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U.S. Pacific Command Headquarters
Government Purchase Card Controls

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Acronyms

AO	Approving Official
APC	Agency Program Coordinator
CJCSI	Chairman of the Joint Chiefs of Staff Instruction
FAR	Federal Acquisition Regulation
FISC	Fleet and Industrial Supply Center
GPC	Government Purchase Card
IOP	Internal Operating Procedure
ORF	Official Representation Funds
PACOM	U.S. Pacific Command Headquarters



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DEPARTMENT OF DEFENSE
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August 29, 2007

MEMORANDUM FOR COMMANDER, U.S. PACIFIC COMMAND
HEADQUARTERS

SUBJECT: Report on U.S. Pacific Command Headquarters Government Purchase Card
Controls (Report No. D-2007-120)

We are providing this report for information and use. We considered management comments on a draft of this report in preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. James L. Kornides at (614) 751-1400, extension 211 or Mr. John K. Issel at (614) 751-1400, extension 212. See Appendix C for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

for Patricia A. Marsh
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Assistant Inspector General
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Department of Defense Office of Inspector General

Report No. D-2007-120

August 29, 2007

(Project No. D2007-D000FJ-0014.000)

U.S. Pacific Command Headquarters Government Purchase Card Controls

Executive Summary

Who Should Read This Report and Why? DoD civilians and military personnel who are authorized to use a Government purchase card or supervise any aspect of the Government Purchase Card Program should read this report. This report discusses the internal controls and the management of the Government Purchase Card program at the U. S. Pacific Command Headquarters (PACOM).

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

During a 1-year period ending May 2006, PACOM Headquarters incurred 2,086 purchase card transactions valued at over \$3.2 million. We judgmentally selected 348 transactions completed during that period for review. These consisted of 298 purchase card transactions citing multiple funding sources and 50 purchase card transactions where PACOM personnel cited Joint Chiefs of Staff funds, known as "Official Representation Funds." The value of all 348 transactions was \$1,268,600.

Results. For most of the purchase card transactions we examined, PACOM personnel complied with regulations. However, there were instances of noncompliance. Of the 298 transactions we sampled, 4 purchases exceeded the purchase card threshold, 2 included excessive shipping costs, and 1 did not have adequate supporting documentation. Additionally, the approving official did not properly review 37 of the transactions prior to approving them, and did not properly screen sources prior to completing 22 transactions. The agency program coordinator and approving officials must take action to communicate and enforce existing guidance to minimize the potential for fraud, waste and abuse. The agency program coordinator also needs to reinforce training in the Business Operations Branch to improve the performance of personnel (see finding A).

For most of the items we sampled, PACOM did not follow the Chairman of the Joint Chiefs of Staff Instruction and their own guidance for use of Official Representation Funds. PACOM personnel made 46 of the 50 purchases we examined prior to verifying the availability of funds. For 21 of the 50 purchases, PACOM personnel incorrectly paid excise taxes. Additionally, PACOM personnel did not provide required documentation to fully support the Official Representation Funds purchases we reviewed. Although they were not a part of our sample, during the testing of the Official Representation Funds process, we observed that PACOM inappropriately retained 863 gift items (valued

at \$16,459) in inventory. PACOM needs to improve its controls over the use of Official Representation Funds to minimize the risk of improper use of those funds (see finding B).

Management Comments. Comments from the Commander, U.S. Pacific Command were responsive. The Commander concurred with all recommendations. Therefore, no further comments are required.

See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

Table of Contents

Executive Summary	i
Background	1
Objectives	1
Review of Internal Controls	2
Findings	
A. Use of and Controls over Government Purchase Cards	3
B. Controlling Official Representation Fund Transactions	8
Appendixes	
A. Scope and Methodology	16
B. Prior Coverage	17
C. Report Distribution	19
Management Comments	
U.S. Pacific Command Comments	21

Background

Title 10, United States Code, Section 2784 requires the DoD Office of Inspector General to perform periodic audits of the Government Purchase Card Program to identify:

- (A) potentially fraudulent, improper, and abusive use of purchase cards;
- (B) any patterns of improper card holder transactions, such as purchases of prohibited items; and
- (C) categories of purchases that should be made by means other than purchase card in order to better aggregate purchases and obtain lower prices.

Use of the Government Purchase Card. According to Federal Acquisition Regulation (FAR) 13.301 “Government-wide Commercial Purchase Card,” the Government Purchase Card (GPC) is the preferred method to purchase and pay for “micro-purchases.” Use of the purchase card as a procurement and payment tool for micro-purchases is explained in FAR 13.2, “Actions At or Below the Micro-Purchase Threshold.” A micro-purchase is defined as an acquisition of supplies or services in which the aggregate amount does not exceed \$2,500, except for construction, where the threshold is \$2,000.

U.S. Pacific Command. On January 1, 1947, the DoD established the Pacific Command Headquarters (PACOM) as a unified command representing all three Military Departments in the Pacific Theatre. The Command employs about 300,000 military personnel in the Army, Navy, Air Force, and Marine Corps. The headquarters for PACOM is located at Camp H.M. Smith, Hawaii. The headquarters staff consists of about 530 Army, Navy, Air Force, and Marine Corps officers and enlisted personnel, plus an additional 110 civilian employees.

During a 1-year period ending May 2006, PACOM Headquarters incurred 2,086 purchase card transactions valued at over \$3.2 million. We judgmentally selected 348 transactions completed during that period for review. These 348 transactions consisted of 298 purchase card transactions citing multiple funding sources and 50 purchase card transactions where PACOM personnel cited Joint Chiefs of Staff funds, known as “Official Representation Funds.” The value of all 348 transactions was \$1,268,600.

Objectives

Our audit objective was to assess whether U.S. Pacific Command Headquarters use of the Government Purchase Card is in compliance with applicable laws and regulations. We also reviewed internal controls over use of the purchase card. See Appendix A for a discussion of the audit scope and methodology.

Review of Internal Controls

We identified internal control weaknesses for PACOM as defined by DoD Instruction 5010.40, "Managers Internal Control Program Procedures," January 4, 2006. PACOM did not have adequate internal controls over the use of the Government Purchase Card program and its Official Representation Funds. Implementing Recommendations A.1.a., A.1.b., and A.2. of finding A and Recommendations B.1.a, B.1.b., B.1.c., B.1.d, B.1.e., B.2., B.3.a., and B.3.b. of finding B will improve the overall use of the Government Purchase Cards. A copy of the report will be provided to the senior official responsible for internal control at PACOM.

A. Use of and Controls over Government Purchase Cards

For most of the purchase card transactions we examined, PACOM personnel complied with applicable regulations. However, there were instances of noncompliance. Of the 298 transactions we sampled, 4 purchases exceeded the purchase card threshold, 2 included excessive shipping costs, and 1 did not have adequate supporting documentation. Additionally, the approving official did not properly review 37 of the transactions prior to certifying them for payment. Also, the cardholder did not properly screen sources prior to completing 22 of the transactions. The instances of noncompliance occurred because staff shortages did not allow proper segregation of duties and PACOM personnel did not consistently follow Navy guidance or enforce internal controls governing use of the cards. Finally, available staff did not always have updated guidance to adequately perform their duties. Unless controls are improved and training is reinforced, PACOM risks abuse in the use of its purchase cards.

Navy Guidance for the Government Purchase Card Program

Department of the “Navy e-Business Operations Office Instruction 4200.1A,” September 2003 (“e-Bus Instruction”) provides guidance on the use of the GPC. Chapter 1, paragraph 4 of the instruction states that the GPC may be used to purchase authorized supplies, equipment, and nonpersonal services up to the micro-purchase threshold of \$2,500. Purchases over the \$2,500 threshold may be made using other contracting methods. Also, the GPC cannot be used in making recurrent purchases that circumvent the \$2,500 threshold. Chapter 3, paragraph 7a of the e-Bus Instruction requires a distinct segregation of duties for purchase, acceptance, and payment on all contract actions. PACOM establishes internal controls through its general policies and procedures for program management, which include review of the purchase card program. Chapter 3, paragraph 4 of the e-Bus Instruction states that supporting documentation for purchases must be retained by the cardholder and approving official for 3 years.

Chapter 2, paragraph 4 of the e-Bus Instruction also states that the purchase card approving official (AO) is responsible for individual cardholder oversight and ensuring that internal controls are implemented. These controls include testing purchase validity and regulation compliance. Chapter 3, paragraph 5b states that each AO must perform monthly verification of GPC transactions and account statement reconciliations. In addition, all documentation should be properly managed and maintained.

Chapter 2, paragraph 3 of the e-Bus Instruction states that the agency program coordinator (APC) is responsible for the overall implementation of the purchase card program. Responsibilities include providing mandatory purchase card training, ensuring that cardholders are capable of performing their duties, and

issuing purchase cards only to authorized personnel. Also, the APC is required to perform regularly scheduled reviews, at least quarterly, on command AO and purchase card accounts to verify that all account profile information is accurate. The APC is required to take corrective action when a review reveals misuse or abuse of the GPC program or noncompliance with applicable guidance.

Purchase Card Transactions Reviewed

We judgmentally selected 298 purchase card transactions for review. PACOM made a majority of the procurements in compliance with applicable regulations. However, the audit identified seven transaction irregularities totaling \$135,752. These irregularities consisted of transactions that exceeded the purchase card threshold, had excessive shipping costs, and had missing documentation. The following table shows a breakdown of the number and types of transaction irregularities.

Table 1. US PACOM GPC Transaction Irregularities

	Number of Transactions	Amount	Description
Purchases Exceeding Threshold	4	\$134,999	The purchases were beyond the \$2,500 Threshold.
Excessive Shipping	2	\$125	Shipping for pens was 40% of the total cost of the pens.
Missing or Insufficient Documentation	1	\$628	One transaction was not supported with documentation.
Total	7	\$135,752	

Purchases Exceeding Threshold. PACOM did not have the authority to use the GPC to pay for services not on contract that exceeded \$2,500 annually. The Commanding Officer, Fleet and Industrial Supply Center (FISC), San Diego reduced the PACOM contracting authority from \$100,000 to \$2,500 by issuing a message addressed to PACOM in September 2004. However, the GPC was used to pay \$134,999 on four transactions that exceeded \$2,500 in services in a year. Here are two examples:

- A cardholder paid \$40,062 for telephone maintenance service. The cardholder indicated he was not aware that the transaction exceeded purchase cardholder authority at the time of the purchase. When the maintenance service was subsequently renewed, PACOM used a contract to secure the service.

-
- A cardholder purchased 2 months of service for organizational design and strategic planning in October and November 2005, totaling \$92,072. The cardholder made the purchase to “bridge”¹ a contract that was expiring in September 2005. The original contract had not been extended by the contracting authority at FISC Pearl Harbor. The cardholder believed he had the authority to procure services listed on the General Services Administration schedule for as much as \$100,000 using the purchase card. During the 2 months of the bridge contract, the cardholder requested that FISC Pearl Harbor issue a contract to cover the service. At the end of November 2005, FISC awarded a contract for the remaining 10 months of FY 2006. The \$92,072 purchase on the card exceeded the \$2,500 purchase limit, and therefore the bridging of the expiring contract was an improper use of the purchase card.

The APC for the PACOM purchase card program indicated that she was unaware that the September 2004 directive had limited PACOM’s contracting authority to \$2,500. The APC took appropriate action during the audit and issued a notification to all PACOM cardholders of the breach of authority, as well as a warning not to exceed their \$2,500 contracting authority.

Excessive Shipping Costs. Enclosure 1, paragraph 5 of the e-Bus Instruction 4200.1A does not allow the purchase of goods or services that exceed the minimum requirements to satisfy and support the Government. For two sample transactions, the GPC was used to order writing pens for the PACOM Command. The cardholder used second-day air shipping as the method of delivery. The cost of the pens was \$125, of which more than 40 percent was for shipping. The use of second-day air shipping was excessive and not an appropriate use of government funds.

Purchase Card Documentation. PACOM’s Business Operations Branch Internal Operating Procedures (IOP) state that prior to making a purchase card transaction, cardholders are required to obtain written approval from an AO authorizing the transaction. However, in one instance, the cardholder purchased a marker board that cost \$628 without prior approval. In addition, the cardholder could not provide supporting documentation for the receipt and acceptance of the marker board.

Execution of GPC Duties

Staffing problems contributed to the control issues we noted at PACOM. Inadequate staffing levels resulted in the APC not segregating duties and the AO not adequately reviewing documentation. In addition, the cardholders failed to perform their duties effectively. Of the 298 transactions in the sample,

¹ “Bridging” a contract is a methodology used to continue services until a new contract is awarded.

37 transactions were not reviewed by the AO and 22 transactions lacked evidence of mandatory source screening² by the cardholder.

Extra Duties of the Agency Program Coordinator. Chapter 3, paragraph 7a of the e-Bus Instruction 4200.1A requires the segregation of duties for the APC and the AO. Due to staffing shortages at the PACOM business office, the APC performed the duties of the AO to ensure continuity of operations. The director of the business office requested that the Navy provide a waiver of the requirement for segregation of duties to give the APC the authority to perform AO responsibilities. The Department of the Navy Consolidated Card Program Management Division waived the segregation-of-duties requirement three times during FYs 2005-2007. As a result of the waivers, the APC was overburdened with AO responsibilities.

Approving Official's Ability to Review Documentation. Chapter 2, paragraph 4d of e-Bus Instruction 4200.1A requires the approving official to review all documentation and ensure that each cardholder follows the proper procedures when using the GPC. For 37 of the sample transactions, totaling \$110,416, there was not evidence of any review by the AO. For those 37 items, the Business Operations Branch AO did not initial the invoices or certification of receipts, which would show official acceptance of the purchases.

Cardholders Performing Their Duties Efficiently. The IOP establishes the roles and responsibilities of all PACOM cardholders. Chapter 1, paragraph 3b of the IOP requires cardholders to check for mandatory sources. For 22 transactions, the cardholders had not checked for mandatory sources or obtained a waiver from using mandatory sources before going to outside vendors. In addition, cardholders did not follow other requirements of the IOP when conducting purchase card transactions:

- Cardholders did not maintain purchase logs that contained the necessary information to support the use of non-mandatory sources.
- Cardholders indicated that they were unaware of purchase requirements and limitations that they had violated when conducting purchase transactions.

These cardholder errors resulted in making purchases without the necessary screening of vendors. Because the PACOM Business Operations Branch performs about 70 percent of all GPC transactions, the APC needs to ensure that cardholders have the necessary skills to efficiently perform their duties by enforcing the training requirements for purchase cardholders. In addition, the APC needs to ensure that cardholders are updated on all changes to purchase requirements so that the cardholders are in compliance with current guidance.

² Agencies are required to satisfy requirements for supplies and services by reviewing several sources and publications.

Summary

PACOM did not have adequate controls to prevent irregularities in the use of its GPC. Cardholders made irregular purchases and did not maintain complete supporting documentation. PACOM had inadequate staffing levels, which prevented segregation of duties. This situation will continue until staffing in the Business Operations Branch is restructured so that the APC and AO duties are separate and the cardholders follow guidance already established in the PACOM IOP and the e-Business Instruction.

Recommendations and Management Comments

A.1. We recommend that the Commander of the Pacific Command Headquarters:

a. Instruct cardholders and approving officials in the proper procedures to follow when using the Government Purchase Card, as outlined in Department of the Navy e-Business Operations Office Instruction 4200.1A and the Business Operations Branch Internal Operating Procedures.

b. Reinforce training for the Government Purchase Card Program and keep cardholders updated on all changes to purchase requirements to ensure that cardholders are in compliance with current guidance.

Commander, U.S. Pacific Command Comments. The Commander, U.S. Pacific Command concurred with both recommendations. He stated that they will continue to educate all purchase cardholders on the proper procedures when using the Government Purchase Card. He further stated that the U.S. Pacific command will establish a process to reinforce training and update cardholders on all changes to the purchase card program to ensure compliance with current guidance.

A.2. We recommend that the Director of the Pacific Command Business Operations Branch maintain proper segregation of duties by having two different individuals perform agency program coordinator and approving official duties.

Commander, U.S. Pacific Command Comments. The Commander, U.S. Pacific Command concurred with the recommendation. He stated that once all positions are filled in the Headquarters Business Operations Branch, they will implement the separation of duties of the agency program coordinator and the approving official.

B. Controlling Official Representation Funds Transactions

PACOM did not follow guidance for use of Official Representation Funds (ORF) for most of the items we sampled. For 46 of the 50 purchases we examined, PACOM personnel did not verify the availability of funds prior to making the purchase. For 10 of those same purchases, PACOM personnel incorrectly paid excise taxes. Furthermore, PACOM personnel did not provide required documentation to fully support 21 of the 50 ORF purchases. Also, though they were not part of our sample transactions, during the testing of the ORF process we observed that PACOM inappropriately retained 863 gift items (valued at \$16,459) in inventory. These conditions occurred because the Command Staff Protocol Office and the approving official in the Comptroller's Office did not properly monitor the ORF purchase cardholders. PACOM management needs to strengthen ORF purchase controls and improve ORF oversight to minimize the potential for improper and questionable use of the ORF.

Guidance on Use of Official Representation Funds

DoD Directive 7250.13, "Official Representation Funds," February 17, 2004, updated January 12, 2005, establishes policy, assigns responsibilities, and prescribes procedures for the use of appropriated funds for ORF. It specifies that ORF are to be used to host official receptions, dinners, and similar events, and to otherwise extend official courtesies to guests of the U.S. and the DoD for the purpose of maintaining the standing and prestige of the U.S. and the DoD. The use of ORF is supposed to be monitored closely to ensure that expenditures comply with socially accepted morals and that the policy objectives of the U.S. and the interest of the U.S. taxpayer jointly are served. Records on the use of ORF are supposed to be maintained on a function-by-function basis to provide data on how and why these funds were used. It requires the heads of DoD Components to budget and account for resources necessary to support their ORF requirements. In addition, the heads of DoD Components are to establish appropriate internal reporting systems to enable them to perform a continuing review of the purposes for which ORF have been used within their respective commands.

Chairman of the Joint Chiefs of Staff Instruction (CJCSI) 7201.01A, "Combatant Commanders' Official Representation Funds," October 15, 2003, updated February 7, 2006, requires the commanding officer (or authorized designee), the command protocol officer, the command comptroller, and the command staff judge advocate to review the use of ORF to fund an event prior to its occurrence.

PACOM Instruction 0609.3, "Official Representation Funds," August 1, 2005, requires that each expenditure be reviewed for compliance with this instruction. The commanders to whom ORF authority is granted are personally responsible for the propriety of each expenditure of ORF. In addition, personnel granted authorization may be held personally and financially responsible for any misuse

of ORF. The instruction also provides detailed guidance on the roles and responsibilities of the commanding officer, the command comptroller, the command staff judge advocate, and the PACOM-authorized approval designee.

Roles and Responsibilities

Commanding Officer. PACOM Instruction 0609.3, section 5.a. requires that the PACOM Commanding Officer be responsible for approving in advance all ORF expenditures that exceed \$10,000 per event. It further requires that the commander is responsible for controlling the use of ORF by reviewing all requests for the use of ORF prior to expenditure.

Comptroller. CJCSI 7201.01A, Appendix A, paragraphs 1 and 2 require that the combatant command have a budget for each fiscal year's ORF requirements and allocations to determine and manage ORF use. The combatant command comptroller is required to collect ORF requirements and consolidate them into one annual plan for approval. After approval, the comptroller uses the plan for management of the ORF program. The PACOM Comptroller also establishes the ORF policies and procedures. One person within the comptroller's office serves as the AO for all ORF cardholders. The comptroller's office performs follow-up audits of all ORF records, certifies the ORF purchase card bills, maintains the accounting records, and provides the PACOM Business Office with copies of the ORF purchase card transactions.

Command Staff Judge Advocate. PACOM's Judge Advocate validates the propriety of expenses for ORF use and provides rulings on expenses not specifically addressed in the CJCSI 7201.01A. The judge advocate must validate the request for the use of ORF prior to the command comptroller's fund verification.

Staff Protocol Office. The PACOM Staff Protocol Office provides protocol support to PACOM leadership, visitors to the command, action officers, and ceremony participants. Cardholders assigned to the protocol office make gift purchases on behalf of the commander and maintain records of the recipients.

Verification of ORF Fund Availability

Documentation for the 50 ORF purchase card transactions in our sample showed that 46 of the purchases occurred before the appropriate officials verified the availability of ORF funds to pay for the purchase. PACOM Instruction 0609.3, Section 11.d.(1)(a) states: "Directorates are required to provide a Request for Obligation of ORF [US PACOM Form 7300/1 (0609/3)] prior to arranging a function or purchasing a memento." In addition, DoD Directive 7250.13 states: "Fund availability shall be verified before the use of ORF (preferably 10-15 days prior to an event)." Also, the CJCSI 7201.01A specifies that the combatant commander's comptroller is to review each request for ORF prior to the

scheduled event to ensure the availability of funds. PACOM did not follow these procedures.

The following table shows the chronological order of ORF funding documents where the Commander's Directorate³ exceeded its ORF funding authorization:

Table 1. ORF Funding Documents

<u>Document Number</u>	<u>ORF Remaining Balance</u>	<u>Date of Document</u>
J00-H-06-028	\$ 49.88	January 19, 2006
J00-H-06-029	3.73	January 27, 2006
J00-H-06-030	8,919.59	February 2, 2006
J00-H-06-031	7,047.88	February 27, 2006

Table 1 shows that ORF funds were added to the Commander's Directorate account by document number J00-H-06-030. However, our review of document number J00-H-06-031 disclosed that an additional \$1,866.43 was spent between January 20, 2006, and January 27, 2006, even though the document was not dated until February 27, 2006. Also, the cardholder's purchase log showed that another two purchases of \$26.00 and \$109.26 were made on January 26, 2006. Therefore, including the \$46.15 (\$49.88 less \$3.73), actual ORF expenditures made prior to the additional funding authorization were \$2,047.84. These transactions resulted in a negative \$1,997.96 balance (\$49.88 less \$2,047.84) in the Commander's Directorate ORF account before additional funds were added in February 2006 on document number J00-H-06-030.

We questioned PACOM Comptroller personnel about this negative balance. Comptroller personnel stated that as long as excess ORF funds are available in another of PACOM's directorates, funds could be reallocated to cover negative balances. Therefore, they believed that an Antideficiency Act violation would not occur. Since the transactions occurred during the second quarter of the fiscal year and PACOM had not exceeded its overall funding authorization for ORF, we agree that this situation would not be considered an Antideficiency Act violation. However, failure to verify the availability of funds prior to making expenditures can result in a violation. Furthermore, unless PACOM cardholders are required to adhere to regulations and verify the availability of ORF funds before making purchases, PACOM risks an Antideficiency Act violation should funds not be available in another PACOM directorate.

Additional Audit Results

Our review of the 50 judgmentally-selected ORF purchase card transactions showed that 21 of the transactions contained irregularities, to include the purchase of items that were not used during the fiscal year they were purchased. The review also disclosed improper payment of taxes. The following table shows the 21 transactions with irregularities.

³ The Commander's Directorate is the office directly under the Commander, PACOM and is designated as organizational code J00.

Table 2. Transactions with Irregularities

Sample Number	Transaction Purpose	Transaction Amount	Description of Irregularities
ORF-01	Purchase of 50 crystal bowls for Chief of Defense conference.	\$2,095.00	Split disbursement exceeding card holder's single purchase limit of \$2,500.00.
ORF-02	Purchase of 50 crystal bowls for Chief of Defense conference.	2,095.00	Split disbursement exceeding card holder's single purchase limit. See Sample ORF-01.
ORF-03	Purchased gift wrap paper and designer wrap paper. Also purchased 2 paper cutters.	1,683.95	Paper cutters should not have been purchased using ORF because they were equipment assets.
ORF-07	Purchased mountable lei.	419.27	Purchase exceeded maximum allowed for gift and excise tax paid on purchase.
ORF-09	Purchased 40 tour tickets for spouses of Chief of Defense conference.	300.00	Only 27 people attended tour. Therefore, there was an overpayment for the event.
ORF-12	Purchased plate, vase, and gift wrap items.	209.22	Gift purchase using FY 06 funds. Gift was never presented and was still in gift locker.
ORF-13	Purchased Warrior's Pot.	195.52	Gift purchase using FY 06 funds still in gift locker. Excise tax also paid.
ORF-14	Purchased golf putter and warrior sword.	188.37	Paid general excise tax on transaction.
ORF-15	Purchased Hawaiian canoe as gift for Distinguished Visitor.	187.50	Paid general excise tax on transaction.
ORF-16	Purchased crystal bowl and plate.	152.98	Gift purchase using FY 06 funds. Gift was never presented and was still in gift locker.
ORF-22	Purchased Hawaiian etched crystal bowl.	64.99	Gift purchase using FY 06 funds. Gift was never presented and was still in gift locker.
ORF-24	Purchased "Island of Oahu" picture.	47.45	Gift purchase using FY 06 funds. Gift was never presented and was still in the gift locker.
ORF-25	Purchased gift wrap	46.02	End of fiscal year purchase. Excise tax was also paid.
ORF-26	Purchased warrior axe.	41.60	Paid general excise tax on transaction.
ORF-27	Purchased gift boxes.	37.50	Paid general excise tax on transaction.
ORF-29	Purchased gift wrap	23.43	End of fiscal year purchase.
ORF-30	Purchased glass ornament and hibiscus ornament.	21.98	Gift purchase using FY 06 funds. Gift was never presented and was still in gift locker.
ORF-31	Purchased 2 leis.	20.83	Paid general excise tax on transaction.
296	Purchased flowers.	21.21	Paid general excise tax on transaction.
297	Purchased flowers.	17.34	Paid general excise tax on transaction.
298X	Purchase of flowers for distinguished visitor dinner.	174.45	Used credit card authorized for food purchase only.
Total		\$8,043.61	

While we found several types of irregularities, the three main types related to current year needs, excise tax payments, and split disbursements:

Current Year Requirements. PACOM Instruction 0609.3, Section 9.c. specifies that mementos may not be procured for presentation in future fiscal years. Also, both the CJCSI 7201.01A and DoD Directive 7250.13 specify that ORF requirements are based on fiscal year use only, which would prohibit the use of

current year funds to meet future year requirements. Of the 21 transactions with irregularities, 9 purchases were made to satisfy anticipated needs in future fiscal years.

Excise Tax Payments. In December 1998, the General Services Administration SmartPay Card Program Office issued letters to all states requesting continued support for the tax-exempt status of the Government purchase card. The Director of Taxation for the State of Hawaii recognized that, according to Section 237-25 of the Hawaii Revised Statutes, the sale of tangible personal property to the U. S. is exempt from the general excise tax. This guidance was not always followed. The Hawaiian excise tax was improperly paid on 10 of the purchases reviewed, for a total of \$46.63.

Split Disbursements. For 2 sample transactions reviewed, the cardholder exceeded the single purchase spending authorization by purchasing 50 crystal bowls at a total cost of \$4,190. The vendor split the purchase into two equal transactions of \$2,095 each. The cardholder wrote on the credit card statement, “I did not tell Corporate Gifts to split disburse this account.” Had the vendor not split the purchase, it would have exceeded the cardholder’s purchase limit of \$2,500. Consequently, both the cardholder’s assertion and the purchase were questionable.

Inventory of Gift Items

PACOM maintained an excessive inventory of gift items for potential future use. As stated previously, PACOM Instruction 0609.3, Section 9.c. states that “mementos may not be procured for presentation in future fiscal years.” PACOM’s gift locker list identified 863 gift items, valued at nearly \$16,460, that were being retained in inventory. None of these items were designated to be presented to a specific distinguished visitor or other dignitary in the near term. PACOM needs to eliminate this excessive inventory of gift items and institute procedures to purchase items only when a specific need is identified. If a long lead time is required to purchase gifts for an event that will occur during the next fiscal year, PACOM should request a waiver from the Chairman of the Joint Chiefs of Staff to get permission to use current fiscal year funds.

Required Documentation

In 21 of the 50 ORF sample transactions we reviewed, the documentation associated with ORF purchase obligations lacked some or all of the elements required to fully support the expenditure.⁴ PACOM Instruction 0609.3 specifies that the dates, places, and costs of each event are required to be listed on the USPACOM Form 0609/2. PACOM Judge Advocate Office staff agreed with us that more details should be included with approval documentation. For example, according to the “Request for Obligation of Official Representation Funds” on

⁴ The 21 transactions involved 7 ORF events during FY 2005 and FY 2006.

document number J00-H06-062, ORF gifts were purchased, along with a tour of the Iolani Palace between April 14, 2006, and April 25, 2006. The documentation did not specify whom the gifts and tour were purchased for or when the tour was to take place. CJCSI 7201.01A specifies that “records concerning the use of ORF will be maintained on an event-by-event basis to provide data on how and why these funds are used.” It further states, “records should document the purpose for which funds were used, including names, titles, and the organizations of the persons attending.” To ensure compliance with established procedures, PACOM personnel who are responsible for requesting obligations and expenditures for ORF events or gift purchases need to provide complete details regarding their use.

Control Environment

PACOM internal controls for ORF were not adequate for the purchases we reviewed. The primary control deficiency resulted from the failure of PACOM personnel to request prior approval for expenditures and to ensure adequate fund availability. The request for obligation of funds prior to expenditure needs to include all supporting documentation, as outlined in both the CJCSI 7201.01A and the PACOM 0609.3 guidance related to the use of ORF. In addition, PACOM personnel need to adhere to current tax policy to ensure that purchases of tangible property made on behalf of the U.S. Government do not incur any tax charges. Finally, PACOM personnel need to take action to eliminate excessive inventory of gift items and institute procedures to prevent the future purchase of items unless a specific need is identified.

Recommendations and Management Comments

B.1. We recommend that the Commander, Pacific Command Headquarters:

a. Direct Official Representation Fund cardholders to obtain authorization and approval for obligation and expenditures prior to a scheduled event.

Commander, U.S. Pacific Command Comments. The Commander, U.S. Pacific Command concurred with the recommendation. He stated that all Official Representation Funds managers have been briefed to obtain authorization and approval for obligation and expenditures prior to a scheduled event.

b. Require all “Request for Obligation of Official Representation Funds” forms to include complete documentation and explanation for each event in accordance with the Chairman of the Joint Chiefs of Staff Instruction 7201.01A and Pacific Command Instruction 0609.3.

Commander, U.S. Pacific Command Comments. The Commander, U.S. Pacific Command concurred with the recommendation. He stated that the “Request for Obligation of Official Representation Funds” forms will be revised to ensure complete documentation and explanation for each event.

c. Require all Official Representation Funds cardholders to identify and make purchases of gifts to be given to distinguished visitors during the fiscal year of the visit.

Commander, U.S. Pacific Command Comments. The Commander, U.S. Pacific Command concurred with the recommendation. He stated that every effort will be made to expend present gifts during the current fiscal year and will request a waiver from the Chairman of the Joint Chiefs of Staff if required.

d. Request a waiver from the Chairman of the Joint Chiefs of Staff in the event that gifts are required within the first month of the subsequent fiscal year or there is a long lead time required for the gift purchase.

Commander, U.S. Pacific Command Comments. The Commander, U.S. Pacific Command concurred with the recommendation. He stated that a waiver will be requested from the Chairman of the Joint Chiefs of Staff in the event a gift purchase is required over fiscal years or in the event of a long lead time for the purchase.

e. Direct the Command Staff Protocol Office to use all gifts in its inventory until the stockpile is depleted and prevent future stockpiling of gifts by making purchases only as needed.

Commander, U.S. Pacific Command Comments. The Commander, U.S. Pacific Command concurred with the recommendation. He stated that the Protocol Office is currently using its current stockpile of gifts and will purchase gifts only as needed.

B.2. We recommend that the Command Staff Protocol Office ensure that all applicable requirements of DoD Directive 7250.13 and Chairman of the Joint Chiefs of Staff Instruction 7201.01A are met prior to approving official representation events.

Commander, U.S. Pacific Command Comments. The Commander, U.S. Pacific Command concurred with the recommendation by stating that the protocol office will adhere to the applicable requirements as stated in DoD Directive 7250.13 and CJCSI 7210.01A.

B.3. We recommend that the Government Purchase Card approving official for Official Representation Funds:

a. Reject all purchases made without prior approval unless an immediate, official need is documented due to an unannounced visit by an authorized distinguished visitor.

Commander, U.S. Pacific Command Comments. The Commander, U.S. Pacific Command concurred with the recommendation. He stated that the Comptroller's staff will not accept any Official Representation Funds requests without prior approval, unless an immediate "official" need is documented.

b. Ensure that cardholders are aware of and adhere to the tax-exempt policy for the use of the government purchase card.

Commander, U.S. Pacific Command Comments. The Commander, U.S. Pacific Command concurred with the recommendation. He stated that even though all Official Representation Funds cardholders were aware of the tax-exempt policy, many local vendors would not honor the tax-exempt request. Therefore, all cardholders have been advised to only utilize local vendors that honor the tax-exempt policy.

Appendix A. Scope and Methodology

We requested PACOM purchase card transactions from the DoD Office of the Inspector General, Data Mining Directorate. They provided us with a universe of 2,086 purchase card transactions valued at \$3,233,031 made by 33 PACOM cardholders from June 1, 2005 through May 18, 2006. We used the indicators provided by the Data Mining Directorate to identify transactions that were high-risk based on dollar amount, date of purchase, vendor, and other indicators of possible Government Purchase Card misuse. Applying these indicators, we judgmentally selected 348 transactions with a total value of \$1,268,600. The 348 transactions were associated with 17 cardholders. Since the review was limited to a judgmental selection of transactions, we could not project our results over the entire population of purchase card transactions.

We performed the audit at the U.S. Pacific Command Headquarters (PACOM) in Honolulu, Hawaii. Our objective was to evaluate the controls over the use of the Government Purchase Card program. We conducted interviews with PACOM management personnel, individual cardholders, and approving officials, and the Staff Judge Advocate. In addition, we contacted vendors to verify a limited number of transactions. We also obtained relevant supporting documentation, including credit card statements, invoices, training records, and other documentation maintained by PACOM. We reviewed DoD, Navy, and PACOM policies and regulations regarding responsibilities and procedures for the control and use of the Government Purchase Card, as well as guidance issued by the Chairman of the Joint Chiefs of Staff.

We identified and reviewed 50 purchase card transactions associated with 23 official representation events initiated by the Command Staff Protocol Office from June 27, 2005 to May 7, 2006. We also evaluated internal controls with respect to the Official Representation Funds to assess their effectiveness over the Government Purchase Card program.

We performed this audit from November 2006 through July 2007 in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data. We received computer-processed data for PACOM from the DoD Office of Inspector General, Data Mining Directorate. During the review, we established reliability by comparing the data to source documentation such as receipts, credit card statements, approval documents, and contractual documents. The comparison disclosed that data were sufficient to support the conclusions. However, we did not perform any formal reliability assessment of the computer-processed data.

Government Accountability Office High-Risk Area. The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage of a DoD financial management high-risk area.

Appendix B. Prior Coverage

During the last 5 years, the GAO and the IG DoD have issued 14 reports discussing the DoD Government Purchase Card Program. Unrestricted Government Accountability Office reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted IG DoD reports can be accessed at <http://www.dodig.mil/audit/reports>.

GAO

Report No. GAO-04-156, "Purchase Cards: Steps Taken to Improve DoD Program Management but Actions Needed to Address Misuse," December 2004

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

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

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

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

Report No. GAO-02-506T, "Purchase Cards: Continued Control Weaknesses Leave Two Navy Units Vulnerable to Fraud and Abuse," March 2002

DoD Inspector General

Report No. D-2006-124, "Management of the Purchase Card Program at the North American Aerospace Defense Command and United States Northern Command," September 29, 2006

Report No. D-2004-104, "Purchase Card Use and Contracting Action at the U.S. Army Corps of Engineers, Louisville District," July 27, 2004

Report no. D-2004-096, "Controls Over Purchase Cards at Naval Medical Center San Diego," June 29, 2004

Report No. D-2004-076-T, "How to Save the Taxpayer Money Through Prudent Use of the Purchase Card," April 28, 2004

Report No. D-2004-016, "Purchase Card Use at the space and Naval Warfare Systems Command, Information technology Center, New Orleans, Louisiana," November 14, 2003

Report No. D-2004-002, "Selected Purchase Card Transactions at Washington Headquarters Services and Civilian Personnel Management Service,"
October 16, 2003

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

Report No. D-002-075, "Controls Over the DoD Purchase Card Program,"
March 29, 2002

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
Director, Acquisition Resources and Analysis
Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Director, Program Analysis and Evaluation

Joint Staff

Director, Joint Staff

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Combatant Command

Commander, U.S. Pacific Command Headquarters
Inspector General, U.S. Pacific Command

Non-Defense Federal Organizations and Individuals

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

U.S. Pacific Command Comments



COMMANDER, U.S. PACIFIC COMMAND
USPACOM
CAMP H.M. SMITH, HAWAII 96861-4028

J05
0606
Ser: J05/010-07
23 May 2007

MEMORANDUM

From: Chief of Staff, U.S. Pacific Command
To: Department of Defense Inspector General (DODIG)

Subj: USPACOM POSITIONS ON THE DOD IG REPORT RECOMMENDATIONS
FOR COMMAND HEADQUARTERS GOVERNMENT PURCHASE CARD (GPC)
CONTROLS

Ref: (a) DODIG Report, U.S. Pacific Command Headquarters GPC Controls (D2007-
D000FJ-0014.000), 26 April 2007

Encl: (1) DODIG Recommendations and USPACOM Positions on Reference (a)

1. Enclosure (1) provides the USPACOM positions regarding reference (a).

2. I appreciate the opportunity to comment on reference (a). We concur with the recommendations and acknowledge that improvements need to be made. We are striving to make those improvements as rapidly as possible.

3. My point of contact is Mr. Larry Sakagawa, USPACOM Deputy Comptroller,
larry.sakagawa@pacom.mil, (808) 477-1175.

A handwritten signature in black ink, appearing to read "W. V. Alford, Jr.".

W. V. ALFORD, JR.
Rear Admiral, USN
Chief of Staff

Copy to:
J05
J02HQ
J004

**DODIG Recommendations and USPACOM Positions:
11 May 2007**

Issue A. Use and Control over Government Purchase Cards:

DODIG Observations:

PACOM did not have adequate controls to prevent the irregular use of the GPC. Cardholders made irregular purchases and did not maintain complete supporting documentation. PACOM had inadequate staffing levels, which prevented segregation-of-duties. This situation will continue until staffing in the Business Operations Branch is restructured so that the Agency Program Coordinator (APC) and Approving Official (AO) duties are separate and the cardholders follow guidance already established in the PACOM Business Operations Branch Internal Operating Procedures (IOP) and the Department of the Navy e-Business Operations Office Instruction 4200.1A.

DODIG Recommendations and USPACOM Positions:

A.1.a. DODIG recommends that Commander, USPACOM, instruct cardholders and approving officials in the proper procedures to follow when using the purchase card as outlined in Department of the Navy e-Business Operations Office Instruction 4200.1A and the PACOM Business Operations Branch IOP.

A.1.a. USPACOM Position: CONCUR

USPACOM leadership and the Business Operations Branch will continue to educate all purchase card holders on proper procedures when using the GPC.

A.1.b. DODIG recommends that Commander, USPACOM, reinforce training for the GPC Program and keep cardholders updated on all changes to purchase requirements to ensure that cardholders are in compliance with current guidance.

A.1.b. USPACOM Position: CONCUR

USPACOM staff and the Business Operations Branch will establish a process to reinforce training for all GPC Program cardholders and update cardholders on all changes to ensure compliance with current guidance.

A.2. DODIG recommends that the Director of the Pacific Command Business Operations Branch maintain proper segregation of duties by having two different individuals perform agency program coordination and approving official duties

A.2. USPACOM Position: CONCUR

Once all Headquarters Business Operations Branch positions are filled, the separation of the APC and the AO duties will be implemented. The Chief of the Business Operations Branch will be required to assume "alternate" position duties as the APC and AO due to the minimum number of permanent positions available to ensure proper continuity of services in the event personnel are on leave.

Issue B. Controlling Official Representation Funds Transactions:

DODIG Observations:

PACOM internal controls for ORF were not adequate for the purchases we reviewed. The primary control deficiency resulted from the failure of PACOM personnel to request prior approval for expenditures and to ensure adequate fund availability. The request for obligation of funds prior to expenditure needs to include all supporting documentation, as outlined in both the CJCSI 7201.01A and the PACOM 0609.3 guidance related to the use of ORF. In addition, PACOM personnel need to adhere to current tax policy to ensure that purchases of tangible property made on behalf of the U.S. Government do not incur tax charges. Finally, PACOM personnel need to take action to eliminate excessive inventory of gift items and institute procedures to prevent the future purchase of items unless a specific need is identified.

B.1.a. DODIG recommends that Commander, USPACOM, direct ORF cardholders to obtain authorization and approval for obligation and expenditures prior to a scheduled event.

B.1.a. USPACOM Position: CONCUR

HQ USPACOM ORF managers have been briefed to obtain authorization and approval for obligation and expenditure prior to scheduled ORF events as outlined in both CJCSI 7201.01A and PACOM 0609.3.

B.1.b. DODIG recommends that Commander, USPACOM, require all "Request for Obligation of Official Representation Fund" forms to include complete documentation and explanation of each event in accordance with CJCSI 7201.01A and PACOM 0609.3.

B.1.b. USPACOM Position: CONCUR

The current PACOM Form 0609/2 (Request for Obligation of Official Representation Funds (ORF)) sheet will be revised to ensure that documentation and an explanation of each event are included for all ORF events in accordance with CJCSI 7201.01A and PACOM 0609.3.

B.1.c. DODIG recommends that Commander, USPACOM, require all ORF cardholders to identify and make purchases of gifts to be given to distinguished visitors during the fiscal year of the visit.

B.1.c. USPACOM Position: CONCUR

Every effort will be made to expend present gifts during the fiscal year of purchase. If required, a waiver will be requested from the CJCS to carryover stock into the next fiscal year.

B.1.d. DODIG recommends that Commander, USPACOM, request a waiver from the Chairman of the Joint Chiefs of Staff in the event that gifts are required within the first month of the subsequent fiscal year or there is a long lead time required for the gift purchase.

B.1.d. USPACOM Position: CONCUR

In the event gifts are required within the first month of the subsequent fiscal year or if ORF purchases for gifts have a long lead time, HQ USPACOM Comptroller's staff will request a waiver from the CJCS prior to purchase.

B.1.e. DODIG recommends that Commander, USPACOM, direct the Command Staff Protocol Office to use all gifts in its inventory until the stockpile is depleted and prevent future stockpiling of gifts by making purchases only as needed.

B.1.e. USPACOM Position: CONCUR

The HQ USPACOM Protocol Office is currently using gifts previously purchased and every effort will be made to deplete the current stockpile and purchase gifts as needed.

B.2. DODIG recommends that the Command Staff Protocol Office ensure that all applicable requirements of DoD Directive 7250.13 and CJCSI 7210.01A are met prior to approving official representation events.

B.2. USPACOM Position: CONCUR

The HQ USPACOM Protocol Office will adhere to applicable requirements as stated in DoD Directive 7250.13 and CJCSI 7210.1A.

B.3.a. DODIG recommends that the GPC AO for ORF reject all purchases made without prior approval unless an immediate, official need is documented due to an unannounced visit by an authorized distinguished visitor.

B.3.a. USPACOM Position: CONCUR

The Comptroller's staff will not accept any ORF requests without prior approval, unless an immediate "official" need is documented.

B.3.b. DODIG recommends that the GPC AO for ORF ensure that cardholders are aware of and adhere to the tax-exempt policy for the use of the government purchase card

B.3.b. USPACOM Position: CONCUR

All ORF cardholders are aware of the tax-exempt policy; however, many of the local vendors would not honor the tax-exempt request. The Comptroller's staff has spent many man-hours contacting vendors to credit tax charges to the ORF cardholder; not all comply. All ORF cardholders have been advised to only utilize local vendors that honor the tax-exempt policy.

Team Members

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

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Inspector General Department of Defense

