October 16, 2003

Acquisition

Selected Purchase Card Transactions at Washington Headquarters Services and Civilian Personnel Management Service

(D-2004-002)

Department of Defense
Office of the Inspector General

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Report Documentation Page

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Policy makers, senior managers, purchase card program managers, approving officials, and cardholders should read this report to help identify potential problem areas in their purchase card programs. This report identifies control weaknesses and the fraud, waste, and abuse that can occur in the purchase card program, some of which have been identified throughout the program. After reading this report, managers will be able to better assess their own purchase card programs and make adjustments that will strengthen their respective programs.

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Acronyms

CD-ROM	Compact Disc Read Only Memory
CPMS	Civilian Personnel Management Service
DCIS	Defense Criminal Investigative Service
DVD	Digital Video Disc
FAR	Federal Acquisition Regulation
GAO	General Accounting Office
GSA	General Services Administration
IG DoD	Inspector General of the Department of Defense
LCD	Liquid Crystal Display
OSD	Office of the Secretary of Defense
RE&F	Real Estate and Facilities
WHS	Washington Headquarters Services

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October 16, 2003

MEMORANDUM FOR DIRECTOR, WASHINGTON HEADQUARTERS SERVICES

SUBJECT: Report on Selected Purchase Card Transactions at Washington Headquarters Services and Civilian Personnel Management Service (Report No. D-2004-002)

We are providing this report for your information and use. This audit was conducted as part of the Joint Audit of Selected DoD Purchase Card Transactions (Project No. D2002CM-0117.001). This report is one in a series of reports that documents satisfaction of the requirements in Section 1007 of the FY 2003 National Defense Authorization Act that the Inspector General of the Department of Defense perform periodic audits of the purchase card program. We considered management comments on a draft of this report when preparing the final report.

The Director, Washington Headquarters Services comments were responsive; therefore, additional comments are not required. We renumbered draft Recommendations A.1., A.2., and A.9. to A.1.a., A.1.b., and A.1.c.; renumbered Recommendations A.3., A.4., A.5., and A.7. to A.2.a., A.2.b., A.2.c., and A.2.d.; and renumbered Recommendations A.6. and A.8. to A.3. and A.4., respectively.

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Joseph P. Doyle at (703) 604-9349 (DSN 664-9349) or Ms. Bobbie Sau Wan at (703) 604-9259 (DSN 664-9259). See Appendix I for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

Robert K. West

Robert K. West
Deputy Director
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Office of the Inspector General of the Department of Defense

Report No. D-2004-002 **October 16, 2003**
(Project No. D2002CM-0117)

Selected Purchase Card Transactions at Washington Headquarters Services and Civilian Personnel Management Service

Executive Summary

Who Should Read This Report and Why? Policy makers, senior managers, purchase card program managers, approving officials, and cardholders should read this report to help identify potential problem areas in their purchase card programs. This report identifies control weaknesses and the fraud, waste, and abuse that can occur in the purchase card program, some of which have been identified throughout the program. After reading this report, managers will be able to better assess their own purchase card programs and make adjustments that will strengthen their respective programs.

Background. This report is one in a series of reports that documents satisfaction of the requirements in Section 1007 of the FY 2003 National Defense Authorization Act that the Inspector General of the Department of Defense perform periodic audits of the purchase card program. The purchase card is a Government-wide commercial charge card available to offices and organizations for the purchase of goods and services. In FY 2001, DoD made 10.6 million purchases with the Government purchase card totaling $6.1 billion; in FY 2002, DoD made 11 million purchases valued at $6.8 billion.

This audit was conducted as part of the Joint Audit of Selected DoD Purchase Card Transactions and addressed purchase card transactions at two DoD field activities, the Washington Headquarters Services and the Civilian Personnel Management Service under the Defense Human Resources Activity. The Washington Headquarters Services provides operational support and administrative services to DoD Components, and the Civilian Personnel Management Service provides corporate level leadership in human resources management throughout DoD. For the Washington Headquarters Services, 4,788 transactions valued at about $6.9 million were reviewed. For the Civilian Personnel Management Service, five transactions totaling $169 were identified by data mining and reviewed.

Results. Washington Headquarters Services management controls for the purchase card program did not ensure that 4,047 purchases, made by 12 cardholders in the Graphics and Presentations Division, totaling about $6 million, were mission related, properly safeguarded, and provided the best value for the Government.

Management controls for the purchase card program were not implemented in the 13-person Graphics and Presentations Division of the Washington Headquarters Services, resulting in about $1.7 million of fraudulent purchases from May 1999 through August 2002 and at least $201,000 in additional abusive, improper, and unauthorized purchases (finding A). Property costing at least $50,000, purchased with Government purchase cards, was not recorded on the inventory records and could not be located. As a result, an undeterminable amount of property may be misplaced, lost, or stolen

(finding B). Also, cardholders created noncompetitive procurements by using split purchases and not rotating purchases among qualified vendors. As a result, the Department paid one vendor $36,000 to purchase an item that should cost $3,000 and may not have received the best value for purchases totaling at least $511,500 from other vendors (finding C). No problems were identified with the transactions reviewed for the three other divisions under Washington Headquarters Services and the two cardholders in the Civilian Personnel Management Service.

The Director of Washington Headquarters Services should initiate a review and take appropriate administrative actions to hold the approving official and former Agency Program Coordinator accountable for failure to perform their duties under the purchase card program; hold cardholders responsible for repayment of unauthorized and abusive purchases; and hold the Director, Real Estate and Facilities accountable for failing to ensure the purchase card program policies, laws, and regulations were followed. The Director should ensure separation of duties for key positions of oversight and allocate adequate resources to accomplish oversight. The Director should ensure that required controls are implemented and required oversight and reviews are performed. (For detailed recommendations, see finding A.) The Director of Washington Headquarters Services should take measures to record and safeguard property purchased by cardholders. A complete review of purchase invoices and receipts from May 1999 through August 2002 should be conducted to identify and locate pilferable items. Any missing property should be investigated and administrative actions taken where required. (For detailed recommendations, see finding B.) The Director of Washington Headquarters Services should require periodic reviews of all purchase card transactions to ensure appropriate use, and include micro-purchases as part of its annual management control program review and place emphasis on stopping the use of split purchases and vendor preference. (For detailed recommendations, see finding C.)

Management Actions. The Under Secretary of Defense (Comptroller)/Chief Financial Officer established a DoD Task Force on March 19, 2002, to examine the management of DoD charge card programs. On June 27, 2002, the Task Force concluded in a final report that even though the DoD charge cards were used appropriately by a majority of the cardholders, audits and investigations revealed incidents of misuse, abuse, and fraud. The Task Force report contained 25 recommendations for changes in policies and procedures.

Management Comments and Audit Response. The Director, Washington Headquarters Services is initiating a thorough, professional investigation headed by a Senior Executive outside of Washington Headquarters Services to determine the facts surrounding this report, and will take whatever actions are deemed to be appropriate as a result of that investigation. While the Director did not concur in any implication that cardholders, approving officials, the Agency Program Coordinator, or the Director, Real Estate and Facilities may not have performed their duties or reviews, the Director agreed to determine any additional culpability and potential liability, beyond the criminal sanctions already meted out. Also, the Director, Washington Headquarters Services generally concurred with all of the recommendations for inventory control and contracting methods. Furthermore, the Director stated that actions would be taken to strengthen the controls on the purchase card program by implementing the required reviews and oversight. The Director of Washington Headquarters Services comments are considered responsive to the recommendations. See the Findings section of the report and Appendix G for a discussion of management comments and audit response, and the Management Comments section of the report for a complete text of the comments.

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Background

Section 1007, "Improvements in Purchase Card Management," of the National Defense Authorization Act for Fiscal Year 2003 (Public Law 107-314, December 2, 2002), states:

> That the Inspector General of the Department of Defense…perform periodic audits to identify-
>
> (A) potentially fraudulent, improper, and abusive uses of purchase cards;
>
> (B) any patterns of improper cardholder transactions, such as purchases of prohibited items; and
>
> (C) categories of purchases that should be made by means other than purchase cards in order to better aggregate purchases and obtain lower prices.

Federal Purchase Card Program. The purchase card is a Government-wide commercial charge card available to offices and organizations for the purchase of goods and services. The General Services Administration (GSA) awarded the first Government-wide purchase card contract in 1989. The Federal Acquisition Streamlining Act of 1994 (Public Law 103-355, October 13, 1994) established $2,500 as the micro-purchase threshold and eliminated most of the procurement restrictions for purchases identified within that threshold. In 1995, the Federal Acquisition Regulation (FAR) designated the purchase card as the preferred method to pay for micro-purchases. GSA published a "Blueprint For Success: Purchase Card Oversight" in April 2002, to serve as an information source for preventing and detecting misuse and fraud with Government purchase cards. Purchase cards can also be used for making contract payments.

DoD organizations are responsible for distributing cards, training employees, and managing the daily aspects of the purchase card program. Each participating organization designates an office to manage the program, which includes assuring that training is provided, a current list of cardholders and approving officials is maintained, and an annual oversight review of the program is performed. Also, DoD employees are assigned as "approving officials" to authorize and approve purchases for payment. Once a cardholder makes an authorized purchase, the cardholder and the approving official reconcile the purchased goods and services with the bank statement prior to the approving official requesting payment by the Defense Finance and Accounting Service.

According to GSA, over 400,000 cardholders in about 60 agencies made purchases totaling about $13.8 billion in FY 2001. GSA reported the Government realized savings of about $1.3 billion in administrative costs by using purchase cards in FY 2001. The DoD Purchase Card Program Management Office reported in May 2002 that DoD made 10.6 million purchases totaling $6.1 billion and realized $28.2 million in rebates in FY 2001.

Purchase Card Joint Program Management Office. The Under Secretary of Defense for Acquisition, Technology, and Logistics is responsible for purchase card policy and oversight, in coordination with the Under Secretary of Defense (Comptroller)/Chief Financial Officer on related finance and accounting policy.

In 1998, the Deputy Secretary of Defense established the DoD Purchase Card Program Management Office to provide a centralized program management structure over the purchase card program. As of September 2001, DoD had 231,856 purchase cardholders. The Inspector General of the Department of Defense (IG DoD) and military audit organizations issued more than 300 reports on purchase cards between FY 1996 and FY 2001 identifying weaknesses in the DoD purchase card program.

In 2001, at the request of the Director, Defense Procurement, the IG DoD established a new audit planning subgroup to provide oversight and coordination of all DoD purchase card audits. Additionally, the DoD Purchase Card Program Management Office requested that the joint fraud detection and prevention program expand its program to formally include purchase card transactions, specifically data mining efforts conducted by the IG DoD and the Air Force Audit Agency. By incorporating fraud indicators in data mining techniques, purchase card transactions were identified for review in Military Departments, Defense agencies, and field activities under the joint audit. The IG DoD reviewed the identified transactions for the Washington Headquarters Services (WHS) and the DoD Civilian Personnel Management Service because the organizations did not have an audit or internal review function.

Washington Headquarters Services. WHS is a DoD field activity that provides operational and support services to DoD Components and non-DoD activities. One of the support functions WHS provides is facilities management and the associated support services for all DoD-occupied administrative space in the National Capital Region. The Graphics and Presentations Division (Graphics Division), in the Real Estate and Facilities (RE&F) Directorate, located in the Pentagon, provides support services such as visual aids for briefings and presentations, displays for exhibits, print media for publications, and signs and posters for special events.

DoD Civilian Personnel Management Service. The DoD Civilian Personnel Management Service, under the Defense Human Resources Activity, provides corporate level leadership in human resources management. The DoD Civilian Personnel Management Service develops and manages human resources programs and systems for DoD, develops and recommends policy, provides guidance on all aspects of civilian personnel management, and advises all levels of management in DoD regarding human resources.

DoD Charge Card Task Force. On March 19, 2002, the Under Secretary of Defense (Comptroller)/Chief Financial Officer established a DoD Task Force to examine the management of DoD charge card programs. The Task Force included a broad membership of DoD organizations and consulted with non-DoD organizations. The goal of the Task Force was to develop recommendations to improve the Department's charge card programs without adversely affecting the effectiveness of the programs. The Task Force concluded that the Department's purchase card and travel charge card programs represent sound cost-saving business practices and that the vast majority of our military and civilian personnel use Government charge cards appropriately and exercise proper fiscal stewardship of taxpayer resources. Problems, however, were identified. Purchase card audits and investigations revealed incidents of misuse, abuse, and fraud. Causes included inadequate command emphasis and poorly enforced internal controls. The Department of Defense Charge Card Task Force Final Report,

June 27, 2002, contained 25 recommendations for change in policies and procedures. The recommendations included increasing management emphasis and implementing improved management metrics, strengthening internal controls and increasing the tools available to managers for enforcing those controls, and enhancing the capability of the workforce to accomplish assigned charge card responsibilities, to include training and recommending the minimum skills required to perform essential charge card management tasks.

Objectives

Our overall audit objective was to determine whether selected purchases made by cardholders identified through data mining techniques were appropriate. Additionally, we reviewed the management controls related to the identified purchase card transactions. See Appendix A for a discussion of the scope and methodology and our review of the management control program. See Appendix B for prior coverage and Appendix H for a summary of potential monetary benefits.

A. Purchase Card Accountability

Washington Headquarters Services (WHS) purchase card program controls were not followed in the Real Estate and Facilities (RE&F) Directorate. The condition occurred because the program was not properly established and because controls were not enforced throughout the purchase card process. The approving officials, the Agency Program Coordinator (Program Coordinator), and the Director of RE&F did not perform their duties regarding the review and oversight of the purchase card program. As a result, the Director of the Graphics and Presentations Division (Graphics Division) made $1.7 million in fraudulent purchases from May 1999 through August 2002. Employees were also allowed to make at least $201,000 in additional abusive, improper, or unauthorized purchases.

RE&F Directorate

The key positions and responsibilities of the WHS purchase card program as they relate to the Graphics Division begin with the cardholder and progress to the head of contracting.

Cardholder. Cardholders may use their purchase cards for Government purchases that are within their single purchase limits, follow agencies policies and procedures, and are authorized by law or regulation. The cardholder certifies to the approving official that the charges on the cardholder statement are accurate and valid.

Approving Official. The approving official is required to review all receipts attached to the cardholder's statement prior to certifying the approving official monthly statement for payment. The RE&F Deputy Director was the responsible approving official for the Graphics Division Director beginning December 2001. The Program Coordinator also served as the approving official for the Graphics Division Director from at least May 1999 through November 2001. The Graphics Division Director was the supervisor and the approving official for the other 11 cardholders in the Graphics Division.

Agency Program Coordinator. The WHS Program Coordinator was responsible for overall management of the RE&F Government purchase card program including training of all cardholders and billing officials. The Program Coordinator is required to conduct annual program reviews as well as random reviews of individual cardholder purchases as part of the oversight responsibility.

Head of Contracting. As the head of contracting, the RE&F Director issued the WHS standard operating procedure and administered the Government purchase card program within WHS. The head of contracting is responsible for issuing the delegation of authority to cardholders, approving officials, and the agency program coordinator. The head of contracting is also responsible for ensuring that the purchase card program policies and procedures and all applicable laws and regulations are followed.

Graphics Division Cardholders

The Graphics Division consisted of 13 staff members of which 12 were cardholders under the Government purchase card program. Originally 26 purchase card transactions from July 2001 through December 2001 were selected for review. However based on questionable purchases, the review was expanded to 4,047 transactions from September 2000 through December 2001, totaling $6,064,453.

Implementation of Purchase Card Controls

WHS had written policies and procedures; however, the basic procedures were not followed by the Graphics Division of WHS. The lack of implementation of the policies and procedures within the RE&F Directorate led to the complete breakdown of the purchase card program in the Graphics Division. Some of the basic controls over the purchase card program identified in the WHS Standard Operating Procedures and best practices in the GSA "Blueprint for Success: Purchase Card Oversight" were not implemented or enforced.

- The Graphics Division cardholders did not maintain required purchase logs with descriptions of the items purchased.
- Work orders or purchase requests from other DoD Components were not adequately documented with a signature or e-mail to verify the purchase request.
- Approving officials for the Graphics Division did not review monthly purchase card statements and invoices as required before certifying for payment.
- The Director, RE&F circumvented management controls by not requiring the separation of duties and allowing the Program Coordinator to also be the approving official for the Graphics Director.
- Account statements for the Graphics Division did not contain a certifying statement and signature block for the approving official as recommended by bank guidelines.
- The Program Coordinator did not perform the required annual program review or random reviews of cardholder accounts.
- The Program Coordinator issued purchase cards to Graphics Division personnel at the request of the supervisor without the required written justification.
- The Program Coordinator could not document training for most Graphics Division cardholders and did not require cardholders to take refresher training.
- A required periodic review by the RE&F Contracting Office was done only once in March 2000 and was not adequate since it focused solely on

existing contracts rather than on all transactions to verify that they were legitimate micro-purchases.

DoD issued numerous memorandums and reports calling for improved internal review programs and appropriate corrective and disciplinary actions. As pointed out in the "Department of Defense Charge Card Task Force Final Report," June 27, 2002, "Management's enforcement of internal controls is an essential element to ensure accountability of purchase card use."

Accountability

WHS management did not properly establish the purchase card program and did not hold approving officials, the Program Coordinator, and the head of contracting accountable for not performing their duties and responsibilities in executing the WHS Graphics Division purchase card program. WHS management subsequently assigned the former Program Coordinator to a newly created internal review position. The $1.7 million of purchases by the Director of the Graphics Division (Graphics Director) with Infinite Network Solutions for fictitious services was paid erroneously because managers of the program did not provide review and oversight.

Approving Official Review of Purchases. The approving officials for the $1.7 million in fraudulent purchases made by the Graphics Director did not perform the required review of the cardholders' monthly statements before certifying the official statement for payment. The approving official, referred to as the billing official in the WHS Standard Operating Procedures, is the person responsible for reviewing cardholders' monthly account statements, ensuring purchases are made in accordance with the FAR and agency regulations, and certifying those invoices for payment. The approving official is also responsible for enforcing the WHS Standard Operating Procedures and advising the Program Coordinator of misuse of the card and initiating disciplinary action as appropriate.

The Graphics Director had at least two different approving officials while making fraudulent purchases. As of December 2001, the approving official was the Deputy Director for the RE&F Directorate; however, bank records indicated that the previous approving official was the Program Coordinator. Neither of the approving officials fulfilled the requirement to review monthly account statements and purchase documentation for the fictitious services from Infinite Network Solutions. According to the Department of Justice press release, November 6, 2002, the Graphics Director produced false invoices solely for the IG DoD audit. This means that, prior to the audit, these invoices did not exist and could not have been reviewed monthly by the approving official. Both approving officials failed to review the cardholder's monthly statements and supporting documentation for over 3 years, from May 1999 through August 2002, and allowed the Graphics Director to make the $1.7 million in fraudulent purchases.

Agency Program Coordinator Oversight. The Program Coordinator did not perform the required oversight for purchases made by the Graphics Director. According to the Program Coordinator, she only looked into the Graphics Division purchases after the IG DoD auditors discovered purchased items missing and expanded the review to include all Graphics Division cardholders. The Program Coordinator stated that once she started looking, she discovered

suspicious purchases and "turned someone in to the Defense Protective Service." This discovery by the Program Coordinator of suspicious purchases occurred only days before the IG DoD auditors officially referred the Graphics Director and purchases from Infinite Network Solutions to the Defense Criminal Investigative Service for investigation. The Program Coordinator had electronic access to purchase card transactions and a variety of reports available from the bank that should have been used to detect misuse and fraud. However, the proportionately high dollar charges and the heavy use of one vendor, Infinite Network Solutions, went unquestioned by the Program Coordinator, allowing the $1.7 million in erroneous payments to go undetected for 3 years. For example, the bank's account activity report shows each transaction, merchant name, and dollar amount. According to the GSA "Blueprint for Success: Purchase Card Oversight," the report is particularly useful for identifying suspicious merchants and unusually high spending patterns. It is obvious that the Program Coordinator did not use this report since bank records show a high percentage of monthly charges, up to 86 percent in July 2001, going to Infinite Network Solutions for what appeared to be computer services.

The Program Coordinator was subsequently assigned to a newly created internal review position in the Real Estates and Facilities Directorate. Considering the individual's negligence in performing approving official and program coordinator duties as well as a conflict of interest in performing current internal review duties, we question assigning the former Program Coordinator to a position of increased responsibility. The former Program Coordinator will now be responsible for exposing problems that could have occurred when the Program Coordinator was responsible for oversight of the purchase card program.

Head of Contracting Responsibility. Management's responsibility to allocate resources for oversight of the purchase card program was not a high priority in the RE&F Directorate. The Program Coordinator was not a full-time position and at one point, the Program Coordinator was allowed to concurrently hold the position of approving official for the Graphics Director. As the Head of the Contracting Activity, the RE&F Director was responsible for ensuring that the purchase card program was properly established, and that policies and procedures and all applicable laws and regulations were followed. A required periodic review by the RE&F Contracting Office was done only once in March 2000 and was not adequate since it focused solely on existing contracts rather than on all transactions to verify that they were legitimate micro-purchases. The RE&F Director was responsible for appointing the Program Coordinator, approving officials and cardholders and setting approving official and cardholder credit limits. However, the RE&F Director did not officially appoint individuals as approving/certifying officials or as agency program coordinator, allowing the duties of those positions to be taken lightly rather than following established procedures and providing the necessary program oversight. In addition, the RE&F Director was also responsible for holding those responsible for the oversight accountable for performing their duties. Therefore, the RE&F Director was also negligent in performing the duties related to oversight of the WHS purchase card program.

A review should be initiated and appropriate administration action taken against the approving official, the agency program coordinator and the head of contracting for failure to provide adequate oversight to the purchase card program.

Abusive, Improper, and Unauthorized Purchases

The lack of implementation of the WHS purchase card program controls in the RE&F Directorate allowed the cardholders in the Graphics Division to make an undetermined amount of abusive, improper, and unauthorized purchases. The Department of Defense Office of the Assistant Inspector General for Auditing officially referred suspicious purchases made by the Graphics Director and the Graphics Deputy Director to the Defense Criminal Investigative Service for investigation on August 9, 2002. Subsequently, the Graphics Director pled guilty to the theft of $1,711,000, was relieved of her Government position, and was convicted and sentenced in the United States District Court. The Deputy Director pled guilty to the theft of more than $30,000 in Government property from card purchases, and was convicted and sentenced in the United States District Court. For the full text of the Department of Justice press releases on the sentencing of the Graphics Director and Deputy Director, see Appendix C.

During the 16 months from September 2000 through December 2001, cardholders in the Graphics Division also made at least $201,086 of questionable purchases ranging from excessive electronic equipment to novelties. In recent General Accounting Office testimony and reports on DoD purchase card problems, the three categories of questionable purchases have been defined as being abusive, improper, or unauthorized. Abusive purchases are described as being intended for Government use but not having a valid Government need or purchased at an excessive cost. The Graphics Division made at least $173,509 of abusive purchases. Improper purchases are for Government use but are not permitted by law, regulation, or DoD policy. The Graphics Division made at least $26,425 of improper purchases. Finally, unauthorized purchases are not for Government use or permitted by law and are considered potentially fraudulent when they appear to be for personal use. The Graphics Division made at least $1,152 of unauthorized purchases. For a more extensive discussion of purchases made by the Graphics Division cardholders that represent each of these categories, see Appendix D.

Conclusion

The lack of implementation of management controls within the RE&F Directorate led to the complete breakdown of purchase card program controls in the Graphics Division. The fact that the erroneous payments of $1.7 million were made for over 3 years without any review or action by either the approving official or the former Program Coordinator clearly indicates that they were negligent in the performance of their duties. Furthermore, cardholders in the Graphics Division were also allowed to make abusive, improper, and unauthorized purchases of at least $201,086. See Appendix H for the summary of potential monetary benefits.

Management Comments on Finding A and Audit Response

Summaries of management comments on finding A and our audit response are in Appendix G.

Recommendations, Management Comments, and Audit Response

Renumbered Recommendations. Draft Recommendations A.1., A.2., and A.9. have been renumbered as Recommendations A.1.a., A.1.b., and A.1.c.; Recommendation A.3., A.4., A.5., and A.7. have been renumbered as Recommendations A.2.a., A.2.b., A.2.c., and A.2.d.; and Recommendations A.6. and A.8. have been renumbered as Recommendations A.3. and A.4., respectively.

A.1. We recommend that the Director, Washington Headquarters Services initiate a review and take appropriate administrative actions to:

a. Hold purchase card approving officials and the former Agency Program Coordinator accountable for failure to provide adequate oversight to the purchase card program.

b. Hold cardholders that have made unauthorized or abusive purchases responsible for repayment to the Government as prescribed in the DoD Financial Management Regulation.

c. Hold the Director, Real Estate and Facilities accountable for failing to properly establish the purchase card program and ensure the purchase card program policies and procedures and all applicable laws and regulations were followed.

Director, Washington Headquarters Services Comments. The Director, Washington Headquarters Services concurred in part and is initiating a thorough investigation headed by a Senior Executive outside of Washington Headquarters Services to determine the facts surrounding this report and will take whatever actions are deemed to be appropriate. The Director, Washington Headquarters Services did not concur in any implication that the cardholders, approving officials, Agency Program Coordinator, or the Director, Real Estate and Facilities may not have performed their duties or reviews. However, the Director agreed to determine any additional culpability and potential liability, if any, beyond the criminal sanctions already meted out.

Audit Response. We consider the comments to be responsive to the recommendations.

A.2. We recommend that the Director, Washington Headquarters Services:

a. Amend the Washington Headquarters Services Standard Operating Procedures to include direction regarding separation of duties for key positions of oversight in order to minimize the risk of fraud as recommended by the General Services Administration, "Blueprint For Success: Purchase Card Oversight."

b. Direct the Director, Real Estate and Facilities to hold cardholders, approving officials, and the Agency Program Coordinator accountable for implementing controls and performing their duties.

c. Designate the Program Coordinator as a full-time position and allocate the resources necessary to accomplish all the required oversight and annual reviews of the purchase card program.

d. Enforce the Purchase Card Program Standard Operating Procedures and hold cardholders, approving officials, and the Agency Program Coordinator accountable for compliance with policies.

Director, Washington Headquarters Services Comments. The Director, Washington Headquarters Services concurred in part and transferred the entire purchase card program from the Real Estate and Facilities Directorate to the Budget and Finance Directorate. The new directorate has already instituted additional safeguards and oversight and implemented changes to provide accountability. Furthermore, a full-time Program Manager has been appointed to oversee the Program and will serve as the Primary Program Coordinator and will be held accountable for compliance with all policies and procedures.

Audit Response. The comments are considered responsive and no additional comments are required.

A.3. We recommend that the Director, Washington Headquarters Services direct the Program Coordinator to accomplish all the required oversight and annual reviews of the purchase card program.

Director, Washington Headquarters Services Comments. The Director, Washington Headquarters Services concurred and has already directed the Program Coordinator to accomplish all required oversight and annual reviews.

Audit Response. The comments are considered responsive and no additional comments are required.

A.4. We recommend that the Director, Washington Headquarters Services evaluate the decision to appoint the former Program Coordinator to a position in Internal Review.

Director, Washington Headquarters Services Comments. The Director, Washington Headquarters Services concurred in part and is initiating a thorough investigation headed by a Senior Executive outside of Washington Headquarters Services to determine the facts surrounding this report and will take whatever actions are deemed to be appropriate. Prior to reviewing the results, the Director, Washington Headquarters Services did not concur in any implication that the decision to appoint the former Agency Program Coordinator to a position in Internal Review was in any way inappropriate.

Audit Response. The comments are responsive and no additional comments are required.

B. Property Accountability

Property costing at least $50,000 purchased by the Graphics Division cardholders with the Government purchase card was missing from inventory records and could not be located. This occurred because the Graphics Division cardholders, approving officials, inventory custodian, and the Support Services Division accountable property officer did not consistently follow guidelines for receiving and recording property purchased with the Government purchase card. As a result, the Graphics Division cardholders purchased items of an undeterminable amount that were subject to being misplaced, lost, or stolen.

Unrecorded Accountable Property

At least $50,129 of property, including five laptop computers, three cameras, nine video players, and other items purchased by Graphics Division cardholders could not be located. During the audit, a physical inventory was conducted of camera equipment, portable video equipment, and laptop computers located in the Graphics Division in the Pentagon to determine if property purchased by Graphics Division cardholders was properly recorded. The list was compared to inventory records compiled by the Information Technology Division for computers and equipment and the Support Services Division for cameras and audio/video equipment, both under the RE&F Directorate. Listed below are examples of some of the items missing from inventory records purchased for $30,329. Other items purchased for $19,800 were also missing from inventory. As of August 9, 2002, the items were still unrecorded and missing from the Graphics Division. See Appendix E for a list of the unrecorded and missing properties.

Laptop Computers. At least five laptop computers purchased for $21,584 by one cardholder were never recorded on the Government inventory records and could not be located. The serial numbers obtained from the purchase card receipts were compared to the Information Technology inventory records of computer equipment. The serial numbers could not be located on the inventory. Shipping documents indicated that at least one of the laptop computers purchased was shipped directly to the cardholder's home address.

Cameras. At least three cameras purchased for $1,580 by three separate cardholders were not recorded on inventory records and could not be located. The purchase receipts for two of the cameras included a serial number for the cameras. The inventory records were checked and neither serial number could be located. The third receipt did not include a serial number; however, the inventory records did not contain a camera that matched the model number of the camera purchased.

Video Players. At least nine digital video players purchased for $7,165 could not be located on the Support Services Division inventory of equipment. Repeated attempts were made to locate the video players in various Pentagon displays and storage locations with no success.

Accountable Property Responsibilities

Cardholders. The Graphics Division cardholders did not always present assets to the inventory custodian for recording on inventory records when purchases were made. Graphics Division cardholders were provided a copy of the WHS Purchase Card Program Standard Operating Procedures (Operating Procedures) during initial training prior to receiving the purchase card. The Operating Procedures briefly state that all accountable property items purchased with the card should be reported to the property control officer for inclusion in the inventory system. However, no clear guidance was provided to cardholders on the proper procedures for recording the items purchased. In fact, the cardholders were confused as to whom property should be reported when purchased because the WHS has two inventory systems, one for information technology items and one for non-information technology items.

Approving Official. The Graphics Division approving official failed to adequately review monthly cardholder statements and did not provide any documentation to confirm that all accountable property purchased was recorded on inventory records. The Director, Defense Procurement's memorandum on Government Purchase Card Internal Control, August 13, 2001, addressed DoD controls on the purchase card program. The memorandum states that certain controls must be followed in order to ensure proper oversight of the DoD purchase card program at all levels. Some of the suggested controls include: billing officials/approving officials must verify that the cardholder was authorized to buy items on the monthly statement, the items have been received by the Government, and all pilferable items and other qualifying items have been properly recorded on Government property records. DoD Instruction 5000.64 defines pilferable items as items "that have a ready resale value or application to personal possession and that are, therefore, especially subject to theft." The memorandum also states that the same person should not buy and receive the item. There was evidence that most property purchased by cardholders was received by the cardholder or, in one case, shipped directly to the cardholder's home address.

Property Custodian. According to the property custodian, the Graphics Division did not have a systematic method of capturing accountable property purchased. Therefore, inventory records did not reflect all Government assets obtained with the purchase card. When made aware of items purchased, the property custodian would notify either the Support Services or Information Technology Divisions. The Support Services Division maintains inventory records for all accountable property except computers and related equipment, which are controlled by the Information Technology Division.

Accountable Property Officer Responsibilities. The Support Services Division did not establish a system for the Graphics property custodian to capture all accountable property as it was purchased, or provide any training to the property custodian related to inventory tracking. Also, there was no indication from the inventory list provided by the Support Services Division that an annual inventory was actually conducted. The Support Services Division accountable property officer (property officer) is responsible for maintaining inventory records for Office of the Secretary of Defense (OSD) property to include the name of the property, model, serial number, stock number, location of the property, name of the activity, and other descriptive features. The property officer is also required

to conduct a scheduled inventory at least annually and supervise and manage all property transactions and interface regularly with the property custodian. The Support Services Division provided a certified inventory listing of Graphics Division property, excluding computers, as of June 17, 2002. The list did not include the date of the last physical inventory conducted in the Graphics Division and did not include several items purchased by the Graphics Division cardholders during this review period.

Property Management System. The inventory records compiled by the Support Services Division property officer did not include at least three cameras and nine digital video players purchased by the Graphics Division cardholders. The OSD Administrative Instruction 94 (AI-94), "Personal Property Management and Accountability," November 6, 1996, states that the property management and accountability function is the responsibility of the OSD property officer and the Property Management Branch in the Support Services Division of the RE&F Directorate. AI-94 directs that equipment, furniture, furnishings, and expendable or nonexpendable supplies be delivered to, received, and receipted by the Support Services Division before distribution to an activity. AI-94 describes nonexpendable property as personal property that retains its original identity and characteristics, has a useful life of more than 1 year, and has an acquisition cost of $500 or more. Additionally, the memorandum issued by the Director, Defense Procurement on August 13, 2001, requires all pilferable items be recorded on Government property records. The heads of each activity have the responsibility to appoint a property custodian in writing.

Automated Information Resource Management. At least five laptop computers purchased by one cardholder in the Graphics Division were not recorded in the inventory records. OSD Administrative Instruction 56, August 20, 1991, assigns responsibility to the RE&F Director to report all acquired and excess computer and telecommunications resources for inclusion in the central inventory system. Inventory records for computers and related equipment were compiled and maintained by the Information Technology Division within the RE&F Directorate. The Graphics Division had a waiver from the Director for Information Operations and Reports to purchase graphics-specific computers and software. This waiver did not exempt the Graphics Division from including computer equipment it purchased in the central inventory system. However, the Graphics Division did not have procedures to assure that computer equipment was reported to the Information Technology Division when it was purchased. According to the Director, Information Technology Division, although he maintained the inventory, he felt uncomfortable being responsible for equipment over which he had no control. He also felt that the Graphics Division should be held responsible for control over the items it purchased.

Conclusion

WHS did not have a valid inventory record of accountable property purchased by the Graphics Division with the purchase card and at least $50,129 worth of Government property could not be located. The Government cannot determine the number and value of items misplaced, lost, or stolen because Graphics Division cardholders, approving officials, inventory custodian, and the Support Services Division accountable property officer did not follow guidelines for receiving and recording property purchased with the purchase card.

Management Comments on Finding B and Audit Response

Summaries of management comments on finding B and our audit response are in Appendix G.

Recommendations, Management Comments, and Audit Response

B.1. We recommend that the Director, Washington Headquarters Services, as head of Administration and Management for the Office of the Secretary of Defense, amend Administrative Instruction 94 to include pilferable or sensitive items, as described in DoD Instruction 5000.64 and the Director, Defense Procurement August 13, 2001, memorandum, as accountable property.

Director, Washington Headquarters Services Comments. Responding as the head of Administration and Management for the Office of the Secretary of Defense, the Director, Washington Headquarters Services concurred in part and is initiating a thorough investigation of the facts surrounding this report. The investigator will be asked to make recommendations concerning possible amendment(s) to Administrative Instruction 94.

Audit Response. The comments are responsive and no additional comments are required.

B.2. We recommend that the Director, Real Estate and Facilities, Washington Headquarters Services:

a. Ensure that the Support Services Division and the Accountable Property Officer:

(1) Establish and maintain a system for capturing all accountable property purchased with the Government purchase card in the Graphics and Presentations Division.

(2) Provide training to the Graphics and Presentations Division inventory custodian on maintaining the inventory management records.

(3) Comply with requirements for a scheduled inventory at least annually, and conduct unannounced spot checks of property and inventory management records, and document the results.

b. Rescind the Graphics and Presentations Division waiver to purchase graphics-specific information technology equipment and support, and return the responsibility for purchasing, support, and inventory control to the Information Technology Division.

c. Ensure that the Graphics and Presentations Division establishes procedures to properly inventory and safeguard items purchased.

d. Conduct a complete review of invoices/receipts for purchases made with the purchase cards from May 1999 through August 2002 to identify all pilferable items and determine the full extent of missing property, investigate the disposition of all missing property, and take required administrative actions as needed.

e. Oversee a wall-to-wall inventory in the Graphics and Presentations Division to determine the full extent of missing property and investigate all missing property as required by Administrative Instruction 94, "Personal Property Management and Accountability."

Director, Washington Headquarters Services Comments. The Director, Washington Headquarters Services concurred or partially concurred with all of Recommendation B.2. The Director concurred with establishing a system for capturing all accountable property, and providing training to inventory custodians and complying with requirements for scheduled annual inventory. The Director stated that the authority to purchase information technology equipment was rescinded and the administration of technology equipment was returned to the Information Technology Division, a supply technician was assigned to the Graphics and Presentations Division, and inventory controls are being enhanced and implemented. The Director partially concurred and is initiating a thorough investigation of the facts pertaining to this report, and will take whatever actions are deemed to be appropriate as a result of that investigation. The Director also concurred to oversee a wall-to-wall inventory in the Graphics and Presentations Division to determine the full extent of missing property and investigate all missing property.

Audit Response. The comments are considered responsive and no additional comments are required.

C. Contracting Methods

Washington Headquarters Services cardholders in the Graphics Division used purchase cards to circumvent the simplified acquisition requirements in Federal Acquisition Regulation (FAR) Part 13. The cardholders were effectively creating non-competitive procurements by using split purchases and not rotating purchases among vendors. This occurred because the approving officials and the Program Coordinator did not provide adequate oversight of cardholders' activities and the Contracting Office did not perform periodic reviews of all Graphics Division purchases. As a result, the Graphics Division paid one vendor $36,000 to purchase an item that should cost $3,000 and may not have received the best value from other vendors for at least $511,500 of supplies and services purchased.

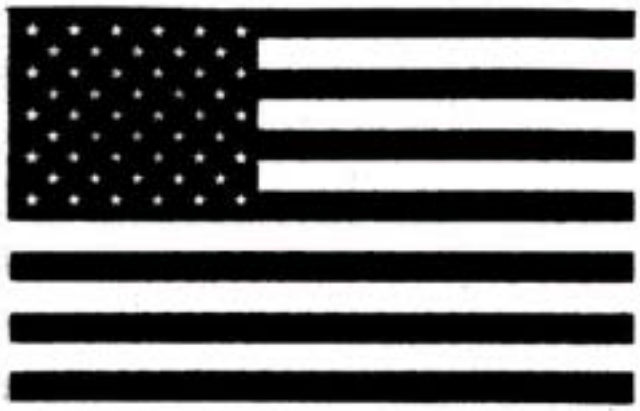
Violation of FAR Requirements

WHS cardholders in the Graphics Division circumvented the simplified acquisition requirements for competition required in FAR Part 13 by not using appropriate contracting methods. Simplified acquisition procedures are required when the purchase exceeds the $2,500 micro-purchase threshold. These non-compliances involved split purchases and lack of vendor rotations that resulted in no price competition. For purchases above the $2,500 limit, the purchase card may be used as a method of payment for deliverables under another form of contracting that adheres to the requirements of the Competition in Contracting Act and the FAR.

Split Purchases. The Graphics Division cardholders split the purchase of items costing more than $2,500 into multiple transactions. Of the 4,047 transactions that occurred between September 2000 through December 2001, 227 transactions were determined to be part of a split purchase. Splitting is the "intentional" breaking down of a known requirement to stay within a threshold or to avoid having to send the requirement to the contracting officer. FAR 13.003 prohibits splitting purchase requirements into more than one transaction to avoid the need to obtain competitive bids. FAR 13.104 also states that, when using simplified acquisition procedures over $2,500, at least three sources should be contacted to promote competition to the maximum extent practicable. The Graphics Division cardholders violated FAR provisions when they divided single acquisitions into multiple purchases to avoid these requirements. The split purchases ranged from large purchases with multiple transactions to the more common split between two transactions.

American Flag Decals. An egregious example of the effect of a split purchase occurred when a cardholder divided the purchase of 9,000 American flag decals, following September 11, 2001, into 18 separate purchase card transactions. Each transaction was for 500 decals at $2,000 with most invoices dated September 21, 2001. Impact Communication Strategies charged $4.00 each with rush delivery for a total of $36,000. During the audit, we contacted another vendor on the Graphics Division contractor list for a price quote. The quote for 10,000 of the same small American flag decal was $.30 each for a total of $3,000 with 1-day expedited service. We also determined that it is standard for decals to be printed at one time, not 500 a day, and 10,000 decals would take only a few

hours to print. Splitting the purchase, instead of following simplified acquisition procedures to contact three vendors for quotes when costs were over the $2,500 micro-purchase threshold, caused the Department to overpay by $33,000 or 1,333 percent. A similar flag decal was purchased at a local drug store for $.29 each. The following is the approximate size of the flag decal purchased from Impact Communication Strategies for $4.00 each.



Approximate size of the flag decal purchased from a local drug store for $.29 each.

Interactive CD-ROM Project. In another example, the Graphics Director, as the approving official, directed a cardholder to make 22 individual purchases from Streamline Design and Development totaling $50,668 to develop an interactive historical CD-ROM (compact disc read-only memory) of previous Secretaries of Defense. Clearly, this project exceeded the purchase card limit from the beginning and should have been competed under some form of contract to obtain the best value for the Government. The cardholder indicated that the

approving official determined the scope of work for the entire project prior to directing the purchases and determined the tasking for each of the 22 purchases.

Overhead Projectors. An example of a smaller split purchase appeared to occur when two cardholders made separate purchases from National Audiovisual Supply on the same day for identical overhead projectors for the total cost of $4,862. Both purchases resulted in sequential vendor invoices and were shipped to the same person. Therefore the purchases would stay within the $2,500 purchase card limit and subsequently avoided obtaining the price competition required with other contracting methods.

Vendor Rotation. The Graphics Division cardholders effectively established sole-source procurement by not rotating vendors or not establishing a competed contract for supplies and services. Purchase cardholders are required to rotate purchases among a list of qualified vendors to obtain price competition. The Graphics Division provided a list of qualified vendors; however, some were used almost exclusively for routine purchases, creating a form of sole-source procurement. The solicitation of quotes or offers from a reasonable number of sources or documented sole-source justification is required for any purchase over $2,500. Where rotating vendors is not appropriate for routine purchases of like items, the preferred methods would be blanket purchase agreements under FAR 13.303 or indefinite delivery contracts under FAR Subpart 16.5. These methods would assure that the Government obtains the best value and cardholders would still use their purchase cards for payments.

Framing Services and Supplies. The Graphics Division cardholders collectively made 478 purchases, totaling $343,931, from All Around Art during the 16-month period under review. All of the purchases were for similar framing services and supplies such as the matting and framing of pictures and certificates for the Office of the Secretary of Defense, core boards, matte boards, gator boards, and various other related framing items. Out of 30 vendors on the Graphics Division vendor list, All Around Art was the only vendor listed specifically for framing. With at least 10 vendors that provide framing services in the Pentagon area, these purchases should have been rotated among multiple vendors or paid for individually with the purchase card under a contract that was issued with appropriate competition.

Poster Printing. The Graphics Division cardholders made 103 individual purchases from Visual Access totaling $112,044 for poster set-up, printing, and laminating. We reviewed the Graphics Division's vendor list and determined that 11 other vendors provided the same type of services as Visual Access. By using only one vendor and not establishing a blanket purchase agreement or indefinite delivery contract, the cardholders could not assure that the Government received a fair price or best value for these routine purchases.

Oversight and Reviews

The Graphics Division cardholders received little or no oversight to prevent the inappropriate use of their purchase cards. According to the WHS Operating Procedures, there were to be two levels of oversight and two levels of review to assure that purchases adhered to the provisions of the FAR. Oversight by the approving official and then the Program Coordinator was intended to prevent the

use of split purchases and lack of vendor rotation. A periodic review, to be conducted by the Contracting Office, was intended to evaluate the purchase card program effectiveness and compliance with prescribed policies and procedures. Additionally, the Resources Management Office within the RE&F Directorate, where the Program Coordinator is located, was to conduct random inspections of purchase card accounts to ensure compliance with prescribed policies and procedures.

Approving Official. The Graphics Director/approving official did not provide adequate oversight and leadership on administering the purchase card program for the Graphics Division. The approving official directed a cardholder to split the purchase for 1 project into 22 separate transactions. As a warranted contracting officer, the approving official was obligated to practice and enforce proper procurement practices such as avoiding split purchases, rotating vendors, and promoting competition. FAR 13.104 states that the contracting officer must promote competition to the maximum extent practicable to obtain supplies and services from the source whose offer is the most advantageous to the Government.

Agency Program Coordinator/Resources Management Office Review. The Program Coordinator did not perform any annual purchase card program reviews as oversight to detect unusual spending patterns. The Program Coordinator was responsible for the overall management, oversight, and administration of the purchase card program. One of the key items pointed out in the GSA booklet for Program Coordinators, "Blueprint for Success: Purchase Card Oversight," is the use of bank activity reports and annual reviews to detect, among other things, unusually high spending patterns and excessive use of one merchant. Another item specifically listed on the sample annual review check list is whether the cardholder has split requirements to stay under the purchase limit. Coordinators are told to look for repeated orders for the same goods and services during a short time period. The WHS Program Coordinator was not effective in identifying and deterring split transactions and vendor preference in the Graphics Division. The Program Coordinator noted the high use of one or two vendors by several cardholders but felt that the overall use of vendors appeared normal and took no further action.

RE&F Contracting Office Review. The Contracting Office did not understand that it was required by the WHS Operating Procedures to perform periodic reviews of the entire purchase card program to evaluate the effectiveness and compliance with prescribed policies and procedures. The Contracting Office conducted a self-inspection from March 20 to March 24, 2000, of the contractual documents issued and administered by the Graphics Division. The self-inspection was ineffective in determining whether the Graphics Division cardholders were using their purchase cards in compliance with the FAR because the review was limited to purchases over $2,500. The report states that the purchases made under simplified acquisition procedures by the Graphics Director, a warranted contracting officer, were the focus of their review. The report states that the review of transactions below the $2,500 limit was cursory in nature since cardholders making purchases at this dollar amount are under the oversight of the Resources Management Office. Apparently, the Contracting Office was not aware of its responsibilities for the purchase card program as assigned in the WHS Operating Procedures and therefore did not perform its duties.

Conclusion

Graphics Division cardholders violated provisions of the FAR and effectively created non-competitive contracts for supplies and services by using split purchases and not rotating purchases among vendors. As a result, the Government may not have received the best value for at least $511,500 of goods and services and in one instance overpaid by at least $33,000 for American flag decals.

Management Comments on Finding C and Audit Response

Summaries of management comments on finding C and our audit response are in Appendix G.

Recommendations, Management Comments, and Audit Response

C. We recommend that the Director, Washington Headquarters Services:

1. Ensure the Director, Real Estate and Facilities requires the Real Estate and Facilities Contracting Office to perform periodic reviews of all purchase card transactions to determine whether cardholders are using appropriate contracting methods to obtain routine supplies and services.

2. Ensure the Director, Real Estate and Facilities requires the Real Estate and Facilities Contracting Office to include micro-purchases in its self-inspection as part of its annual management control program review.

3. Ensure the Director, Real Estate and Facilities requires the Program Coordinator to follow the Washington Headquarters Services Standard Operating Procedures to include periodic reviews and oversight, and retraining with emphasis on stopping the use of split purchases and vendor preference.

4. Ensure the Director, Real Estate and Facilities requires the cardholders to follow the Federal Acquisition Regulation, stop split purchases, and rotate purchases among vendors when using the purchase cards.

Director, Washington Headquarters Services Comments. The Director, Washington Headquarters Services concurred with Recommendation C.2. and concurred in part to Recommendations C.1., C.3., and C.4., and has transferred the purchase card program from the Real Estates and Facilities Directorate to the Budget and Finance Directorate. The Director, Washington Headquarters Services stated that the full-time Program Coordinator is a warranted contracting officer and will perform the required reviews and make determinations and recommendations concerning proper contracting methods for micro-purchases using the purchase card. Additionally, the Director of the Contracting Office will perform reviews as required and include micro-purchases in its annual inspection

and management control program review. The Director also stated that the Program Coordinator will follow the Washington Headquarters Services Standard Operating Procedures and will perform required periodic reviews, oversight, and retraining; and will assure that cardholders follow the Federal Acquisition Regulation, stop split purchases, and rotate purchases among vendors when using the purchase cards.

Audit Response. The comments are responsive and no additional comments are required.

Appendix A. Scope and Methodology

We initially reviewed two DoD Civilian Personnel Management Service (CPMS) cardholders and six WHS cardholders identified through data mining techniques. The data mining focused on micro-purchase threshold cardholders and flagged 84 transactions by the 8 cardholders from July 2001 through December 2001, of which 26 flagged transactions were from 3 cardholders at the WHS Graphics Division. For each cardholder, additional transactions were reviewed to obtain more confidence in the results. Nine additional cardholders, including the Graphics Director, were reviewed after additional questionable purchases were identified. The table below reflects a summary of all transactions flagged and reviewed. For results on the flagged transactions, see Appendix F.

Purchase Card Transactions

	Transactions		Dollar Value
DoD Field Activities	**Flagged**	**Reviewed**	**Reviewed**
CPMS	5	5	$ 169
WHS			
Alterations	51	303	411,109
USD* (Policy)	1	1	706
Navy Annex	1	437	427,306
Graphics & Presentations	26	4,047	6,064,453
Total	**84**	**4,793**	**$6,903,743**

*Under Secretary of Defense

To accomplish the audit objectives, we interviewed key management personnel, approving officials, cardholders, contracting personnel, and property accountability personnel. We reviewed available purchase logs, billing statements and supporting documentation, delegation of authority letters, inventory records, and training records. We performed a physical inventory of pilferable items identified during the review of purchase receipts in the WHS Graphics Division.

We expanded our coverage at the WHS Graphics Division based on excessive use of one or two vendors, potential split purchases, and purchase card items missing from inventory. From the 12 cardholders' records, we identified 4,047 transactions valued at over $6 million processed between September 2000 and December 2001. We reviewed all of these purchase card transactions.

We referred two cardholders and various vendors with suspicious purchase card activity to the Defense Criminal Investigative Service for further investigation on August 9, 2002. We were unable to complete some cardholder interviews and other planned audit steps because of the investigation. The limitations on obtaining additional information did not adversely affect the results of the audit. The audit report was delayed until all criminal activity was investigated by the Defense Criminal Investigative Service and prosecuted by the U.S. Department of Justice.

We performed this audit from May 2002 through April 2003 in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data. We relied on computer-processed data provided by the Defense Manpower Data Center to achieve the audit objectives. Although we did not perform a formal reliability assessment of the computer-processed data, we did compare cardholder monthly purchase card statements to the computer-processed data and did not find errors that would preclude use of the data to meet the audit objectives or that would change the conclusions in this report. The computer-processed data originally provided by the Defense Manpower Data Center did not include any of the transactions of the additional nine cardholders. However, because we did a 100 percent review of the Graphics Division purchases for the entire period, the reliability of the computer-processed data was not relevant.

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in DoD. This report provides coverage on the DoD high-risk area to improve processes and controls to reduce contract risk.

Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. We reviewed the adequacy of WHS controls over its purchase card program. Specifically, we reviewed the controls and oversight of the program in the Graphics Division by examining purchase card transactions, determining the controls for the purchases, and assessing the role of the approving official and the Program Coordinator. We also reviewed management's self-evaluation applicable to those controls.

The Defense Human Resources Activity statement of assurance and its purchase card program was an assessable unit with no deficiencies reported. We did not specifically review purchase card management controls for CPMS (a division of the Defense Human Resources Activity), because there was no indication of problems with the flagged purchase card transactions reviewed.

Adequacy of Management Controls. We identified material management control weaknesses for the WHS purchase card program as defined by DoD Instruction 5010.40. WHS, RE&F Directorate management controls for the purchase card program were not adequate to ensure that purchases made at the Graphics Division were mission related, properly safeguarded, and provided the best value to the Government. Purchases reviewed did not always support mission needs nor were they properly documented. The purchases were not appropriately accounted for on property records and in some cases, the property was missing. In many cases, purchases were split into multiple transactions to avoid exceeding the micro-purchase threshold of $2,500. Many purchases were made from the same vendors for similar items that should have been rotated or an alternative purchasing method used that would be more advantageous to DoD. The approving officials did not properly review purchases adequately before certifying for payments. All recommendations, if implemented, will improve the management of the WHS purchase card program and could result in monetary

benefit of an undeterminable amount. The monetary benefit is undeterminable because we cannot predict the savings from deterring fraud, waste, and abuse in the purchase card program. A copy of the report will be provided to the senior official responsible for management controls in the Washington Headquarters Services Office.

Adequacy of Management's Self-Evaluation. WHS, RE&F Directorate identified contract and procurement as an assessable unit. However, in its evaluation of contracting in the Graphics Division, RE&F officials did not identify the specific management control weaknesses identified by the audit because the evaluation did not cover the entire purchase card program in their ongoing self-inspection program.

Appendix B. Prior Coverage

General Accounting Office (GAO)

GAO Report No. GAO-03-292, "Purchase Cards: Control Weaknesses Leave the Air Force Vulnerable to Fraud, Waste, and Abuse," December 20, 2002

GAO Testimony No. GAO-03-154T, "Purchase Cards: Navy Vulnerable to Fraud and Abuse but Is Taking Action to Resolve Control Weaknesses," October 8, 2002

GAO Report No. GAO-02-1041, "Purchase Cards: Navy Is Vulnerable to Fraud and Abuse but Is Taking Action to Resolve Control Weaknesses," September 27, 2002

GAO Report No. GAO-02-732, "Purchase Cards: Control Weaknesses Leave Army Vulnerable to Fraud, Waste, and Abuse," June 27, 2002

GAO Testimony No. GAO-02-676T, "Government Purchase Cards: Control Weaknesses Expose Agencies to Fraud and Abuse," May 1, 2002

GAO Report No. GAO-02-406, "Education Financial Management: Weak Internal Controls Led to Instances of Fraud and Other Improper Payments," March 28, 2002

GAO Report No. GAO-02-32, "Purchase Cards: Control Weaknesses Leave Two Navy Units Vulnerable to Fraud and Abuse," November 30, 2001

GAO Testimony No. GAO-01-995T, "Purchase Cards: Control Weaknesses Leave Two Navy Units Vulnerable to Fraud and Abuse," July 30, 2001

IG DoD

IG DoD Report No. D-2003-109, "Summary Report on the Joint Review of Selected DoD Purchase Card Transactions," June 27, 2003

IG DoD Report No. D-2002-075, "Controls Over the DoD Purchase Card Program," March 29, 2002

IG DoD Report No. D-2002-029, "DoD Purchase Card Program Audit Coverage," December 27, 2001

Army

Army Audit Agency Report No. A-2003-0072-FFG, "Government Purchase Card Program: U.S. Army Reserve Readiness and Training Center Fort McCoy, Wisconsin," December 27, 2002

Army Audit Agency Report No. A-2003-0026-IMU, "Funding Execution: Task Force Sinai," November 14, 2002

Army Audit Agency Report No. A-2003-0054-FFG, "Review of The Army Management Control Process (Fiscal Year 2002): An Assessment for the Secretary of The Army," November 13, 2002

Navy

Naval Audit Service Report No. N2002-0070, "Naval Facilities Engineering Command Commercial Purchase Card Program," August 14, 2002

Naval Audit Service Report No. N2002-0051, "Naval Sea Systems Command Commercial Purchase Card Program," May 29, 2002

Naval Audit Service Report No. N2002-0032, "Management of Purchase Cards at Naval Support Activity Washington," February 25, 2002

Naval Audit Service Report No. N2002-0023, "Management of the Purchase Card Program at Public Works Center, San Diego, CA," January 10, 2002

Air Force

Air Force Audit Agency Report No. F2002-0006-C06400, "Air Force Purchase Card Program," August 6, 2002

Appendix C. Department of Justice Press Releases for Sentencing

U.S. Department of Justice

United States Attorney

Eastern District of Virginia
2100 Jamieson Avenue (703)299-3700
Alexandria, Virginia 22314

PRESS RELEASE

For Immediate Release
Alexandria, Virginia
January 17, 2003

For further information contact
Sam Dibbley 703-299-3822

Paul J. McNulty, United States Attorney for the Eastern District of Virginia, announced the sentencing today of Kathleen M. Brassell, 44 years old, of Manassas, Virginia, in United States District Court in Alexandria by Judge T. S. Ellis, III to 37 months imprisonment and $1.7 million restitution. Brassell was convicted on November 6, 2002, of theft of government property stemming from her use of a Department of Defense IMPAC charge card to make over $1,711,000 of fictitious purchases from a Seattle firm operated by a co-schemer.

Brassell, the civilian director of the Pentagon's Graphics and Presentations Division, was responsible for producing graphics and artwork for Pentagon briefings. From May 1999 through August 2002, Brassell used a Department of Defense IMPAC charge chard to make approximately 522 false purchases of goods and services from a Seattle company created by her co-schemer solely to facilitate the fraud. No goods or services were ever delivered to the Department of Defense from the Seattle company for any of the purported sales charged to Brassell's IMPAC card. Brassell split the Department of Defense's payments with her Seattle co-schemer who delivered Brassell's share in the form of cash and cashier's checks.

In order to conceal the fictitious IMPAC charge card purchases, Brassell created false invoices which she provided to auditors from the Department of Defense, Office of Inspector General, during an audit in June 2002. In one instance, Brassell submitted false invoices from

the Seattle company for graphics and artwork for the Pentagon Family Assistance Center (PFAC). The PFAC was created to provide counseling and support to victims and survivors of the September 11, 2001, attack on the Pentagon. Brassell created fraudulent invoices which falsely billed over $136,000 for "biography boards" pertaining to victims of the Pentagon attack, as well as graphic support for the October 11, 2001, Pentagon Memorial Service.

This case is part of a continuing effort to prosecute IMPAC charge card fraud and abuse within the Department of Defense. The case was investigated by the United States Attorney's Office and the Inspector General, Department of Defense, Defense Criminal Investigative Service. This case was presented by Assistant United States Attorney Robert C. Erickson.

U.S. Department of Justice

United States Attorney

Eastern District of Virginia

2100 Jamieson Avenue (703)299-3700
Alexandria, Virginia 22314

NEWS RELEASE

For Immediate Release
Alexandria, Virginia
March 19, 2003

For further information contact
Sam Dibbley 703-299-3822

Paul J. McNulty, United States Attorney for the Eastern District of Virginia, announced today that Brian Tivnan, 39 years old, of Sammamish, Washington, pled guilty today in United States District Court in Alexandria to theft of government property stemming from his participation in a scheme with his sister, Kathleen Brassell, to use Brassell's Department of Defense IMPAC charge card to pay for over $1,711,000 of fictitious purchases from Infinite Network Solutions, a company Tivnan formed in Seattle solely to facilitate the scheme. Tivnan faces a maximum sentence of ten years imprisonment, a fine of $250,000 and full restitution. Judge Leonie M. Brinkema set sentencing for June 13, 2003.

From May 1999 through August 2002, Brassell, the civilian director of the Pentagon's Graphics and Presentation Division who was responsible for producing graphics and artwork for Pentagon briefings, used her IMPAC charge card to make over 520 false purchases of goods and services from Infinite Network Solutions. Tivnan delivered no goods or services to the Department of Defense from Infinite Network Solutions for any of the alleged sales charged to Brassell's IMPAC card. Tivnan and Brassell simply split the Pentagon's payments. Tivnan paid Brassell her share of the proceeds in the form of cash and cashier's checks.

In order to conceal the fictitious IMPAC charge card purchases, Brassell created false invoices which she provided to auditors from the Department of Defense Office of Inspector General during an audit in June 2002. In one instance, Brassell submitted false invoices from Infinite Network Solutions for graphics and artwork for the Pentagon Family Assistance Center, which was created to provide counseling and support to victims and survivors of the September 11, 2001, attack on the Pentagon. In this instance, the fraudulent invoices falsely billed over $136,000 for graphic support for the October 11, 2001, Pentagon Memorial Service and for "biography boards" which purportedly had provided personal information about each of the victims of the Pentagon attack.

Tivnan was a fugitive since December 19, 2002, and was found living under an assumed name in Phoenix, Arizona, on February 27, 2003. He was arrested by a special agent of the Defense Criminal Investigative Service.

On November 6, 2002, Brassell was convicted of theft of government property for her role in this scheme and was sentenced to 37 months imprisonment and full restitution.

This case is part of a continuing effort to prosecute IMPAC charge card fraud and abuse within the Department of Defense and other agencies. Since 2001, the United States Attorney has obtained convictions in over ten cases involving misuse of government credit cards.

Mr. McNulty stated: "This defendant, along with his sister, abused the trust vested in her to secure services on behalf of the Department of Defense. This office will continue to aggressively prosecute those who abuse their official positions for personal gain."

The case was investigated by the United States Attorney's Office and the Inspector General, Department of Defense, Defense Criminal Investigative Service. This case was presented by Assistant United States Attorney Robert C. Erickson.

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U.S. Department of Justice

United States Attorney

Eastern District of Virginia

2100 Jamieson Avenue (703)299-3700
Alexandria, Virginia 22314

NEWS RELEASE

For Immediate Release
Alexandria, Virginia
January 16, 2003

For Further Information:
Sam Dibbley 703-299-3700

Paul J. McNulty, United States Attorney for the Eastern District of Virginia, announces that a former Department of Defense employee, Kathleen M. Ciccotelli-Ward, 44, of Alexandria, Virginia, was sentenced today in United States District Court in Alexandria, by the Honorable Leonie M. Brinkema, for theft of government property totaling over $30,000 resulting from Ms. Ciccotelli-Ward's misuse of a government charge card. Ms. Ciccotelli-Ward was sentenced to three years of supervised probation which includes six months of home confinement with electronic monitoring, and ordered to make full restitution to the U.S. government for the items she stole.

Ms. Ciccotelli-Ward was the Deputy Director for the Pentagon's Graphics and Presentation Division, Real Estate and Facilities Division, Washington Headquarters Services, which produced graphics and artwork for presentations and briefings at the Pentagon. She used her government charge card to purchase items which she then stole and converted to her own use. These items included audio and video equipment, CD players, DVD players, computer equipment, cameras, power tools and a refrigerator. Ciccotelli-Ward also used the government credit card to buy audio and video equipment and a refrigerator for the personal use of her supervisor at the Pentagon. Additionally, in order to conceal some of these thefts from an audit conducted in July

2002 by the Department of Defense Inspector General, Ms. Ciccotelli-Ward asked a DoD contractor to purchase items identical to those which she had stolen and to cause these items to be placed in the DoD inventory.

This case is part of a continuing effort to investigate government charge card fraud and abuse within the Department of Defense. The case was investigated by the United States Attorney's Office and the Inspector General, Department of Defense, Defense Criminal Investigative Service. This case was presented by Assistant United States Attorney Robert C. Erickson.

Appendix D. Abusive, Improper, and Unauthorized Purchases

In addition to the $1.7 million in fraudulent purchases made by the Graphics Director, cardholders in the Graphics Division made other questionable purchases ranging from excessive computer equipment to novelties for personal use. Recent General Accounting Office testimony before Congress and reports on DoD purchase cards problems defined the three basic types of questionable purchases as being abusive, improper, or unauthorized.

Abusive Purchases

Abusive purchases are defined as being intended for Government use but without having a valid Government need or purchased at an excessive cost. Based on auditors' analysis, the cardholders in the Graphics Division made at least 162 purchases valued at $173,509 that had no apparent Government need or were at an excessive cost. Examples are as follows.

Portable Digital Video. Cardholders purchased 11 portable DVD (digital video disc) players, with 5.5-inch to 9-inch screens, in addition to several other regular DVD players. The portable DVD players, costing as high as $1,580, were purchased for use in the video kiosk displays throughout the Pentagon. The reason given for using smaller and more expensive DVD players was that the kiosk space was limited. A kiosk display was physically inspected during the audit, and a small portable DVD player, hidden from view, was connected to a large liquid crystal display screen. The space was large enough to accommodate a regular DVD player. When asked, the production manager agreed that probably only three or four DVD players would be operating at one time. As with many items purchased by Graphics' cardholders, a bona fide need for 1 or 2 players may exist, but the purchase of 11 portable DVD players was both excessive and an abuse of Government resources.

External CD Writers. On November 6, 2000, the Graphics Division purchased a professional Fostex CR-300 CD (compact disc) writer for $877. On March 21, 2001, the Graphics Division purchased five external CD writers totaling $1,942. The CD writers were not listed on any inventory although they were pilferable items. However, the Information Technology Division inventory list shows 20 other CD writers in the Graphics Division; 9 at workstations, 6 in the server room, and 5 more unopened in a storeroom. The number of CD writers appeared to be excessive based on the size of the staff and are considered abusive purchases.

Cameras. Cardholders purchased an excessive number of cameras. According to the RE&F customer service handbook and Web site, the support services provided by the Graphics Division did not include photography. Although 1 or 2 cameras may have been justified for the 13-person division to occasionally record events for graphic display, the number and variety of cameras purchased by the Graphics Division showed an abusive use of funds. Additional cameras were purchased with 39 various cameras already listed in their inventory. Despite the purchase of a Kodak professional camera for $19,369 plus $295 in accessories on October 4, 2001, the cardholder purchased another camera on October 15, 2001, for $1,951 plus $16,127 in accessories. Other cameras purchased were a $1,099 Canon Camcorder, and a $1,799 Mamiya with a $79.95 extended warranty.

Novelties. The Graphics Division spent $57,000 on the purchase of a variety of customer service novelty items including stainless steel coffee mugs, key chains, and tote bags imprinted with the WHS or RE&F logos from September 2000 through December 2001. According to the cardholder that made the purchases, these were given away as promotional items. There was no valid Government need for the Graphics Division to purchase novelties to give away to other DoD Components to promote the WHS mission and its services.

Laptop Computers. The Graphics Division spent $21,584 on the purchase of five laptop computers that could not be located in addition to five laptop computers already on inventory records. According to the Graphics Director that made the purchases, the laptops were used occasionally for training at home. There was no valid Government need for the Graphics Division to purchase 5 additional laptop computers mainly for at-home training for 11 of 13 employees.

Power Tools. Several items were purchased and received by the cardholder reportedly for use in constructing and repairing displays throughout the Pentagon. However, we could not justify the need for these items or verify that they were ever used for their intended purpose since the construction of displays is usually contracted out. Also, WHS has an "Alterations Working Group" facility equipped with an elaborate shop to provide minor construction support.

Portable Table Saw. A sales receipt from Home Depot on October 1, 2000, indicated that the Graphics Division purchased a portable table saw for $497. The table saw was not recorded on the inventory records, and the inventory custodian was not aware of its existence. The table saw was later located in a storage room that was inaccessible to the inventory custodian. The cardholder claimed that the saw was used occasionally to create and repair displays. We interviewed several Graphics Division staff to determine if the table saw was ever used. The staff members said that they had not seen the table saw being used. The production manager responsible for creating and repairing the displays stated that projects are usually contracted out if they need to be constructed.

2.4 Cordless Hammer Drill. A sales receipt from Home Depot on October 1, 2000, indicated that the Graphics Division purchased a 2.4 cordless hammer drill for $299. The drill was not recorded on the inventory records and it took over 5 weeks for the cardholder to physically produce the drill.

12-inch Sliding Compound Saw. A sales receipt from Home Depot on November 5, 2000, indicated that the Graphics Division purchased a 12-inch Sliding Compound Saw for $577 along with a DeWalt workstation for $279. The sliding compound saw and the workstation were not recorded on the inventory records and the inventory custodian was not aware of their existence. The sliding compound saw and the workstation were later located in a storage room that was inaccessible to the inventory custodian.

Improper Purchases

Improper purchases are for Government use but are not permitted by law, regulation, or DoD policy. The cardholders in the Graphics Division made at least 27 purchases valued at about $26,425 that were not permitted by law, regulation, or DoD policy. Examples of improper purchases made by the Graphics Division cardholders included furniture and computer equipment not covered by a waiver.

Furniture. The Graphics Division purchased computer workstations, wall cabinets, storage cabinets, and two lecterns. The items were classified as furniture and therefore were not permitted to be purchased with a Government purchase card without proper waivers. In a couple of instances, the Graphics Division cardholder did not provide copies of the invoices for the purchases; therefore, there was no audit trail for where the furniture was shipped.

Computer Equipment. The Graphics Division received a waiver in July 1996 to purchase graphics-unique computer equipment. This referred to Apple Computers and peripherals used specifically for producing graphic designs. The acquisition of all other computer equipment and support services that were not waived should have been obtained through the Information and Technology Division. The Information and Technology Division's mission was to provide approved computers and computer support throughout OSD. The Graphics Division, however, not only purchased excessive graphics-related computers but purchased other computers and equipment such as Sony LCD (liquid crystal display) flat screen monitors and Dell laptop computers.

Palm Sized Computer. A Graphics Division cardholder purchased an iPAQ Pocket PC (hand held computer) from PC Connection on November 15, 2001, for $599. The iPAQ is about the size of a calculator and comes with standard applications like Microsoft Pocket Word, Excel, and Outlook. This computer is not graphics-related and not covered by the Graphics Division waiver; therefore, the purchase was not authorized. Additionally, the Government need for this item was not justified. The Graphics Division had more than enough computer workstations in the office and ample portable laptop computers for working outside the office.

Unauthorized Purchases

Unauthorized purchases are not for Government use and not permitted by law. They are considered potentially fraudulent when items appear to be for personal use. The cardholders in the Graphics Division made at least seven purchases valued at $1,152 that were not for Government use and not permitted by law. Several of the purchases made by cardholders that appear to be for personal use include computer games, portable DVD carrying cases and headphones, a microwave, and other items.

Computer Games. A Graphics Division cardholder purchased two Nintendo games from CompUSA on January 1, 2001. One was Ms. Pacman Maze for $40 and the other was Asteroids for $35. The games were not located. It is doubtful that the games were used for a display in the Pentagon or any other valid Government need. It appears that they were purchased for personal use.

Portable DVD Carrying Cases and Headphones. A Graphics Division cardholder purchased portable DVD carrying cases and headphones for the portable Panasonic DVD players totaling $160. The cardholder explained that the DVD players were for use in Pentagon display kiosks; however, the carrying cases and headphones appear to be solely for personal use.

Microwave Oven. A Graphics Division cardholder purchased a Sharp microwave oven from Circuit City on September 30, 2000, for $128 with a 3-year warranty for $80. In addition to the fact that the microwave was an unauthorized purchase, it was not physically located anywhere in the Graphics Division, nor was it listed on any inventory record. When the cardholder was interviewed in July 2002, the cardholder claimed that the microwave oven blew up and was discarded even though it had a 3-year warranty.

Posable Bender Family. A Graphics Division cardholder purchased three sets of the Posable Bender Family through the Internet on June 13, 2001, for $57. The Posable Bender Family consisted of bendable figures that were completely magnetic and came in a set of four (Joe Bender, Wendy Bender, Fender Bender the dog, and Mind Bender the black cat). These items may have been used in the office for amusement but were not mission-related and were solely for personal use.

Mini-Component Stereo. A Graphics Division cardholder purchased an AIWA NSXAJ70 digital mini stereo system from Circuit City on December 5, 2000, for $237. This item was not found on any inventory. Furthermore, no mission need for the digital mini system could be determined and this item appeared to be for personal use.

Elan Desk Fan. A Graphics Division cardholder purchased two Elan desk fans on June 13, 2001, for $48 each, totaling $96. This fan has patented soft-edge aerodynamic plastic blades that flex when stopped, eliminating the need for an

unsightly protective grill. The fan is noted for its design rather than for its functionality. This fan may have been used in the office; however, it is not mission-related and is considered to be for personal use.

Wow Thing. A Graphics Division cardholder purchased a Wow Thing over the Internet for $34 that included 3-day United Parcel Service shipping on June 18, 2001. The Wow Thing is a small rectangular box about the size of a portable cassette tape player that provides users with improved audio output from their computers. A mission need for this item could not be determined from the documents obtained from the cardholder and the item appeared to be for personal use.

Kitchen CD Radio. A Graphics Division cardholder purchased two Sony under the counter kitchen CD radios from the Frontgate mail catalog on December 15, 2001, for $285 that included shipping. The radios were not located until near the end of the audit when one turned up in the storeroom. The mission need could not be determined for these items and it appeared that they were bought for personal use.

Appendix E. Unrecorded and Missing Properties

Transaction Date	Description	Purchase Price
09/30/00	Facsimile Machine with warranty	$ 389.95
09/30/00	Digital Audio Recorder	689.97
09/30/00	Panasonic Digital Video Player with warranty	999.98
09/30/00	Sharp Microwave Oven with warranty	207.98
10/01/00	Trim Tool Kit	499.00
10/01/00	(2) Print server	1,171.00
10/02/00	(2) Sony Digital Video Walkman	1,719.90
10/06/00	Hewitt-Packard Flatbed Scanjet	440.00
11/15/00	Sony Spressa Pro CD-RW Recorder	292.80
11/22/00	AHA SCSI External Drive	269.95
12/07/00	Aiwa Stereo Mini-Component	237.49
03/11/01	Apple G4 Powerbook	4,498.00
03/21/01	(5) Plexor SCSI CD Writers	1,942.10
03/25/01	Apple G4 Powerbook	4,539.00
03/29/01	20GB Hard Drive for Dell Notebook	672.08
04/10/01	Canon Rebel 2000 Camera and accessories	379.99
04/18/01	Apple G4 Powerbook and accessories	4,197.00
04/20/01	Sony Cyber Digital Camera	899.99
05/03/01	Canon Camcorder	1,287.00
09/07/01	(2) Pioneer DVD Players	1,550.00
09/29/01	Mamiya lens, filter, pouch, with warranty	1,287.80
10/02/01	22-inch Apple Cinema Display	2,375.00
10/03/01	(2) Epson Stylus Photo 1280 wide Printer	489.00
10/03/01	(2) Epson Stylus Photo 2000P Inkjet Printer	885.00
10/04/01	Panasonic 9-inch Portable DVD Player	999.99
10/09/01	DVD Player	1,365.28
10/12/01	Graphics Pro Keyboard	4,493.99
11/30/01	Sony Digital Video Player with warranty	219.98
12/04/01	(2) Dell Latitude Pentium III Computer	8,350.00
12/09/01	Panasonic 7.5-inch Portable DVD Player	949.95
12/09/01	Panasonic RV80 DVD Player	309.95
12/22/01	Canon Rebel 2000 Camera Body	299.99
10/02/02	Pioneer Industrial DVD Player	769.99
		$50,129.05

Appendix F. Audit Results on Flagged Transactions

Analysis of the flagged transactions identified for two cardholders at the Defense Civilian Personnel Management Service revealed no inappropriate activity. The flagged transactions for six cardholders at Washington Headquarters Services in the Alterations Working Group, Graphics and Presentations Division, Under Secretary of Defense (Policy), and Navy Annex division also revealed no inappropriate activity.

Defense Civilian Personnel Management Service

Cardholder 1: Data mining techniques identified four flagged transactions for this cardholder. The four transactions were for administrative office supplies totaling $149.54 purchased from the Virginia Industry for the Blind. These transactions were considered appropriate.

Cardholder 2: Data mining techniques identified one flagged transaction for this cardholder. This transaction was for two books totaling $19.90 entitled, "Guide to Health Insurance Plans for Federal Employees 2002." This transaction was considered appropriate.

Washington Headquarters Services

Cardholder 3: Data mining techniques identified 51 flagged transactions for this cardholder. The transactions were for supplies and services totaling $53,126 for alteration to existing facilities in the Pentagon. These transactions appeared to be appropriate based on information available during the review.

Cardholder 4: Data mining techniques identified one flagged transaction for this cardholder to Staples for $706.09 in December 2001. The office was displaced by September 11 events and was relocated in Rosslyn, Virginia. This transaction appeared to be appropriate based on information available during the review.

Cardholder 5: Data mining techniques identified one flagged transaction for this cardholder. The transaction was for maintenance supplies totaling $2,370. This transaction appeared to be appropriate based on information available during the review.

Cardholder 6: Data mining techniques identified eight flagged transactions for this cardholder. These transactions were for posters and artwork totaling $17,906. The transactions appeared to be appropriate based on information available during the review.

Cardholder 7: Data mining techniques identified 17 flagged transactions for this cardholder. These transactions were for posters and artwork totaling $38,054. The transactions appeared to be appropriate based on information available during the review.

Cardholder 8: Data mining techniques identified one flagged transaction for this cardholder. This transaction was for computer software totaling $249. The transaction appeared to be appropriate based on information available during the review.

Appendix G. Management Comments on the Finding and Audit Response

WHS Comments on Criminal Activity Discovered. The Director, WHS maintained that the $1.7 million in purchase card fraud was initially discovered and reported by RE&F employees, not the auditors. The Director, WHS believed that the approving officials and the Agency Program Coordinator may not have been negligent in performing their duties and that the fraud went undetected because the Graphics Director concealed her fraudulent activity by making small transactions that were spread over time.

Audit Response. The assertion by the Director, WHS that the auditors did not initially discover and report the potential fraud is incorrect. On June 6, 2002, the auditors alerted the Defense Criminal Investigative Service (DCIS) to questionable purchases made by the Graphics Deputy Director, one of the original flagged cardholders. On June 20, 2002, the auditors met with the Graphics Director to discuss the questionable purchases made by employees under the Director's supervision. At this meeting the auditors informed the Graphics Director that the audit would be expanded and requested monthly billing statements and receipts for all cardholders in the Graphics Division including the Director. On July 16, 2002, after several delays, the auditors obtained the Graphics Director's monthly statements and receipts. On July 24, 2002, the auditors alerted DCIS of potentially fraudulent payments to Infinite Network Solutions and began preparing documentation for an official referral for investigation. The Assistant Inspector General for Audit signed the official referral on August 9, 2002. According to the WHS Director's response, a Graphics Division employee alerted the Agency Program Coordinator to false tracking tickets for work performed by Infinite Network Solutions on August 1, 2002. The false tracking tickets, or work orders, reported by the employee, were produced by the Graphics Director to support the false invoices prepared for and presented to the auditors on July 16, 2002. By the time the Agency Program Coordinator was first notified of false tracking tickets, the auditors had already received the false documents from the Graphics Director, identified the questionable purchases, and alerted DCIS of the potential fraud.

The fact that the Agency Program Coordinator and the Director, RE&F responded appropriately once they were alerted to the suspicious purchases is not germane to the issue that oversight of the Graphics Director's transactions was not provided for over 3 years. The approving official for the Graphics Director was required by DoD regulation to review the purchase card receipts every month and approve them for payment. We found no evidence of the monthly reviews by the approving official. We believe that the Graphics Director may not have attempted her scheme, or her fraud would have been identified sooner, had the Director's monthly purchases been routinely scrutinized. The Agency Program Coordinator could have identified questionable transactions by reviewing monthly electronic billing summaries provided by the bank. Key characteristics that would have identified questionable transactions for the Graphics Director were multiple transactions with the same vendor on the same day and a high percentage of transactions with one vendor. Analyses of the transactions do not support the Director, WHS statement that the fraud was concealed by making small transactions spread over time. The transactions represented a very high percent of transactions for

most months and multiple transactions with Infinite Network Solutions were done on only a few days of each month. (See below for examples of high number of transactions on one day from Infinite Network Solutions.)

Examples of Infinite Network Solutions Same Day Charges

Transaction Dates	Same Day Transactions	Daily Totals
10/04/2000	10	$55,350.00
12/16/2000	16	34,575.00
01/04/2001	13	40,655.00
04/05/2001	10	21,530.00
05/02/2001	9	52,205.00
05/03/2001	10	22,130.00
06/28/2001	19	56,890.00
07/20/2001	18	54,800.00
07/21/2001	8	25,450.00
08/23/2001	12	38,250.00
08/24/2001	6	16,250.00
09/27/2001	13	27,150.00
11/14/2001	10	22,050.00
11/28/2001	10	22,200.00

The practice of making multiple purchases from the same vendor on the same day is a tactic often used by cardholders to divide or split a purchase in order to stay below their single transaction limit and is a key indicator of improper cardholder activity. Another key indicator that a cardholder's transactions must be reviewed is when the cardholder exceeds the monthly purchase card limit. The Graphics Director made purchases well over the Director's documented monthly limit of $100,000 for 12 out of 16 months with no apparent action taken by the Agency Program Coordinator. (See below for examples of total monthly charges for Infinite Network Solutions as a percentage of total transactions.)

Graphics Director Infinite Network Solutions (INS) Charges

Statement Dates	Monthly INS Totals	Monthly Card Totals	INS Percentages
10/05/2000	$ 11,620.00	$ 121,018.79*	9.60
11/05/2000	126,785.00	606,247.58*	20.91
12/05/2000	54,215.00	345,854.77*	15.68
01/05/2001	80,190.00	285,530.31*	28.08
02/05/2001	81,285.00	113,858.50*	71.39
03/05/2001	40,950.00	107,781.80*	37.99
05/05/2001	82,975.00	108,964.78*	76.15
06/05/2001	92,565.00	227,648.34*	40.66
07/05/2001	93,645.00	109,297.84*	85.68
08/05/2001	80,250.00	122,134.23*	65.71
09/05/2001	54,500.00	87,434.42	62.33
10/05/2001	63,300.00	374,017.58*	16.92
11/05/2001	70,000.00	321,671.11*	21.76
12/05/2001	66,850.00	78,260.00	85.42
01/05/2002	20,550.00	67,536.54	30.43
Total	**$1,019,680.00**	**$3,077,256.59**	**33.14**

*Over documented monthly authorized $100,000 credit limit.

A cursory review of the pattern of transactions with Infinite Network Solutions from the monthly electronic billing summary would have indicated the need for further investigation as early as November 2000. Furthermore, during our interview with the Agency Program Coordinator/Approving Official, she stated that she did not do the required annual reviews of bank statements because she did not have time.

Appendix H. Summary of Potential Monetary Benefits

The Director of the Graphics and Presentations Division was convicted of theft of Government property on November 6, 2002, and sentenced on January 17, 2003, to 37 months imprisonment. The Director was also ordered to make full restitution of the $1,711,816 in fictitious purchases made with her Government purchase card. Additionally, the Deputy Director of the Graphics and Presentations Division was sentenced to 3 years of supervised probation including 6 months of home confinement with electronic monitoring for the theft of over $30,000 in property purchased with the Government purchase card. The Deputy Director was also ordered to make full restitution for the items stolen. The restitution of these amounts will result in a monetary benefit to the Government of at least $1,741,816. See Appendix C for the full text of the United States Department of Justice Press Releases on the sentencing of the Director and the Deputy Director.

Appendix I. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
    Director, Defense Procurement and Acquisition Policy
        Director, Purchase Card Joint Program Management Office
Under Secretary of Defense (Comptroller)/Chief Financial Officer
    Deputy Chief Financial Officer
    Deputy Comptroller (Program/Budget)
Director, Washington Headquarters Services
    Director, Real Estate and Facilities Directorate
Director, Defense Human Resources Activity
    Director, Department of Defense Civilian Personnel Management Service

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Non-Defense Federal Organization

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Finance
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform

Washington Headquarters Services Comments

Final Report Reference

DEPARTMENT OF DEFENSE
WASHINGTON HEADQUARTERS SERVICES
1155 DEFENSE PENTAGON
WASHINGTON, DC 20301-1155

JUN 0 5 2003

MEMORANDUM FOR DEPUTY DIRECTOR, CONTRACT MANAGEMENT DIRECTORATE, DEPARTMENT OF DEFENSE INSPECTOR GENERAL

SUBJECT: Report on Selected Purchase Card Transactions at Washington Headquarters Services and Civilian Personnel Management Service (Project No. D2002CM-0117)

This responds to your memorandum dated April 30, 2003, and the Draft Report included with the memorandum. Thank you for the opportunity to review the draft report, and to provide comments in accordance with DoDD 7650.3.

As should be evident from our attached comments, I take this matter very seriously. We have taken forceful, positive measures, the results of which have included two successful criminal prosecutions, recovery of assets, and a continuing review and upgrade of program safeguards. We have also initiated major changes in the management of our purchase card program. Nonetheless, I am concerned about the use of hyperbole and the inclusion of unsupported statements and allegations in the report. I take particular exception, for example, to the statement that there exists "a pervasive uncontrolled culture within RE&F." As noted in my attached comments, such assertions are inaccurate, unsubstantiated, and unfairly impugn the integrity of the vast majority of our employees who are extremely conscientious and had nothing to do with the fraud that was perpetrated by a few persons working in a single organizational element within the Real Estate and Facilities Directorate.

We intend to fully investigate the background and causes, and to identify potential additional actions, corrections and changes, to address this matter. Once again, thank you for conferring with us on this issue.

Raymond F. DuBois
Director

Attachment:
As stated

cc:
The Inspector General
Director, RE&F
Director, B&F
WHS General Counsel

Final Report Reference

Report on Selected Purchase Card Transactions at Washington Headquarters Services and Civilian Personnel Management Service (Project No. D2002CM-0117)
WHS Comments

COMMENTS ON THE DRAFT CONCLUSIONS AND RECOMMENDATIONS

The Draft Report concludes that, as evidenced by three years of criminal and ethical abuse of the purchase card program by two employees of the Graphics Division of the Real Estate and Facilities Directorate (RE&F), there was a lack of implementation of internal management controls in RE&F, and that officials that may be found responsible for this breakdown should be held accountable under DoD Financial Management Regulations. The Draft Report also makes recommendations concerning property accountability and proper contracting techniques.

As indicated in the extended comments below, WHS concurs in part with the conclusions and recommendations in this Draft Report. However, we do not concur with some of the sweeping and yet-to-be-supported findings, which merely repeat pre-investigatory WHS leadership statements made when the criminal enterprise was first uncovered, or adopted from the public reports of the criminal sanctions ordered against the two perpetrators of the subject fraud.

It is clear that the fraud perpetrated on the Department by the criminal misuse and cover-up of the IMPAC credit cards by the Director and Deputy Director of the Graphics Division within RE&F reflects a most egregious pattern of theft, conspiracy and deception. That this pattern of deceit was not fully uncovered by WHS until nearly $1.7 million in fraudulent charges were perpetrated on WHS, does, indeed, indicate potential weaknesses in the performance of our internal control systems in the face of criminal concealment by the Director and Deputy Director of Graphics Division.

We concur that a thorough professional investigation needs to be undertaken into the breakdowns that may have occurred before the fraud was discovered and referred to criminal investigators by WHS officials. An investigation will be undertaken to examine the facts and, as appropriate, to determine any additional culpability and potential liability, if any, beyond the criminal sanctions already meted out to the Director and Deputy Director of the Graphics Division. The investigation will address any additional fixes required in internal management controls for this program beyond the aggressive response of WHS to date. Indeed, major internal control initiatives have been identified and are already underway.

Final Report Reference

However, we do not concur with much of the gratuitous and inflammatory language and sweeping allegations of *"a pervasive uncontrolled culture within RE&F."* This is inaccurate, unnecessary, and unfairly impugns the integrity of the vast majority of professionals within that organization who had nothing to do with the fraud perpetrated on the organization by two individuals. These sweeping allegations are premature, pending a thorough, independent investigation of the facts behind the fraud, the actions of management officials, as well as the actions or inactions of accountable officials under the circumstances. For example, concluding that there was not "*any review or action*" by officials is quite premature until the evidence in this fraud is examined in detail. Thus, we respectfully request that great care be given in the final report to remove the "tabloid" type language used in the conclusion paragraph for this finding. Finally, if there is a pervasive culture within RE&F, it is a culture of customer service, and of dedication to our nation's defense and to our taxpayers. That a few of our members with criminal intent have besmirched our reputation is indeed tragic, but it does not take away from the integrity of the hundreds of men and women of RE&F who faithfully and ethically handle hundreds of millions of dollars in transactions each year.

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CRIMINAL ACTIVITY DISCOVERED:

It is unfortunate that the audit team did not meet with Management Officials of the Real Estate and Facilities Directorate concerning the results of the audit, before preparing this Draft Report. We believe that the record of this report should be clarified as to how this entire matter was uncovered and responded to by RE&F and WHS, as well as to a number of important actions and reforms that are already being taken by WHS with respect to this matter. The report suggests that IG Auditors discovered criminal activity in the Graphics and Presentations Division (G&PD). The facts leading to the discovery of the criminal activity in the Graphics and Presentations Division are contrary to this suggestion, however. The facts show that the wrongdoing was initially discovered and reported by RE&F employees.

See Discussion Appendix G

The current Director, Real Estate and Facilities Directorate, was appointed in January 2000, and the Deputy Director, Real Estate and Facilities Directorate, was appointed in July 2000. At the time of the appointment of the Deputy Director, the criminal scheme had been in place for over 18 months. The report ignores the fact that concealment was an essential element of the scheme. The criminals obviously did not announce that they had successfully committed fraud. In fact, the scheme was brought to the attention of Real Estate and Facilities

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Directorate management on August 1, 2002, when an employee of the Graphics and Presentations Division reported to the Agency Program Coordinator that false tracking tickets had been prepared for work allegedly preformed by Infinite Network Solution. The Agency Program Coordinator reviewed aggregate electronic records of transactions with Infinite Network Solution and determined that over $810,000 had been billed by and paid to the company in a 12-month period. This information, coupled with her knowledge of the Graphics and Presentations Division's operating budget, convinced the Agency Program Coordinator that the transactions were probably not legitimate. Most of the transactions with Infinite Network Solution were small transactions that were spread over time. It was not until the Agency Program Coordinator reviewed the aggregate expenditures that the fraud was detected. On Friday, August 2, 2002, the Agency Program Coordinator alerted the Director and Deputy Director, Real Estate and Facilities Directorate to the irregularities that had been uncovered. They notified representatives of the Pentagon Force Protection Agency Criminal Investigations/Internal Affairs (CI/IA) Division. On Monday, August 5, 2002, the Director, CI/IA advised the Defense Criminal Investigative Service (DCIS), Mid Atlantic Field Office, of the possibility of fraudulent activity.

See Discussion Appendix G

Agents of the DCIS initiated an investigation and interviewed the Agency Program Coordinator on August 7, 2002. On August 9, 2002, representatives of the DCIS met with the Director, Real Estate and Facilities Directorate, representatives from the Washington Headquarters Services Office of General Counsel, and other officials, to discuss the investigation. At the meeting, the officials of the Real Estate and Facilities Directorate were directed to permit the fraudulent purchases to continue, and were advised to restrict knowledge of the investigation so as not to jeopardize the criminal inquiry. It was reported that the IG audit team had not uncovered any alleged illegal activities of the Director, Graphics and Presentations Division, and that the audit would cease. The Director, Graphics and Presentations Division, continued to make fraudulent purchases; these activities were monitored by the Agency Program Coordinator and were promptly reported to the DCIS. During the investigation, the Agency Program Coordinator provided support to the DCIS by securing bank information, card records, and other material requested. On August 20, 2002, DCIS agents served search warrants at the home and office of the Director, Graphics and Presentations Division. (Her last Purchase Card transaction had occurred on August 19, 2002, in the amount of $1,950.) The fact that she was taken by surprise indicates the level of confidentiality and cooperation provided by the staff of the Real Estate and Facilities Directorate.

Management Officials from the Real Estate and Facilities Directorate initiated removal proceedings on August 29, 2002. The employee was ultimately removed from her position and the Federal service effective September 25, 2002. In an attempt to recoup some of the money that had been fraudulently diverted from the Government, Officials from the Real Estate and Facilities Directorate initiated action to withhold any money due to the Director, Graphics and Presentations Division, by advising the Office of Personnel Management (OPM) and the Defense Finance and Accounting Service (DFAS) of the alleged misconduct.

The misconduct of the Deputy Director, Graphics and Presentations Division, also evoked action by Real Estate and Facilities Directorate management. Once RE&F Officials learned that the Deputy Director, Graphics and Presentations Division, had pled guilty to theft of government property, a notice of proposed removal was drafted. However, the employee resigned on October 11, 2002, prior to the issuance of the proposed removal. Again, Real Estate and Facilities Directorate management took appropriate action to recover any money due from the Deputy Director, Graphics and Presentations Division, by advising OPM and DFAS of the misconduct. In response to the notification, DFAS stopped a net payment of $8,818.70 due to the employee. Furthermore, the Deputy Director, Graphics and Presentations Division, returned illegally obtained property to the Real Estate and Facilities Directorate.

RECENT CHANGES AND ENHANCEMENTS:

Several changes regarding the Purchase Card Program have been implemented over the past six months. The Director, Washington Headquarters Services, has transferred the entire Purchase Card Program from the Real Estate and Facilities Directorate (RE&F) to the Budget and Finance Directorate (B&F). This transfer will strengthen internal controls by aligning the Purchase Card Program more closely with the review and payment functions resident in B&F, and by taking advantage of related professional accounting and financial management capabilities within the Directorate.

The Program is staffed with individuals who meet all "skills required to perform charge card tasks" as identified by the DOD Charge Card Task Force Final Report and the DOD Concept of Operations. All existing Cardholders and Approving Officials have completed a 4-hour Defense Acquisition University (DAU) on-line tutorial. Newly selected Cardholders and Approving Officials must meet established criteria and complete

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local training prior to their appointment. Furthermore, an Approving Official will have responsibility for no more than six cardholders, all of whom must be in his or her chain of command. No single, monthly, or annual purchase limit will be increased without a written justification and approval by the Agency Program Coordinator (APC), and an updated memorandum will be issued specifying the new limit(s). A review of the single and monthly spending limits for OSD Cardholders has been completed and adjustments made based on mission requirements. Approving Officials in OSD have been issued appointment letters that specifically outline their responsibilities. Merchant Category Code blockers have been input for OSD Cardholders by US Bank personnel. Purchase Card Alerts providing updated Program information and guidance are issued electronically to Approving Officials and Cardholders. Specifically, a Purchase Card Alert was issued addressing the importance of rotating vendors (micro-purchases) and obtaining competition (above $2,500). A training program database has been established to document and track all training completed by Approving Officials and Cardholders.

ONGOING AND PLANNED ACTIONS:

Several actions are underway to strengthen the internal controls and management of the Purchase Card Program. Examples include: updating the SOP to incorporate guidance on separation of duties for key oversight positions; clearly delineating procedures for accountable property purchased with the card, requiring that purchases be reported to the Property Control Officer for recording in the Property Books; revising local training to include the importance of rotating vendors (when rotating vendors is inappropriate, requirements will be submitted to the RE&F Contracting Office to establish a competed Blanket Purchase Agreement (BPA) or indefinite delivery contract), not splitting purchases, utilizing required sources of supply, and the prohibition concerning the purchase of IT equipment. The Director, B&F, will: periodically evaluate resources dedicated to the program and will make adjustments as necessary; conduct mandatory anti-fraud, ethics, and property accountability training; and perform annual program/oversight review of the Program in accordance with the "Blueprint For Success: Purchase Card Oversight." Additionally, B&F will continue random on-sight inspections of Approving Official and Cardholder accounts to ensure all files are appropriately documented with the required purchase logs and work orders or purchase requests. Currently, inspections of RE&F Support Services Division Purchase Card accounts, as well as personal discussions and interviews with cardholders and the Approving Official, are being conducted. B&F will also ensure monetary limits for

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WHS Cardholders are periodically reviewed and new appointment letters issued, and will develop a Purchase Card homepage, as part of the WHS B&F website, that will give users access to current Purchase Card standard operating procedures, points of contact, Alerts issued, frequently asked questions, and other items as needed. B&F will continue to monitor and establish Merchant Category Code Blockers in the bank system for WHS accounts.

REQUESTED/REQUIRED CHANGES TO DRAFT REPORT:

In addition to the changes requested in the conclusion paragraphs of the Draft report, the following corrections to the draft report are requested. They are listed by page, paragraph, line number, and/or bullet:

Page 1, paragraph 2, line 7 The draft report fails to properly characterize the DoD payment process for the Purchase Card Program and, more specifically, the WHS program. The approving official does not, contrary to the statement in the report, request payment by DFAS; rather the approving official forwards a certified statement to the WHS Budget and Finance Directorate for payment.

Page 1, paragraph 3 line 7

Page 2, line 2 The report states that by incorporating fraud indicators in data mining techniques, certain transactions were flagged in the Graphics and Presentations Division. The report fails to state, however, that the fraud indicators did not flag any of the transactions with *Infinite Network Solution*, the company that had been created solely to perpetuate the fraud.

Page 2, paragraph 2

Page 2, paragraph 3, line 14 The report cites the June 27, 2002, *Department of Defense Charge Card Task Force Final Report* as authority for corrective measures. More importantly, the *Department of Defense Government Purchase Card Concept of Operations* was published on July 31, 2002. Note, however, that each document postdates the period when most of the fraudulent transactions were committed. In fact, recommendations were implemented as soon as feasible, giving due deference to a request not to jeopardize the criminal investigation.

Page 2, last paragraph

Page 4, paragraph 1 The report concludes that applicable purchase card program controls were not followed in the Real Estate and Facilities Directorate, and that various officials did not perform their duties regarding the purchase card program. In general, the Washington Headquarters Services Purchase Card Program has always complied with and has been managed in accordance with existing DoD policy and

See Appendix G, Audit Response, paragraph 2

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guidance. The best practices identified and recommended by the DoD Charge Card Task Force, June 27, 2002, were implemented by the Real Estate and Facilities Directorate. Furthermore, the General Services Administration "Blueprint For Success: Purchase Card Oversight" was issued in April 2002, three years after the criminal activity began.

Deleted

Page 5, paragraph 1 The report concludes that there was a "pervasive uncontrolled culture within the RE&F Directorate." The WHS Purchase Card Program has more than 400 accounts, yearly transactions in excess of 17,000, totaling more than $14M a year. The report indicates that of the 4,788 transactions reviewed in the WHS program, all appeared to be appropriate based on information available during the review except for transactions in the Graphics and Presentations Division. Accordingly, the conclusion made in the report that there was "an uncontrolled culture" in the Real Estate and Facilities Directorate is false, and misrepresents the true activities of the vast majority of the loyal and dedicated employees of the Real Estate and Facilities Directorate, clothing them with characteristics that should be reserved only for the two criminals discovered by RE&F Officials.

Page 5, paragraph 2

Page 5, paragraph 1 line 7 The report states that best practices in the GSA "Blueprint for Success: Purchase Card Oversight" were not implemented or enforced. The GSA "Blueprint for Success: Purchase Card Oversight" was published in April 2002 and is intended as a guide for program coordinators; this document was not published until long after the criminal activity had begun.

Deleted

Page 6, paragraph 2 The report suggests that certain Real Estate and Facilities officials should be held pecuniarily liable, having acted in a negligent manner. The report's discussion of disciplinary action and pecuniary liability is based upon presumed negligence. This presumption is preliminary at best, and may not be supported by the facts. It remains to be determined if the actions of RE&F Officials, in the context of the surrounding circumstances, were credible and reasonable. In fact, it was the RE&F Officials who reported the criminal activity to the criminal investigative organization, not the auditors. Any investigation of alleged negligence must take into consideration the totality of the circumstances.

Page 6, paragraph 4, line 7
See Appendix G Audit Response

Page 7, line 4 The report asserts that the Director, Graphics and Presentations Division, produced false invoices "solely" for the audit and speculates that these invoices did not exist prior to the audit. The report again ignores the fact that the Director, Graphics and Presentations Division, was engaged in criminal activity that included active attempts at concealment; she could have produced these invoices at any time, and

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most likely would have produced false documentation for any reviewer (RE&F Officials, Program Coordinator, IG Auditors, etc.).

Page 7, paragraph 1, line 8 The auditors' claim that they referred the Graphics and Presentations Division purchases to the DCIS for investigation may be misleading. No documentation is provided to support this claim. In fact, the activities concerning the discovery of criminal activity and the referral of the matter to the Defense Criminal Investigative Service are as follows: An employee of the Graphics and Presentations Division uncovered suspicious purchases and the Agency Program Coordinator was notified. Upon review, the Agency Program Coordinator concluded that likely criminal activity had been occurring. She brought this to the attention of the Deputy Director, Real Estate and Facilities, and then to the Director, Real Estate and Facilities. Immediately thereafter, the Deputy Director, Real Estate and Facilities, contacted Pentagon Force Protection Agency Criminal Investigations/Internal Affairs (CI/IA) and the Director, Pentagon Force Protection Agency, and the WHS Office of General Counsel. The Director, CI/IA met with the Director, Real Estate and Facilities, and subsequently referred the case to the Defense Criminal Investigative Service.

Page 7, line 2 See Appendix G Audit Response paragraph 1

Page 7, paragraph 1, line 11 The report asserts that the Program Coordinator should have used a variety of reports from the bank to detect misuse and fraud. The report neglects to mention that the auditors' own use of established misuse and fraud indicators had failed to determine that the transactions with Infinite Network Solution were improper. In fact, an investigation will show that the Program Coordinator and others had conducted program reviews.

Page 7, line 5 See Appendix G Audit Response paragraph 2

Page 7, paragraph 1, line 13 The report claims that charges to Infinite Network Solution went undetected for three years because the Program Coordinator did not detect the heavy use of one vendor. We do not know whether the audit team reviewed any statements of accounts by the Director, Graphics and Presentations Division. A cursory review would have revealed that the charges to Infinite Network Solution were not exceptional in terms of dollar amounts or frequency. An integral part of any embezzlement scheme is a method to prevent detection. A thorough investigation will show that the Director, Graphics and Presentation Division, was very aware of the need to prevent detection, and that she worked very hard to assure that her activities remained undetected.

Page 7, line 7 See Appendix G Audit Response

Page 7, paragraph 2, line 3 The report asserts the Program Coordinator allowed fraudulent purchases as a result of the negligent performance of her duties. The Program Coordinator allowed fraudulent purchases only after the criminal investigation was initiated, having been instructed by

Page 7, paragraph 2, line 4 See Appendix G Audit Response paragraph 2

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DCIS to allow the transactions to continue. The Program Coordinator had no reason to believe that the transactions were illegal, improper or incorrect until RE&F exposed the fraud.

Revised Page 7, paragraph 2

Page 7, paragraph 3 Line 1 The report incorrectly identifies the organizational location of the Internal Review position as Finance and Budget Directorate. The correct location is the Real Estate and Facilities Directorate.

Page 8, paragraph 1, line 4 See Appendix G Audit Response paragraph 1

Page 8, paragraph 2, line 4 The auditors claim to have referred suspicious purchases to the DCIS on August 9, 2002. In fact, on Friday, August 2, 2002, the Agency Program Coordinator alerted the Director and Deputy Director, Real Estate and Facilities Directorate to the irregularities that had been uncovered. They notified representatives of the Pentagon Force Protection Agency Criminal Investigations/Internal Affairs (CI/IA) Division. On Monday, August 5, 2002, the Director, CI/IA advised the Defense Criminal Investigative Service (DCIS), Mid Atlantic Field Office, of the possibility of fraudulent activity.

RESPONSES TO SPECIFIC RECOMMENDATIONS:

A. Purchase Card Accountability.

A. We recommend that the Director, Washington Headquarters Services:

Revised and Renumbered A.1.a.

1. Initiate a review and take appropriate actions to hold purchase card approving officials and the Agency Program Coordinator pecuniarily liable for losses to the Government as prescribed in the DoD Financial Management Regulation.

Concur in part: The Director, Washington Headquarters Services, is initiating a thorough, professional investigation headed by a Senior Executive outside of WHS to determine the facts surrounding this report, and will take whatever actions are deemed to be appropriate as a result of that investigation. Prior to reviewing the results of said investigation, we do not concur in any implication that the approving officials and the Agency Program Coordinator should be found pecuniarily liable.

Renumbered A.1.b.

2. Initiate a review and take appropriate actions to hold cardholders that have made unauthorized or abusive purchases responsible for repayment to the Government as prescribed in the DoD Financial Management Regulation.

Concur in part: The Director, Washington Headquarters Services, is initiating a thorough, professional investigation headed by a Senior Executive

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outside of WHS to determine the facts surrounding this report, and will take whatever actions are deemed to be appropriate as a result of that investigation. However, we do not concur in any implication that cardholders (other than the Director and Deputy Director of the Graphics and Presentations Division) made unauthorized or abusive purchases.

3. Direct the Director, Real Estate and Facilities to amend the Washington Headquarters Services Standard Operating Procedures to include direction regarding separation of duties for key positions of oversight in order to minimize the risk of fraud as recommended by the General Services Administration, "Blueprint For Success: Purchase Card Oversight." — Renumbered A.2.a.

Concur in part: The Director, Washington Headquarters Services, has already transferred the entire Purchase Card Program from the Real Estate and Facilities Directorate (RE&F) to the Budget and Finance Directorate (B&F). The Director, B&F, is reviewing the entire program, and is implementing changes to the Standard Operating Procedures and program safeguards and oversight, taking into account the suggestions in your report.

4. Direct the Director, Real Estate and Facilities to hold cardholders, approving officials, and the Agency Program Coordinator accountable for implementing controls and performing their duties. — Renumbered A.2.b.

Concur in part: Accountability is expected of all WHS employees. The Director, B&F, has already instituted additional safeguards, and the results of the upcoming investigation initiated on behalf of WHS will address the implementation of any additional internal controls deemed appropriate.

5. Direct the Director, Real Estate and Facilities to designate the Program Coordinator as a full-time position and allocate the resources necessary to accomplish all the required oversight and annual reviews of the purchase card program. — Renumbered A.2.c

Concur: Prior to receipt of the Draft Report, a full-time Program Manager was appointed to oversee the Program. When the Purchase Card Program was transferred to B&F, the full-time Program Manager transferred with the Program. The Program Manager also serves as Primary Program Coordinator, and there is an additional full-time Alternate Program Coordinator. The Program Coordinator will be given the necessary additional resources, if required, to accomplish all necessary program oversight.

6. Direct the Program Coordinator to accomplish all the required oversight and annual reviews of the purchase card program. — Renumbered A.3.

Concur. The Program Coordinator has already been directed to do so. We expect the investigation to determine whether the Program Coordinator has, in the past, accomplished all required oversight and annual reviews. Prior to receiving and reviewing the investigator's report, we do not concur in any implication that the Program Coordinator did not accomplish all required oversight and annual reviews.

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Renumbered A.2.d.

7. Direct the Director, Real Estate and Facilities to enforce the Purchase Card Program Standard Operating Procedures and hold cardholders, approving officials, and the Program Coordinator accountable for compliance with policies.

Concur. The Director, B&F will continue to enforce the Purchase Card Program Standard Operating Procedures, and will hold cardholders, approving officials, and the Program Coordinator accountable for compliance with all policies and procedures.

Renumbered A.4.

8. Re-evaluate the decision to appoint the former Program Coordinator to a position in Internal Review and take appropriate administrative action for not performing previous assigned duties as both approving official and Program Coordinator.

Concur in part: The Director, Washington Headquarters Services, is initiating a thorough, professional investigation headed by a Senior Executive outside of WHS to determine the facts surrounding this report, and will take whatever actions are deemed to be appropriate as a result of that investigation. Prior to reviewing the results of said investigation, we do not concur in any implication that the decision to appoint the former Program Coordinator to a position in Internal Review was in any way inappropriate.

Renumbered A.1.c.

9. Initiate a review and take appropriate administrative actions to hold the Director, Real Estate and Facilities accountable for failing to ensure the purchase card program policies and procedures and all applicable laws and regulations were followed.

Concur in part: The Director, Washington Headquarters Services, is initiating a thorough, professional investigation headed by a Senior Executive outside of WHS to determine the facts surrounding this report, and will take whatever actions are deemed to be appropriate as a result of that investigation. Prior to reviewing the results of said investigation, we do not concur in any implication that the Director, Real Estate and Facilities, should be held accountable for failing to ensure that applicable rules and regulations were followed.

B. Property Accountability.

B.1. We recommend that the Director, Washington Headquarters Services, as head of Administration and Management for the Office of the Secretary of Defense, amend Administrative Instruction 94 to include pilferable or sensitive items, as described in DoD Instruction 5000.64 and the Director, Defense Procurement August 13, 2001, memorandum, as accountable property.

Concur in part: The Director, Washington Headquarters Services, is initiating a thorough, professional investigation headed by a Senior Executive outside of WHS to determine the facts surrounding this report, and will take whatever actions are deemed to be appropriate as a result of that investigation. The

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investigator will be asked to make recommendations concerning possible amendment(s) to Administrative Instruction 94.

B.2. We recommend that the Director, Real Estate and Facilities, Washington Headquarters Services:

a. Ensure that the Support Services Division and the Accountable Property Officer:

(1) Establish and maintain a system for capturing all accountable property purchased with the Government purchase card in the Graphics and Presentations Division.

Concur. This recommendation has already been implemented.

(2) Provide training to the Graphics and Presentations Division inventory custodian on maintaining the inventory management records.

Concur.

(3) Comply with requirements for a scheduled inventory at least annually, and conduct unannounced spot checks of property and inventory management records, and document the results.

Concur.

b. Rescind the Graphics and Presentations Division waiver to purchase graphics-specific information technology equipment and support, and return the responsibility for purchasing, support, and inventory control to the Information Technology Division.

Concur: Prior to issuance of the Draft Report, authority to purchase Information Technology (IT) equipment was rescinded, and responsibility for administration of all IT hardware and software, to include the control of the network server, was transferred to the RE&F Information Technology Division.

c. Ensure that the Graphics and Presentations Division establishes procedures to properly inventory and safeguard items purchased.

Concur. Prior to issuance of the draft report, a Supply Technician was assigned to the Graphics and Presentations Division (in July 2002); inventory controls are being enhanced and implemented.

d. Conduct a complete review of invoices/receipts for purchases made with the purchase cards from May 1999 through August 2002 to identify all pilferable items and determine the full extent of missing property, investigate the disposition of all missing property, and take required administrative actions as needed.

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Concur in part: The Director, Washington Headquarters Services, is initiating a thorough, professional investigation headed by a Senior Executive outside of WHS to determine the facts surrounding this report, and will take whatever actions are deemed to be appropriate as a result of that investigation.

e. Oversee a wall-to-wall inventory in the Graphics and Presentations Division to determine the full extent of missing property and investigate all missing property as required by Administrative Instruction 94, "Personal Property Management and Accountability."

Concur.

C. Inappropriate Contracting Methods.

C. We recommend that the Director, Washington Headquarters Services:

1. Ensure the Director, Real Estate and Facilities requires the Real Estate and Facilities Contracting Office to perform periodic reviews of all purchase card transactions to determine whether cardholders are using appropriate contracting methods to obtain routine supplies and services.

Concur in part. The Director, Washington Headquarters Services, has transferred the Purchase Card Program from RE&F to B&F. The full-time Program Coordinator is a warranted Contracting Officer, and she will perform the required reviews and make determinations and recommendations concerning proper contracting methods for micro-purchases using the purchase card. Additionally, the Director of the Contracting Office will perform reviews as appropriate.

2. Ensure the Director, Real Estate and Facilities requires the Real Estate and Facilities Contracting Office to include micro-purchases in its self-inspection as part of its annual management control program review.

Concur. The Real Estate and Facilities Contracting Office has always been required to include micro-purchases in its annual inspections and annual management control program review.

3. Ensure the Director, Real Estate and Facilities requires the Program Coordinator to follow the Washington Headquarters Services Standard Operating Procedures to include periodic reviews and oversight, and retraining with emphasis to stop split purchases and vendor preference.

Concur in part. The Director, Washington Headquarters Services, has transferred the Purchase Card Program from RE&F to B&F. The full-time Program Coordinator will follow the Washington Headquarters Services Standard Operating Procedures and will perform all required periodic reviews, oversight, and retraining.

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4. Ensure the Director, Real Estate and Facilities requires the cardholders to follow the Federal Acquisition Regulation, stop split purchases, and rotate purchases among vendors when using the purchase cards.

Concur in part. The Director, Washington Headquarters Services, has transferred the Purchase Card Program from RE&F to B&F. The full-time Program Coordinator is a warranted Contracting Officer, and she will assure that cardholders continue to follow the Federal Acquisition Regulation, stop split purchases (to the extent such practices have been followed), and rotate purchases among vendors when using the purchase cards (already a requirement).

Team Members

The Contract Management Directorate, Office of the Deputy Inspector General for Auditing of the Department of Defense prepared this report. Personnel of the Office of the Inspector General of the Department of Defense who contributed to the report are listed below.

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