
JULY 27, 2004



Acquisition

Purchase Card Use and Contracting
Actions at the U.S. Army Corps of
Engineers, Louisville District
(D-2004-104)

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Acronyms

A&E	Architect and Engineer
ACO	Administrative Contracting Officer
APC	Agency Program Coordinator
EFARS	Engineer Federal Acquisition Regulation Supplement
FAR	Federal Acquisition Regulation
GAO	Government Accountability Office
IG DoD	Office of Inspector General, Department of Defense
PR&C	Purchase Request and Commitment
SOP	Standing Operating Procedure
SSA	Source Selection Authority



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

July 27, 2004

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Report on Purchase Card Use and Contracting Actions at the U.S. Army
Corps of Engineers, Louisville District (Report No. D-2004-104)

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

DoD Directive 7650.3 requires that all recommendations be resolved promptly. We request that the Army reconsider its position on Recommendations A.2.a. and A.2.b.(2). We request that management provide the comments on the final report by September 27, 2004.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to Audcm@dodig.osd.mil. Copies of 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 Ms. Deborah L. Carros at (703) 604-9217 (DSN 664-9217). See Appendix E for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

David K. Steensma

David K. Steensma
Assistant Inspector General
for Contract Management

Office of the Inspector General of the Department of Defense

Report No. D-2004-104

July 27, 2004

(Project No. D2003CK-0185)

Purchase Card Use and Contracting Actions at the U.S. Army Corps of Engineers, Louisville District

Executive Summary

Who Should Read This Report and Why? U.S. Army Corps of Engineers managers, certifying officials, approving officials, alternate approving officials, cardholders, and contracting officials responsible for implementing and overseeing purchase card and contracting processes should read this report because it identifies problems with internal controls.

Background. This audit is in response to a Defense Hotline referral regarding irregularities in purchase card use and contracting actions at the U.S. Army Corps of Engineers, Louisville District. The Hotline allegations related to purchase card irregularities were associated with transactions reviewed from March through June 2002 as part of an Army Regulation 15-6, "Procedure for Investigating Officers and Boards of Officers," investigation. We reviewed transactions associated with the investigation to determine whether purchase card-related allegations were substantiated.

The District Contracting Division had overall responsibility of the purchase card program for 42 field offices across 5 states. In FY 2003, the District was composed of 166 cardholders and 95 approving officials, including alternate approving officials,* responsible for purchase card accounts. District cardholders made 15,228 purchase card transactions, valued at \$5.9 million. During this review, we looked at 597 FY 2003 transactions for 12 purchase cardholder accounts, valued at \$993,000.

Results. Purchase card controls and contracting actions at the U.S. Army Corps of Engineers, Louisville District needed improvement. Specifically, District management needed to implement the purchase card program and process contracting actions in accordance with applicable regulations.

Although purchase card controls at the U.S. Army Corps of Engineers, Louisville District have improved since the June 2002 Army Regulation 15-6 investigation report, additional improvements were still needed to properly implement purchase card controls. Specifically, controls over separation of duties were inadequate, and program oversight was weak. There was a lack of separation of duties for 237 of the 597 transactions, none of the 12 purchase card accounts were reviewed annually, and 10 of the 12 purchase card account files were incomplete. Furthermore, unless purchase card controls are strengthened and management engages in more proactive oversight, the Army cannot ensure continuous program improvement and risk mitigation necessary to prevent fraud, waste, or mismanagement. The Louisville District Commander needed to establish a

* An approving official can also be an alternate approving official for another cardholder, but an individual does not have to be an approving official to be an alternate approving official.

full-time Agency Program Coordinator, implement Army guidance on purchase cards, and review all approving official account files annually. For detailed recommendations, see Finding A of this report.

District contracting actions were not consistently executed in accordance with applicable regulations during the contract award process. Specifically, 6 of 11 contracts that we reviewed contained contracting irregularities in the following areas: contract documentation signature authority (1 contract), source selection plan approval timeliness (3 contracts), solicitation procedures application (1 contract), and design-build civil works contract funding (1 contract). As a result, the District Contracting Division could not ensure the effective execution of the contracting functions. There is a need to strengthen procedures to comply with procurement guidance, provide training on procurement procedures, and eliminate conflicting provisions between engineering and acquisition regulations. For detailed recommendations, see finding B of this report. See Appendix C for a discussion of the Defense Hotline allegations and results involving purchase card controls and contract awards at the Louisville District.

Management Comments and Audit Response. The Deputy Commander, U.S. Army Corps of Engineers agreed with all but one of the recommendations to improve controls over purchase cards and contracting actions. The Deputy Commander nonconcurred with revising the Louisville District Guidebook to address internal controls for separation of duties. The Deputy Commander stated that the Corps' purchase cardholders were exempt from the policy that no one individual can be granted the authority to initiate, approve, obligate funds, and receive goods on the basis that adequate separation of duties already exists within the Corps of Engineers Financial Management System. The Deputy Commander stated that no payments may be made until the approving official approves cardholders' statements. Additionally, the District has 42 field offices, many of which are in remote locations with just a few employees, and the cost of implementing approval for credit card purchases when adequate controls exist would outweigh the benefits derived. We disagree that adequate separation of duties exists in the credit card process to prevent fraud and abuse. The Louisville District had not complied with Army requirements for separation of duties. Purchase requests and commitments were not initiated, approved, and certified by three different individuals as required by the Army Standing Operating Procedure. Furthermore, the Army Corps of Engineers does not have the authority to exempt cardholders from the Army's separation of duties requirement.

We request that the Deputy Commander reconsider his position on the controls for separation of duties and provide additional comments or alternate solutions by September 27, 2004. See the Finding section of the report for a discussion of management comments and Management Comments section of the report for the complete text of the comments.

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Background

We conducted this audit in response to a Defense Hotline referral regarding irregularities in purchase card use and contracting actions at the U.S. Army Corps of Engineers, Louisville District. The Hotline allegations related to purchase card irregularities were associated with transactions reviewed from March through June 2002 as part of an Army Regulation 15-6, "Procedure for Investigating Officers and Boards of Officers," investigation. We reviewed transactions associated with the investigation to determine whether the purchase card related allegations were substantiated. (See Appendix C for a discussion of the allegations made to the Defense Hotline.)

U.S. Army Corps of Engineers, Louisville District. The U.S. Army Corps of Engineers, Louisville District, part of the Great Lakes and Ohio River Division, had projected FY 2003 expenditures of \$553 million. The District is spread across 5 states containing 42 field offices. In FY 2003, the District was composed of 166 cardholders and 95 approving officials, including alternate approving officials,* who were responsible for purchase card accounts. District cardholders made 15,228 purchase card transactions, valued at \$5.9 million.

Federal Purchase Card Program. The first Government-wide purchase card contract was awarded by the General Services Administration in 1989. DoD entered the program at that time. On October 13, 1994, the President issued Executive Order 12931 mandating increased use of purchase cards for micro-purchases (purchases under \$2,500). The Federal Acquisition Streamlining Act of 1994 established \$2,500 as the micro-purchase threshold and eliminated most of the procurement restrictions for purchases identified within that threshold.

How the DoD Program Works. DoD organizations are responsible for distributing cards, training employees, and managing the purchase card program. Each participating organization designates an office to manage the program and provide training, maintain a current list of cardholders and approving officials, and perform an annual oversight review of the program.

DoD appointed agency program coordinators (APC) with the responsibility for program management at the installation, major command, and Component levels. APCs issue purchase cards, establish limits on spending, and monitor use of a purchase card account. Also, DoD employees are assigned as "approving officials" to authorize and approve purchases for payment. Once a cardholder makes an authorized purchase, the cardholder and the approving official reconcile the purchased goods and services with the bank statement before the approving official requests payment from the Defense Finance and Accounting Service.

Charge Card Task Force. On March 19, 2002, the Under Secretary of Defense (Comptroller)/Chief Financial Officer established a DoD Charge Card Task Force to evaluate the purchase and travel card programs of the Department and to

* An approving official can also be an alternate approving official for another cardholder, but an individual does not have to be an approving official to be an alternate approving official.

develop recommendations for improvements. On June 27, 2002, the Task Force issued the DoD Charge Card Task Force Final Report. The Task Force focused on management emphasis and organizational culture, compliance, and process and workforce developments.

Army Regulation 15-6 Investigation. An Army Regulation 15-6 investigation of the District was conducted to review credit card and convenience check transactions for the period between April 2000 and April 2002. Nearly 40,000 transactions and more than \$20 million worth of purchases were reviewed. The investigation found that District cardholders had engaged in the practice of splitting transactions to support their customers. Specifically, it appeared that single purchases totaling more than \$2,500 were split into multiple smaller segments less than \$2,500 to remain within the \$2,500 micro-purchase threshold allowed for credit card purchases. The investigation identified the need for 265 ratifications, involving 2,800 split transactions over a 24-month period. The value of these 265 ratifications was about \$3.5 million, or approximately 17 percent of the value of all transactions investigated. The Army Regulation 15-6 report, issued in June 2002, made 33 general, procedural, training, and auditing recommendations in addition to recommending disciplinary actions. The report recommended that the District APC should be the single point of contact for all purchase card-related questions, concerns, and issues. The report also recommended developing and implementing strict guidelines for performing purchase card audits.

Objectives

The audit objective was to determine whether purchase card controls and contracting actions at the U.S. Army Corps of Engineers, Louisville District were effective and appropriate and executed in accordance with applicable laws and regulations. Specifically, we reviewed Hotline allegations of purchase card irregularities that were associated with transactions reviewed as part of an Army Regulation 15-6 investigation report, June 2002. We also reviewed the management control program as it related to the audit objective. See Appendix A for a discussion of audit scope, scope limitations, and methodology. See Appendix B for a discussion of prior coverage.

A. Purchase Card Controls

Although purchase card controls at the U.S. Army Corps of Engineers, Louisville District had improved since the June 2002 Army Regulation 15-6 investigation report, additional improvements were still needed to properly implement purchase card controls. Specifically, controls over separation of duties were inadequate, and program oversight was weak. There was a lack of separation of duties for 237 of the 597 transactions selected for review. The lack of separation of duties occurred because District purchase card managers did not effectively implement Army purchase card program guidance and did not adequately enforce existing controls throughout the purchase card process. None of the 12 District purchase card accounts were reviewed annually as required. In addition, 10 of the 12 purchase card account files were incomplete. Unless purchase card controls are strengthened and management engages in proactive oversight, the Army cannot ensure the continuous program improvement and risk mitigation necessary to prevent fraud, waste, or mismanagement.

DoD Purchase Card Guidance

Department of Defense, “Government Purchase Card Concept of Operations,” July 31, 2002 (Revision 1, March 31, 2003). The Concept of Operations provides an overview on how to establish and operate the Government purchase card program within the DoD. The Concept of Operations defines an APC as an individual designated to manage the Government purchase card program. APCs are required to develop and implement a surveillance plan that includes establishing how reviews should be conducted and who should conduct the reviews. The Concept of Operations requires that all approving official accounts be reviewed at least annually.

Department of Army, “Government Purchase Card Standing Operating Procedure,” July 31, 2002. The Army Standing Operating Procedure (SOP) defines the requirements for establishing, maintaining, and operating the purchase card program. The Army SOP requires APCs at the organization level to manage the day-to-day operations of the Government purchase card program, including conducting initial and biannual refresher training for cardholders and approving officials and conducting annual reviews of each assigned approving official. The approving official has oversight responsibility for a number of cardholders to ensure transactions are necessary and for official purposes. The Army SOP also requires proper separation of key duties, such as making purchases, authorizing payments, certifying funding, and reviewing and auditing functions to minimize the risk of loss to the Government to the greatest extent possible. In addition, resource managers are required to certify availability of funding and cardholders must ensure that funds are certified before making purchases.

U.S. Army Corps of Engineers, Louisville District, Purchase Card Guidebook, October 1998 (Revised August 31, 2001). The Louisville District Guidebook provides the purchase card policies and procedures for the District. The Louisville District Guidebook requires cardholders to ensure that funds are certified before they make a purchase. Approving officials must certify funding through the Corps of Engineers Financial Management System. The cardholder must include the purchase request and commitment (PR&C) form as part of the permanent record, along with all receipts, the monthly statement of account, and the monthly log. The APC must prepare a delegation of authority letter for each cardholder and approving official. The delegation of authority letters must be signed by the Chief of the District Contracting Division, the cardholder, and the approving official, and copies must be retained by the cardholder, approving official, and the APC.

Louisville District Purchase Card Program

In FY 2003, the District was composed of 166 cardholders and 95 approving officials, including alternate approving officials. District cardholders made 15,228 purchase card transactions, valued at \$5.9 million. We reviewed FY 2003 transactions and account files for 12 cardholders, which included 597 purchase card transactions, valued at \$993,000.

Oversight of the Purchase Card Program. The District Contracting Division had overall responsibility for Government purchase card program operations at all of its 42 field offices. The Army SOP requires the Chief of the District Contracting Division to designate an APC to provide complete oversight of the purchase card program. In addition, the Army SOP states that APCs receive and process purchase card applications from approving officials; conduct training; prepare policy and guidance; prepare delegation of authority letters to appoint cardholders, approving officials, and certifying officials; change dollar thresholds for purchase cards; cancel cards; and perform audit reviews. For example, the DoD Charge Card Task Force Final Report, June 27, 2002, acknowledged that many APCs perform the required purchase card program responsibilities on an “other duties as assigned” basis. However, the DoD Task Force made a recommendation to develop a best practice for the appropriate skill sets specifically needed by an APC.

Agency Program Coordinator. The Chief of the District Contracting Division designated a full-time APC for the purchase card program in October 2003. However, the June 2002 Army Regulation 15-6 report noted that the APC “was never, and still is not, a full-time responsibility. It was a very small and de-emphasized aspect of different people’s responsibilities within Contracting. . . . This should be a full-time position.” The APC stated that the Chief of the District Contracting Division informally designated a contract specialist to serve from July 2002 through May 2003 as a part-time APC in response to the recommendations made by the Army Regulation 15-6 report. The part-time APC was responsible for retraining cardholders and approving officials, conducting annual reviews of purchase card accounts, and providing oversight of the purchase card program, in addition to performing contract specialist

responsibilities for the District. The APC position was then vacant from May 19 through October 14, 2003. On October 15, 2003, the Chief of the District Contracting Division unofficially appointed the contract specialist as the full-time APC at the direction of the Acting District Deputy Commander. However, the APC continued to perform contract specialist duties on an “other duties as assigned” basis.

Louisville District Purchase Card Policies and Procedures

District purchase card managers did not effectively implement Army purchase card guidance and did not adequately enforce existing controls throughout the process.

Ineffective Implementation of Army Purchase Card Guidance. District purchase card managers did not effectively implement Army purchase card guidance. The District Contracting Division issued the Louisville District Guidebook in October 1998 and issued a revised version in August 2001. However, the District Contracting Division did not update the Louisville District Guidebook to reflect the purchase card program requirements in the Army SOP. Subsequently, the Army issued its Government Purchase Card SOP on July 31, 2002. The Army SOP requires proper separation of key duties such as making purchases, authorizing payments, and certifying funds. The Army SOP also requires annual reviews on all assigned approving officials. However, the Louisville District Guidebook does not adequately address proper separation of duties. It is also unclear and overly general on the performance of annual reviews.

Separation of Duties. The Louisville District Guidebook does not adequately address separation of duties for initiating, approving, certifying, and receiving purchases. The Army SOP requires proper separation of key duties such as making purchases, authorizing payments, certifying funds, and reviewing auditing functions. In addition, the Army SOP and the Louisville District Guidebook require cardholders to ensure that funds are certified by the appropriate official to pay for purchases before the cardholders make purchases. However, controls over separation of duties for initiating, approving, and certifying PR&Cs were inadequate.

Purchase Requests and Commitments were Initiated, Approved, and Certified by a Single Individual. Six of the 12 cardholder account files had a total of 206 transactions containing PR&Cs that were initiated, approved, and certified by a single individual. For example, one cardholder account file had 72 transactions for FY 2003. Of those 72, 59 (82 percent), valued at \$70,544, had PR&Cs initiated, approved, and certified by a single individual. Another cardholder account file had 174 transactions for FY 2003. Of those 174, 114 (66 percent) valued at \$12,027, had PR&Cs initiated, approved, and certified by a single individual. In addition, a third cardholder account file contained a PR&C initiated, approved, and certified by a single individual in the amount of \$2,475 for the purchase of photography services. See the following table for a summary of the six cardholder account files.

Summary of PR&Cs Initiated, Approved, and Certified by a Single Individual

Cardholder Account File	Number of Transactions Reviewed	Transactions Containing PR&Cs Prepared by a Single Individual	Amount of Transactions	Percentage of Cardholder Transactions
1	27	2	\$4,482	7
2	11	5	\$2,531	45
3	72	59	\$70,544	82
4	21	2	\$103	10
5	174	114	\$12,027	66
6	26	24	\$877	92
Total	331	206	\$90,564	62

Purchases Made Before Certification of Funds. PR&Cs must be certified by the appropriate official before a cardholder can make a purchase in accordance with Army and District regulations. However, District personnel certified PR&Cs after purchases were made. Of the 12 cardholder account files that we reviewed, 37 of the 597 transactions contained PR&Cs that were certified after purchases were made. For example, one cardholder charged \$2,091 for park attendant services on May 5, 2003, and the PR&C was certified 56 days later, on June 30, 2003. Another cardholder charged \$1,412 for fuel filters on March 7, 2003, and the PR&C was certified 60 days later, on May 6, 2003. Proper separation of duties would ensure that PR&Cs are certified before purchases are made in accordance with Army and District regulations. See Appendix D for a summary of the transactions that were certified after purchases were made.

Annual Purchase Card Account Reviews. Contracting personnel did not perform required annual purchase card reviews. The Louisville District Guidebook states that the APC will perform audit reviews, but it does not provide guidance on how or when the reviews should be done. The Army Regulation 15-6 investigation report, issued in June 2002, recommended developing and implementing strict guidelines for performing purchase card audits. The Army SOP requires District-level APCs to review 100 percent of approving official accounts annually. As part of this procedure, cardholder accounts assigned to an approving official must also be reviewed.

Contracting personnel stated that before the Army SOP was issued in July 2002, contracting teams were responsible for performing annual “public relations” visits, which included reviewing purchase card accounts. Contracting personnel stated that District management did not support the purchase card account reviews and discouraged identifying and reporting on problems. Contracting personnel were unable to provide any reports on these reviews; therefore, no documentation was available to support that the reviews were conducted, how they were conducted, and whether problems were identified.

The APC did not perform the required annual purchase card reviews for any of the 12 FY 2003 cardholder account files that we reviewed. Furthermore, of the 166 cardholder account files in the District, the APC reviewed only 4 in FY 2003; of the 95 approving official and alternate approving official account

files, the APC reviewed only 3 in FY 2003. Annual reviews, a key control for ensuring compliance with purchase card guidance, were not performed effectively.

Inadequate Enforcement of Existing Controls. District managers did not adequately enforce existing purchase card program controls. Specifically,

- Government personnel prepared and provided invoices for vendors,
- managers did not properly direct purchase card-related questions to the APC, and
- cardholders failed to properly retain required supporting documentation in cardholder account files.

Government Personnel Prepared and Provided Invoices for Vendors.

Of the 12 cardholder account files that we reviewed, 3 cardholder account files contained transactions that included invoices prepared and provided by District personnel for vendors. Specifically, the 3 cardholder account files for 5 different vendors contained 19 similarly formatted invoices, totaling \$55,570. The three cardholders confirmed that District personnel provided generic invoice forms to the five vendors.

Two of the three cardholders stated that four of the five vendors used the generic invoice for future billing submissions. The four vendors completed the number of days worked, total dollar amount of the billing, and date of the invoice. The vendors signed the invoice and submitted it to the cardholder. The cardholders stated that District personnel provided generic invoice forms to the vendors because the vendors did not know what needed to be included on an invoice to the Government.

One of the three cardholders stated that District personnel prepared and mailed standard invoices for the fifth vendor because the vendor was elderly and preparing the invoice was easier for the cardholder. The cardholder filled in the days worked and dollar amount, and the vendor signed the invoice stating that the information was true and correct. However, all five vendor contracts included a contract clause requiring vendors to submit original invoices. The clause is a commercial item clause from the Federal Acquisition Regulation Part 52.212-4, "Contract Terms and Conditions - Commercial Items." The commercial item clause provided detailed guidance on items to be included in vendor invoices. The vendors who submitted invoices prepared by Government personnel did not comply with the commercial item clause included in the contracts.

Additionally, two other District cardholders at Mississinewa Lake stated that they also prepared invoices for one vendor because the vendor was elderly. Field personnel found several mistakes with those invoices. We did not review those cardholder account files.

Purchase Card Point of Contact. The Army SOP requires APCs to manage the day-to-day operations of the purchase card program. In addition, the Army Regulation 15-6 investigation report, issued in June 2002, recommended

that the District APC should be the single point of contact for all purchase card-related questions, concerns, and issues. However, District cardholders posed purchase card-related questions to different District managers and received different interpretations on guidance. Some cardholders asked managers in their chain of command, some asked personnel in the Resource Management Office, and others sought answers from District Contracting Division personnel. When asked about procedures for addressing questions on purchase card use, one cardholder stated that he would contact the APC. Two other cardholders stated they would check the Army SOP and the Louisville District Guidebook for answers and, if necessary, contact their approving official, then the operations manager for their area, and finally the District Contracting Division.

In a November 2000 e-mail, an operations manager asked the Resource Management Office whether a single individual could initiate, approve, and certify PR&Cs and a second individual could document receipt of goods. The Resource Management Office reply stated that the approver of a PR&C should not be the originator of the PR&C, but that the process described by the operations manager was acceptable. One cardholder was still using that guidance in January 2004. However, in May 2002, the Chief of the Resource Management Office distributed an e-mail to personnel in the Operations and Contracting Divisions stating that a single individual could initiate, approve, and certify the PR&C as well as document receipt of the goods. One cardholder was still using this e-mail as guidance in January 2004.

Required Supporting Documentation. Cardholders failed to properly retain required supporting documentation in accordance with the Army SOP and the Louisville District Guidebook. The Army SOP requires certified billing statements and supporting documents to be retained for 6 years and 3 months after final payment. The Louisville District Guidebook requires cardholders to retain PR&Cs, receipts, and monthly statement of accounts for 6 years and 3 months. However, for the 12 cardholder account files we reviewed, 10 cardholder account files did not contain the required supporting documentation. Specifically,

- eight cardholder account files were missing delegation of authority letters,
- nine cardholder account files were missing a total of 158 PR&Cs,
- seven cardholder account files were missing a total of 121 invoices, and
- seven cardholder account files were missing a total of 120 receiving reports.

Summary

Our review of purchase card files and transactions showed that improvements needed to be made to purchase card controls. District purchase card managers did not effectively implement Army purchase card guidance and did not adequately

enforce existing purchase card program controls. District policies and procedures were not updated to reflect Army purchase card program requirements. As a result, separation of duties was inadequate and required annual purchase card reviews were not effective. In addition, controls for initiating, approving, and certifying purchases were inadequate. Furthermore, Government personnel created vendor invoices, cardholders received different interpretations on guidance, and cardholders did not properly retain required supporting documentation in their files because District managers did not adequately enforce existing purchase card program controls.

Purchase card program policies and procedures need to be effectively implemented, program management must emphasize program oversight responsibility, and controls need to be enforced. Of particular concern are the June 2002 Army Regulation 15-6 report recommendations to designate a full-time APC and develop and implement strict guidelines for performing annual account reviews. District management did not ensure the appointment of an APC for 16 months after the recommendation was made. The APC occupies a key position in the purchase card program because this individual is both the primary source of support to management and cardholders and a critical element of the internal control program. District management must engage in more proactive oversight to mitigate risks associated with the purchase card program. District management must recognize the need to address program recommendations and fully support implementing recommendations.

The purchase card program is vital to the efficient operation of the DoD. While providing efficiency and savings to the Government, the purchase card program can pose a high level of risk because it promotes decentralized purchasing and may allow the same individual to order and receive goods and services. There is a potential for fraud and abusive or improper transactions. Losing the capabilities that purchase cards provide would require the reestablishment of a costly acquisition infrastructure. Therefore, managers at all levels must put the utmost stress on the proper management of the program. The recommendations contained in this report, if fully implemented, will improve the strength of the controls of the purchase card program.

Recommendations, Management Comments, and Audit Response

A.1. We recommend that the Commander, Louisville District:

a. Require a full-time Agency Program Coordinator dedicated to implementing and overseeing effective purchase card program controls.

Management Comments. The Deputy Commander, U.S. Army Corps of Engineers concurred, stating that the Louisville District hired a full-time Agency Program Coordinator in April 2004. Also, the purchase card program will be reviewed and revised to adhere to all requirements.

b. Direct that purchase card program guidance implements Army requirements and is appropriately disseminated throughout the District.

Management Comments. The Deputy Commander concurred and stated that the action would be completed in 90 days.

c. Clearly identify the Agency Program Coordinator as the single point of contact for all questions related to the purchase card program.

Management Comments. The Deputy Commander concurred and stated that the action would be completed in 90 days.

A.2. We recommend that the Agency Program Coordinator, Louisville District:

a. Revise the Louisville District Guidebook to adequately implement the Army Standing Operating Procedure. Specifically, the Louisville District Guidebook should address annual purchase card account reviews and adequate separation of duties.

Management Comments. The Deputy Commander partially concurred and stated that the Louisville District Guidebook will be revised to adequately implement the Army Standard Operating Procedure, but the Louisville Guidebook did not need to address adequate separation of duties because the District is following Headquarters guidance (see Recommendation A.2.b.(2).).

Audit Response. The comments concerning the separation of duties are not responsive. The Louisville District Purchase Card Program did not comply with Army requirements for separation of duties, and controls over separation of duties for initiating, approving, and certifying purchases were inadequate. We request that the Deputy Commander reconsider his position and provide additional comments or alternate solutions for the recommendation.

b. Annually review 100 percent of approving official accounts in accordance with the Army Standing Operating Procedure to verify:

(1) Compliance with purchase card guidance.

Management Comments. The Deputy Commander concurred and stated that the action would be completed in 180 days.

(2) Purchase requests and commitments are initiated, approved, and certified by three different individuals.

Management Comments. The Deputy Commander nonconcurred with requiring that purchase request and commitments be initiated, approved, and certified by three different individuals. The Corps Government purchase cardholders were exempt from the policy that no one individual can be granted the authority to initiate, approve, obligate funds, and receive goods on the basis that adequate separation of duties already exists within the Corps of Engineers Financial Management System to prevent fraud and abuse. Further, purchase card

payments may not be made until the approving official approves cardholders' statements. The District has 42 field offices, many of which are in remote locations with just a few employees, and the cost of implementing approval for credit card purchases when adequate controls exist would outweigh the benefits derived.

Audit Response. We disagree that adequate separation of duties exists in the credit card process to prevent fraud and abuse. The Louisville District had not complied with Army requirements for separation of duties. Purchase requests and commitments were not initiated, approved, and certified by three different individuals as required by the Army SOP. Furthermore, the Army Corps of Engineers does not have the authority to exempt cardholders from the Army SOP requirement for separation of duties. We request that the Deputy Commander reconsider his position and provide additional comments or alternate solutions on the recommendation.

(3) Cardholders accept only invoices originally prepared by the vendor in accordance with the commercial item clause of the contract.

Management Comments. The Deputy Commander concurred and stated that the action would be completed in 90 days.

(4) Cardholder and approving official account files are maintained in accordance with Army guidance.

Management Comments. The Deputy Commander concurred and stated that the action would be completed in 90 days.

B. Contracting Controls

U.S. Army Corps of Engineers, Louisville District contracting actions were not consistently executed in accordance with applicable regulations. Specifically, 6 of 11 contracts that we reviewed contained contracting irregularities in the following areas:

- contract documentation signature authority (1 contract),
- source selection plan approval timeliness (3 contracts),
- solicitation procedures application (1 contract), and
- design-build civil works contract funding (1 contract).

We did not find these irregularities on the five remaining contracts.

The irregularities occurred because internal management control procedures were inadequate to ensure that contracting personnel complied with established procurement regulations. As a result, the Louisville District Contracting Division cannot ensure that the contracting functions are being effectively carried out.

Army Corps of Engineers Procurement Guidance

The District established internal acquisition guidance in Louisville District Procedural Acquisition Instructions, January 1, 2001, which generally supplemented the Federal Acquisition Regulation (FAR), Defense FAR Supplement, Army FAR Supplement, Engineer FAR Supplement (EFARS), and other DoD and Army regulations. However, the Louisville District guidance is not specific on contracting procedures for supplies, equipment, and services regarding contract documentation signature authority, source selection plan approval timeliness, solicitation procedures application, and design-build civil works contract funding. Because the Louisville District guidance is inadequate, the contracting office cannot provide reasonable assurance that contracting functions are being effectively carried out in accordance with applicable laws and regulations.

Management and Administration of Contracts

The U.S. Army Corps of Engineers, Louisville District has both civil works and military construction contracting responsibilities. The civil works services include flood control, navigation, water supply, water quality, hydropower, environmental conservation, recreation, and emergency response. The military construction mission of the District is in support of Army, Air Force, and DoD facilities located in the five-state area of Illinois, Indiana, Kentucky, Michigan, and Ohio. During FY 2002, the District Contracting Division processed about

2,400 contracting actions with total obligations valued at \$488.2 million. We reviewed elements of 11 contracts that were awarded by the District Contracting Division during the past 5 years. Our review found irregularities in District contracting actions.

Contract Documentation Signature Authority. An administrative contracting officer (ACO) acted outside his authority by signing contract modifications. In May 2000, a contracting officer for contract DACA27-99-C-0050 appointed an ACO to exercise limited contracting officer authority allowed by the EFARS. The appointment letter specified that the ACO may modify the contract within the scope of the contract under the specified clauses unique to construction contracts, provided that no individual contract modification exceeds \$100,000. However, between February 22, 2001, and August 14, 2002, the ACO executed and signed eight contract modifications with amounts ranging between \$116,800 and \$300,000. No documentation indicated that a control procedure was in place to prevent such contracting irregularities.

Source Selection Plan Approval Timeliness. The Source Selection Authority (SSA) and Office of Counsel, Louisville District did not approve source selection plans before solicitations were issued for 3 of the 11 contracts that we reviewed. For example, the District Contracting Division issued contract solicitation DACW27-02-R-0004 on March 21, 2002, but the SSA did not approve the source selection plan until June 20, 2002, 3 months after the issuance of the solicitation. FAR Subpart 15.3, "Source Selection," states that the objective of source selection is to select the proposal that represents the best value to the Government. Additionally, the FAR requires the SSA to approve the source selection plan before issuing it. According to the source selection plan for solicitation DACW27-02-R-0004, the Chief of the District Contracting Division was the SSA. The SSA has full responsibility to prepare and maintain the source selection plan before the solicitation is issued, as prescribed by the District procurement guidance.

Solicitation Procedures Application. District Contracting Division personnel inappropriately used an architect and engineer (A&E) service contract to procure project management services. District Contracting Division personnel awarded contract DACA27-00-D-0004 under the Brooks Act, section 541, title 40, United States Code, (40 U.S.C. 541), as an A&E services contract. However, the primary scope and use of the contract indicated that the contract was for project management services, including developing plans, schedules, and attending and setting up meetings. The contract scope matched standard project management services listed in the FAR. As a result, District Contracting Division personnel used an A&E service contract, which was an improper solicitation procedure, to procure project management services that do not fall under A&E services.

Design-Build Civil Works Contract Funding. District Contracting Division officials incrementally funded a design-build civil works contract in accordance with U.S. Army Corps of Engineers procurement regulations (EFARS 32.7, "Contract Funding"). However, the requirement to incrementally fund design-build contracts conflicts with Engineering Regulation 1180-1-9, "Design-Build Contracting," which requires civil works project contracts to be fully funded at the time of award. Contract DACW27-02-C-0005 was a civil

works design-build contract for the design and construction of the Olmstead Miter Gate Storage Facility at Smithland Locks and Dam, Hanletsburg, Illinois. The contract was not fully funded at the time of award, as required by Engineering Regulation 1180-1-9. The contract contained EFARS clause 52.232-5001, “Continuing Contracts,” which required incremental funding. The contracting officer stated that the contract award complied with prescribed procurement regulations, primarily the EFARS. EFARS 32.7, “Contract Funding,” authorizes the use of civil works incrementally funded contracts and does not reflect the funding restriction in Engineering Regulation 1180-1-9. The District personnel were unaware of Engineering Regulation 1180-1-9 requirements, and did not comply. Contract awards of this type will continue to violate one of the regulations until the conflict between EFARS 32-7 and Engineering Regulation 1180-1-9 is resolved.

Summary

U.S. Army Corps of Engineers, Louisville District could not ensure that its contracting functions were effectively carried out during the contract award process. U.S. Army Corps of Engineers, Louisville District needed to establish internal policies and procedures to ensure future compliance with established procurement regulations. Based on our review of the 11 contracts, we believe there is a need for refresher training on overall contracting procedures to ensure that the contracting functions are being effectively carried out by contracting personnel. In addition, because the review was limited to the 11 contracts related to the Hotline allegations, there is potential for other contract awards to contain different kinds of issues. Also, U.S. Army Corps of Engineers Headquarters needed to clarify conflicting provisions between the EFARS and Engineering Regulation to prevent confusion in complying with prescribed regulations in the future.

Recommendations

B.1. We recommend that the Commander, Louisville District:

a. Direct the Chief of the District Contracting Division, Louisville District to strengthen the District internal management control procedures for compliance with applicable procurement guidance to include controls on contract documentation signature authority, source selection plan approval timeliness, solicitation procedures application, and design-build civil works contract funding.

Management Comments. The Deputy Commander, U.S. Army Corps of Engineers concurred and stated that the Contracting Division has established several standard operating procedures and checklists to assist Contracting Division personnel with applicable regulatory requirements. In addition, administrative contracting officer documentation and signature authority will be

taken care of when annual inspections are made by the APC Coordinator. The Deputy Commander stated that the action would be completed in 180 days.

b. Provide contracting personnel refresher training on overall contracting procedures.

Management Comments. The Deputy Commander concurred and stated that the action would be completed in 180 days.

B.2. We recommend that the Principal Assistant Responsible for Contracting, Headquarters, U.S. Army Corps of Engineers address the conflicting provisions between the Engineering Regulation 1180-1-9 and Engineer Federal Acquisition Regulation Supplement 32.7.

Management Comments. The Deputy Commander concurred, stating that the Army Corps of Engineers is transitioning to Project Development Teams, which will allow greater overview of projects whose contract price depends on reservations of funds from future appropriations. The action would be completed by June 30, 2005.

Appendix A. Scope and Methodology

We reviewed specific allegations made to the Defense Hotline regarding purchase card irregularities and contracting actions at the U.S. Army Corps of Engineers, Louisville District and also the management control program as it relates to the audit objective.

Specifically, we reviewed 12 cardholder purchase card accounts, including 597 transactions valued at \$993,000 made in FY 2003. The cardholders were selected for review based on:

- transactions over \$2,500,
- transactions made to the same vendor within 3 days (potential split transactions),
- potential recurring services, and
- questionable vendors.

We reviewed PR&C documents, invoices, receiving reports, annual cardholder file review memorandums, and other supporting documentation provided by Louisville District personnel. We interviewed key personnel from the U.S. Army Corps of Engineers Headquarters, Great Lakes and Ohio River Division and the Louisville District.

We reviewed documentation for 11 contracts pertaining to the Defense Hotline allegations that were awarded by the Louisville District. Contract documentation included solicitations, price negotiation memorandums, Government cost estimates, source selection plans, contract modifications, PR&Cs, task orders, ACO and ordering officer delegation of authority letters, and Individual Contracting Action Reports. We interviewed contracting officers and procurement officials that were involved in the contract awards that we reviewed. See the following table for details regarding the contracts reviewed.

Contracts Reviewed

<u>Contract Number</u>	<u>Project Description</u>	<u>Contract Value</u>
DACA27-97-D-0015	Engineering Support Service	\$300,000,000
DACA27-98-D-0001	Contract Management Service	\$3,000,000
DACA27-98-D-0035	Installation Support Service	\$25,000,000
DACA27-99-C-0050	Plant Upgrade	\$16,953,000
DACA27-00-D-0004	Project Management Service	\$3,000,000
DACA27-00-D-0005	Facilities Maintenance	\$50,000,000
DACA27-01-D-0002	Installation Support Service	\$15,000,000
DACA27-01-D-0003	Maintenance and Repairs	\$30,000,000
DACW27-02-C-0005	Construction of a Storage Facility	\$8,696,000
DACW27-02-C-0023	Lock and Dam Construction	\$221,441,500
DACA27-02-C-0027	Construction of a New Gate	\$4,012,000

We performed this audit from July 2003 through April 2004 in accordance with generally accepted government auditing standards.

Scope Limitation. We did not review Corps of Engineers Financial Management System procedures or controls for paying monthly purchase card bills. We focused on the allegations associated with the improper use of purchase cards and associated controls.

Use of Computer-Processed Data. To achieve the audit objective, we relied on computer-processed data from Citibank and U.S. Bank, which were provided to us by the Defense Manpower Data Center. 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 purchase card transaction data to source documentation. We did not find errors that would preclude the use of computer-processed data to meet the audit objective or that would change the conclusion in this report.

Government Accountability Office High-Risk Area. The Government Accountability Office (GAO) has identified several high-risk areas in the DoD. This report provides coverage of the high-risk area to “Improve processes and controls to reduce contract risk.”

Management Control Program Review

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

Scope of the Review of the Management Control Program. We reviewed the adequacy of management controls at the U.S. Army Corps of Engineers, Louisville District related to the allegations made to the Defense Hotline. Specifically, we reviewed Louisville District management controls over the implementation of guidance, separation of duties, purchase card account reviews, and maintenance of cardholder account files. Although we did not identify any material management control weaknesses for FY 2003, we determined that significant violations of the purchase card program were not reported as material weaknesses in FY 2002.

In April 2002, the Chief of the District Contracting Division reported three purchase card program-related management control weaknesses to District management. However, District management did not consider that the

weaknesses were material. In the FY 2002 Annual Assurance Statement, the District Commander stated:

Review of IMPAC Visa Card Program identified potential program violations such as split requirements and purchase of recurring services. As a result, we began an informal 15-6 investigation, the results of which are expected within a few weeks.

The memorandum stated that the weakness was not material but required management action. The District Commander stated that District personnel had reasonable assurance that existing management controls provided the necessary levels of protection and safeguards to prevent fraud, waste, and abuse. However, the Army Regulation 15-6 investigation was well under way and, with the assistance of District contracting and internal review staff, was completed within a few weeks of the Annual Statement of Assurance memorandum. Furthermore, the Chief of the District Contracting Division had initially reported the weaknesses as material. The Chief of the District Contracting Division had responsibility for the program, had assigned staff to assist the investigator, and was aware of the significance of the weaknesses. Therefore, District managers were aware of the significance of the program violations and inadequate purchase card controls and should have reported the weaknesses as a material issue.

As a result, Louisville District purchase card program issues were not included in the U.S. Army Corps of Engineers Annual Statement of Assurance for FY 2002 as material weaknesses. However, the Army identified the purchase card program as a material weakness in its FY 2002, Annual Statement of Assurance, and the DoD cited that the purchase card program's systemic weakness was caused by inadequate emphasis on proper use of the purchase card, poorly enforced controls, and lax oversight.

Appendix B. Prior Coverage

During the last five years, the GAO has issued six reports and testimony discussing purchase card use within the Army specifically and DoD in general. During that same time period, the Inspector General of the Department of Defense (IG DoD) has issued six reports and testimony discussing purchase card use within the DoD. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted IG DoD reports can be accessed at <http://www.dodig.osd.mil/audit/reports>.

GAO

GAO Report No. GAO-04-717T, "Purchase Cards: Increased Management Oversight and Control Could Save Hundreds of Millions of Dollars," April 28, 2004

GAO Report No. GAO-04-430, "Contract Management: Agencies Can Achieve Significant Savings on Purchase Card Buys," March 12, 2004

GAO Report No. GAO-04-156, "Purchase Cards: Steps Taken to Improve DoD Program Management, but Actions Needed to Address Misuse," December 2, 2003

GAO Testimony No. GAO-02-844T, "Purchase Cards: Control Weaknesses Leave Army Vulnerable to Fraud, Waste, and Abuse," July 17, 2002

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

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

IG DoD

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

IG DoD 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

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

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

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

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

Appendix C. Summary of Allegations and Results

The results of the allegations to the Defense Hotline are discussed below. The allegations involved purchase card controls and contracts awarded by the Louisville District.

Purchase Cards

The Hotline allegations related to purchase card irregularities were associated with transactions reviewed from March through June 2002 as part of the Army Regulation 15-6 investigation. The investigation identified errant purchase card policies that resulted in a significant number of improper purchase card transactions. We reviewed transactions associated with the investigation to determine whether purchase card-related allegations were substantiated. However, allegations pertaining to the April 2000 through April 2002 data that were either substantiated or partially substantiated were unsubstantiated for the FY 2003 data. For example, we identified questionable invoices reviewed by the investigator but not identified or reported in the Army Regulation 15-6 report; our review of FY 2003 purchase card data indicated that the District cardholders were no longer splitting transactions or paying for recurring services without a contract in place.

Allegation A.1. Split Purchases. All of the allegations under A.1. were associated with transactions reviewed in the Army Regulation 15-6 investigation. Although allegations A.1.a. through A.1.f. below were substantiated or partially substantiated for April 2000 through April 2002, the allegations were unsubstantiated for FY 2003 data. Specifically,

a. Allegation. A pier and a boat dock were constructed using 95 transactions totaling approximately \$95,000. Also, a visitor center was renovated in 167 transactions totaling greater than \$100,000.

Results. Substantiated. The pier and the boat dock were constructed in 94 separate transactions that amounted to \$93,592. Each of the 94 transactions was less than the micro-purchase threshold. A visitor center at a lake within the District was renovated using 150 separate transactions that totaled \$117,978. None of the transactions was greater than the threshold. The June 2002 Army Regulation 15-6 investigation report identified split purchases as a significant problem within the Louisville District. Our review of FY 2003 data determined that split purchases were no longer a significant problem for the District.

b. Allegation. Supervisors were instructing their cardholders to split purchases, despite knowing this practice violated the existing rules and regulations.

Results. Substantiated. Of the 35 ratification packages reviewed, 23 contained statements from the cardholders that they were instructed by their supervisors to split the purchases. One of the cardholders reaffirmed this verbally during discussions regarding the ratification packages.

c. Allegation. Recurring services, such as mowing and cleaning, that annually exceeded \$2,500 were paid on a monthly basis using the purchase card because no contract was in place for these types of services.

Results. Substantiated. One of the ratification packages contained 110 transactions that totaled \$151,046. All the transactions were for recurring services, such as monthly mowing and cleaning, that were performed during a period after a contract for those services had expired and before the new contract was negotiated. Each transaction was below the \$2,500 micro-purchase threshold. However, a cardholder asked the District Contracting Division whether acquiring these services using the purchase card was allowed until the new contract was put in place. The District Contracting Division responded that those charges were fine, and the cardholders relied on that guidance when making these purchases.

d. Allegation. Wage rates required by the Davis-Bacon Act when construction work on a project exceeded \$2,000 were not being paid.

Results. Partially substantiated. Office of Counsel identified 90 potential Davis-Bacon Act violations but decided it would not be productive to investigate the matter further because a significant period of time had passed since the actions occurred, no complaints had been received from workers, and contracting practices had improved. Because of time and resource constraints, this allegation was not examined further.

e. Allegation. Cardholders were willfully telling vendors to split their invoices to remain below the \$2,500 micro-purchase threshold for the purchase card.

Results. Because split purchases were not identified in FY 2003 transaction data, this allegation was not examined further.

f. Allegation. Two vendors used by the cardholders had a number of transactions for \$1,999 and \$2,000 to stay under the \$2,000 construction activity threshold (the micro-purchase threshold is \$2,500 for all purchase card purchases except those including construction requirements, where the threshold is \$2,000) for purchases on the purchase card. In addition, one of those vendors had more than 50 consecutively numbered invoices.

Results. Substantiated. Three transactions were found for \$1,999 and 13 other transactions were for exactly \$2,000. The allegation of consecutive invoices was partially substantiated. The invoices for this vendor spanned 57 numbers, from invoice number 8 through 64. Of those, 44, or 77 percent, were present in the various ratification packages. However, there was one string of 14 consecutive invoices from this vendor, as well as 4 other instances of at least 6 consecutive invoices.

g. Allegation. The former Chief of the District Contracting Division had issued policy effective February 1, 1999, which stated that any supply or service valued at \$2,500 or less must be acquired using the purchase card. The guidance further stated that the District Contracting Division would send a letter to any

vendor that had a blanket purchase agreement and inform them that the option(s) on those blanket purchase agreements would not be exercised if the vendor would not accept the purchase card as payment. The policy continued that after blanket purchase agreements expired, individual cardholders would purchase those supplies or services. The policy ended with a “Note” that stated, “This policy shift reduces the concern for splitting requirements. If the purchase is able to stand alone, it is not considered splitting requirements.”

Results. Substantiated. The Louisville District Office of Counsel was aware of the errant guidance but took no action to correct the issue. Office of Counsel, Louisville District issued two legal opinions on the guidance in May and November 1999 after the guidance was issued, but the guidance remained in effect. The guidance was superseded in March 2002 when a new Chief of the District Contracting Division issued updated guidance.

Allegation A.2. Purchase Requests and Commitments Completed After the Transaction. PR&Cs were often approved and certified after transactions were completed.

Results A.2. Substantiated. Nineteen of the 35 ratification packages reviewed contained PR&Cs that had been completed after the purchase had already been made. Those 19 ratification packages contained 616 transactions, of which 192, or 31 percent, contained PR&Cs that were approved and certified after the transactions were completed.

Our review of FY 2003 data indicated that 6 of the 12 cardholder account files reviewed also contained PR&Cs completed after the purchase had already been made. Of the 327 transactions reviewed for those 6 cardholders, 37 had PR&Cs completed after the purchase had already been made. See finding A of this report for details.

Allegation A.3. Services and Purchase Requests and Commitments Completed in Different Fiscal Years. Services were being purchased in one fiscal year and the PR&C was approved and certified in another fiscal year.

Results A.3. Partially substantiated. One cardholder account file had 37 PR&Cs indicating that the PR&C was approved and certified in one fiscal year, but the purchases were made and charged to the cardholder the following fiscal year. However, the Resource Management Office stated these transactions involved civil appropriated money, not military money, and had no time or fiscal year restrictions. Because of time and resource constraints, this allegation was not examined further.

Allegation A.4. Recommended Disciplinary Actions Reduced. The Army Regulation 15-6 investigation report recommended disciplinary actions be taken against a number of cardholders and approving officials for their actions. The recommended disciplinary actions ranged from suspension to a warning. All the disciplinary actions were reduced.

Results A.4. Substantiated. A Louisville District civilian personnel officer stated that three supervisors who were recommended for suspension received letters of

reprimand instead. The deputy district commander made the decision to change the disciplinary action because the supervisors all stated they were not given the opportunity to state their position. Twelve cardholders received either a warning or counseling.

Allegation A.5. Huntington District \$200,000 Building. The Operations Division within the U.S. Army Corps of Engineers, Huntington District built a new building that cost approximately \$200,000 using credit card transactions.

Results A.5. The U.S. Army Corps of Engineers, Huntington District Internal Review Office examined this issue and determined split purchases were in fact used in the construction of the building. The Internal Review Office issued Report No. LRH 02-13, which recommended that the Chief of the District Contracting Division establish and issue clear and comprehensive guidance, redesign purchase card training, and provide refresher training to District Contracting Division personnel, as well as cardholders and their approving officials. The report also made recommendations that the Chief of the Operations and Readiness Division direct site managers to coordinate acquisition of materials estimated to exceed purchase card limitations on projects with the District Contracting Division and also to request indefinite delivery/indefinite quantity contracts that identify the purchase card as a method of payment with vendors. Finally, Huntington District Internal Review Report No. LRH 02-13 recommended the Chief of the District Contracting Division and the Chief of the Operations and Readiness Division consider establishing a purchasing agent at the Marietta Repair Station to ensure requirements that exceeded the micro-purchase threshold were met in a timely manner. This allegation was not examined further.

Allegation A.6. Invoices Created by Government Personnel. Government personnel were creating vendor invoices.

Results A.6. Substantiated. An approving official involved with some of the ratification packages that resulted from the Army Regulation 15-6 investigation stated District personnel created invoices for some transactions. In addition, 3 of the 12 FY 2003 cardholder account files we reviewed contained invoices prepared by Government personnel. All three cardholders stated they prepared invoices for the vendors. See finding A of this report for details.

Allegation A.7. Guard Services. Guard services were contracted for at Fort Knox, which violated Defense FAR Supplement part 237.102-70, "Prohibition on Contracting for Firefighting or Security Guard Functions."

Results A.7. Partially substantiated. Four Fort Knox ratification packages contained transactions for guard services. Examples of this allegation were not found during our review of FY 2003 transactions.

Defense Federal Acquisition Regulation Supplement 237.102-70(d) which implements Section 332 of the 2003 National Defense Authorization Act (Public Law 107-314) allows contracts for increased performance of security guard functions at military installations or facilities if the security guard functions are undertaken in response to the terrorist attacks on the United States on September 11, 2001.

Contracting

Allegation B.1. Design-Build Indefinite Delivery/Indefinite Quantity Construction Contracts. Task orders were issued on design-build indefinite delivery/indefinite quantity contracts for design only, with an unpriced option for construction, and the construction option was never negotiated. Design was funded with 1 year fiscal year operation and maintenance money and construction was funded with different fiscal year operation and maintenance dollars, which the complainant stated, “violates fiscal law.”

Results B.1. Unsubstantiated. The allegation that a task order issued for design only with an unpriced option for construction in violation of the Brooks Act was not substantiated. The Brooks Act does not prohibit issuance of a design-only task order with an option for construction. The Brooks Act would typically apply on a “design-bid-build” project. The indefinite delivery/indefinite quantity contract was more a “design-build” project as defined in 10 U.S.C. 2305a, and implemented in FAR Part 36, “Construction and Architect-Engineer Contracts.”

The complainant’s allegation that the construction option was never negotiated was not substantiated. Modifications to task orders to add a construction phase to contracts DACA27-00-D-0005, DACA27-98-D-0035 and DACA27-01-D-0003 were negotiated.

The allegation that the Louisville District violated fiscal law by funding the design phase with one fiscal year operation and maintenance dollars and construction with a different fiscal year operation and maintenance dollars was not substantiated. Both the design and construction were funded with the Army’s military construction appropriation using the same year funding. There was no evidence of fiscal laws being violated. The service to be provided in the task order must be a requirement of the fiscal year during which the funds are available. The design and construction of a project may be the genuine needs of different fiscal years.

Allegation B.2. Ordering Officer Authority. Ordering officers were not properly authorized. Authorization letters were issued by contracting officers and not by the Chief of the District Contracting Division as required. Also, the annual reviews of ordering officers’ records required by the Army FAR Supplement were never performed.

Results B.2. Substantiated. The contract file for DACA27-98-D-0001 contained designation letters for ordering officers signed by the contracting officer instead of the Chief of the District Contracting Division as required by EFARS 1.602-2-91, “Appointment of Ordering Officers.” However, the Louisville District Internal Review Office was aware of the issue. According to an Internal Review report, dated October 17, 2002, the Chief of the District Contracting Division stated that the problem had been corrected. In addition, in the spring of 2002, the Chief of the District Contracting Division directed Contracting personnel to rescind all the ordering officer designation letters.

The allegation that the required annual reviews of ordering officers' records have never been performed was also substantiated. Examination of the contracts and contract files related to the allegation did not find any documentation that annual reviews were performed. Army FAR Supplement 5101.602-2, "Contracting Officers Responsibilities," requires that a written record of the reviews be maintained in the contract files. Internal Review was also aware of the issue. According to an Internal Review report, dated October 17, 2002, the Chief of the District Contracting Division had been working with the Information Management Office to design a database to aid the District Contracting Division in tracking ordering officers' records. Also, the report stated that the Chief of the District Contracting Division believed the problem was under control.

Allegation B.3. Administrative Contracting Officers. Several allegations were made concerning improper actions related to ACOs. ACO authority had been issued on service contract DACA27-01-D-0002, and the contractor had not countersigned modifications; ACOs and field personnel were waiving requirements under the contract for a lesser standard.

Results B.3. Partially substantiated. We could not substantiate the allegation that ACO authority had been issued on service contracts. We did not find a letter of designation for an ACO contained in the contract file for contract DACA27-01-D-0002. Also, we reviewed an Internal Review report that was performed to address the same issue. Internal Review Report No. 03-16 "Service Contracts Versus Construction Contracts," September 8, 2003, stated the auditor did not find that a designation of a contracting officer representative for contract DACA27-01-D-0002 was made. The Internal Review report, however, stated that the auditors found an improper designation of an ACO for contract DACA27-98-D-0001, a service contract.

The allegation that the contractor did not countersign contract modifications was substantiated. Our review of contract DACA27-99-C-0050 found that 33 contract modification documents did not have contractor signature although they were meant to be bilateral. Thirty-two of the 33 modifications affected the contract price, either with an increase or a decrease in the amount. When a modification is supposed to be "bilateral" (signed by both parties), the modification may be effective when signed only by the contracting officer when the contractor performs in accordance with the modification, indicating that the contractor intended to be bound. Our review did not find any documentation that would indicate the contractor failed to perform under the contract.

The allegation that ACOs and field personnel were waiving requirements under the contract for a lesser standard could not be determined. We were unable to determine the validity of the allegation for lack of necessary information for the review. As a result, we were unable to substantiate the alleged problems.

Allegation B.4. Source Selection Plan. The SSA and Office of Counsel, Louisville District are not approving source selection plans prior to issuance of solicitation.

Results B.4. Substantiated. The allegation was substantiated to the extent that the SSA and Office of Counsel did not approve source selection plans prior to

issuance of the solicitation for contract DACA27-02-C-0023. The SSA (the Chief of the District Contracting Division) has ultimate responsibility for approving the source selection plan before it is issued. Not approving the source selection plan was a technical oversight by the SSA, but it had no consequence in terms of the validity of the procurement. In the review of the contract files, we were unable to find any bid protest ever filed over a procedural oversight. However, the SSA should be familiar with the specific requirements of the FAR, Defense FAR Supplement, Army FAR Supplement and the source selection plan, and should provide direction to the contracting officer, chairperson of the source selection board, legal counsel, and other selected members to ensure that a source selection plan is prepared and approved prior to issuance of the solicitation.

Allegation B.5. Sole Source Items. Construction solicitations were issued containing sole source items prior to the item(s) being synopsisized and a justification and approval approved.

Results B.5. Unsubstantiated. We agreed with the allegation that a construction solicitation (DACA27-02-B-1001) was issued containing sole source items prior to that item(s) being synopsisized and a justification and approval approved. However, before the contract was awarded, District Contracting Division personnel discovered the sole source items included in the solicitation and took corrective action by issuing an amendment to the solicitation to delete the sole source items. The District Contracting Division issued Amendment No. 5 on September 4, 2002.

Allegation B.6. Government Furnished Property. Government furnished property acquired under five cost reimbursable contracts was not monitored. As a result, a project manager transferred more than \$2 million of property from the District to a local sponsor.

Results B.6. Unsubstantiated. The responsibility for monitoring Government furnished equipment transferred from the Logistics Management Office to the District Contracting Division in May 2003. However, the Logistics Management Property Book Officer continued to monitor Government furnished equipment because the District Contracting Division had not yet assumed the responsibility. The Property Book Officer reviewed the five cost reimbursable contracts associated with the allegation. The Property Book Officer indicated that he was responsible for the contracts and that only one contract had Government furnished equipment.

The allegation that a project manager transferred District property to a local sponsor was unsubstantiated. The U.S. Army Corps of Engineers built three water supply wells and a municipal well house for Kinross Township in Michigan. The actual cost of the properties was \$3.4 million. A project manager executed a DD Form 1354, "Transfer and Acceptance of Military Property," to transfer the properties to the Kinross Township. However, the execution of the DD Form 1354 and the transfer of the properties were unnecessary because the land on which the wells and well house were built was owned by the Kinross Township; therefore, no transfer of property was required, and no improper transfer of property took place.

Allegation B.7. Incremental Funding of Design-Build Contract. A design-build civil works contract was funded incrementally which was not in compliance with Engineering Regulation-1180-1-9 requirement.

Results B.7. Substantiated. Contract DACW27-02-C-0005 was a civil works design-build contract for the design and construction of the Olmstead Miter Gate Storage Facility at Smithland Locks and Dam, Hanletsburg, Illinois. Although Engineering Regulation 1180-1-9 requires that civil works project contracts be fully funded at time of award, contract DACW27-02-C-0005 was not. The contract contained EFARS clause 52.232-5001, "Continuing Contracts," which meant it was incrementally funded. The contracting officer stated that the contract was awarded based on the prescribed procurement regulation, primarily EFARS 32.7, "Contract Funding," which authorizes incremental funding of civil works contracts. This appears to contradict the provision of Engineer Regulation 1180-1-9. The EFARS does not reflect the funding restriction provided in Engineer Regulation 1180-1-9. We believe the U.S. Army Corps of Engineers needs to clarify these two conflicting regulations to prevent more confusion in the future (See Recommendation B.2. in finding B of this report).

Allegation B.8. Project Management Service versus Architect and Engineer Services. A contract was procured under A&E services to support a Project Management services contract, which constitutes a violation of the Competitions in Contracting Act.

Results B.8. Partially substantiated. We agreed with the allegation that contract DACA27-00-D-0004 was procured under the Brooks Act as an A&E services contract and that the contract scope was for project management services including developing plans, schedules, and attending and setting up meetings. However, this fact alone does not violate the Competitions in Contracting Act. FAR Subpart 6.102, "Use of Competitive Procedure," states that selection of sources for A&E contracts in accordance with the provisions of the Brooks Act is a competitive procedure. Furthermore, FAR Subpart 36.601-1, "Competition," also states that acquisition of A&E services in accordance with the Brooks Act will constitute a competitive procedure.

Allegation B.9. Contracts were not Managed Centrally. An indefinite delivery/indefinite quantity contract, contract DACA27-00-D-0002, was not centrally managed by any function within the District. As a result, contract options expired when there was still a need for the capacity, new task orders were issued that exceeded the value of the contract, task orders were issued beyond the term of the contract, and actual contract usage was not tracked.

Results B.9. Undetermined. The contract file for contract DACA27-00-D-0002 was not available for review. The contract was involved in a nationwide investigation jointly performed by the Justice Department; the Office of the Inspector General, DoD; and the Army Criminal Investigative Division.

Allegation B.10. Inappropriate Direct Labor Charges. In April 2002, the Chief of the Operations Division stated that the District Contracting Division would not be receiving any more direct labor funding for its work on Operations Division projects. The Operations Division would charge its overhead account

for work completed by District Contracting Division personnel, even though the work was directly related to the project.

Results B.10. Louisville District Internal Review Office Report No. 03-15, “Contracting Office Procedure/Operations Funding,” dated March 13, 2003, found the District Contracting Division was incorrectly charging their time. The Chief of the District Contracting Division stated that improperly charged labor costs had been fixed and are no longer an issue.

Other Allegations. There were additional allegations regarding utilities contracts, blanket purchase agreements, and contracting funds administration that will be addressed in the future, based on the availability of audit resources.

Appendix D. Purchases Made Before Certification of Funding

Cardholder	Transaction Number	Transaction Date	Transaction Amount	PR&C Certify Date
1	1	10/14/2002	\$ 88.00	10/31/2002
	2	01/24/2003	119.99	02/25/2003
2	3	11/23/2002	891.89	11/25/2002
	4	12/18/2002	210.50	12/19/2002
	5	08/29/2003	990.24	09/25/2003
3	6	05/05/2003	2,091.00	06/30/2003
	7	06/01/2003	3,813.00	06/30/2003
4	8	12/04/2002	40.75	01/02/2003
	9	12/04/2002	40.75	01/02/2003
	10	12/04/2002	176.78	01/02/2003
	11	12/23/2002	27.50	01/06/2003
	12	01/02/2003	176.80	01/06/2003
	13	01/02/2003	40.75	01/06/2003
	14	01/02/2003	40.75	01/06/2003
	15	01/20/2003	18.66	01/22/2003
	16	01/27/2003	286.20	01/28/2003
	17	03/18/2003	28.00	04/01/2003
	18	03/18/2003	43.00	04/01/2003
	19	03/18/2003	58.00	04/01/2003
	20	04/16/2003	450.00	04/17/2003
	21	04/21/2003	27.23	04/30/2003
	22	05/01/2003	72.00	05/12/2003
	23	05/19/2003	22.98	06/10/2003
5	24	03/13/2003	560.00	04/03/2003
	25	09/05/2003	527.00	09/06/2003
6	26	10/01/2002	235.04	10/09/2002
	27	10/02/2002	77.30	10/09/2002
	28	10/04/2002	307.03	10/31/2002
	29	10/04/2002	74.20	10/31/2002
	30	10/07/2002	152.88	10/11/2002
	31	10/15/2002	1,289.60	12/03/2002
	32	03/04/2003	101.50	04/17/2003
	33	03/06/2003	224.64	05/06/2003
	34	03/07/2003	1,411.78	05/06/2003
	35	03/10/2003	378.36	05/06/2003
	36	04/15/2003	1,115.46	04/17/2003
	37	04/22/2003	2,415.30	04/30/2003
Total			\$18,624.86	

Appendix E. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
 Director, Defense Procurement and Acquisition Policy
 Director, Purchase Card Joint Program Management Office
Under Secretary of Defense (Comptroller)/Chief Financial Officer
 Deputy Chief Financial Officer
 Deputy Comptroller (Program/Budget)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

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

Combatant Command

Inspector General, U.S. Joint Forces Command

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

Army Corps of Engineers Comments



DEPARTMENT OF THE ARMY
U.S. Army Corps of Engineers
WASHINGTON, D.C. 20314-1000

REPLY TO
ATTENTION OF:

CEIR

24 June 2004

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE,
400 Army Navy Drive, Arlington, VA 22202-4704

SUBJECT: Audit of Purchase Card Use and Contracting Actions at the
U.S. Army Corps of Engineers, Louisville District (Project Number
D2003CK-0185) -- RESPONSE

Attached is the official U.S. Army Corps of Engineers response to
subject DODIG audit.

FOR THE COMMANDER:

A handwritten signature in black ink that reads "Robert H. Griffin".

ROBERT H. GRIFFIN
Major General, USA
Deputy Commander

**Purchase Card Use and Contracting Actions at the
U.S. Army Corps of Engineers, Louisville District
Project Number D2003CK-0185**

Recommendation A.1: We recommend that the Commander, Louisville District:

- a. Require a full-time Agency Program Coordinator dedicated to implementing and overseeing effective purchase card program controls.

CONCUR. Louisville District hired in April 2004 a full-time Agency Program Coordinator (APC) Procurement Analyst, GS-11 position. The purpose of this full-time position is to ensure that the Louisville District Credit Card Program is properly managed in accordance with the applicable DOD, Army and local regulations. This program will be reviewed and it is fully intended that the program will be revised and updated to ensure all the requirements mentioned in this section will be adhered to. This action is currently being performed.

- b. Direct that purchase card program guidance implements Army requirements and is appropriately disseminated throughout the District.

CONCUR. Contracting Division will ensure purchase card program guidance implements Army requirements and are provided to all District employees. This action should be completed in 90 days.

- c. Clearly identify the Agency Program Coordinator as the single point of contact for all questions related to the purchase card program.

CONCUR. The Contracting Division Agency Program Coordinator will be the single point of contact for purchase card program questions. This action should be complete in 90 days.

Recommendation A-2. We recommend that the Agency Program Coordinator, Louisville District:

- a. Revise the Louisville District Guidebook to adequately implement the Army Standing Operating Procedure. Specifically, the Louisville District Guidebook should address annual purchase card account reviews and adequate separation of duties.

PARTIALLY CONCUR. Concur that the Contracting Division will revise the Louisville District Guidebook to adequately implement the Army Standing Operating Procedure. Nonconcur concerning the Louisville District Guidebook since the District is following Headquarters guidance as discussed in **A.2.b(2)** below. This action should be complete in 180 days.

- b. Annually review 100 percent of approving official accounts in accordance with the Army Standing Operating Procedure to verify:

- (1) Compliance with purchase card guidance.

CONCUR. The Contracting Division Agency Program Coordinator will annually review 100% of approving official accounts with the Army Standing Operating Procedure to ensure compliance with purchase card guidance. This action should be complete in 180 days.

- (2) Purchase and commitments are initiated, approved, and certified by three different individuals.

NONCONCUR. District guidance with respect to separation of duties is in consonance with HQUSACE, CERM-P memorandum, dated 8 Mar 00, which exempts government purchase card (GPC) holders from the policy that no one individual can be granted all four CEFMS authorities (initiate, approve, obligate fund, and receive goods). This policy was transmitted to the field on 10 Mar 2000.¹ This guidance was issued to Operations and Contracting Divisions in May 2002, as enumerated in the Mar 00 HQUSACE policy guidance. This policy was established because adequate separation of duties already exists within CEFMS to prevent fraud/abuse. Specifically, no payments may be made until the billing official approves his/her cardholders' statements.

The internal control process was strengthened in December 11, 2002, when the Director of the USACE Finance Center implemented new requirements that each billing official must be appointed as a "Certifying Officer" to approve credit card billing statements within CEFMS.² The attached email traffic indicated this information would also be released by Mr. Michael Organek of the USACE PARC office to all Contracting Officials. The formal appointment of the credit card billing approver as a certifying officer is provided for in the Department of the Army, Government Purchase Card Standing Operating Procedure (SOP) as well as 31 U.S.C. 3325. <http://www4.iaw.cornell.edu/uscode/31/3325.html>

The internal control process was strengthened again on 10 Jul 2003, when CEFMS functionality was released to restrict unappointed Government Purchase Card Certifying Officials from signing IMPAC card statements.³ In order for an approver or alternate approver to be appointed, the Appointing Official must sign the electronic delegation letter and the employee must accept the assignment by electronically signing the delegation letter. Such controls do not exist in most other major Army Financial Systems (e.g., STANFINS).

Moreover, if a billing official should make a mistake and authorize an erroneous payment, they may be held pecuniarily liable under 31 USC 3528. <http://www4.law.cornell.edu/uscode/31/3538.html>.

¹ See CEFMS User Access Permissions, 8 March 2000.

² See New CEFMS Credit Card Procedures and Certifying Officers Training.

³ See Government Purchase Card Certifying Official.

The District has 42 field offices, many of which are in remote locations with just a few employees. The cost of implementing a superfluous approval for credit card purchases when adequate controls exist would far outweigh the benefits derived. Paragraph 2-2.a of AR 11-2, Management Control, states: *Inherently a management judgment, reasonable assurance recognizes that there are acceptable levels of risk that cannot be avoided because the cost of absolute control should not exceed the benefits derived.* Also, AR 11-2, Appendix B-2.6, Reasonable Assurance Implementation, states: *This standard recognizes that the cost of management control should not exceed the benefit derived. Reasonable assurance equates to a satisfactory level of confidence under given consideration of cost, benefit, and risk. There are sensitive resources for which the cost of controls cannot be an issue. However, for most resources and operations, the Army cannot afford to attain 100 percent compliance with requirement. Thus, essential application of this standard is in defining acceptable performance within the reality of what can be accomplished. This realistic performance objective is the basis for judging the adequacy of application management controls.*

In closing, we feel that we have complied with higher headquarters guidance on this subject, and more importantly, we firmly believe that adequate internal controls exist to prevent the unauthorized acquisition and payment of improper items. And that, if an improper acquisition should become authorized, there are specific legal remedies provided for in 31 USC 3528 for recovery of loss.

Any changes in Louisville District's current operating procedures remain contingent on HQUSACE guidance.

- (3) Cardholders accept only invoices originally prepared by the vendor in accordance with the commercial item clause of the contract.

CONCUR. Contracting Division Agency Program Coordinator will remind cardholders to accept only invoices originally prepared by the vendor. This action should be complete in 90 days.

- (4) Cardholder and approving official account files are maintained in accordance with Army guidance.

CONCUR. Contracting Division will maintain cardholder approving official account files with Army guidance. This action should be complete in 90 days.

Recommendation B.1. We recommend that the Commander, Louisville District:

- a. Direct the Chief of the District Contracting Division, Louisville District, to strengthen the District internal management control procedures for compliance with applicable procurement guidance to include controls on: contract documentation signature authority, source selection plan approval timeliness, solicitation procedures application, and design-build civil works contract finding.

CONCUR. Contracting Division has established several SOPs and checklists that will assist the personnel in Contracting Division to ensure applicable regulatory requirements are followed. With the help of our local Internal Review team, we will ensure internal controls are in place and adhered to for future requirements. The issue of the ACO Documentation and Signature Authority should be taken care of when annual inspections are made by the APC Coordinator. This action should be complete in 180 days.

- b. Provide contracting personnel refresher training on overall contracting procedures.

CONCUR. Contracting Personnel will be provided refresher training on an as-needed basis. This action should be completed in 180 days.

Recommendation B.2. We recommend that the Principal Assistant Responsible for Contracting, Headquarters, U.S. Army Corps of Engineers, address the conflicting provisions between the Engineer Regulation 1180-1-9 and Engineer Federal Acquisition Regulation 32.7.

CONCUR. Indefinite-Delivery/Indefinite-Quantity type contracts allow for a guaranteed minimum quantity to be obligated, 2%-5% of the contracts estimated amount, at the time of contract award. After the guaranteed minimum quantity or amount is used, the remainder of the work on the contract is incrementally funded and obligated with the issuance of independently funded task orders. The Design portion of the Design-Build contract should be a lump sum Firm Fixed-Price contract, but the actual construction phase of the contract, could be incrementally funded via Task Orders, and would still not violate the intent of the Brooks Act, which allows for a two phase approach for accomplishing the desired planning and construction phase of the project.

USACE is now transitioning to Project Development Teams, which will allow greater overview of projects that have a portion of the contract price dependent upon reservations of funds from future appropriations, and not obligating the full amount of the estimated amount of the contract up front. Anticipate completion of action by 30 June 2005.

CERM-P (37-1e)

8 March 2000

MEMORANDUM FOR COMMANDERS/DIRECTORS, ALL MAJOR
SUBORDINATE COMMANDS, FIELD OPERATING
ACTIVITIES AND ENGINEER RESEARCH AND
DEVELOPMENT COMMAND

Subject: CEFMS User Access Permissions

1. Reference CERM-P memorandum, dated 28 June 1999, subject as above. The referenced memorandum established policy that no one individual can be granted all four CEFMS authorities (initiate, approve, obligate funds, and receive goods) against the same purchase request. This memorandum modifies paragraph 3d of the 28 June memorandum to exempt government purchase card (GPC) holders. There are adequate separation of duties already established in the credit card process to prevent fraud/abuse. These separation of duties consist of the GPC holder and the GPC approval official who is responsible for, at a minimum, reconciling monthly each GPC holder's statement, verifying that all transactions were for necessary government purchases in accordance with Federal Acquisition Regulations, and approving the GPC holder's monthly bill for payment.
2. The US Army Audit Agency has identified the following weaknesses involving user access permissions in CEFMS:
 - a. Too many individuals have been granted the authority to approve the MSC Headquarters/District/Laboratory/Field Operating Activity Operating Budget.
 - b. Budget formulation level authority is not adequately controlled.
 - c. Single individuals have been granted authority to complete an entire purchase (create and approve a purchase request, obligate funds and receive goods against a single work item), thus failing to maintain the proper separation of duties.
3. Commanders will immediately take steps to insure that the following policies are in place:
 - a. CEFMS Access Control Tables are reviewed semi-annually and, if necessary, modified to restrict Operating Budget approval authority to the Commander and, if necessary, a few key Resource Management officials.

Footnote I

CERM-P

SUBJECT: CEFMS User Access Permissions

b. Budget formulation authority levels are granted commensurate with the duties of the individual and reviewed annually.

c. CEFMS Access Control Tables are reviewed semi-annually to insure that individuals are granted only the authorities specific to their responsibilities.

d. That no single individual may have the authority to initiate, approve, obligate funds for, and receive goods against the same purchase request. The only exception to this policy is for purchases made by using the credit card process.

4. There are two CEFMS queries that can be used as tools to review current CEFMS access privileges for budget approval and purchase request authorities. The queries are included in the executable file that can be downloaded from the CEFMS SQL Query Download table on the CFO web page. The names of the queries are ll_bud_a.sql and ll_prc_a.sql. These queries will be changed in FY2000 to exclude credit card purchases.

5. POC for this action is Ed Vogel, (202) 761-1959.

FOR THE COMMANDER:

/s/

STEPHEN COAKLEY
Deputy Chief of Staff for
Resource Management

CF:
District Commanders
CEIG
CEAO

From: Brockman, Thomas L FC
Sent: Wednesday, December 11, 2002 3:10 PM
To: DLL-CEFC-RM-FAOS; DLL-CEFC-RM-FAOS-U
Cc: Organeck, Michael J HQ02; Kildow, Pamela R FC
Subject: New CEFMS Credit card procedures and Certifying Officers Training

All RMOs and F&A Officers:

Mr. Michael Organeck, HQ USACE office of PARC, will resend this message to contracting officials.

The new CEFMS credit card procedures are scheduled to be released today (11 Dec).

The Certifying Officers training is available on the UFC web-page at www.fc.usace.army.mil

The best way to view the training Power Point Presentation (PPP) is to save the presentation to a folder on the user's PC. The presentation could also be loaded onto the installation's server for all users. Direct accessing of the PPP files (left mouse click) takes a long time to open. We have added instructions for saving/downloading the presentation -- the instructions are on top of the page that contains the training PPPs. When you log onto the finance center web-page, click on "Certifying Officer Training" on the right side of the web page and follow the instructions for downloading the PPPs.

After we have allowed sufficient time for all USACE activities to provide their certifying appointment letters to the Finance Center (January 2003), we will run a nightly CEFMS cron that will provide a list of Approvers and Alternate Approvers from each USACE activity. This list will be loaded into a table that will be maintained in a Finance Center database -- not a table in CEFMS. We will update the table when we receive delegation letters at the Finance Center. Any Approver or Alternate Approver that has not provided a delegation letter will be notified by email, and we will also notify the Agency Program Coordinator. It is possible that some disbursements will be made that were certified by approvers that have not provided the Finance Center their delegation letters. However, if an approver has not forwarded the original delegation letter to the Finance Center by the next payment cycle, that individual will not be able to approve payments. Removal of a billing statement approving official can be very time consuming since the credit card holders under the approver's billing statement number may have to be issued new cards.

Please note that if a credit card billing statement was approved in CEFMS, but had not been scheduled for payment by the Finance Center prior to the release of the new functionality (Dec 11), the approving official must resign the document in CEFMS. The approver can resign the document by accessing the Miscellaneous Purchase Requests menu, Credit Card Approving Official screen. The approver would then query the statement and click the "Approve Invoice" button.

My POC for the new credit card procedures is Ms. Pamela Kildow, CEFC-F, 901-874-8724.

Tom Brockman
Director USACE Finance Center

Footnote 2

From: Blevins, Cynthia R FC
Sent: Monday, July 07, 2003 1:40 PM
To: DLL-CEFC-RM-FAOS
Subject: Government Purchase Card Certifying Officials

On July 10th CEFMS functionality will be released to restrict unappointed Government Purchase Card Certifying Officials from signing IMPAC card statements. In order for an approver or alternate approver to be appointed the Appointing Official must sign the electronic delegation letter and the employee must accept the assignment by electronically signing the delegation letter.

Appointing Official need to be granted the role cc_cert_auth in order to sign as appointing official. This role should only be granted to the activity Commander/Director or his appointed representative. Representatives need to be delegated the authority to approve certifying officers in writing.

A script was written to populate the 10.APPT screen, Appointing Officials Document Authorization Screen, with the names of each approver and alternate that are currently loaded in data manager screen 10.21.2, Credit Card Billing Statement Number Maintenance Screen. Please review the list of Approving Officials by going into Option 8 on the Main Menu. If there is an Approving Official that should not be included on the list, the Appointing Official should not approve the individual in CEFMS.

All valid approvers and alternates should be signed by the appointing official. Once the appointing official has signed the delegation letter the employee will receive an email message with instructions on accepting the delegation of certifying authority.

Also, the data manager needs to update Table 10.55, FOA Unique Fiscal Data Maintenance Screen to reflect the correct address for the activity.

A view screen has been created that can be accessed by any CEFMS user. This screen can be used by the APC to ensure that all approving officials in CEFMS match with their records.

Letters can be generated and printed for each billing approving official from any of these three new screens.

Footnote 3

Team Members

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

David K. Steensma
Robert K. West
Joseph P. Doyle
Deborah L. Carros
Peter I. Lee
Arsenio M. Sebastian
Kelly B. Klakamp
Kimberly H. Gianfagna
Marc D. Santana
Amie M. Coffren