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Army Use of and Controls Over the DoD Aviation
Into-Plane Reimbursement Card

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Acronyms

AIR	Aviation Into-Plane Reimbursement
AO	Accountable Official
CPM	Component Program Manager
DESC	Defense Energy Support Center
GAO	Government Accountability Office
GFC	Government Fuel Card
MSC	Multi Service Corporation
OSAA	Operational Support Airlift Agency
RFC	Regional Flight Center



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

September 28, 2007

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Report on Army Use of and Controls Over the DoD Aviation Into-Plane Reimbursement Card (Report No. D-2007-132)

We are providing this report for review and comment. The Secretary of the Army, and the Army, Office of the Deputy Chief of Staff for Logistics, G4, did not respond to the draft report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. We request that the Secretary of the Army, and the Army, Office of the Deputy Chief of Staff for Logistics, G4, provide comments on the final report by November 5, 2007.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to Audros@dodig.osd.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Thomas S. Bartoszek at (703) 604-9619 (DSN 664-9619) or Mr. Walter S. Bohinski at (703) 604-8745 (DSN 664-8745). 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:

A handwritten signature in black ink, appearing to read "Wanda A. Scott".

Wanda A. Scott
Assistant Inspector General
Readiness and Operations Support

Department of Defense Office of Inspector General

Report No. D-2007-132

September 28, 2007

(Project No. D2006-D000LD-0177.000)

Army Use of and Controls Over the DoD Aviation Into-Plane Reimbursement Card

Executive Summary

Who Should Read This Report and Why? Logistics personnel, policy makers, senior managers, and users affiliated with the Aviation Into-plane Reimbursement Card Program should read this report. This report evaluates the Army's management and oversight of the Aviation Into-plane Reimbursement Card and DoD transition to a new support contractor in 2005.

Results. Army administration and oversight of 4,408 Aviation Into-plane Reimbursement Cards need to be improved. Specifically, the Aviation Into-plane Reimbursement Card database contains inaccurate and unreliable Army ownership information. In addition, at the unit level, the process for accounting for Aviation Into-plane Reimbursement Cards, verifying \$171.4 million in Aviation Into-plane Reimbursement Card charges, and retaining Aviation Into-plane Reimbursement Card receipts was inadequate. As a result, there is a higher risk of Aviation Into-plane Reimbursement Card misuse and erroneous billings.

We recommend that the Secretary of the Army provide resources (personnel and funding) to the Army, Office of the Deputy Chief of Staff for Logistics, G4, to oversee Army participation in the DoD Aviation Into-plane Reimbursement Card Program. In addition, we recommend that the Secretary incorporate interim guidance on roles and responsibilities into Army Regulation 710-2 and include a record retention policy consistent with DoD Financial Management Regulation; a requirement for accountable officials to maintain an audit trail of charges they validated; and a requirement for managers of major commands and installations to perform periodic reconciliations of Aviation Into-plane Reimbursement Cards. Further, we recommend that the Army Deputy Chief of Staff for Logistics, G4, designate and train officials at all Army major commands and installations that use the Aviation Into-plane Reimbursement Cards to adequately oversee the program. Lastly, we recommend that the Army Deputy Chief of Staff for Logistics, G4, reemphasize the requirement for accountable officials to report when an aircraft is transferred or removed from service or an Aviation Into-plane Reimbursement Card is lost, needs to be reassigned, or needs to be terminated and to validate charges against receipt information each month.

See the Finding section of this report for detailed recommendations. The managers' internal controls that we reviewed were not effective in that we identified a material weakness in the Army's process for accounting for Aviation Into-plane Reimbursement Cards, verifying charges, and retaining documentation.

Management Comments. The draft report was issued on July 6, 2007. The Secretary of the Army, and the Army, Office of the Deputy Chief of Staff for Logistics, G4, did not respond to the draft report. We request that the Secretary of the Army, and the Army, Office of the Deputy Chief of Staff for Logistics, G4, provide comments on the final report by November 5, 2007.

Table of Contents

Executive Summary	i
Background	1
Objectives	3
Review of Internal Controls	3
Other Matters of Interest	3
Finding	
Army Administration and Oversight of Aviation Into-Plane Reimbursement Cards and Charges	5
Appendixes	
A. Scope and Methodology	17
B. Prior Coverage	20
C. Guidance from the Program Management Office	21
D. Review of Transition between Aviation Into-Plane Reimbursement Card Contractors	22
E. Aviation Into-Plane Reimbursement Card Transaction and Payment Process	24
F. Transactions that AVCARD Processed	28
G. Transactions that MSC Processed	33
H. Results of Review by Site	37
I. Report Distribution	39

Background

DoD Management of Aviation Fuel. Aviation fuel is an essential logistics component of the DoD capabilities to operate around the globe. To meet its mission efficiently and maintain financial integrity, DoD must have adequate operational and financial procedures that allow military pilots to acquire aviation fuel and support services from different locations within the Continental United States and around the world. DoD Directive 5101.8, “DoD Executive Agent (DoD EA) for Bulk Petroleum,” August 11, 2004, designated the Director, Defense Logistics Agency, as the DoD Executive Agent¹ for Bulk Petroleum.² The Directive required the Executive Agent to execute supply chain management for all DoD bulk petroleum and to be responsible for bulk petroleum from the source of supply to the point of customer acceptance. In addition, the Executive Agent provides DoD with comprehensive energy solutions, negotiates fuel discounts, and awards various fuel supply and service contracts. In a November 1, 2004, memorandum, the Director, Defense Logistics Agency, re delegated the executive agent’s responsibilities to the Defense Energy Support Center (DESC).

DoD Program Office. The Under Secretary of Defense (Comptroller) formed a DoD Charge Card Task Force in March 2002 that issued a report, “DoD Charge Card Task Force Final Report,” June 27, 2002. The report evaluated DoD charge card programs and offered 25 recommendations for improving them that included preparing DoD Directive 7400.aa, “Department of Defense (DoD) Charge Card Programs,” to assign responsibilities for managing charge card programs. DoD officials developed the Directive but it was not signed. However, in anticipation of DoD Directive being signed, the Director of DESC established the Government Fuel Card (GFC) Program Office by General Order No. 06-04, June 15, 2004. The GFC Program Office was responsible for overall program management including establishing and managing a process designed to assess all aspects of fuel charge card usage and payment, establishing and overseeing an organization structure, identifying the Military Departments’ program coordinators and Component managers, and establishing roles and responsibilities for cardholders and Military Departments’ fuel card managers. In addition, the GFC Program Office disseminated policy and training information, coordinated the enrollment of fuel charge card users and access to automated fuel systems, and issued instructions on how to use and manage the GFCs including the Aviation Into-plane Reimbursement (AIR) CardSM.³ See Appendix C for details on guidance that the Program Management Office published.

¹ An Executive Agent is the Head of a DoD Component to whom the Secretary of Defense or his Deputy has assigned specific responsibilities, functions, and authorities to provide defined levels of support for operational missions, or administrative or other designated activities that involve two or more DoD Components.

² Bulk Petroleum is delivered in volumes greater than 55 U.S. gallons using delivery modes such as tank trucks/cars, pipelines, coastal barges, hydrant systems, and ocean tankers.

³ DESC has submitted an application to the DoD Trademark Office to register the name “AIR Card.” The (SM) is a trademark symbol for services.

AIR CardSM. The AIR CardSM is a commercially accepted charge card that DoD, Federal agencies, and State and local law enforcement agencies use to purchase aviation fuel, fuel-related supplies, and ground support services worldwide. Examples of ground services include deicing, lavatory services, catering, towing, ramp fees, hangar rentals, and landing fees. The embossed card shows the aircraft tail number, the responsible branch or agency, and the AIR CardSM number. The AIR CardSM can be electronically swiped, mechanically imprinted, or hand-scribed onto a commercial delivery ticket. From October 2002 through May 2006, DoD Components used the AIR CardSM to purchase aviation fuel and ground services worth about \$1.38 billion, of which the Army was responsible for \$171.4 million in purchases. The Army purchased \$166.7 million in fuel and \$4.7 million in ground support services. From the program inception in January 1997, two contractors, AVCARD and Multi Service Corporation (MSC), were tasked to issue AIR CardsSM to military units and other Federal civilian agencies, provide computer system training, process AIR CardSM transactions that included paying suppliers and billing organizations, and maintain a database of information on AIR CardSM users. During the transition period from February 2005 through June 2006, DESC processed remaining transactions that AVCARD did not process before its contract ended. See Appendix D for a review of the transition between AIR CardSM contractors.

Army AIR CardSM Program Management. Until March 2006, the Army Petroleum Center was the acting Component Program Manager (CPM) for the Army's AIR CardSM Program. The CPM is responsible for administering Army fuel card programs, establishing fuel card policy and guidelines, and overseeing major Army commands' processes for monitoring fuel card use. Army commands and their organizations must comply with policies and procedures and oversee operational control of the AIR CardsSM within their commands and organizations. In March 2006, CPM responsibilities for the AIR CardSM began transitioning from the Army Petroleum Center to the Army Deputy Chief of Staff for Logistics (G4).

Use of the AIR CardSM and Billing Process. DESC established into-plane⁴ contract agreements with commercial fuel vendors worldwide who are required to accept the AIR CardSM for aviation fuel purchased at a contracted fuel rate. Aircrews must use the AIR CardSM to purchase aviation fuel at DESC into-plane contract locations, and can also use it to purchase aviation fuel from non-contracted vendors when necessary; however, there is not a negotiated fuel rate at these locations.

An AIR CardSM transaction occurs when an aircraft lands at a commercial airport and requires fuel or ground service support. The aircrew presents the AIR CardSM to the supplier, who records the sale. The aircrew signs the purchase receipt and retains a copy of the signed receipt for the aircrew organization's files. For fuel, the AIR CardSM contractor sends billing information to DESC, where personnel process the charge and authorize the Defense Finance and Accounting Service to pay the contract fuel provider directly or to pay the AIR CardSM contractor for non-contract fuel. For ground support services, the AIR CardSM contractor pays the merchant and then bills the organization that owns the serviced aircraft. See Appendix E for a detailed description and diagram of the AIR CardSM transaction and payment processes. See Appendixes F and G for a detailed list of Army charges for aviation fuel and ground services from October 2002 through May 2006.

⁴ Into-plane refers to aviation fuels delivered into aircraft at commercial airports worldwide.

Objectives

Our overall audit objective was to evaluate whether the use of the AIR CardSM complied with regulations and whether the controls were effective over processing reimbursement card payments for transactions from October 2002 to May 2006. Specifically, we reviewed the effectiveness of the DESC transition from the previous contractor to the present one, the establishment of the GFC Program Management Office, and the effectiveness of Service controls over the use and accountability of AIR CardsSM. In addition, we reviewed the management control program as it related to the audit objectives. Because of Department of Defense Office of Inspector General personnel changes, we limited the scope of our review to include only the Army. This audit report is one in a series of planned reviews; future reports will cover the Air Force and Navy AIR CardSM programs. See Appendix B for prior coverage related to the objectives.

Review of Internal Controls

DoD Directive 5010.38, “Management Control (MC) Program,” August 26, 1996, and DoD Instruction 5010.40, “Management Control (MC) Program Procedures,” August 28, 1996,⁵ required 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 controls.

We identified material internal control weaknesses for the Army as defined by DoD Instruction 5010.40. The Army CPM did not have adequate internal controls over the DoD AIR CardSM Program in that the CPM did not always oversee the major command and unit levels or the designated Army organizations that have a role in managing the AIR CardSM Program, provide necessary oversight to account for all AIR CardsSM issued, and analyze or periodically review AIR CardSM transactions. Recommendations 1.a., 1.b., 2.a., and 2.b., if implemented, will correct the material internal control weaknesses and lower the risk of incorrect charges and payments. A copy of the report will be provided to senior officials responsible for internal controls in the Army.

Other Matters of Interest

DESC oversaw the transition of the AIR CardSM contract from AVCARD to MSC with a few problems: transactions arrived for processing after the AVCARD contract ended, MSC did not have a current database of AVCARD-issued AIR CardsSM, and MSC and DESC did not verify the AIR CardSM data file transfer process before MSC took over the contract.

⁵ We performed our review of internal controls under the auspices of DoD Directive 5010.38, “Management Control (MC) Program,” August 26, 1996, and DoD Instruction 5010.40, “Management Control (MC) Program Procedures,” August 28, 1996. DoD Directive 5010.38 was canceled on April 3, 2006. DoD Instruction 5010.40, “Managers’ Internal Control (MIC) Program Procedures,” was reissued on January 4, 2006.

DESC processed AIR CardSM transactions that AVCARD had not processed before the end of the contract. DESC verified that AVCARD had not previously paid the charges by comparing the merchant invoice with supporting documentation. We reviewed the 209 AIR CardSM transition transactions that DESC processed from February 2005 through June 2006. We compared the AIR CardSM transaction documentation with an accounting database list of DESC-processed transactions. Our review showed that DESC accurately processed most of the transactions with only minor errors in data entry. We identified a \$36,228 transaction that had been processed and paid twice, once by AVCARD and once through DESC. We alerted DESC in December 2006, and they have received a refund of the overpayment.

AVCARD did not provide the new contractor, MSC, a database list of AIR CardSM users because AVCARD protested the award of the AIR CardSM contract to MSC. DESC provided MSC with a database which, while outdated, enabled MSC to issue new AIR CardsSM. As a result, Army organizations received AIR CardsSM for aircraft that they no longer owned. We reviewed evidence that indicated that some Army organizations that received AIR CardsSM based on the old card data had returned the cards for cancellation.

DESC and MSC did not test the procedures for transferring the AIR CardSM data files until the week after the MSC contract started. They identified no significant problems and the unforeseen difficulties during the transition from AVCARD to MSC, do not seem to have caused significant effects. See Appendix D for the review of the transition between AIR CardSM contractors.

Army Administration and Oversight of Aviation Into-Plane Reimbursement Cards and Charges

Army administration and oversight of AIR CardsSM need to be improved. Specifically, the AIR CardSM database contains inaccurate and unreliable Army AIR CardSM ownership information. In addition, at the unit level, the process for accounting for AIR CardsSM, verifying AIR CardSM charges, and retaining AIR CardSM receipts was inadequate. Army administration of the program was inadequate because DoD and Army officials did not disseminate adequate guidance to the unit level, and the Army did not provide resources to oversee the program. As a result, there is a higher risk of AIR CardSM misuse and erroneous billings.

Criteria

Office of Management and Budget Circular. The Office of Management and Budget Circular A-123 (the Circular), “Management Accountability and Control,” Appendix B, “Improving the Management of Government Charge Card Programs,” August 5, 2005, consolidated and updated Governmentwide requirements and guidance for the charge card program. The Circular requires management to establish an appropriate structure to carry out program responsibilities and establish controls that provide disbursing officers with reasonable assurance that vouchers are accurate prior to payment.

DoD Regulation. DoD Regulation 7000.14-R, “Financial Management Regulation,” August, 2000 Volume 1, Chapter 9, identifies the National Archives and Records Administration as the governing authority for disposing of Government records. National Archives and Records Administration General Records Schedule 6, “Accountable Officers’ Accounts Records,” December 1998, states that hard copies of sales tickets for charge card purchases of gasoline should be destroyed after 3 years. The Financial Management Regulation allows DoD Components to issue supplemental guidance extending record retention requirements. DESC issued interim policy DESC P-8, “Government Fuel Card (GFC) Program Roles, Responsibilities and Accountability,” January 10, 2006, which directs AIR CardSM users to retain receipts for 6 years and 3 months.

DoD Charge Card Guidebook. In February 2003, the Under Secretary of Defense (Comptroller) and the Under Secretary of Defense for Acquisition, Technology, and Logistics established an integrated product team for DoD Charge Cards to establish a common approach for card charges for the Services and Defense agencies. The integrated product team published the “DoD Government Charge Card Guidebook for Establishing and Managing Purchase, Travel, and Fuel Card Programs,” January 21, 2005, which requires AIR CardsSM to be assigned to specific aircraft and to stay with the assigned aircraft when the aircraft are transferred.

It is the responsibility of the transferring organization's AIR CardSM accountable officials (AO) to provide the AIR CardSM contractor with billing and aircraft information so that the contractor can update the AIR CardSM database. Army organizations' AOs are to determine whether all transactions are legal, proper, mission essential, and correct; monthly billing accounts are accurate; transaction documentation is the original; and informal compliance reviews are conducted.

The contractor will continue to bill the previous organization for the AIR CardSM charges until the sending organization's AO notifies the AIR CardSM contractor. The AO should also provide the CPM with the required information to cancel an AIR CardSM. The CPM will, in turn, notify the AIR CardSM contractor to cancel the card. The Army CPM, as the Service point of contact with DESC, is responsible for establishing a management structure for coordinating with agency program coordinators and interfacing with the card processor.

Army Regulation. Army Regulation 710-2, "Inventory Management, Supply Policy Below the National Level," July 8, 2005, outlines procedures and management controls for accounting for and controlling fuel cards. The regulation states, "on a monthly basis receipts should be matched to billed transactions to verify the validity of charges." Also, Army organizations that use the AIR CardSM should apply through the Army Petroleum Center for access to the Fuels Automated System Enterprise Server (also known as the Purple Hub), where they can view and verify fuel transactions and avoid payment of questionable charges. Further, organizations are to notify the Army CPM when an AIR CardSM is lost or damaged or when an aircraft is removed permanently from service so the CPM can cancel the card. It is the responsibility of the CPM to review and verify all billing data including the DoD Activity Address Code, fund code, and accounting code before informing the AIR CardSM contractor of all additions, deletions, and changes in card ownership.

Accounting for AIR CardsSM

The AIR CardSM database of MSC-managed, Army-owned AIR CardsSM contains inaccurate and unreliable card ownership information. We also identified aircraft with multiple AIR CardsSM, AIR CardsSM that were not destroyed after being cancelled, and AIR CardsSM that were missing.

Accuracy of the AIR CardSM Database. The AIR CardSM contractor is responsible for maintaining a database of all issued AIR CardsSM. The database includes information such as the aircraft tail number, the aircraft model number, the accountable organization, the billable address, the point-of-contact information, and payment and billing history. The organization AO must submit any changes to the Army CPM, who transmits the requests to the AIR CardSM contractor, who then updates the AIR CardSM database. The contractor uses the card database to bill Army organizations for AIR CardSM charges. For billing, the database includes timestamps detailing the periods when customers assumed ownership of an aircraft. Timestamping allows the contractor to bill the correct Army organization.

The MSC-managed AIR CardSM database contained the information on 4,408 active AIR CardsSM assigned to Army aircraft or organizations as of October 2, 2006. We visited Army organizations and identified 56 discrepancies between the listed owner of the AIR CardSM in the database and our observed results. In addition, we identified 68 active AIR CardsSM in the database for aircraft that the Army removed from inventory. Information on 116 cards had 124 discrepancies between AIR CardSM and Army Aircraft ownership information.

Reconciling AIR CardsSM at Organizations Visited. We visited organizations at five Army sites, including the 228th Aviation Battalion, Dobbins Army Reserve Base, Georgia; the Operational Support Airlift Agency (OSAA) Regional Flight Center (RFC) at Fort Belvoir, Virginia; the 82nd Combat Aviation Brigade at Fort Bragg, North Carolina; the OSAA RFC at Fort Hood, Texas; and Fort Rucker, Alabama. The sites were assigned 607 AIR CardsSM. Table 1 shows the discrepancies between records and cards held.

Table 1. Discrepancies in AIR CardSM Database
(as of October 2006)

<u>Location</u>	<u>AIR CardsSM Assigned to Organization Reviewed</u>			<u>AIR CardsSM Not Assigned to Organization Reviewed</u>	
	<u>Total Cards Assigned</u>	<u>Card Found, Aircraft Owned By Different Organization</u>	<u>Card Not Found, Aircraft Owned By Different Organization</u>	<u>Card Found</u>	<u>Other</u>
228th Aviation Battalion, Dobbins, ARB	5	0	0	0	0
OSAA, Fort Belvoir	6	0	0	0	0
82nd, Combat Aviation Brigade, Fort Bragg	74	3	2	3	5
OSAA, Fort Hood	2	0	0	0	0
Fort Rucker	<u>520</u>	<u>0</u>	<u>43</u>	<u>0</u>	<u>0</u>
Total	607	3	45	3	5

AIR CardsSM Assigned in the Database to Organizations Reviewed. We identified three AIR CardsSM in the database that were assigned to an organization we visited, but when we compared the cards with the inventory of active Army aircraft, it showed that another organization actually owned the aircraft. For example, the AIR CardsSM for three UH-60 Blackhawk helicopters were in the AIR CardSM database as being assigned to Fort Bragg; however, the Army aircraft inventory database,⁶ November 15, 2006, assigned the three helicopters to an organization at Hunter Army Airfield, Georgia. Additionally,

⁶ The Army aircraft inventory database is a list of all Army aircraft by model and serial number to meet Army inventory tracking requirements. The Logistics Support Activity of the Army Materiel Command maintains the Army aircraft inventory database.

the Army had transferred 45 active AIR CardsSM and associated aircraft to a different organization or had retired the aircraft from service, but the AIR CardSM database showed the aircraft as being at the organization we visited. For example, the AIR CardsSM for nine AH-64 Apache helicopters were in the AIR CardSM database as assigned to Fort Rucker; however, aircraft transfer documentation provided by Fort Rucker officials showed that the nine aircraft were at Camp Eagle, Korea.

AIR CardsSM Not Assigned in the Database to Organizations

Reviewed. We found three AIR CardsSM at Fort Bragg that the database did not list as belonging to Fort Bragg. For example, we found one AIR CardSM for a UH-60 Blackhawk helicopter that, according to the AIR CardSM database, belongs to Fort Campbell, Kentucky.

Also, five aircraft at Fort Bragg, which the Army aircraft inventory database listed as assigned to Fort Bragg, were not in the AIR CardSM database as belonging to Fort Bragg. We did not find the AIR CardsSM for these aircraft at Fort Bragg, and they were listed as assigned to locations other than Fort Bragg. For example, we found one UH-60 helicopter at Fort Bragg although the AIR CardSM database assigned the associated AIR CardSM to Fort Campbell.

The Army had not updated the AIR CardSM database to reflect the 56 aircraft ownership changes. As a result of incorrect information for the AIR CardsSM, the contractor mistakenly charged at least 34 transactions, totaling \$4,552, to Army organizations for AIR CardSM charges for 3 aircraft that the Army had transferred to a different organization. When notified of these discrepancies, the Army CPM began to take corrective actions and, as of June 27, 2007, had corrected 42 of the 56 discrepancies. Army officials stated they were researching the remaining 14 discrepancies. If the Army does not reemphasize the requirement to report AIR CardSM and aircraft reassignments and does not take action to ensure the reliability of the AIR CardSM database, there will continue to be a high risk of erroneous billings for AIR CardSM charges.

Canceling AIR CardsSM. An analysis of AIR CardsSM for aircraft that have left active status since January 1, 2005, showed that 68 AIR CardsSM in the AIR CardSM database were assigned to aircraft that had left the Army's inventory of active aircraft. Army officials stated that aircraft leave the active inventory for a variety of reasons including retirement, sale to a foreign military, transfer to a local law enforcement agency, use as a static display, or damage that renders it unusable. We found no questionable transactions relating to AIR CardSM use after the date that each aircraft left the active inventory. When notified, the Army CPM canceled the cards. As of June 27, 2007, the Army had cancelled 53 of the 68 active AIR CardsSM. Of the 15 remaining active cards, Army officials were researching 13 cards and had reasons for not canceling 2 AIR CardsSM.

Aircraft with Multiple Active AIR CardsSM. A query of active AIR CardsSM assigned to aircraft found nine aircraft, each with two different AIR CardsSM. For example, an AH-64 Apache helicopter assigned to Fort Hood had two active AIR CardsSM assigned in the AIR CardSM database. In this instance, the aircraft was not listed in the active Army inventory. The DoD Government Charge Card Guidebook states that AIR CardsSM generally are limited to one per aircraft, and

exceptions require Component-level approval; however, the Army CPM stated that he had not approved any aircraft to have multiple AIR CardsSM. As of June 27, 2007, the Army CPM cancelled eight of the nine duplicate AIR CardsSM. Army officials stated they were further researching the remaining duplicate AIR CardSM.

Destruction of Cancelled AIR CardsSM. During our site visit to Fort Rucker, Alabama, we inventoried one AIR CardSM that was not listed as assigned to the organization reviewed. Follow-up research determined that although the Army had cancelled the AIR CardSM in the AIR CardSM database, the organization did not destroy the card. As of March 28, 2007, Fort Rucker officials had destroyed the card.

Missing AIR CardsSM. During our site visit to Fort Bragg, officials could not provide seven AIR CardsSM that were listed as assigned to organizations reviewed. We considered these AIR CardsSM lost. We found no indication of unauthorized transactions for the seven AIR CardsSM. As of June 27, 2007, Army officials stated that they had cancelled five AIR CardsSM and were still researching two cards.

Army Regulation 710-2 requires Army organizations to notify the Army CPM when an AIR CardSM is lost, damaged, or removed permanently from service. In addition, the DoD Government Charge Card Guidebook states that an AIR CardSM is assigned to a specific aircraft and must stay with the aircraft when it is transferred. Army officials should revise Army Regulation 710-2 to require organizations to periodically reconcile all cards listed as assigned to them in the AIR CardSM database to actual cards and aircraft on site. Additionally, Army officials should reemphasize the requirement to notify the Army CPM when an aircraft is transferred, removed from service, is lost, or damaged.

Verifying AIR CardSM Charges

Army organizations did not have adequate controls for certifying and verifying processes that would match DoD and AIR CardSM contractor monthly bills to AIR CardSM receipts for fuel and ground services.

AIR CardSM Receipt Process. After fueling or receiving ground services, aircrews sign the sales receipt and provide the receipts to their AO after each mission. Receipts should include the location, vendor, date, gallons, fuel grade, aircraft tail number, and signature of the aircrew member.

AIR CardSM Billing, Certification, and Payment Process. The billing and payment cycle for fuel and ground services are different. For fuel purchases, the AIR CardSM contractor bills DESC. DESC certifies that the appropriated funds are available for payment, transmits the billing data to the Defense Finance and Accounting Service for payment, and populates the Fuels Automated System Enterprise Server with non-contract fuel billing information.⁷ The Defense

⁷ Since December 5, 2006, Into-Plane contract fuel charges have also been included in the Fuels Automation System Enterprise Server.

Finance and Accounting Service subsequently interfund bills⁸ the Army organization that received fuel. For ground services, the AIR CardSM contractor bills the Army organization that received the service. The Army organization verifies the charges to receipts, certifies the charges are correct, and forwards the bill to the Defense Finance and Accounting Service office for payment.

AIR CardSM Verification Process. The methods used for verifying AIR CardSM charges differ, depending on the service provided. Army AOs can verify non-contract fuel charges before payment by comparing and verifying the charges shown in the Fuels Automated System Enterprise Server with transaction receipts from the aircrew. In addition, AOs can verify contract and non-contract fuel charges after payment by comparing and verifying the Defense Finance and Accounting Service's interfund billing with AIR CardSM receipts. For ground services, the AO at the Army organization verifies the AIR CardSM contractor's billed ground service charges against transaction receipts. See Appendix E for a detailed description of the AIR CardSM transaction and payment processes.

Bill Processing Centers. We visited three central bill processing centers to review the reconciliation and documentation processes. These centers were to certify and reconcile the transactions generated by various Army sites. The centers were the Headquarters, OSAA, Budget Office, Fort Belvoir; the Directorate of Logistics, Supply and Services Division, Fort Rucker; and the U.S. Army Reserve Command, 244th Theater Aviation Brigade, Fort McPherson, Georgia. The centers are responsible for certifying payment vouchers, reconciling bills to receipts, verifying documentation, and processing invoices for vendor payments. Each center had an AO who verified and validated AIR CardSM charges. From October 2002 through May 2006, the centers processed 310,523 purchases worth more than \$53 million.

Verifying Receipts for AIR CardSM Billed Transactions for Non-contract Fuel. Only one of the three centers we visited had access to the Fuels Automated System Enterprise Server. As a result, non-contract fuel verification and reconciliation between the amounts billed and shown on the receipt did not occur before the Defense Finance and Accounting Service paid the bill. Only Fort Rucker had access to the server. At Fort Rucker, flight operation personnel entered receipt data into an in-house fuel database program, generated a monthly fuel report, and sent the report to the AO at the Fort Rucker central bill processing center. The AO informed us that he checks the fuel reports against transactions posted on the Fuels Automated System Enterprise Server monthly. However, he could not provide an audit trail supporting the verification and reconciliation of non-contract fuel transactions. As a result, the Army cannot be assured that officials verified and reconciled amounts billed before paying.

Reconciling Receipt Data to the Defense Finance and Accounting Service Interfund Bills for Fuel Purchases. AOs at the three centers did not reconcile receipt data to the Defense Finance and Accounting Service interfund bills on a monthly basis. For example, at OSAA, Budget Office personnel had not reconciled interfund bills for AIR CardSM transactions for the 10 months before our visit, and could not verify AIR CardSM charges for prior years.

⁸ Interfund billing is an automated fund transfer between two appropriations or funds.

Contract fuel could be reconciled only after the Defense Finance and Accounting Service made payment, but non-contract fuel could be reconciled before or after payment; however, officials did neither.

Reconciling Receipts Data for Ground Services. AOs at the three centers stated that they were able to match ground service receipt information to AIR CardSM bills. However, none of the three centers could provide an audit trail to support that they reconciled receipt information. The Fort Rucker bill processing center received monthly fuel reports from assigned units. However, the fuel reports did not include ground service receipts needed to reconcile charges. Officials at the Fort McPherson bill processing center could not reconcile ground service charges because they also did not receive receipts from the subordinate organization at Dobbins Army Reserve Base. Officials at the OSAA bill processing center did receive ground service receipts, but they could not provide an audit trail to document that they reconciled the charges.

Army Regulation 710-2 requires that, each month, receipts be matched to billed transactions to verify the charges. The regulation also requires Army organizations that use the AIR CardSM to apply for access to the Fuels Automated System Enterprise Server, where they can view and verify fuel transactions and prevent billing questionable charges. Army organizations must reemphasize the Army Regulation 710-2 requirement that Army AOs validate charges against receipts each month by using the Fuels Automated System Enterprise Server to review the fuel charges before making payment or by comparing DoD interfund bills to AIR CardSM receipts after payment.

Audit Trail Documentation. The three bill processing centers were responsible for overseeing 310,523 AIR CardSM purchases worth about \$53 million from October 1, 2002, through May 22, 2006. AOs at Army bill processing centers certified and paid fuel and ground service transactions without documenting their verification process. To validate the reliability of AIR CardSM bills verified by the three centers, we compared 9,152 AIR CardSM purchases valued at \$3.1 million with supporting documentation at 8 individual organizations. We found no documentation for 8 percent of the purchases (737 purchases) valued at \$339,713. Table 2 shows a summary of results by each bill processing center. Appendix H shows detailed results by individual Army organizations.

Table 2. Sampled Charges to AIR CardsSM

<u>Location</u>	<u>Site Visit Universe</u>		<u>Sample Size</u>		<u>Transaction Not Found</u>		<u>Percent* Not Found</u>	
	<u>Charges</u>	<u>Amount</u>	<u>Charges</u>	<u>Amount</u>	<u>Charges</u>	<u>Amount</u>	<u>Charges</u>	<u>Amount</u>
Fort Rucker	161,007	\$13,802,768	5,805	\$1,779,745	112	\$46,935	2	3
OSAA	99,762	24,879,564	2,191	653,355	266	77,094	12	12
244 th Theater Aviation Brigade	<u>49,754</u>	<u>14,378,611</u>	<u>1,156</u>	<u>699,053</u>	<u>359</u>	<u>215,684</u>	<u>31</u>	<u>31</u>
Total	310,523	\$53,060,943	9,152	\$3,132,153	737	\$339,713	8	11

* Judgment sample percentage does not generalize to universe.

Reasons for missing supporting documentation include aircrews not submitting receipts to the organization, receipts filed in the wrong monthly file, illegible receipts, or AIR CardSM charges billed to the wrong Army organization. For example, at Dobbins Army Reserve Base, we were unable to locate receipts for 202 contract fuel transactions valued at \$152,610.

The Circular and DoD Regulation 7000.14-R state that customer organizations are responsible for the accuracy, completeness, timeliness, and documentation of the data generated for input into the finance and accounting systems and any financial reports. The guidance emphasizes that customer organizations must validate source data associated with financial transactions. Based on the results of the sample, we believe Army organizations can improve their process for documenting and matching AIR CardSM charges. Army organizations must maintain purchase receipts and then validate the receipts against subsequent AIR CardSM bills so that only valid bills are paid.

Retaining Receipts for Card Charges

The Army must improve its records retention policy for AIR CardSM charges.

Consistency of DoD Receipt Retention Policy. DoD Financial Management Regulation 7000.14-R, Volume 1, Chapter 9, August 2000, identifies the National Archives and Records Administration as the governing authority for records retention, and in General Records Schedule 3, March 2006, it states that records for transactions greater than \$2,000 should be destroyed 6 years and 3 months after final payment. General Records Schedule 6, December 1998, states that copies of sales tickets for credit card purchases of gasoline should be destroyed after 3 years. Both sections provide conflicting guidance. The Financial Management Regulation allows DoD Components to issue supplemental guidance extending record retention requirements.

In January 2006, DESC issued interim policy DESC P-8, which directs AIR CardSM users to retain receipts according to DoD Financial Management Regulation for 6 years, 3 months.

Army Receipt Retention Policy. Prior to March 2006, the Army had no retention policy for AIR CardSM receipts. We identified that seven of the eight organizations visited had their own policy. Of the seven, six had policies to retain documentation for less than 3 years, the least restrictive interpretation of the National Archives and Records Administration guidance. For example, Knox Heliport policy at Fort Rucker was to retain records for 24 months, but records were maintained for only 21 months. One Army organization had no documented policy for retaining AIR CardSM receipts.

In March 2006, the Army issued, "Interim Policy Guidance-Government Fuel Card (GFC) Program Roles Responsibilities, and Accountability," which proposed changing Army Regulation 710-2 to include a retention period of 3 years. The Army must revise its interim policy and proposed changes to Army Regulation 710-2 to comply with the DESC regulation.

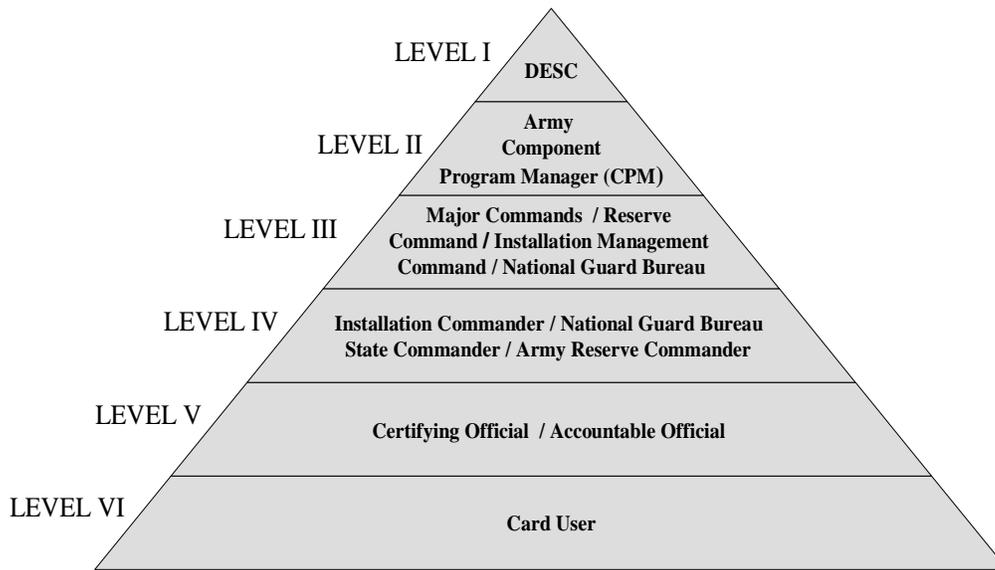
Adequacy of Resources for Management and Oversight

The Army did not put adequate resources in place to oversee the AIR CardSM Program. Prior to March 2006, the Army Petroleum Center acted as the CPM, with three people managing the AIR CardSM Program. When the CPM responsibility moved to the Army G4 in March 2006, two people were responsible for managing the program. Officials informed us that they receive no dedicated funding for managing the AIR CardSM Program, and that each employee had other full-time responsibilities. Managing the AIR CardSM Program was assigned as an additional duty.

In addition, the Army's AIR CardSM Program management structure did not provide for adequate oversight by the major commands or installations to ensure accuracy of AO-provided additions, modifications, and deletions to the AIR CardSM database before passing the request to the CPM. Some modification requests lacked all the required information, so the CPM returned them to the requestors for correction. Officials from the Army CPM stated that they do not have the resources to follow up on errors in unprocessed requests. As a result, some AIR CardSM database changes were not processed.

DESC interim policy P-8 requires the Services to appoint a command account manager who reports to the Service CPM and supports and oversees all participants in the program. In addition, P-8 includes policy for roles, responsibilities, and accountability of the AIR CardSM Program. Officials issued the interim policy pending inclusion of the Policy P-8 into DoD Manual 4140.25-M, Volume II, Chapter 16, "Government Fuel Card Program Management Office," which, as of June 2007, had not occurred.

On March 10, 2006, the Army Deputy Chief of Staff for Logistics, G4, issued interim guidance that proposed changes to Army Regulation 710-2. The interim guidance shows an AIR CardSM hierarchy for the Army that represents the new DESC policy. The following figure illustrates the AIR CardSM reporting hierarchy.



Six-Level Reporting Hierarchy for the AIR CardSM

The Army CPM planned to implement the six-level reporting structure by September 2006. However, as of June 14, 2007, the Army CPM stated that command account managers had been established for all of the major command and 80 percent of the installation command levels. Major commands are responsible for implementing, administering, and monitoring the GFC Program for the major commands. The major commands are responsible for overseeing the installation Commanders, who manage the day-to-day operations of the AIR CardSM Program.

The Army CPM is continuing to work with DESC to identify the training requirements at the major command and installation levels. As of May 31, 2007, DESC has conducted three training sessions. Additionally, DESC developed AIR CardSM training courses for card users, AOs, and Component Managers that are available on-line at www.desc.dla.mil. The DESC AIR CardSM training is designed for all program participants and covers card description, authorized purchases, user procedures, and ethics and responsibilities for users and managers. Officials should be able to use the on-line training to begin training and tailor it according to the needs identified.

In implementing DESC and Army interim guidance, the Army will comply with the Circular requirement that management establish an appropriate structure to carry out program responsibilities. The DESC and Army interim guidance will implement that structure, but the Army must provide resources to allow each level of the reporting hierarchy to effectively manage the AIR CardSM Program. In addition, with proper training at the major command and installation levels, the reporting hierarchy will allow the oversight necessary to correct and update the database, retain the necessary documentation, and reconcile receipts to payments.

Conclusion

When aircraft ownership changes, AOs at individual Army organizations must inform the Army CPM so that the AIR CardSM database can be updated. The database must be up to date to route bills to the responsible Army organizations. Bills also must be reconciled with the receipt information for fuel and ground services. Further, an organization structure must be in place and funded to oversee and manage the AIR CardSM Program. These actions will prevent or significantly reduce the risk of erroneous or fraudulent billing to Army organizations.

The Army took positive steps to increase oversight of the AIR CardSM Program such as implementing AIR CardSM reporting hierarchy requirements. Additionally, as of June 27, 2007, Army officials had corrected 95 of the 124 discrepancies identified in the AIR CardSM database, cancelled 8 of the 9 duplicate AIR CardsSM, cancelled 5 of the 7 missing AIR CardsSM, and destroyed the one AIR CardSM that the organization cancelled but did not destroy. However, additional steps are needed in the areas of guidance, resources, oversight, and training.

Recommendations

1. We recommend that the Secretary of the Army:
 - a. Provide resources (personnel and funding) for the Office of the Deputy Chief of Staff for Logistics, G4, to oversee the Army Aviation Into-plane Reimbursement Card Program.
 - b. Incorporate “Interim Policy Guidance-Government Fuel Card (GFC) Program Roles, Responsibilities, and Accountability,” into Army Regulation 710-2, “Inventory Management, Supply Policy Below the National Level,” July 8, 2005, to:
 - include a record retention policy for the Aviation Into-plane Reimbursement Card that complies with DoD Financial Management Regulation,
 - require accountable officials to maintain an audit trail of charges that they validated, and
 - require managers of Aviation Into-plane Reimbursement Cards at major commands and installations to periodically reconcile all cards listed as assigned to them in the Aviation Into-plane Reimbursement Card database to actual cards and aircraft on site.
2. We recommend that the Army Deputy Chief of Staff for Logistics, G4:
 - a. Designate and train officials at all Army major commands and installations that use the Aviation Into-plane Reimbursement Cards to adequately oversee the program.

b. Reemphasize the requirement in Army Regulation 710-2 for accountable officials to report when an aircraft is transferred or removed from service; when an Aviation Into-plane Reimbursement Card is lost, needs to be reassigned, or needs to be terminated; and to validate charges against receipt information each month.

Management Comments Required

The Secretary of the Army, and the Army, Office of the Deputy Chief of Staff for Logistics, G4, did not comment on a draft of this report. We request that the Secretary of the Army, and the Army, Office of the Deputy Chief of Staff for Logistics, G4, provide comments on the final report by November 5, 2007.

Appendix A. Scope and Methodology

We performed this audit from April 2006 through June 2007 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We reviewed policies, procedures, and instructions for the AIR CardSM Program issued by the Office of Management and Budget, DoD, DESC, and Army that includes guidance on fuel management and controls for processing AIR CardSM transactions. We interviewed key AIR CardSM Program personnel at DESC, MSC, the Defense Finance and Accounting Service, the Army Petroleum Center, and Army Office of the Deputy Chief of Staff for Logistics, along with Army personnel at installations visited. We evaluated the use of the AIR CardSM and the controls over processing reimbursement card payments. Furthermore, we reviewed supporting documentation for duplicate payments and transactions processed during the transition between AIR CardSM contractors. The supporting documentation included fuel reports, merchant transaction receipts, and fuel tickets. To evaluate controls over the AIR CardsSM, we inventoried AIR CardsSM, determined whether AIR CardsSM were assigned to retired Army aircraft, and determined whether aircraft had multiple active AIR CardsSM assigned to them.

We analyzed data provided by the DoD Inspector General Data Mining Division on AIR CardSM purchases from October 1, 2002, through May 22, 2006, and judgmentally selected the bill processing centers and corresponding organizations and installations to be visited based on the:

- high number of AIR CardSM transactions,
- high dollar amount of total AIR CardSM transactions, and
- large quantity of aircraft and cards in one location.

We chose eight organizations at four Army installations to sample transactions and inventory AIR CardsSM: Dobbins Army Reserve Base, Fort Belvoir, Fort Hood, and Fort Rucker. For each location's sample, we compared charge information that the DoD Inspector General Data Mining Division provided to supporting AIR CardSM receipt information. We later added an organization at a fifth installation, Fort Bragg, to inventory AIR CardsSM. The detailed methodology used to sample transactions and inventory AIR CardsSM follows.

- **Dobbins Army Reserve Base, 228th Aviation Battalion.** We judgmentally selected 6 months of AIR CardSM transactions that AVCARD processed from January through April 2004 and November through December 2004, and 10 months of AIR CardSM transactions that MSC processed from January through May 2005 and January through

May 2006, for five aircraft tail numbers assigned to the Army 228th Aviation Battalion. Additionally, we inventoried the AIR CardsSM of aircraft assigned to the Army 228th Aviation Battalion.

- **Fort Belvoir, OSAA RFC.** We judgmentally selected 5 months of AIR CardSM transactions that AVCARD processed from January 2004 through May 2004, and 10 months of AIR CardSM transactions that MSC processed from January 2005 through June 2005 and from January 2006 through April 2006, for five aircraft tail numbers assigned to the OSAA, Fort Belvoir RFC. Additionally, we inventoried AIR CardsSM of aircraft assigned to OSAA, Fort Belvoir RFC.
- **Fort Bragg, 82nd Combat Aviation Brigade.** We inventoried and sampled AIR CardsSM assigned to aircraft from the 2nd and 3rd battalions of the 82nd Combat Aviation Brigade. We did not sample transactions.
- **Fort Hood, OSAA RFC.** We judgmentally selected 16 months of AIR CardSM transactions that AVCARD processed from January 2003 through December 2004 excluding February 2004 to September 2004, and 16 months of AIR CardSM transactions that MSC processed from January 2005 through April 2006, for three aircraft tail numbers assigned to the OSAA, Fort Hood RFC. We also inventoried AIR CardsSM of aircraft assigned to the OSAA, Fort Hood RFC.
- **Fort Rucker, Cairns Airfield.** We judgmentally selected from AIR CardSM transactions that AVCARD processed from January 2004 through December 2004, and from transactions that MSC processed from January 2005 through May 2006, excluding March 2006. We inventoried AIR CardsSM for aircraft assigned to Fort Rucker, Cairns Airfield.
- **Fort Rucker, Hanchey Airfield.** We judgmentally selected from AIR CardSM transactions that AVCARD processed from January 2003 through December 2004, excluding November 2003, and from transactions that MSC processed from January 2005 through May 2006. We inventoried AIR CardsSM of aircraft assigned to Fort Rucker, Hanchey Airfield.
- **Fort Rucker, Knox Airfield.** We judgmentally selected from AIR CardSM transactions that AVCARD processed from October 2002 through December 2004, excluding November 2004, and from transactions that MSC processed from January 2005 through May 2006. We inventoried AIR CardsSM of aircraft assigned to Fort Rucker, Knox Airfield.
- **Fort Rucker, Lowe Airfield.** We judgmentally selected from AIR CardSM transactions that MSC processed from January 2006 through May 2006. We inventoried AIR CardsSM of aircraft assigned to Fort Rucker, Lowe Airfield.
- **Fort Rucker, Shell Airfield.** We judgmentally selected from AIR CardSM transactions that MSC processed from January 2006 through May 2006. We inventoried AIR CardsSM of aircraft assigned to Fort Rucker, Shell Airfield.

Additionally, we reviewed three bill processing centers to evaluate controls over processing AIR CardSM transactions:

- U.S. Army Reserve Command, 244th Theater Aviation Brigade, Fort McPherson;
- Headquarters, OSAA Budget Office, Fort Belvoir; and
- Directorate of Logistics, Supply and Services Division, Fort Rucker.

Scope Limitation. Due to audit staff personnel changes, we limited the scope of the audit work to include only the effectiveness of Army controls over the use of AIR CardsSM.

Use of Computer-Processed Data. We relied on computer-processed data from AVCARD and MSC, which were provided by the DoD Inspector General Data Mining Division. We did not perform a formal reliability assessment of the computer-processed data. However, we were able to establish data reliability for the information by comparing AIR CardSM purchase transaction data with source documentation. We did not find material errors that would preclude the use of computer-processed data to meet the audit objective or that would change the conclusion of this report.

Government Accountability Office High-Risk Area. The Government Accountability Office (GAO) has identified several high-risk areas in DoD. This report provides coverage of the DoD Contract Management and DoD Financial Management high-risk areas.

Appendix B. Prior Coverage

During the last 5 years, the GAO, the DoD Office of Inspector General (DoD IG), and the Department of the Army have issued 9 reports discussing purchase cards and fuel purchases. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>. Unrestricted Army Audit Agency reports can be accessed at <https://www.aaa.army.mil/reports.htm>.

GAO

GAO-04-989R, "Sandia National Laboratories: Further Improvements Needed to Strengthen Controls Over the Purchase Card Program," August 6, 2004

GAO-04-156, "Purchase Cards: Steps Taken to Improve DoD Program Management, but Actions Needed to Address Misuse," December 2, 2003

GAO-04-87G, "Audit Guide: Auditing and Investigating the Internal Control of Government Purchase Card Programs," November 2003

GAO-03-292, "Purchase Cards: Control Weaknesses Leave the Air Force Vulnerable to Fraud, Waste, and Abuse," December 20, 2002

GAO-02-1041, "Purchase Cards: Navy is Vulnerable to Fraud and Abuse but is Taking Action to Resolve Control Weaknesses," September 27, 2002

DoD IG

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

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

DoD IG Report No. D-2003-003, "Controls for the DoD Aviation Into-Plane Reimbursement Card," October 3, 2002

Army

U.S. 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

Appendix C. Guidance from the Program Management Office

Guidance and Policy Issuance. Since its establishment, the DoD-level GFC Program Management Office developed and issued AIR CardSM policies and guidance for the Services to follow that has been incorporated into the DoD Charge Card Guide Book; Office Of Management And Budget Circular A-123, Appendix B; and DoD Regulations. Additionally, the GFC Program Management Office rewrote DoD Manual 4140.25, Volume II, Chapter 16, “DoD Fleet Credit Card,” June 12, 2002. The revised chapter was renamed “Government Fuel Card Program Management Office, DoD FLEET Card, AIR CardSM, SEA CardSM” and includes information on the program management office and each of the three Government fuel cards. DESC submitted the revised chapter on November 29, 2006, to the Office of the Under Secretary of Defense for review and approval. As of May 7, 2007, the Office of the Under Secretary of Defense had not signed the revised chapter. To provide guidance to fuel card users, DESC issued interim policies and procedures to use until the revised DoD manual 4140.25-M is issued.

Public Websites. The GFC Program Management Office established an AIR CardSM Program website to provide a central location for users to retrieve program information. The public website includes GFC policy and guidance, Service Components’ point-of-contacts, training for AOs and cardholders, information on aircrew use of cards, fuel purchase data, merchant locations, and links to the AIR CardSM contractors, MSC, Fuel Card Program website. The MSC website provides locations of approved aviation fuel merchants and additional AIR CardSM Program information for cardholders, AOs, certifying officers, and merchants.

Appendix D. Review of Transition between Aviation Into-Plane Reimbursement Card Contractors

DESC oversaw the transition of the AIR CardSM contract from AVCARD contract support to MSC contract support with a few unresolved issues. Transition problems included a contract award protest and the transaction of AIR CardSM purchases that AVCARD did not process before the contract ended.

AVCARD. In January 1997, DESC entered into a contract with Kropp Holdings, Incorporated, doing business as AVCARD, an aviation charge card company. The contract was for an 8-month test period with 2 option years. AVCARD issued 500 cards during the test period. In October 1999, DESC issued another contract for the period January 1, 2000, through December 31, 2004.¹ Active cards had increased to more than 17,900 when the contract ended. DESC awarded AVCARD a 3-month contract extension until March 31, 2005, to process and close out AIR CardSM purchase transactions that occurred before December 31, 2004. After March 31, 2005, DESC processed all AIR CardSM purchase transactions that occurred prior to December 31, 2004, that AVCARD had not closed out.

Multi Service Corporation. Effective January 1, 2005, the new AIR CardSM contractor, MSC, began providing AIR CardSM services. The contract totaled \$6,274,688, for a base year and five option years. Under the contract, MSC manages AIR CardSM customer accounts, issues new cards, and authorizes and processes all AIR CardSM transactions for aviation fuel, ground services, and fuel-related supplies purchased at commercial locations. As of November 15, 2006, MSC had 19,912 active AIR CardsSM.

Contract Protest. DESC awarded a contract to MSC for commercial charge card services for the AIR CardSM Program on September 23, 2004, with an effective contract start date of January 1, 2005. On October 4, 2004, AVCARD, the incumbent contractor, filed a protest of the contract award with GAO. AVCARD primarily objected to the DESC evaluation of the proposals and source-selection decision. On December 30, 2004, the GAO denied the AVCARD protest and found that the DESC evaluation and source-selection decisions were reasonable and consistent with the solicitation's evaluation factors. With the GAO upholding the contract award, the AVCARD contract as the charge card processor for AIR CardSM purchases ended December 31, 2004.

During the contract award protest, AVCARD officials did not communicate with MSC, and they did not provide MSC with important contract transaction information; for example, a current inventory of active AIR CardsSM. MSC had to rely on an old AIR CardSM database to issue new AIR CardsSM, resulting in military organizations receiving cards for aircraft that they no longer owned.

¹ Portions of background information derived from IG DoD Report No. D-2003-003, "Controls for the DoD Aviation Into-Plane Reimbursement Card," October 3, 2002.

In addition, MSC and DESC were unable to test data file transfer processes before the January 1, 2005, contract start. DESC and MSC officials tested the charge card processing system during the first month of contract operations. Although the transition from AVCARD to MSC was not completed as planned, we did not identify any significant negative effects resulting from the transition.

Processing Transition Transactions. With the AIR CardSM contract ending and transactions that occurred prior to December 31, 2004, still needing to be processed, DESC awarded AVCARD a 3-month contract extension to continue processing AIR CardSM transactions that occurred before December 31, 2004. After March 31, 2005, DESC processed all transactions that occurred prior to December 31, 2004, that AVCARD had not processed (hereby referred to as “transition transactions.”) Most of the transition transactions were several years old. To process the transition transactions, DESC reviewed fuel invoices along with supporting documentation received from the aviation fuel merchant. A DESC retail fuel specialist reviewed the documentation for accuracy and verified that DESC had not already paid for the service. DESC certified the invoices for payment and submitted them to DFAS to process payment.

Transition Transaction Review. We reviewed 209 transition transactions for AIR CardSM that DESC processed from February 2005 through June 2006. We compared the transaction documentation to an accounting database of transactions processed by DESC. Our review showed that DESC accurately processed the transactions with only a few data entry errors; however, we found one \$36,228 transaction that had been processed and paid twice, once by AVCARD and once through DESC. We followed up with DESC and they provided documentation showing that a refund of \$36,228 was received June 21 2007.

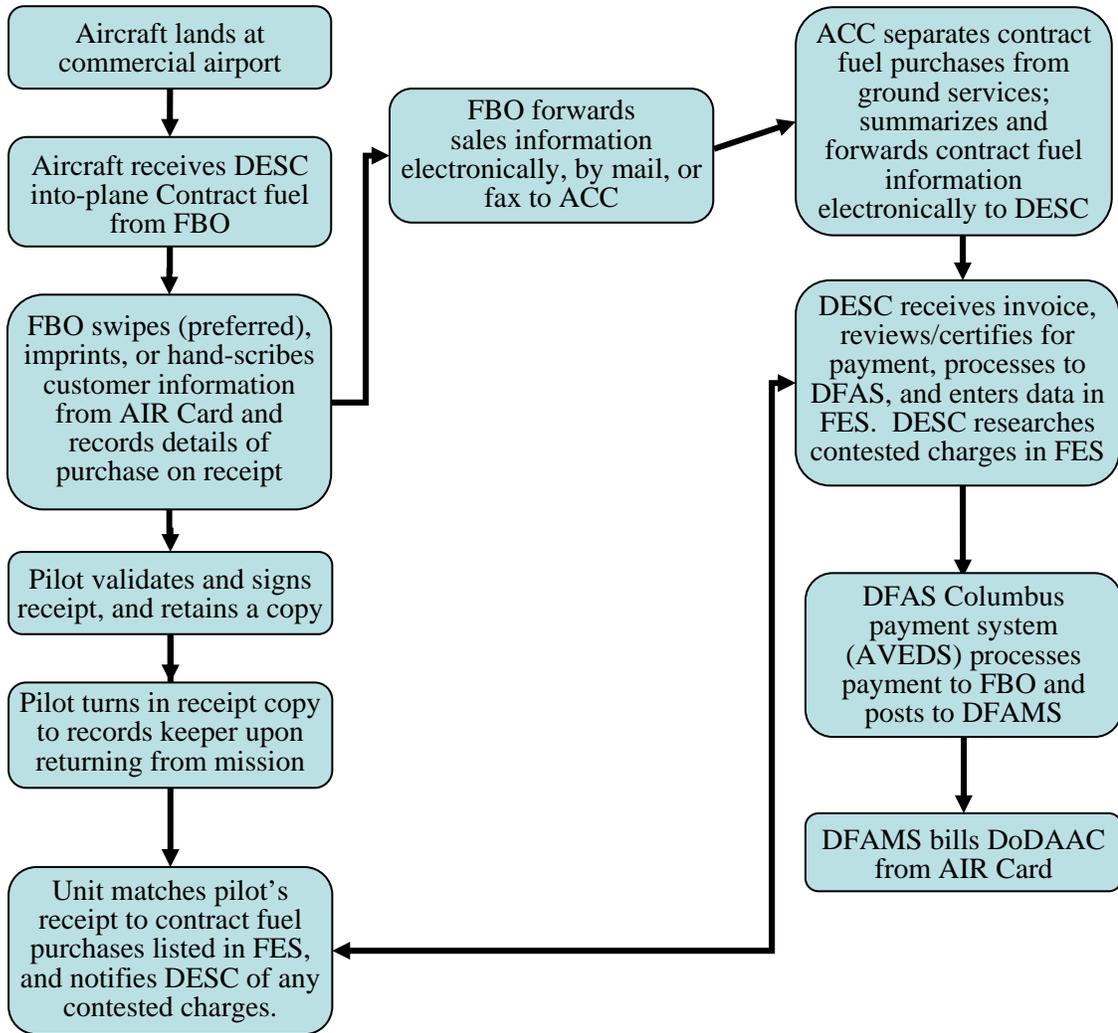
Appendix E. Aviation Into-Plane Reimbursement Card Transaction and Payment Process

We reviewed the AIR CardSM payment process during our visits to Army sites. Charges for contract fuel, non-contract fuel, and ground services were billed and paid through two distinct processes. The AIR CardSM contractor (AVCARD/ MSC) processed all fuel and ground service charges made through the AIR CardSM.

Receipts. After refueling or receiving ground services, the aircrew received a receipt for the transaction from the merchant. The aircrew certified that it received the product or service delivery by signing the receipt. Generally, the aircrew would turn in the receipts to flight operations at the end of their mission. Flight operations at some sites entered the receipts into an Army internal database and forwarded the information to their logistics or comptroller's office, and filed the hardcopy receipts at flight operations. Generally, organizations did not validate receipts to monthly bills.

Contract Fuel. The AIR CardSM contractor received billing information from merchants with into-plane contracts, processed it, and forwarded it to DESC. DESC electronically transferred the billing data to the automated voucher examining and disbursing system. Defense Finance and Accounting Service, Columbus used automated voucher examining and disbursing system to pay into-plane contractors on behalf of DESC. DESC then obtained reimbursement from Army organizations in the form of interfund billings processed through the Defense Finance and Accounting Service. See Figure E-1 for the Army payment process for contract fuel.

Non-contract Fuel and Ground Services. The AIR CardSM contractor paid all non-into-plane merchants for non-contract fuel and ground services for Army aircraft. The AIR CardSM contractor then issued weekly billing statements to Army organizations for ground services and to DESC for fuel charges. Certifying officials visually scanned the billing statements for any unusual charges. Next, certifying officials completed forms to process payment through their local Defense Finance and Accounting Service office. See Figure E-2 for the payment process for non-contract fuel and Figure E-3 for the payment process for ground services.



ACC	AIR Card Contractor
AIR	Aviation Into-Plane Reimbursement
AVEDS	Automated Voucher Examining and Disbursing System
DESC	Defense Energy Support Center
DFAMS	Defense Fuel Automated Management System
DFAS	Defense Finance & Accounting Service
DoDAAC	Department of Defense Activity Address Code
FBO	Fixed Base Operator
FES	Fuel Enterprise System

Figure E-1. Army AIR CardSM Payment Process for Contract Fuel Transactions

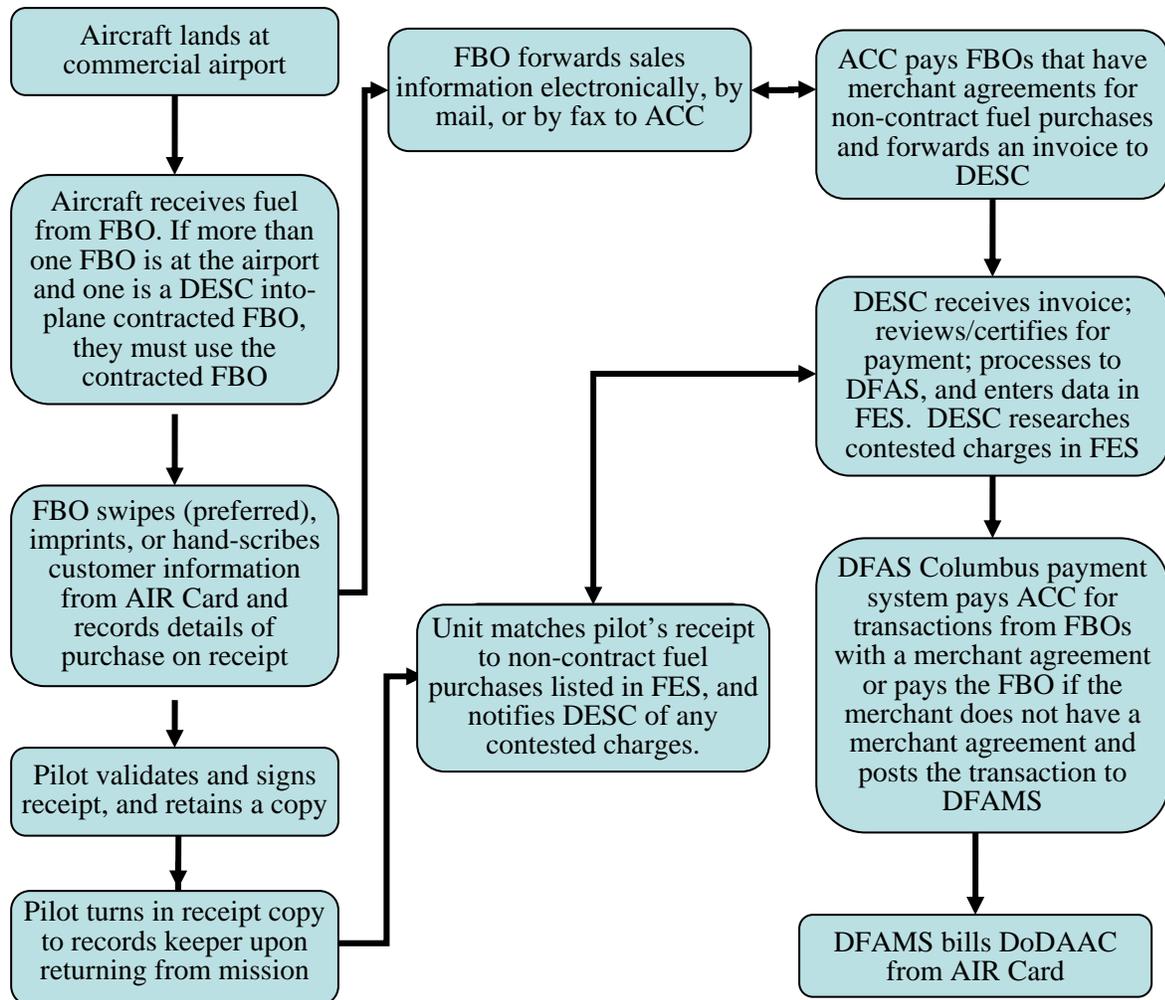


Figure E-2. Army AIR CardSM Payment Process for Non-contract Fuel Transactions

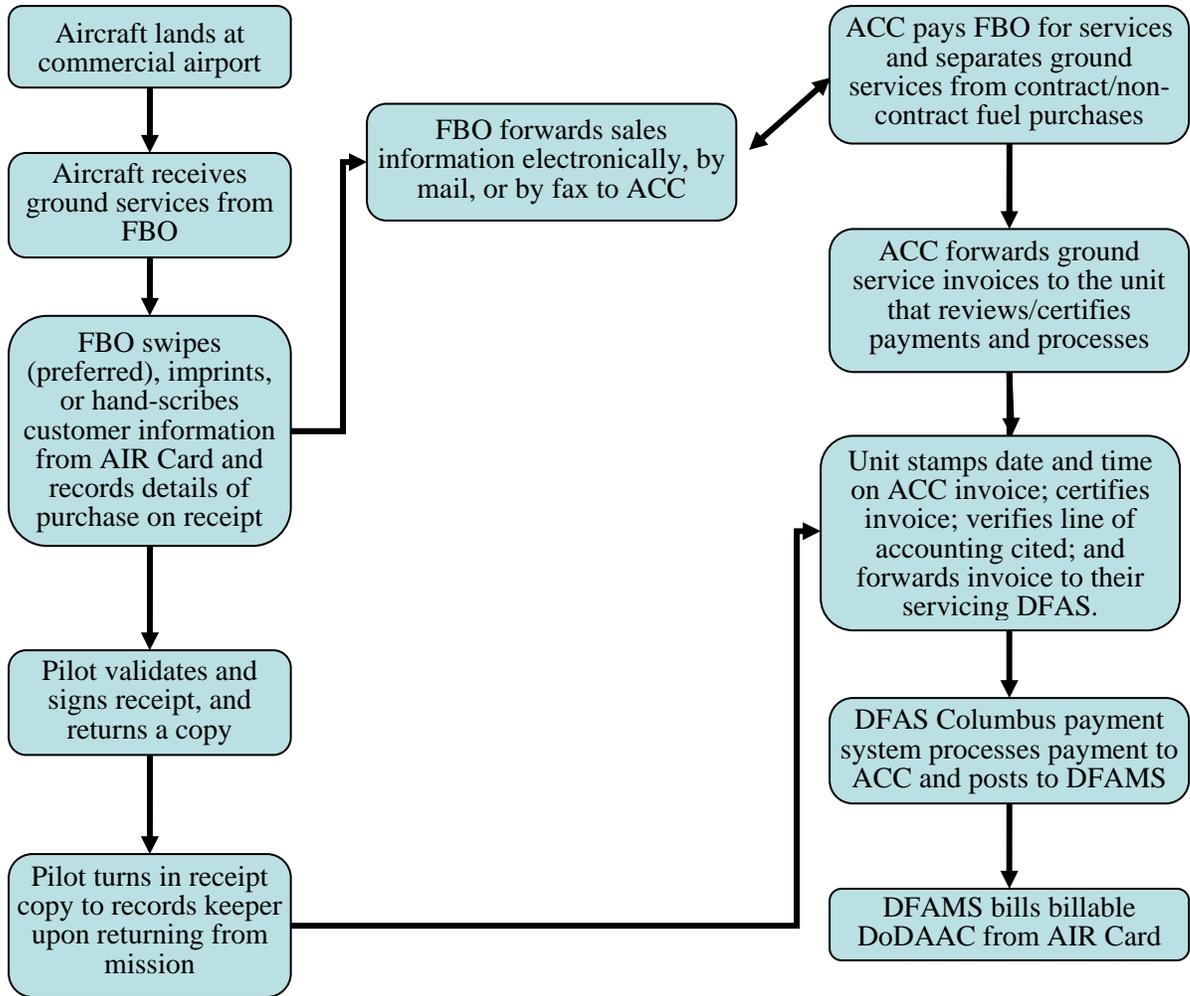


Figure E-3. Army AIR CardSM Payment Process for Ground Services Transaction

Appendix F. Transactions that AVCARD Processed

Schedule F.1. Army AIR CardSM Contract Fuel Charges Processed from October 1, 2002, through December 31, 2004

<u>Product Description</u>	<u>Amount Charged</u>	<u>No. of Transactions</u>
Jet A +	\$ 42,999,763.03	119,636
Jet A1 +	10,120,348.20	7,625
Federal excise tax	6,749,983.35	153,765
Jet A rapid refuel	3,604,261.81	23,876
Jet A	3,585,146.05	11,130
Service code 498 (not defined)	968,806.80	167
JP 8	876,582.89	2,046
Flow fee	648,463.97	8,781
Jet A + (into-truck)	509,130.03	165
State tax (non-refundable)	117,326.44	17,639
Customs duties	115,811.34	4,935
Overtime fees	18,150.35	279
Tax and landing fee	13,490.13	2,620
Into-plane delivery fees	12,382.26	1,220
Service code 338 (not defined)	9,740.49	7
MFR tax	7,470.34	610
AVGAS	6,299.36	27
Transportation	2,086.36	149
Sampling charge	1,664.47	60
Service code 336 (not defined)	430.35	1
Service code 239 (not defined)	245.30	2
Supervision fees	74.03	19
Monthly use fee	7.21	2
Total	\$ 70,367,664.56	354,761

Acronyms

AVGAS	Aviation Gas
JP	Jet Propulsion

**Schedule F.2. Army AIR CardSM Non-contract Fuel Charges Processed from
October 1, 2002, through December 31, 2004**

<u>Product Description</u>	<u>Amount Charged</u>	<u>No. of Transactions</u>
Jet A	\$ 14,580,384.78	30,474
Jet A with additive	4,750,971.55	10,528
JP-8	568,599.79	1,227
Jet B	257,927.25	173
AVGAS	217,652.19	718
Jet A-1	166,212.22	114
JP-4	98,531.53	210
Jet A-1 with additive	25,621.82	31
JP-5	1,687.20	2
AVGAS/ 80	852.30	17
Jet B with additive	814.08	1
Diesel fuel	69.83	3
Total	\$ 20,669,324.54	43,498

**Schedule F.3. Army AIR CardSM Ground Service Charges Processed from
October 1, 2002, through December 31, 2004**

<u>Service Description</u>	<u>Amount Charged</u>	<u>No. of Transactions</u>
Federal excise tax	\$ 1,053,461.47	26,190
Handling charges	589,004.42	3,039
Sales tax	304,170.77	12,473
Ramp fees/ parking	207,630.13	2,652
Landing fee	128,634.08	1,156
Hangar rental	106,285.08	567
Deicing	67,191.58	105
Other taxes/ fees	66,069.92	3,866
Airport flow fee	63,630.54	3,319
State excise tax	47,884.29	8,364
Value added tax	47,271.18	901
Fuel additive	44,476.30	3,548
Goods and services tax	41,346.00	438
Crew transport	40,630.69	478
Airport fee	40,408.41	1,329
Facility use fee	26,711.62	505
Maintenance	26,528.09	173
Pilot supplies	26,357.24	332
Miscellaneous charges	25,758.40	1,145
Third-party-admin fee	25,474.16	792
Security charges	23,495.10	214
Mineral oil tax	22,121.90	42
Lavatory services	19,897.52	256
Communications	17,349.36	230
Catering	17,073.70	342
Ground equipment charges	16,721.66	157
Hydrant fueling fee	12,936.25	779
Auxiliary power unit/ ground power unit charges	12,723.14	135
Flight plans	12,231.55	546
Defuel charge	11,633.31	124
Call out fee	10,279.00	145
Into plane fee	8,511.10	288
Traffic handling	7,076.69	38
Oil	6,187.86	111
Duties/ taxes	5,596.61	48
Departure tax	4,354.04	84

**Schedule F.3. Army AIR CardSM Ground Service Charges Processed from
October 1, 2002, through December 31, 2004 (cont)**

<u>Service Description</u>	<u>Amount Charged</u>	<u>No. of Transactions</u>
Concession fee	\$ 3,996.98	474
Weather briefing	3,282.65	37
Consumption tax	3,231.96	2
Hotel charges	2,764.15	16
Oxygen/ water	2,750.15	48
Immigration fees	2,560.92	75
Thru put fee (gallons)	2,305.29	114
Peak/ after hours charges	1,993.50	35
Trash collection	1,926.80	34
Navigation fees	1,808.78	28
Charter	1,638.98	8
Rental car	1,445.97	44
Overtime fees	1,245.00	14
County tax	1,177.64	119
Aircraft cleaning	1,130.07	7
Provincial tax	1,123.31	72
Refuel charge	854.42	22
Customs handling charges	811.60	19
Outside services	792.69	13
Storage fee	681.17	93
Fuel surcharge	600.78	15
City tax	504.02	36
State motor fuel tax	502.16	57
Local tax	467.53	63
Seneam	449.15	1
Baggage handling	419.24	10
Limousine	303.04	6
Permits	283.27	7
Customs fees	188.17	153
Airport head tax	154.00	1
Customs duty	114.78	8
Drug enforcement agency fees	103.15	1
Dispatch fees	90.00	8
Private leisure tax	88.40	1
Over flight permits	81.00	2
Fuel coordination fee	77.21	1

**Schedule F.3. Army AIR CardSM Ground Service Charges Processed from
October 1, 2002, through December 31, 2004 (cont)**

<u>Service Description</u>	<u>Amount Charged</u>	<u>No. of Transactions</u>
Survival equipment	\$ 72.00	1
Pilot training	69.02	2
Cargo handling	52.07	1
Parts	37.00	1
Custom code (see receipt)	32.20	3
Airline tickets	24.00	1
Pilot services	19.43	4
Signet network charge	15.00	1
Airport storage fee (gallons)	9.02	1
In route charges	6.93	2
Slot fees	1.55	1
Combustible fee	0.72	1
Fuel discount	<u>- 421,238.43</u>	<u>8,200</u>
Total	<u>\$ 2,808,161.60</u>	<u>84,774</u>

Appendix G. Transactions that MSC Processed

Schedule G.1. Army AIR CardSM Contract Fuel Charges Processed from January 1, 2005, through May 22, 2006

<u>Product Description</u>	<u>Amount Charged</u>	<u>No. of Transactions</u>
Jet A with additive	\$ 41,262,996.19	79,044
Jet A	4,283,442.42	7,335
Jet A1	3,520,908.36	3,759
Federal excise tax	3,056,417.90	91,507
Rapid refueling	1,660,437.37	4,618
JP8	949,937.02	1,179
Tax/fee/duty	294,627.85	23,431
Jet A with additive into truck	260,556.11	56
Jet A1 with additive	147,298.32	142
Jet fuel Russian commercial [TS1]	72,784.42	77
Value added tax	27,943.73	92
Overtime fee	10,599.80	145
Airport tax	3,178.69	219
Jet fuel Russian commercial [TS1 full stop]	2,601.59	4
County tax	2,168.79	219
Excise duty tax	2,149.90	52
Government tax	1,993.35	219
Fueling fee	1,348.89	38
Into-plane fee	1,172.22	55
Hydrant fee	278.59	32
Goods and services tax	204.47	2
Consumption tax	75.79	25
State tax	66.20	1
Storage fee	31.57	7
Total	\$ 55,563,219.54	212,258

**Schedule G.2. Army AIR CardSM Non-contract Fuel Charges Processed from
January 1, 2005, through May 22, 2006**

<u>Product Description</u>	<u>Amount Charged</u>	<u>No. of Transactions</u>
Jet A	\$ 8,863,726.45	13,579
Jet A with additive	4,561,963.28	5,701
Jet A1	4,176,716.51	4,186
Jet A1 with additive	1,187,731.68	2,843
Federal excise tax	711,327.34	21,863
Miscellaneous fuel tax	158,401.70	3,090
Admin fee	149,979.70	3,302
Avgas 100 LL	63,990.06	123
Sales tax	58,331.46	2,032
State tax	49,809.01	4,932
JP8	41,594.02	79
Flowage fee	40,561.22	2,739
Miscellaneous tax	21,516.43	388
Misc fuel	18,728.32	22
Rapid refueling	13,986.27	5
Jet B	8,862.10	12
Jet fuel Russian commercial [TS1 full stop]	5,171.63	6
JP8 into truck	2,507.58	2
Jet A with additive into truck	1,478.38	1
Harmonized sales tax	1,240.22	12
Mineral oil tax	871.47	3
Goods and services tax	821.17	7
Avgas 80 LL	812.43	1
Overtime fee	398.54	7
JP4	397.27	4
Turbine fuel aviation [JP5]	235.43	5
Customs duty	160.00	7
Terminal operations fee	40.00	1
Jet fuel Russian commercial [TS1]	- 788.57	3
Total	\$ 20,140,571.10	64,955

**Schedule G.3. Army AIR CardSM Ground Service Charges Processed from
January 1, 2005, through May 22, 2006**

<u>Service Description</u>	<u>Amount Charged</u>	<u>No. of Transactions</u>
Handling fees	\$ 415,516.53	1,815
International ground handling	182,867.87	592
Ground equipment services	174,371.47	739
Landing fee	151,202.45	925
Miscellaneous	116,731.26	1,674
Hangar rental	97,498.05	394
Parking fee	84,939.20	1,123
Ramp fee	62,452.99	954
Fees	60,884.98	625
Airport fee	59,053.79	363
Federal excise tax	51,442.24	1,511
De-icing	49,727.39	150
Vendor admin fee	38,022.54	527
Miscellaneous tax	33,229.52	716
Crew transportation	29,202.91	380
Fuel additive	27,333.39	2,260
Overtime fee	18,026.87	273
Catering	17,011.57	228
Flight planning/ weather	17,001.54	567
Security services	16,287.65	255
Oil	13,930.04	49
Navigation fee	13,406.79	161
Into-truck/ into-bladder fees	12,618.89	3
Lavatory services	12,558.68	135
Callout fees	12,335.00	155
Pilot supplies	11,607.17	301
Admin fee	11,123.72	136
De-fuel	8,185.71	83
Passenger handling	7,708.53	106
Sales tax	7,217.96	620
Fuel system icing inhibitor	6,747.12	328
Push back	6,231.78	11
Customs	6,230.33	91
Maintenance	6,045.25	55
Auxiliary power unit	5,850.83	8

**Schedule G.3. Army AIR CardSM Ground Service Charges processed from
January 1, 2005 through May 22, 2006 (cont)**

<u>Service Description</u>	<u>Amount Charged</u>	<u>No. of Transactions</u>
State tax	\$ 5,005.68	305
Aviator breathing oxygen	4,369.55	47
Tie down	4,189.72	26
Miscellaneous fuel tax	3,800.18	154
Re-service	3,435.36	39
Aircraft cleaning	2,812.50	41
Other	2,781.06	40
Car rental	2,110.46	12
Flowage fee	1,844.02	132
Permit	1,514.16	3
Mineral oil tax	1,382.95	1
Trash removal	1,271.11	21
Cargo loading/ unloading	1,178.81	5
Aircraft towing	1,150.01	13
Harmonized sales tax	1,014.17	6
Ice	786.62	39
Charter	527.90	3
Goods and services tax	460.43	7
Passenger tax	218.52	5
Hydraulic fluid	93.64	4
Slot time & fees	60.00	1
Hydrant fee	54.18	3
Static dissipater additive	47.70	1
Value added tax	36.09	1
Aircraft rental	30.00	1
Total	\$ 1,884,776.83	19,223

AIR CardSM Contract Fuel Transactions

Location	Site Visit Universe		Sample Size		Transaction Found		Transaction Not Found		Percent* Not Found	
	Charges	Amount	Charges	Amount	Charges	Amount	Charges	Amount	Charges	Amount
Ft. Rucker, AL	148,694	\$13,284,888	5,671	\$1,741,326	5,577	\$1,703,424	94	\$37,902	2	2
Cairns Field			127	15,543	103	13,314	24	2,229	19	14
Hanchey Field			177	76,153	167	\$72,795	10	3,258	6	4
Knox Field			160	206,659	149	194,364	11	12,295	7	6
Lowe Field			2,342	1,172,742	2,317	1,161,475	25	11,267	1	1
Shell Field			2,865	270,229	2,841	261,476	24	8,753	1	3
OSAA, HQ										
Ft. Belvoir, VA	67,892	\$18,376,566	1,521	\$472,780	1,362	\$417,225	159	\$55,555	10	12
RFC										
Ft. Belvoir, VA			965	349,193	823	298,141	142	51,052	15	15
RFC										
Ft. Hood, TX			556	123,587	539	119,084	17	4,503	3	4
244th Theater Aviation Brigade										
Ft. McPherson, GA	32,188	\$10,148,747	800	\$519,790	598	\$367,180	202	\$152,610	25	29
228th Aviation Battalion, Dobbins, GA			800	519,790	598	367,180	202	152,610	25	29
Total	248,774	\$41,810,201	7,992	\$2,733,896	7,537	\$2,487,829	455	\$246,067	6	9

* Judgment sample percentage does not generalize to universe.

AIR CardSM Non-contract Fuel and Ground Service Transactions

Location	Site Visit Universe		Sample Size		Transaction Found		Transaction Not Found		Percent* Not Found	
	Charges	Amount	Charges	Amount	Charges	Amount	Charges	Amount	Charges	Amount
Ft. Rucker, AL	12,313	\$517,880	134	\$38,419	116	\$29,386	18	\$9,033	13	24
Cairns Field			86	10,873	75	8,364	11	2,509	13	23
Hanchey Field			24	9,297	21	8,428	3	869	12	9
Knox Field			8	13,180	6	10,084	2	3,096	25	23
Lowe Field			3	1,933	2	750	1	1,183	33	61
Shell Field			13	3,136	12	1,760	1	1,376	8	44
OSAA, HQ.										
Ft. Belvoir, VA	31,870	\$6,502,998	670	\$180,574	563	\$159,036	107	\$21,538	16	12
RFC										
Ft. Belvoir, VA			521	144,148	431	126,432	90	17,716	17	12
RFC										
Ft. Hood, TX			149	36,426	132	32,604	17	3,822	11	10
244th Theater Aviation Brigade										
Ft. McPherson, GA	17,566	\$4,229,864	356	\$179,263	199	\$116,188	157	\$63,075	44	35
228th Aviation Battalion, Dobbins, GA			356	179,263	199	116,188	157	63,075	44	35
Total	61,749	\$11,250,742	1,160	\$398,256	878	\$304,610	282	\$93,646	24	24

*Judgment sample percentage does not generalize to universe.

Appendix I. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Director, Program Analysis and Evaluation

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
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

Other Defense Organizations

Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency

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 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

Team Members

The Department of Defense Office of the Deputy Inspector General for Auditing, Readiness and Operations Support prepared this report. Personnel of the Department of Defense Office of Inspector General who contributed to the report are listed below.

Wanda A. Scott
Robert F. Prinzbach, II
Thomas S. Bartoszek
Nancee K. Needham
Walter S. Bohinski
Thomas J. McKenna
Michael R. Nova
Jeana N. Roberts
Mayra Y. Alvarado
LaToya Penn



Inspector General Department of Defense

