Forces Clothing Monetary Allowance Policy*, (Number 1338.5, March 9, 1998); DOD Instruction, *Armed Forces Clothing Monetary Allowance Procedures*, (Number 1338.18, January 7, 1998); Air Force Instruction 36-2123, *Management of Enlisted Aides*; Air Force Enlisted Aide Handbook; and AFI 35-101, *Public Affairs Policies and Procedures*, Chapter 8, “Community Relations.”

likely to be reissued to others. Therefore, we question whether taxpayer funds should be used to pay for these items.

Management Improvements

DOD and Air Force managers told us that they initiated a number of actions during fiscal year 2002 to improve purchase card controls. These initiatives include use of automated U.S. Bank controls to (1) tie cardholder credit limits to allocations of budget authority, (2) automatically deactivate purchase card accounts where monthly statements have not been reconciled and reviewed by the approving officials within prescribed time frames, and (3) cancel purchase card accounts for approving officials with responsibility for excessive numbers of cardholders. According to Air Force officials, they plan to periodically lower the threshold for suspending purchase card accounts until the approving official's span of control complies with DOD span of control guidelines.

In addition, the DOD Comptroller appointed a Charge Card Task Force, which issued its final report on June 27, 2002. The Task Force report included a number of recommendations, including establishing a purchase card concept of operations, accelerating the electronic certification and bill paying process, improving training materials, identifying best practices in areas such as span of control and purchase card management skill sets, and establishing more effective means of disciplining those who abuse the purchase cards. The recommendations address many of the concerns we identified in our Air Force work.

In response to our DOD audits, the Congress has recently enacted amendments in section 1007(a) of DOD's fiscal year 2003 authorization act that address requirements for (1) periodic reviews to be performed to determine whether each purchase card holder has a need for the purchase card, (2) periodic inspector general audits to identify potentially fraudulent, improper, and abusive uses of purchase cards, (3) appropriate training for cardholders and oversight officials, and (4) specific policies regarding the number of purchase cards issued by various organizations, authorized credit limits, and categories of employees eligible to be issued purchase cards. Further, DOD's fiscal year 2003 appropriation and authorization acts each include requirements that the regulations issued by the Secretary of Defense provide for appropriate disciplinary actions or other punishment to be imposed in cases in which DOD employees violate purchase card regulations or are negligent or engage in misuse, abuse, or fraud with respect to a purchase card, including removal in appropriate cases.

Conclusions

A well-controlled purchase card program is a valuable tool for streamlining the government's acquisition processes. However, the problems we identified with missing receipts, lack of cardholder reconciliations and approving official review, and failure to follow requirements in laws, regulations, and DOD and Air Force policies and procedures resulted in control environment weaknesses that leave the Air Force vulnerable to fraud and improper use of the purchase card, as well as abuse and wasteful spending. Also, although Air Force management has been proactive in establishing improved controls, it has not ensured that installation-level program coordinators—the primary program management officials—have the tools to develop local control systems and adequate oversight activities. Further, installation contract officials have not consistently demonstrated the commitment to enforce established controls. Strengthening the control environment will require a renewed focus and attention and commitment to building a robust purchase card infrastructure.

Recommendations for Executive Action

To strengthen the overall control environment and improve internal control over the Air Force purchase card program, we recommend that the following actions be taken.

Overall Program Management and Environment

We recommend that the Secretary of the Air Force direct the Assistant Secretary of the Air Force for Acquisition and the Deputy Assistant Secretary for Contracting to take the following actions.

- Establish specific policies and strategies governing the number of purchase cards to be issued with a focus on minimizing the number of cardholders.
- Direct all command and installation-level agency program coordinators to review purchase card use with a view toward eliminating unneeded purchase card accounts.
- Eliminate purchase cards used to facilitate line item accounting.
- 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.

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- 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.
 - Deactivate purchase card accounts of alternate cardholders and approving officials when primary cardholders and approving officials are available.
 - Establish specific training courses for cardholders, approving officials, and agency program coordinators tailored to the specific responsibilities associated with each of those roles.
 - 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.
 - Develop and implement a program oversight system for program coordinators that includes standard activities and analytical tools to be used in evaluating program results.
 - 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.
 - 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.

We also recommend that the Secretary of the Air Force 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*.

- Correct faulty records retention guidance by referring to specific guidelines in the *Federal Acquisition Regulation*, National Archives and Records Administration federal records retention guidelines, DOD's *Financial Management Regulation*, and other federal guidelines as appropriate.

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- 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.
 - Stipulate, in the body of the Instruction, that approving officials are required to have annual purchase card refresher training.
 - Require that the surveillance checklist, which is included in an appendix to the Air Force Instruction, be used to guide and document surveillance results.
 - Require reports on the results of annual surveillances to be signed by installation contracting directors to demonstrate management oversight and “tone at the top.”
 - Require reports on surveillance results to be addressed to unit commanders.
 - 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.

Key Control Activities

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.

- 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.
- 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.

We recommend that the Secretary of the Air Force direct the Assistant Secretary of the Air Force for Acquisition and the Deputy Assistant Secretary for Contracting to revise Air Force Instruction 64-117 to provide cardholders, approving officials, and installation program coordinators with detailed instructions on the following specific control activities.

- Establish appropriate criteria, including types of items and dollar thresholds for documenting independent receiving and acceptance of items obtained with a purchase card.
- 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.
- Require cardholders to maintain documentation of timely and independent receiving and acceptance of items obtained with a purchase card.
- 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.
- Verify that all potentially fraudulent and erroneous transactions that have been detected are disputed and properly resolved.
- 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.
- 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.

We also recommend that the Deputy Assistant Secretary for Contracting revise Air Force Instruction 64-117 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, and require prompt recording of these items in installation property systems.

In addition, we recommend that the Assistant Secretary of the Air Force for Logistics 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.

**Potentially Fraudulent,
Improper, and Abusive and
Questionable Purchase Card
Activity**

We recommend that the Assistant Secretary of the Air Force for Financial Management (Comptroller) direct the Air Force Audit Agency and Air Force Office of Special Investigations to establish an Air Force-wide 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.

We recommend that the Assistant Secretary of the Air Force for Acquisition and the Deputy Assistant Secretary for Contracting take the following actions.

- 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.
- 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.
- 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.
- Cancel convenience check privileges of cardholders who have continued to improperly use convenience checks.

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- 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.
 - 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.
 - Require cardholders and/or approving officials to reimburse the government for any unauthorized or erroneous purchase card transactions that were not disputed.
 - 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.

We also recommend that the Under Secretary of Defense (Comptroller) direct the Charge Card Task Force to assess the above recommendations, as well as the strengths in the Air Force purchase card program that we identified, and to the extent applicable, incorporate them into its future recommendations to improve purchase card policies and procedures throughout DOD.

Agency Comments and Our Evaluation

On December 13, 2002, DOD's Purchase Card Joint Program Management Office and the Air Force provided oral comments on a draft of this report. DOD and Air Force purchase card officials concurred on 29 of our 39 recommendations and partially concurred with the remaining 9 recommendations. At the time we finalized our work, DOD had not provided a response to our remaining recommendation that the Charge Card Task Force assess the recommendations in this report and incorporate them to the extent applicable, into its future recommendations to improve purchase card policies and procedures throughout DOD. Of the 9 recommendations involving partial concurrences, the DOD and Air Force officials (1) agreed in substance with 5 of our recommendations, (2) noted that the Air Force Office of Special Investigations and DOD Inspector General have responsibility for actions on two of our recommendations related to establishing a database of fraud cases by type of fraud that can be used to identify systemic weaknesses and deficiencies in controls, and (3) indicated alternative actions have been initiated on the remaining 2 recommendations.

With regard to agreement on the substance of our recommendations, Air Force officials stated that they would (1) suspend alternate accounts when primary cardholders and billing officials are available, (2) revise the Air Force purchase card Instruction to require reports on purchase card surveillance results to be signed by contracting squadron commander or chief of the contracting office, (3) require reconciliation of monthly purchase card statements associated with accounts that were “shut down” (suspended) in July 2002, (4) issue a policy letter to encourage installation Contracting Officers to consider the benefits of central purchasing and receiving and acceptance of computer equipment by installation Information Technology units, and (5) revise the Air Force purchase card Instruction to define and list examples of sensitive and pilferable property and establish clear accountability and/or visibility criteria.

With regard to two recommendations related to establishing an Air Force-wide database of known fraud cases by type of fraud to identify and correct systemic weaknesses and deficiencies in existing internal control, Air Force officials stated that the Air Force Office of Special Investigations in conjunction with the other Defense Criminal Investigative Organizations now reports quarterly information on purchase card investigations to the DOD Inspector General. The officials told us that the DOD Inspector General 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. They said that 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.

Alternative Air Force actions relate to our recommendations that the Deputy Assistant Secretary for Contracting (1) 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 and (2) 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. With regard to action on the first recommendation, Air Force officials stated that the Chaplain Service has authority to issue its own policies and procedures, including purchase card authority. However, they stated that the Head of the Air Force Chaplain Office will recommend reinstatement of the Chaplain Funds in DOD Directive 1015.1, *Establishment, Management, and Control of Nonappropriated Fund Instrumentalities*, which is in the process of being

updated to reflect current DOD and Air Force policies regarding the government purchase card. The Air Force also agreed to 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.

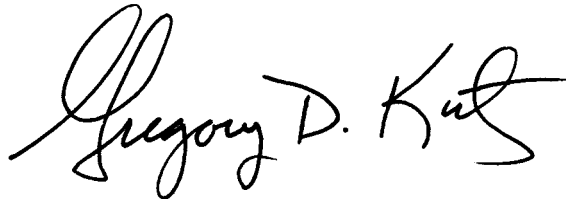
With regard to action on our recommendation to establish Air Force-wide policy as a guide for taking disciplinary actions, Air Force officials noted the existing guidance in the Air Force purchase card Instruction, which is discussed earlier in this report. They also stated that the Deputy Assistant Secretary of the Air Force (Contracting) has issued a memorandum requiring that a summary of each purchase card fraud and each instance of repeated misuse of the purchase card be briefed quarterly by the contracting squadron commander to the installation commander along with the disciplinary action taken. The Congress recently enacted provisions in DOD's appropriation and authorization acts that require the Secretary of Defense to establish guidelines and procedures for disciplinary actions to be taken against department personnel for improper, fraudulent, or abusive use of government purchase cards.

In addition, the Air Force provided technical comments on our draft report stating that it disagreed with our position that civilian clothing for enlisted aides and costumes for military band members represented abusive or questionable transactions. The Air Force referred to its Enlisted Aide Handbook and Air Force Instruction 36-2123 as authority for purchasing civilian attire, which is designated as a "uniform" for enlisted aides. Air Force officials pointed out that their handbook specifically states, "operation and maintenance funds are used when purchasing uniform items" and "local purchase is authorized and encouraged." Air Force officials also stated that band costumes are authorized purchases in accordance with Air Force Instruction 35-101 and that band costumes may be reused, as appropriate. The Air Force's position appears to be that any item defined in its policy as a uniform or band costume can be purchased using a purchase card and paid for with appropriated funds. We continue to believe that these clothing purchases are questionable because the Air Force did not adequately explain the circumstances of the purchases, such as the purpose of clothing and the vendor. The Air Force's policy opens the door for abuse and its implementation merits close scrutiny.

As agreed with your offices, unless you announce the contents of this report earlier, we will not distribute this report until 30 days from its date.

At that time, we will send copies to interested congressional committees; the Secretary of Defense; the Under Secretary of Defense for Acquisition, Technology, and Logistics; the Under Secretary of Defense (Comptroller); the Secretary of the Air Force; the Assistant Secretary of the Air Force for Acquisition; the Deputy Assistant Secretary of the Air Force for Contracting; the Assistant Secretary of the Air Force for Logistics; the Director of the Defense Finance and Accounting Service; and the Director of the Office of Management and Budget. We will make copies available to others upon request. The report also will be available free of charge on GAO's Web page at <http://www.gao.gov>.

Please contact Gregory D. Kutz at (202) 512-9505 or kutzg@gao.gov, John Ryan at (202) 512-9587 or ryanj@gao.gov, or Gayle L. Fischer at (202) 512-9577 or fischer@gao.gov, if you or your staff have any questions concerning this report. Major contributors to this report are acknowledged in appendix IV.



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Managing Director

Objectives, Scope, and Methodology

We audited the effectiveness of the Air Force’s internal controls and payment of its fiscal year 2001 purchase card transactions. The Air Force’s purchase card program is the smallest of the three services, with fewer transactions and dollars spent than the Army or the Navy. We selected our four case study locations by identifying major commands with the largest purchase card sales volume and number of transactions. We selected major Air Force commands that accounted for about 69 percent of total purchase card charges and 65 percent of total transactions for fiscal year 2001. We then selected one installation within each of the four commands based on the magnitude of purchase card activity (sales volume and number of transactions). We also considered the results of prior Air Force Audit Agency work. We selected the following Air Force installations for our case study work.

Table 12: Installations Audited and Associated Major Commands

Installation and location	Major command
Edwards AFB, California	Air Force Materiel Command
Lackland AFB, Texas	Air Education and Training Command
Nellis AFB, Nevada	Air Combat Command
Travis AFB, California	Air Mobility Command

At the four Air Force installations, we evaluated the policies and procedures used to guide the purchase card program, and we evaluated the activities they engage in to oversee the program. We used a case study approach to evaluate the local purchase card program, and our work consisted of three major segments—(1) an assessment of the overall control environment, including the adequacy of the Air Force’s policies and procedures, (2) an evaluation of the effectiveness of key internal control activities, and (3) a determination of whether evidence existed of potentially fraudulent, improper, and abusive or questionable transactions. Finally, we assessed management actions taken in fiscal year 2002 to improve purchase card controls.

To assess the overall control environment, we used as our primary criteria applicable laws and regulations; our *Standards for Internal Control in the Federal Government* ([GAO/AIMD-00-21.3.1](#), November 1999); and our *Internal Control Standards: Internal Control Management and Evaluation Tool* ([GAO-01-1008G](#), August 2001). To assess the management control environment, we applied the fundamental concepts and standards

in GAO's Internal Control Standards to the practices followed by management.

To test the implementation of key control activities during fiscal year 2001 at the four installations we audited, we obtained from DOD, U.S. Bank's database of Air Force purchase card transactions from October 1, 2000, through September 30, 2001. We did not verify the accuracy of U.S. Bank's database. We selected stratified random probability samples of 150 to 152 purchase card transactions from the population of Air Force transactions³⁹ for each case study location. With these statistically valid samples, each transaction in the four locations' populations had a nonzero probability of being included, and that probability could be computed for any transaction. Within each installation we stratified the population of transactions by the dollar value of the transaction and by whether the transaction was likely to be for a purchase of computers and related equipment. Each sample transaction for an installation was subsequently weighted in the analysis to account statistically for all the transactions in the population of that installation, including those that were not selected.

For each transaction sampled, we tested whether key internal control activities had been performed. For each control activity tested, we projected an estimate of the percent of transactions for which the control activity was not performed, for each installation. Because we followed a probability procedure based on random selections of transactions, our sample for each installation is only one of a large number of samples that we might have drawn. Since each sample could have produced different estimates, we express our confidence in the precision of our particular samples' results (that is, the sampling error) as 95 percent confidence intervals. These are intervals that would contain the actual population value for 95 percent of the samples we could have drawn. As a result, we are 95 percent confident that each of the confidence intervals in this report will include the true (unknown) values in the study populations.

Although we projected the results of our samples to the populations of transactions at the respective case study locations, the results cannot be projected to the population of Air Force transactions or installations as a whole. Tables 13 through 20 present (1) the results of our tests for one or more control attributes, (2) the point estimates of the failure rate for the attributes, (3) the two-sided 95 percent confidence intervals for the failure

³⁹ We only included positive transaction amounts in the population.

rates for each attribute, (4) our assessments of the effectiveness of the controls, and (5) the relevant lower and upper bounds of a one-sided 95 percent confidence interval for the failure rate. All numbers in these tables are rounded to the nearest percentage point.

We use one-sided confidence bounds to classify the effectiveness of a control activity. If the one-sided upper bound does not exceed 5 percent, then the control activity is effective. If the one-sided lower bound exceeds 10 percent, then the control is ineffective. Otherwise, we say that the control is partially effective. Partially effective controls may include those for which there is not enough evidence to assert either effectiveness or ineffectiveness. For example, if we were 95 percent confident that the failure rate for a particular control is less than 3 percent, we would categorize that control activity as “effective” because 3 percent is less than the 5 percent standard. Similarly, if we were 95 percent confident that the failure rate for a particular control is greater than 72 percent, we would categorize that control as “ineffective” because 72 percent is greater than the 10 percent standard.

Table 13 shows the results of our tests of controls for documenting cardholder and approving official appointments. Local commanders appoint cardholders and approving officials for their units and notify the installation program coordinator who then schedules these individuals for purchase card training.

Table 13: Estimated Results of Statistical Tests of Fiscal Year 2001 Purchase Card Transactions for Cardholder and Approving Official Appointments

Air Force installation	Percentage of breakdowns in key purchase card controls^a (and 2-sided 95% confidence intervals)	Assessment of effectiveness of controls (and relevant bounds of 1-sided 95% confidence intervals)
Edwards	82% (71% to 90%)	Ineffective lower bound = 73%
Lackland	0% (0% to 4%)	Effective upper bound = 3%
Nellis	0% (0% to 4%)	Effective upper bound = 3%
Travis	97% (89% to 100%)	Ineffective lower bound = 90%

Source: GAO analysis.

^a The numbers represent point estimates for the population based on our sampling tests.

Table 14 shows the results of our tests of controls for documenting initial training of cardholders and approving officials. Air Force Instruction 64-117 requires cardholders and approving officials to receive purchase card training before they can be assigned a purchase card account.

Table 14: Estimated Results of Statistical Tests of Fiscal Year 2001 Purchase Card Transactions for Cardholder and Approving Official Initial Training

Air Force installation	Percentage of breakdowns in key purchase card controls ^a (and 2-sided 95% confidence intervals)	Assessment of effectiveness of controls (and relevant bounds of 1-sided 95% confidence intervals)
Edwards	12% (5% to 23%)	Partially effective lower bound = 6%, or upper bound = 21%
Lackland	0% (0% to 4%)	Effective upper bound = 3%
Nellis	0% (0% to 4%)	Effective upper bound = 3%
Travis	51% (39% to 64%)	Ineffective lower bound = 41%

Source: GAO analysis.

^a The numbers represent point estimates for the population based on our sampling tests.

Table 15 shows the results of our tests of controls for documenting cardholder delegations of purchasing authority. After cardholders complete purchase card training, installation program coordinators are to prepare a letter of delegation of purchasing authority indicating the cardholder's transaction level spending limit and monthly credit limit.

Table 15: Estimated Results of Statistical Tests of Fiscal Year 2001 Purchase Card Transactions for Cardholder Delegations of Purchasing Authority

Air Force installation	Percentage of breakdowns in key purchase card controls^a (and 2-sided 95% confidence intervals)	Assessment of effectiveness of controls (and relevant bounds of 1-sided 95% confidence intervals)
Edwards	13% (6% to 23%)	Partially effective lower bound = 7%, or upper bound = 21%
Lackland	0% (0% to 2%)	Effective upper bound = 2%
Nellis	1% (0 % to 5%)	Effective upper bound = 4%
Travis	84% (73% to 93%)	Ineffective lower bound = 75%

Source: GAO analysis

^a The numbers represent point estimates for the population based on our sampling tests.

Table 16 presents the results of our tests for documentation of advance purchase authorization. Air Force Instruction 64-117 requires advance authorization for purchases of certain items, including computer and communication equipment, video equipment, medical items, and hazardous materials. Estimates for this table are based only on the sample transactions for which advance authorization of purchases was required.

Table 16: Estimated Results of Statistical Tests of Fiscal Year 2001 Purchase Card Transactions for Advance Purchase Authorization

Air Force installation	Percentage of breakdowns in key purchase card controls^a (and 2-sided 95% confidence intervals)	Assessment of effectiveness of controls (and relevant bounds of 1-sided 95% confidence intervals)
Edwards	6% (1% to 16%)	Partially effective lower bound = 2%, or upper bound = 15%
Lackland	12% (2% to 32%)	Partially effective lower bound = 3%, or upper bound = 29%
Nellis	4% (1% to 11%)	Partially effective lower bound = 1%, or upper bound = 10%
Travis	2% (0% to 8%)	Partially effective lower bound = 0%, or upper bound = 7%

Source: GAO analysis

^a The numbers represent point estimates for the population based on our sampling tests.

Table 17 presents the results of our tests for documentation of independent receiving and acceptance, by someone other than the cardholder, of goods and services purchased with a government purchase card. This requirement is not specifically addressed in DOD policy or Air Force purchase card program Instruction 64-117. We believe that independent documentation of receipt of items purchased by a cardholder is a basic internal control activity that provides additional assurance to the government that purchased items are not acquired for personal use and that they come into the possession of the government.

Table 17: Estimated Results of Statistical Tests of Fiscal Year 2001 Purchase Card Transactions for Independent Receipt and Acceptance

Air Force installation	Percentage of breakdowns in key purchase card controls ^a (and 2-sided 95% confidence intervals)	Assessment of effectiveness of controls (and relevant bounds of 1-sided 95% confidence intervals)
Edwards	68% (56% to 79%)	Ineffective lower bound = 58%
Lackland	61% (48% to 73%)	Ineffective lower bound = 50%
Nellis	53 (41% to 65%)	Ineffective lower bound = 43%
Travis	56% (44% to 68%)	Ineffective lower bound = 46%

Source: GAO analysis

^a The numbers represent point estimates for the population based on our sampling tests.

Table 18 presents the results of our tests for documentation of cardholder reconciliations. Cardholder reconciliations are key to identifying potentially fraudulent transactions resulting from compromised accounts, duplicate or improper vendor charges, and errors. As evidence that purchase card statements were reconciled, we accepted check marks, notes, sequential numbering, and numbering systems that tied transactions on the statement to items on the cardholders' purchase card logs.

Table 18: Estimated Results of Statistical Tests of Fiscal Year 2001 Purchase Card Transactions for Cardholder Reconciliations

Air Force installation	Percentage of breakdowns in key purchase card controls ^a (and 2-sided 95% confidence intervals)	Assessment of effectiveness of controls (and relevant bounds of 1-sided 95% confidence intervals)
Edwards	22% (13% to 34%)	Ineffective lower bound = 14%
Lackland	26% (15% to 39%)	Ineffective lower bound = 17%
Nellis	37% (25% to 51%)	Ineffective lower bound = 27%
Travis	21% (12% to 33%)	Ineffective lower bound = 13%

Source: GAO analysis

^a The numbers represent point estimates for the population based on our sampling tests.

Table 19 presents the results of our tests of timely approving official review of cardholders' monthly, reconciled statements. Approving official review is a recognized control activity at all levels of the purchase card program, and the approving official review process has been described as the first line of defense against misuse of the card. DOD's Purchase Card Joint Program Management Office and Air Force Instruction 64-117 recognize that approving official review of monthly purchase card statements is central to ensuring that purchase card transactions are appropriate. The Air Force Instruction requires that approving officials review and approve reconciled cardholder statements within 15 days of receipt of the monthly statement, but no later than the 15th day of the following month.

Table 19: Estimated Results of Statistical Tests of Fiscal Year 2001 Purchase Card Transactions for Approving Official Review

Air Force installation	Percentage of breakdowns in key purchase card controls ^a (and 2-sided 95% confidence intervals)	Assessment of effectiveness of controls (and relevant bounds of 1-sided 95% confidence intervals)
Edwards	70% (58% to 81%)	Ineffective lower bound = 60%
Lackland	87% (78% to 94%)	Ineffective lower bound = 80%
Nellis	69% (56% to 80%)	Ineffective lower bound = 58%
Travis	73% (60% to 84%)	Ineffective lower bound = 62%

Source: GAO analysis

^a The numbers represent point estimates for the population based on our sampling tests.

Table 20 shows the results of our tests for documentation of supporting invoices or receipts. GAO's *Internal Control Standards* state, "all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. All documentation and records should be properly managed and maintained." Without a receipt, independent evidence of the description and quantity of what was purchased and the price paid is not available. In testing for evidence of a receipt, we accepted either the original or a copy of the invoice, sales slip, or other store receipt.

Table 20: Estimated Results of Statistical Tests of Fiscal Year 2001 Purchase Card Transactions for Supporting Invoice or Receipt

Air Force installation	Percentage of breakdowns in key purchase card controls^a (and 2-sided 95% confidence intervals)	Assessment of effectiveness of controls (and relevant bounds of 1-sided 95% confidence intervals)
Edwards	9% (3% to 19%)	Partially effective lower bound = 4% , or upper bound = 18%
Lackland	30% (19% to 44%)	Ineffective lower bound = 21%
Nellis	0% (0 % to 4%)	Effective upper bound = 3%
Travis	8% (3% to 19%)	Partially effective lower bound = 3%, or upper bound = 17%

Source: GAO analysis

^a The numbers represent point estimates for the population based on our sampling tests.

We also tested nonrepresentative selections of accountable property items that were included in our sampled transactions. Because some transactions were for property items that were physically located off base, we elected to perform our test work on property items that were assigned to the base. We tested whether these items had been recorded in the installation's accountable property records, including unit-level records, in a timely manner and whether the installation could demonstrate the item's existence. We confirmed existence of the items we tested through physical observation.

In addition to our audit of statistical samples of transactions at the four case study installations, we also used data mining techniques to identify other selected transactions at the four locations and throughout the Air Force's fiscal year 2001 purchase card transactions to determine if indications exist of potentially fraudulent, improper, and abusive or questionable purchase card activity. Our data mining included identifying transactions with certain vendors were more likely to sell items that would be unauthorized or that would be personal items. We also based our selection on the nature, dollar amount, date, and other identifying characteristics of the transactions. Because of the large number of transactions that met these criteria, we did not look at all potential abuses of the purchase card. For a small number of these transactions at each of the four installations and from the Air Force-wide database, we requested

limited documentation, usually the supporting invoice, that could provide additional indications as to whether the transactions were potentially fraudulent, improper, or abusive or questionable. If the additional documentation indicated that the transactions were likely proper and valid, we did not pursue further documentation. If the additional documentation was not provided, or if it indicated further issues related to the transactions, we obtained and analyzed additional documentation or information about these transactions. While we identified some potentially fraudulent, improper, and abusive or questionable transactions, our work was not designed to identify, and we cannot determine, the extent of potentially fraudulent, improper, or abusive transactions.

For those potentially fraudulent transactions that had been or were being investigated at the four audited installations, we discussed the cases with the investigators and/or obtained records and reports on the investigations. We also interviewed purchase card officials and Air Force criminal investigators to identify other Air Force purchase card fraud cases that had been or were being investigated.

We did not audit the Defense Finance and Accounting Service's purchase card payment process. We also did not audit electronic data processing controls used in processing purchase card transactions. The installations received hard copy paper monthly bills containing the charges for their purchases and used manual processes for much of the period we audited, which reduced the relevance of auditing electronic data processing controls.

We briefed DOD managers, including officials in DOD's Purchase Card Joint Program Management Office, major command purchase card program coordinators, and purchase card program officials at the installations we audited on the details of our audit, including our objectives, scope, and methodology and our findings. On November 20, we requested comments on a draft of this report. We obtained oral comments from DOD and Air Force purchase card officials on December 13, 2002, and have summarized those comments in the "Agency Comments and Our Evaluation" section of this report. We conducted our audit work from January through mid-November 2002 in accordance with U.S. generally accepted government auditing standards, and we performed our investigative work in accordance with standards prescribed by the President's Council on Integrity and Efficiency.

Overview of the Air Force Purchase Card Process

The Air Force purchase card program is part of the governmentwide Commercial Purchase Card Program established to streamline federal agency acquisition processes by providing a low-cost, efficient vehicle for obtaining goods and services directly from vendors. Under the General Services Administration's blanket contract, the Air Force has contracted with U.S. Bank for its purchase card services. DOD reported that it used purchase cards to make about 10.7 million transactions for goods and services at a cost of over \$6.1 billion. During this same period, the Air Force reported that it used government purchase cards to make about 3 million transactions at a cost of about \$1.4 billion. This represents about 23 percent of DOD's activity for fiscal year 2001. Air Force purchase card transactions were made using about 80,000 VISA cards issued to civilian and military employees.

Table 21: Number and Value of Air Force Fiscal Year 2001 Purchase Card Transactions

Major Air Force command	Number of transactions	Cost of transactions (in millions)	Percent of total Air Force cost
Air Education and Training Command	410,564	\$173.1	12.4
Air Force Materiel Command	597,212	305.2	21.9
Air Force Reserve Command	89,423	28.1	2.0
Air Force Space Command	158,799	75.0	5.4
Air Force Special Operations Command	52,822	20.8	1.5
Air Force Services Agency ^a	266,916	61.5	4.4
Air Combat Command	607,402	282.3	20.2
Air Mobility Command	452,927	197.8	14.2
Pacific Air Forces	188,722	90.1	6.4
Other major commands	336,186	162.7	11.6
Total, all major commands	3,160,973	\$1,396.6	100.0

Source: GAO analysis of Air Force purchase card program data.

^a The Air Force Services Agency is funded by nonappropriated sources.

DOD has mandated the use of the purchase card for all purchases at or below \$2,500 and has authorized the use of the card to pay for specified larger purchases. For example, the purchase card may be used to purchase authorized supplies, equipment, and nonpersonal services up to the \$2,500 micropurchase threshold. If authorized to make purchases above \$2,500,

cardholders not in contracting organizations are to use the government purchase card only to obtain items from prepriced contracts and other pricing agreements, such as the Federal Supply Schedule, blanket purchase agreements, and Indefinite Delivery/Indefinite Quantity contracts. Purchases over the \$2,500 micropurchase threshold and up to the simplified acquisition threshold of \$25,000 must be in accordance with streamlined acquisition guidelines in the *Federal Acquisition Regulation* (FAR). The purchase card should normally not be used for cash advances; travel-related purchases; rentals or leases of land or buildings; utility services; or hazardous/dangerous items, such as explosives, munitions, toxins, and firearms.

Government Purchase Card Program Guidelines

The purchase card can be used for both micropurchases and payment of other purchases. Although most cardholders have 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 a supplement to this regulation that contains sections on simplified acquisition procedures. U.S. Treasury regulations govern purchase card payment certification processing and disbursements. DOD's Purchase Card Joint Program Management Office, which is in the Office of the Assistant Secretary of the Army for Acquisition Logistics and Technology, has issued departmentwide guidance related to the use of purchase cards. However, each service has its own policies and procedures governing the purchase card program.

Air Force Purchase Card Acquisition and Payment Processes

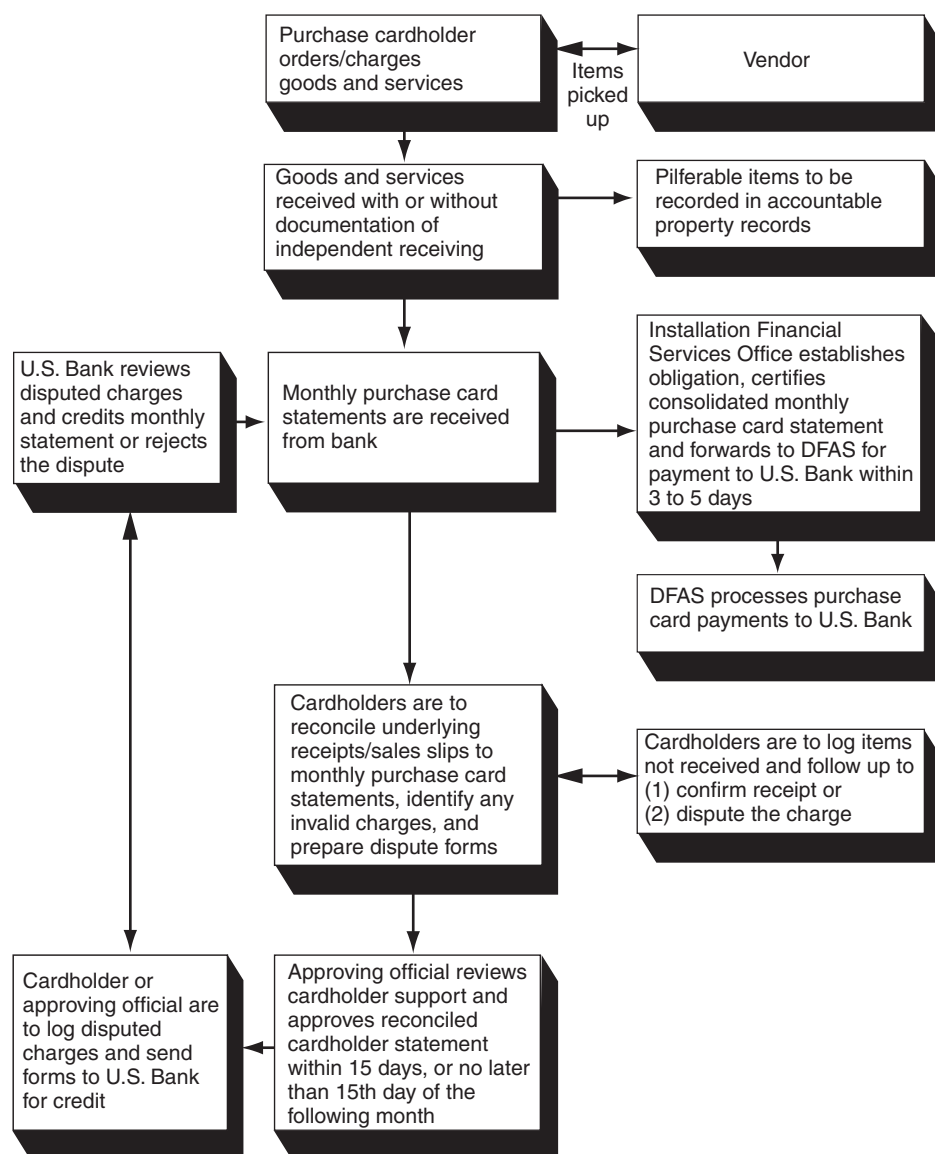
The Air Force purchase card program operates under federal Air Force guidance as the policy and procedural foundation for its purchase card program. The Air Force headquarters Acquisition Office is responsible for the overall management of the Air Force's purchase card program. The Acquisition Office has published servicewide guidelines in Air Force Instruction 64-117, *Governmentwide Purchase Card Program*, dated December 6, 2000, to establish responsibilities and procedures and provide administrative guidance for its government purchase card operations. Under the Air Force instruction, each Air Force command's head contracting officer authorizes agency purchase card program coordinators in local Air Force units to obtain purchase cards and establish credit limits. The program coordinators are responsible for administering the purchase card program within their designated span of control and serve as the communication link between Air Force units and the purchase card-issuing

bank. The other key personnel in the purchase card program are the approving officials and the cardholders. They are responsible for implementing internal controls to ensure that transactions are appropriate.

Purchase Card Process

Figure 2 illustrates the general design of the purchase card processes for the Air Force. The overall process begins with the cardholder ordering or purchasing goods or services. Each Air Force installation's Financial Services Office certifies monthly bills for payment upon receipt. After certification, the Financial Services Offices notify the Defense Finance and Accounting Service that monthly purchase card statements are ready for payment. The process ends with cardholder reconciliation and approving official review and approval of monthly purchase card statements after the bills have been paid. Any invalid transactions identified during the reconciliation and review process are to be disputed first with the vendor, and if not resolved, a "Disputed Item" form is to be submitted to U.S. Bank for credit.

Figure 2: Air Force Purchase Card Process



Source: GAO analysis of Air Force purchase card program organization.

Purchase cardholders are delegated limited contracting officer-ordering responsibilities, but they do not negotiate or manage contracts. When a supervisor requests that a staff member receive a purchase card, the agency program coordinator is to first provide training on purchase card

policies and procedures and then establish a credit limit and issue a purchase card to the staff member. After receiving training, cardholders are issued a purchase card, which bears their name and the account number that has been assigned to them. The cardholder is expected to safeguard the purchase card as if it were cash. Each cardholder has an established daily and monthly credit limit and is designated to make purchases at selected types of vendors. Cardholders use purchase cards to order goods and services for their units as well as their customers. Cardholders may pick up items ordered directly from the vendor or request that items be shipped directly to receiving locations or end users.

The approving official is responsible for providing assurance that all purchases made by the cardholders within his or her cognizance were appropriate and that the charges are accurate. The approving official is supposed to resolve all questionable purchases with the cardholder. In the event an unauthorized purchase is detected, the approving official is supposed to notify the agency program coordinator and other appropriate personnel within the command in accordance with the command procedures. Under governmentwide guidelines, agencies are required to first attempt to resolve invalid transactions with the vendors. Transactions that are not resolved with the vendors may be disputed with the U.S. Bank.

The purchase card payment process begins with receipt of the monthly purchase card billing statements from the bank. The Air Force uses a pay and confirm process whereby the monthly purchase card statements received from U.S. Bank are certified as proper for payment by each installation's Financial Services Office within 3 to 5 business days and forwarded to the Defense Finance and Accounting Service (DFAS) for payment. Under guidelines in the Air Force purchase card Instruction, cardholders are required to review and reconcile their monthly purchase card statements within 5 days of receipt, and approving officials are required to review cardholders' monthly statements as reconciled and dispute any invalid charges within 15 days of receipt, but no later than the 15th day of the following month.

DFAS effectively serves as a payment processing service and relies on the Air Force Financial Services Office certification of the consolidated monthly bill for each installation as support to make the payment. The DFAS vendor payment system then makes a single payment to U.S. Bank by electronic funds transfer for each Air Force installation's monthly purchase card expenditures.

During the summer of 2001, the Air Force began implementing U.S. Bank's Customer Automation and Reporting Environment (CARE) system. CARE provides several automated purchase card management features, including on-line cardholder purchase logs, transaction histories, and management reporting and inquiry functions. CARE management reports identify managing accounts, approving officials and cardholders' accounts, transaction history, rejected transactions, and the reasons for the rejections, such as transactions in excess of the cardholder's credit limit, potential split purchases, inactive accounts, and blocked merchant category codes.

During fiscal year 2002, the Air Force implemented additional purchase card management controls using U.S. Bank's CARE system. These enhanced controls include an automated link of cardholder credit limits to budgetary funding authorizations to help ensure that purchase card activity will not exceed available funds. Another control feature monitors approving official span of control over cardholder accounts to help ensure that installations are meeting DOD and Air Force goals for reducing and eliminating excessive approving official span of control. The enhanced controls also include automated tracking of cardholder review of individual transactions on their monthly purchase card statements and billing officials' approval of those statements. Statements cannot be approved until the cardholders have physically "touched" (clicked on) each transaction on the computer screen to indicate that they have reviewed the transactions. CARE automatically shuts down the accounts of billing officials who have not approved their consolidated statements within 60 days. No charges can be processed against these accounts until they are reviewed/reconciled and approved. U.S. Bank has also shut down accounts that indicate potential fraud. For example, the bank has shut down Air Force purchase card accounts due to out of state transactions on weekends and other suspicious patterns of activity that indicate potentially compromised accounts.

Examples of Air Force Purchase Card Fraud Cases

The following examples illustrate the types of cases investigated by the Air Force Office of Special Investigations.

Case #1

During May 2000, after a Nellis AFB approving official retired, the new approving official's review of a cardholder's monthly statements detected questionable transactions for which no receipts were available. The new official notified contracting officials who contacted Air Force investigators. The cardholder, an E-4, senior airman, used her government purchase card to obtain between \$5,000 and \$20,000 in merchandise, which she then stole and sold, pawned, or left at her residence. When questioned by her supervisor, who was the approving official, the airman admitted that she stole the items she had purchased with the government purchase card. When confronted by investigators, the airman refused to identify specific items of equipment that she stole. For example, the airman only stated that she purchased items from Home Depot and a local hardware store. Nellis AFB contracting officials told us that the cardholder used the purchase card to buy fax machines, calling cards, cordless telephones, digital cameras, chairs, and laser jet printers and sold them to pawnshops and at swap meets for personal gain.

The day before being court-martialed, the airman paid back approximately \$7,100 to the government. The airman waived her Article 31 rights⁴⁰ and pleaded guilty to purchasing and pawning over \$7,100 worth of personal items on her purchase card between May 1, 1999, and May 1, 2000. The airman was convicted of larceny in a General Court-Martial and sentenced on March 17, 2001, resulting in a reduction in grade to E-1, \$14,768 in military pay forfeiture, 7 month's confinement, and a Bad Conduct Discharge. This fraud was able to occur and continue because the first approving official apparently had not reviewed the cardholder's monthly purchase card statements and, therefore, had not detected or questioned the fraudulent transactions.

Case #2

On September 27, 2000, the purchase card program coordinator at Misawa Air Base, Japan, notified Air Force investigators about possible government purchase card fraud. The program coordinator's audit of a cardholder's

⁴⁰ Article 31 of the Uniform Code of Military Justice prohibits compulsory self-incrimination. Thus, the individual waived her right to refuse to answer questions, which may have tended to incriminate her.

account had revealed numerous undocumented charges/purchases. Air Force investigators determined that the fraud was committed by an E-4, senior airman, in the Civil Engineering Squadron whose own purchase card had been revoked for misuse. The airman took advantage of a co-worker's inexperience and limited English language capability to obtain and improperly use her purchase card. The cardholder was a Japanese citizen employed by the Air Force.

In early October 2000, the cardholder gave investigators a signed, sworn statement, in which she related that from approximately March through September 2000, an E-4, senior airman in the Civil Engineering Squadron had repeatedly used the cardholder's government purchase card to pay bills and make purchases, often without the cardholder's knowledge. While the cardholder was aware that some of the purchases were made at the squadron's Self Help Store, she told Air Force investigators that she had no knowledge of the types of items purchased. The cardholder also stated that when she inquired as to the nature of the purchases, the senior airman told her that he would take care of purchases using the card because of her limited English language capabilities. No attempt was made to correct this misuse of the purchase card until the bank declined a large purchase of approximately \$50,000 due to the high dollar amount. The declined transaction flagged the account, and the contracting squadron initiated an inquiry.

Contracting squadron records showed that the senior airman had purchased approximately \$10,000 of merchandise using the Japanese cardholder's account. Air Force investigators' review of Self Help Store records failed to identify what was purchased and/or if the items had ever been received at the store. As a result, investigators were unable to determine whether criminal abuse had occurred. However, because the investigation did identify procedural violations, investigators referred this matter to the command for action. The airman subsequently was reassigned from the civil engineering squadron. The airman was able to use the purchase card for unauthorized transactions because the cardholder failed to maintain custody of the purchase card.

Case #3

On August 14, 2001, investigators assigned to the 325th Security Forces Squadron at Tyndall AFB, Florida, received an allegation that a WG-5⁴¹ maintenance employee was using his government purchase card to buy personal use items. According to a witness, the cardholder had bragged about using his government purchase card to purchase tools, a television set, and a computer for his personal use. The witness told the investigators that he had accompanied the cardholder to a local hardware and auto parts stores in Panama City, Florida, and had observed the cardholder using his government purchase card to buy tools and other items for his son's vehicle. The cardholder subsequently gave one of the tools to the witness and told him to keep it for his personal use. Squadron investigators coordinated with a local hardware store and obtained security videotape as evidence. The video depicted the cardholder, who was present with the witness, purchasing a drill bit, which the cardholder subsequently gave to the witness. The cardholder also allegedly used his government purchase card to pay for major engine repairs to his son's vehicle.

The investigators' preliminary review of the cardholder's account disclosed several unauthorized charges for dental work totaling approximately \$1,800 and charges for an automotive engine repair for \$1,181. Numerous additional suspect charges were identified on the cardholder's purchase card account. The investigation, which is ongoing, has identified an estimated \$5,000 in fraudulent purchases. Coordination with the cardholder's command disclosed indications of an almost total lack of oversight on the part of the approving official.

⁴¹ Wage Grade (WG) positions are paid at hourly rates and generally pertain to blue collar government positions, such as maintenance, printing, and landscaping.

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