

November 14, 2003



# Acquisition

Purchase Card Use at the Space and  
Naval Warfare Systems Command,  
Information Technology Center,  
New Orleans, Louisiana  
(D-2004-016)

Department of Defense  
Office of the Inspector General

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### **Acronyms**

APC	Agency Program Coordinator
DFAS	Defense Finance and Accounting Service
GAO	General Accounting Office
GCPC	Governmentwide Commercial Purchase Card Program
GSA	General Services Administration
IG DoD	Inspector General of the Department of Defense
IOP	Internal Operating Procedure
ITC	Information Technology Center
JWOD	Javits-Wagner-O'Day
PMO	Program Management Office
SPAWAR	Space and Naval Warfare Systems Command



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

November 14, 2003

MEMORANDUM FOR NAVAL INSPECTOR GENERAL

SUBJECT: Report on Purchase Card Use at the Space and Naval Warfare Systems  
Command, Information Technology Center, New Orleans, Louisiana  
(Report No. D-2004-016)

We are providing this report for review and comment. This audit report is one in a series of reports that documents satisfaction of the requirements in section 1007 of the FY 2003 National Defense Authorization Act that the Inspector General of the Department of Defense perform periodic audits of purchase card usage.

We considered comments from the Deputy Assistant Secretary of the Navy (Acquisition Management) and the Commander, Space and Naval Warfare Systems Command on a draft of this report when preparing the final report. DoD Directive 7650.3 requires that all recommendations be resolved promptly. Therefore, we request that the Commander, Space and Naval Warfare Systems Command provide additional comments for recommendations A.5., A.6., A.10., and A.14., by December 14, 2003.

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Joseph P. Doyle at (703) 604-9349 (DSN 664-9349) or Mr. Eric L. Lewis at (703) 604-9314 (DSN 664-9314). See Appendix G for the report distribution. The team members are listed on the inside back cover.

By direction of the Deputy Inspector General for Auditing:

*Robert K. West*

Robert K. West  
Deputy Director  
Contract Management Directorate

## Office of the Inspector General of the Department of Defense

Report No. D-2004-016

November 14, 2003

Project No. D2002CK-0099

### Purchase Card Use at the Space and Naval Warfare Systems Command, Information Technology Center, New Orleans, Louisiana

#### Executive Summary

**Who Should Read This Report and Why?** Policy makers, senior managers, purchase card program managers, and purchase card users should read this report to help them identify potential problem areas in their own purchase card programs. Information contained in this report identifies some of the pitfalls of the purchase card program, some of which have been identified program-wide. After reading this report, managers should review their own purchase card programs and implement the appropriate recommendations to strengthen their programs.

**Background.** This audit report is one in a series of reports that documents satisfaction of the requirements in section 1007 of the FY 2003 National Defense Authorization Act that the Inspector General of the Department of Defense perform periodic audits of purchase card usage. The Space and Naval Warfare Systems Command, Information Technology Center, New Orleans, Louisiana, is supported by 296 civilian and military personnel and about 600 contractor personnel. The Information Technology Center has an annual budget of about \$51.2 million. The Information Technology Center received funds on a reimbursable basis from the Defense Integrated Military Human Resources System program, and the Navy Standard Integrated Personnel System program. The Government-wide commercial purchase card was created to provide an efficient means for Federal agencies to purchase goods and services directly from vendors. During FY 2001, the Information Technology Center paid about \$2.1 million and about \$2.6 million during FY 2002 via the purchase card for goods and services.

**Results.** Controls over purchase card use to reduce the risk of fraud, waste, and abuse were not properly implemented, and were ignored by senior management at the New Orleans Information Technology Center. Controls were not effective due to a lack of management integrity, vacant key management positions, internal procedures not being adopted, and management tools not being used effectively. Additionally, the purchase card program was not organized to realize the intended benefits of the program; and inappropriate spending continued in 2002 after Space and Naval Warfare Systems Command Contracting and Office of the Inspector General of the Department of Defense visits. As a result, approximately \$1.1 million of Information Technology Center purchases were questionable (doubt as to the mission need for these purchases), the Government had an unnecessary monthly financial risk of \$31 million because the monthly cycle limit was \$31 million more than needed, and the Information Technology Center could save an additional \$95,671 over a 5-year period if controls are implemented. For details, see finding A.

The Information Technology Center also needed to improve controls over property accountability. Specifically, at least \$1.7 million of property was not recorded in the property book, property was missing and went unreported, property was at individuals' homes without adequate property passes, and pilferable property was inappropriately

removed from the accountable records. This occurred in part because the Information Technology Center did not have a property book officer, and lacked basic management accountability for DoD equipment and purchases. As a result, the Information Technology Center had no assurance that accountable property was accurately reflected on the property books, and protected from fraud, waste, and mismanagement. For details, see finding B.

The Commander, Space and Naval Warfare Systems Command should perform a review and initiate appropriate administrative action against the Director, Deputy Director, agency program coordinator, approving official, and cardholders involved in making abusive purchases (purchases that had no mission use). The Commander, Space and Naval Warfare Systems Command should also require cardholders to order from required sources, reduce cell phone plans to a minimum, purchase only supplies necessary to fulfill the mission, and fill key vacant management positions. The purchase card program needs to be reorganized to require the use of bulk funding for purchase card purchases and the use of the bank's purchase card management system. (For detailed recommendations, see finding A.) In addition, the Information Technology Center should perform a wall-to-wall inventory and capture appropriate property. Finally, the Commander, Space and Naval Warfare Systems Command should perform independent semiannual reviews of the purchase card usage and inventory records and controls at New Orleans until the noted deficiencies are corrected. (For detailed recommendations, see finding B.)

**Management Comments.** The Deputy Assistant Secretary of the Navy (Acquisition Management) and the Commander, Space and Naval Warfare Systems Command generally concurred with the findings, intent of the recommendations, and \$90,055 in monetary benefits. The Commander, Space and Naval Warfare Systems Command concurred with performing a review and initiating appropriate actions against individuals involved with making abusive purchases. Subsequently, we were advised a review was completed. The Commander, Space and Naval Warfare Systems Command also concurred with requiring cardholders to order from required sources, lowering cycle limits, filling key management positions, using bulk funding for purchase cards, using the bank's purchase card management system, and recommendations to improve property accountability. The Commander, Space and Naval Warfare Systems Command partially concurred with developing a comprehensive cell phone policy that requires a valid Government need be documented, and closing the media production center that violates Defense regulations.

**Audit Response.** The corrective actions initiated will improve the controls for the purchase card program at the Information Technology Center. However, additional actions are necessary regarding the cell phone policy, the media production center, and purchase card cycle limits. As a result, we request that the Commander, Space and Naval Warfare Systems Command comment on these issues by December 14, 2003.

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## Background

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

That the Inspector General of the Department of Defense . . . perform periodic audits to identify–

(A) potentially fraudulent, improper, and abusive uses of purchase cards;

(B) any patterns of improper cardholder transactions, such as purchases of prohibited items; and

(C) categories of purchases that should be made by means other than purchase cards in order to better aggregate purchases and obtain lower prices.

**Information Technology Center.** The Space and Naval Warfare Systems Command (SPAWAR) Information Technology Center (ITC) is located in New Orleans, Louisiana. The ITC is a subordinate activity of SPAWAR. The ITC is responsible for delivering integrated information management solutions and life-cycle support for supported DoD programs. The ITC is supported by 296 civilian and military personnel and about 600 contractor personnel. The ITC had an FY 2002 budget of \$51.2 million. The ITC also receives funds on a reimbursable basis from the Defense Integrated Military Human Resources System program, and the Navy Standard Integrated Personnel System program.

**Federal Purchase Card Program.** The first Government-wide purchase card contract was awarded by the General Services Administration (GSA) 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 purchase card can be used to pay for goods and services up to a predetermined limit and for payments against contracts. GSA reports that the Government saves approximately \$1.3 billion annually in administrative costs by using purchase cards. In addition, the program earned the Government refunds of \$75 million in FY 2001 by paying for purchases promptly.

**Purchase Card Joint Program Management Office.** The Deputy Secretary of Defense established the DoD Purchase Card Joint Program Management Office (PMO) in March 1998. The PMO is staffed with representatives from each of the Military Departments, the Defense Logistics Agency, and the Defense Finance and Accounting Service (DFAS). The PMO reports directly to the Director, Defense Procurement and Acquisition Policy, within the office of the Under Secretary of Defense for Acquisition, Technology, and Logistics. Finance and accounting issues are coordinated with the Under Secretary of Defense (Comptroller)/Chief Financial Officer.

**How the DoD Program Works.** DoD organizations are responsible for distributing cards, training employees, and day-to-day management of the purchase card program. Each participating organization designates an office to manage the program and ensure training is provided, a current list of cardholders and approving officials is maintained, and an annual oversight review of the program is performed.

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DoD appointed agency program coordinators with the responsibility for program management at the installation, major command, and Component levels. Agency program coordinators 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 prior to the approving official requesting payment by DFAS.

**Information Technology Center Purchase Card Program.** The ITC Contracting Office is responsible for the ITC purchase card program. As of July 8, 2002, the program consisted of an agency program coordinator located in New Orleans; an approving official and three cardholders in New Orleans; an approving official and two cardholders in Washington, D.C.; and an approving official and a cardholder in Millington, Tennessee. During FY 2001, the ITC spent approximately \$2.1 million on goods and services via the purchase card, and approximately \$2.6 million in FY 2002.

**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 Department’s purchase and travel card programs and to develop recommendations for improvement. On June 27, 2002, the task force issued the Department of Defense Charge Card Task Force Final Report. The task force focused on management emphasis and organizational culture, compliance, and process and workforce developments. The task force developed 25 recommendations to improve the Department’s charge card program. Recommendations included increasing management emphasis and personal accountability, and implementing improved management metrics; strengthening internal controls and increasing the tools available to managers for enforcing those controls; and enhancing the capability of the workforce to accomplish assigned charge card responsibilities.

**Standards of Conduct.** In 1956, Congress enacted requirements of exemplary conduct in section 5947, title 10, United States Code, stating that commanding officers and others in authority in the Naval service should be a good example of virtue, honor, patriotism, and subordination. In addition, persons in authority are required to be vigilant in inspecting the conduct of all persons under their command. Additionally, persons in authority are required to correct, according to the laws and regulations, all persons whose conduct is inappropriate.

On January 20, 2001, the President issued a memorandum for the heads of departments and agencies regarding standards of conduct. The President stated that everyone who enters public service for the United States has a duty to the American people to maintain the highest standards of integrity in Government. The memorandum stated that employees should protect and conserve Federal property and shall not use it for other than authorized activities. Additionally, it stated that employees should endeavor to avoid any actions creating the appearance that they are violating applicable law or the ethical standards in applicable regulations.

On November 19, 2001, the President issued a memorandum for the heads of departments and agencies regarding being dedicated to serving America. In the

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memorandum, the President stated that we should always remember that every dollar we spend is the taxpayer's money and that people worked hard to earn it, and we should spend it wisely and reluctantly.

## **Objectives**

Our objective was to evaluate the use of purchase cards and the controls over property accountability. See Appendix A for a discussion of the audit scope and methodology, management control issue, and prior coverage related to the audit objectives.

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## A. Purchase Card Use

Controls over purchase card use to reduce the risk of fraud, waste, and abuse were not properly implemented, and were ignored by senior management at the New Orleans Information Technology Center. Controls were not effective due to a lack of management integrity, vacant key management positions, internal procedures not being adopted, and management tools not being used effectively. Additionally, the purchase card program was not organized to realize the intended benefits of the program; and inappropriate spending continued after Space and Naval Warfare Systems Command Contracting and Office of the Inspector General of the Department of Defense visits. As a result, approximately \$1.1 million of Information Technology Center purchases were questionable, the Government had an unnecessary monthly financial risk of \$31 million because the monthly cycle limit was \$31 million more than needed, and the Information Technology Center could save an additional \$95,671 over a 5-year period if controls are implemented.

### Purchasing Controls

**Management Controls.** Office of Management and Budget Circular No. A-123, “Management Accountability and Control,” revised June 21, 1995, states that management controls are the organization, policies, and procedures used to reasonably ensure that programs and resources are protected from fraud, waste, and mismanagement. The agency head must establish controls, and managers and employees must have personal integrity.

**Navy Policy.** Navy purchase card policy was contained in Naval Supply Instruction 4200.94, “Department of Navy Policies and Procedures for the Implementation of the Governmentwide Commercial Purchase Card Program (GCPC),” June 29, 1999. Intentional use of the purchase card for other than official Government business will be considered an attempt to commit fraud against the U.S. Government and may result in immediate cancellation of an individual’s purchase card and further disciplinary action. The cardholder will be held personally liable to the Government for the amount of any non-Government transaction. Additionally, cardholders are to screen all requirements for their availability from statutory sources: Federal Prison Industries, the Javits-Wagner-O’Day (JWOD) program, and the Government Printing Office. The Instruction also provided a list of prohibited and special attention items such as business cards, coffee pots, refreshments, rental of commercial vehicles, luggage, plaques and other mementos as give-away items, and printing and duplication services.

Current Navy policy exists in the form of Department of Navy eBusiness Operations Office Instruction 4200.1, “Department of Navy Policies and Procedures for the Operation and Management of the Government Commercial Purchase Card Program,” September 19, 2002. There is little change between the old and new policies.

## Purchases

Controls over purchase card use to reduce the risk of fraud, waste, and abuse at the New Orleans Information Technology Center were not properly implemented, and were ignored by senior management. These controls included ensuring there was a valid Government need; purchasing from appropriate vendors; separating duties among the requestor, purchaser, and receiver of the goods; and effectively organizing the purchase card program to realize intended benefits and ensure proper funds control. In particular, purchases for senior ITC managers were not subject to these controls or purchase card policy. A review of 84 transactions (Table 1) showed that 74 transactions had the incorrect source of supply, 36 transactions were reasonable, 35 transactions were questionable, and 18 transactions were abusive.

Transaction Type	Number of Transactions *				
	Reviewed	Incorrect Source of Supply	Considered Reasonable	Considered Questionable	Considered Abusive
Office Supplies	25	25	10	12	6
Books	6	6	6		
Printing	1	1			1
Maintenance	9	5	9		
Computer Related	21	21	2	19	
Miscellaneous	22	16	9	4	11
<b>Total</b>	<b>84</b>	<b>74</b>	<b>36</b>	<b>35</b>	<b>18</b>
*Some transactions were in more than one category.					

Specifically, some items costing approximately \$29,000 reflected management preferences rather than Government need; cell phone service plans budgeted at \$18,205 for FY 2002 were not justified; no information technology acquisition plan was used to purchase over \$785,000 in computers in FY 2002; and unnecessary office supplies were purchased for ITC managers and to support an unauthorized media production center, with an annual cost of \$279,000.

**Management Preference and Non-Government Use Items.** Management preference and non-Government use items were bought at the direction of the Director or senior ITC managers. Additionally, the Director and Deputy Director obtained some of these items in end of fiscal year shopping trips at the local Office Depot, costing the Department approximately \$4,600. Purchases that appeared to have no mission need include the following.

**September 18, 2000, Shopping Trip.** On September 18, 2000, the Director, Deputy Director, and a cardholder went to Office Depot to purchase approximately \$2,400 in office supplies, instead of selecting supplies from the

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ITC central supply. These items were delivered directly to the Director and Deputy Director without going through central receiving. (Pictures of the central supply room and the Director's supply closet are located in Appendix B.) Included in these "office supplies" were items that appeared to have no official ITC use - such as two global positioning systems by Earth Mate costing about \$320, map software for the global positioning system costing about \$50, and Microsoft Windows ME operating system software costing about \$50. The global positioning systems and map software provide driving directions from one point to another. However, most rental car agencies provide free local maps and Internet sites provide detailed directions free of charge. ITC computers used Windows NT as their standard operating system; therefore, Windows ME would have been unnecessary for ITC computers. The cardholder did not question the purchases because the Director approved them; however, the cardholder is required to ensure that required sources are used and the Government receives the best price regardless of the requester. Subsequent to the shopping trip, the Director obtained a more expensive global position system, the Garmin Street Pilot III, costing approximately \$1,400. The Director justified purchasing the latter global positioning system because he gets lost on travel. The Department should not purchase software that the Government does not need, nor purchase global positioning systems when driving directions can be obtained for free. Also, the Department should not fund the purchase of personal preference office supplies. See Appendix C for a list of items purchased.

**September 18, 2001, Shopping Trip.** On September 18, 2001, the Director and Deputy Director again went to Office Depot to select approximately \$2,200 in office supplies rather than use stock from the ITC central supply. According to ITC personnel, the Director and Deputy Director selected items and left them in a holding area at the store and then sent the cardholder to the store to pay for the items and transport them to the ITC. This is the same cardholder from the previous shopping trip. These items were delivered directly to the Director and Deputy Director without going through central receiving. Included in these "office supplies" were items that appeared to have no Government use such as Quicken 2002 (personal finance software) costing about \$60, luggage costing about \$700 (including a light green 25-inch Pullman and a matching wheeled carry-on), and two cordless mice costing \$120 (a regular mouse can be obtained for under \$20). The Director stated the Quicken software was purchased to manage ITC projects; however, he stated it proved to be impractical and was never used. The Quicken software and the matching green luggage could not be located during our review. The Navy purchase card regulation prohibits the purchase of luggage. See Appendix C for a list of items purchased.

**ITC Ribbon Cutting Ceremony.** In May 1999, an ITC cardholder purchased a \$215 Brulot bowl as a gift for Secretary of Defense Cohen at the direction of ITC managers. We found that the bowl purchase was part of \$4,500 in unnecessary expenditures for the ITC ribbon cutting ceremony. The additional expenditures could not be made with the purchase card; however, rather than determining that the expenditures were inappropriate, ITC managers had the purchases made via purchase order. Specifically, ITC managers approved renting six vehicles to transport dignitaries for \$1,000, renting a stage for \$2,500, and purchasing two cakes for \$782. The Navy purchase card Instruction prohibits the renting of vehicles, the purchase of gifts except in support of an employee recognition program, and the purchase of refreshments except by Navy recruiters. Washington Headquarters Services' records indicate that Secretary of Defense

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Cohen accepted the bowl “so that the ITC management would not be embarrassed.” We referred this information to our office of Departmental Inquiries for further investigation. Departmental Inquiries declined to investigate, stating that the matter did not warrant investigation as a matter of misconduct.

**Binoculars.** The Director approved the purchase of 10 pairs of binoculars costing a total of \$1,990 with the purchase card. The Director stated that the binoculars were purchased as a security measure after the Pentagon was attacked and requests for additional security had been denied. Security personnel stated that the binoculars were to be distributed to individuals that have offices on the higher floors to check outside regularly over Lake Ponchartrain and the parking lots to report any suspicious activity they may notice. However, the ITC has security cameras positioned throughout the campus that are monitored 24 hours a day, 7 days a week. The binoculars were not listed in inventory. We observed one pair of the binoculars in the Director’s office, five pairs in the Director’s private supply closet, one pair in the senior military advisor’s office, and three pairs in security. A picture of the binoculars located in the Director’s office is located in Appendix D.

**Bicycles.** The Deputy Director approved the purchase of six bicycles, with the purchase card, at a total cost of \$2,393 in 1999 to transport documents between the ITC and the University of New Orleans. The Director stated that ITC interns from the University of New Orleans would use the bicycles to go from class to work. However, the ITC does not have an intern program. Additionally, we were told the bicycles were never used, and have been rendered unusable to prevent potential theft of the bicycles. A picture of the bicycles is located in Appendix D.

**Personal Art Framing.** The Director requested the framing and matting of a personal print, which cost approximately \$55. The approval document signed by the cardholder’s approving official contained no justification for the purchase. We found the framed print in the Director’s office. The Director stated that he recalled asking someone to get him a frame but did not know they would go to all that trouble. He stated he would be happy to pay for the frame and matting if that was improper. The Director should have ensured that his staff knew that purchasing a gift (the framing of a personal item) was not allowed. A picture of the framed print is located in Appendix D.

**Windows 98 Based Computers.** In June 1999, the Director initiated the purchase of two notebook computers for \$5,500, which were subsequently purchased via purchase order. However, documentation concerning the purchase brings the Government need for these computers into question. The Director’s son (not employed by the ITC) obtained a quote for the computers from a commercial source. The quote sheet was forwarded to the Director. That same day the Director ordered the computers to be purchased with the configuration identified in the quote sheet, which specified Windows 98 as the operating system. ITC personnel stated that Windows NT is the official operating system used by the ITC. We could not determine how the two computers were being used because they could not be located in the ITC inventory. The ITC Director claimed that he lost one when he left it on a plane while traveling on business.

The agency program coordinator for the ITC stated that billing statements are received from the bank in the mail and reviewed each month. After the funding

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information is added for each line item on the statement, the statement is sent to DFAS for payment. However, the approving official did not question the items purchased, and therefore did not hold the cardholders accountable for questionable and abusive purchases.

SPAWAR should perform a review and initiate appropriate administrative actions against the Director, Deputy Director, cardholder, approving official, and agency program coordinator for the above inappropriate purchases. Additionally, the Government should be reimbursed for the inappropriate items, and the items with questionable mission use should be properly disposed of.

**Cell Phone Purchases and Plans.** ITC management allowed the purchase of cell phones and cell phone service plans without justification or controls over the usage. The annual budget for cell phone plans was \$18,205; however, we could not determine the actual cost. We tried to review the cell phone bill details for the 7-month period of September 2001 through April 2002. Based on 19 personnel having phones, we should have been able to obtain the details of 133 phone bills. However, only 36 phone bills were available for our review of the 7-month period. Based on the phone bills that were available, we observed that the ITC purchased high-minute cell phone plans and incurred large cell phone bills. Personal calls were not always identified and reimbursed to the Government, as shown in the following examples.

- The ITC has 19 personnel with Government-funded cell phone service plans ranging between 100 and 1,500 minutes (25 hours) costing between \$24.95 and \$149.99 per month for base fees. An additional charge is assessed for 14 of the phones for replacement insurance. The ITC lacked a policy for cell phone use and no justification was made for the service.
- One department head's Government cell phone bill for 1 month was \$507.58. The individual's plan was for 350 minutes at a cost of \$49.99. However, the individual used a total of 1,596 minutes (26.6 hours) and incurred an additional charge of \$436.10. The individual reimbursed the Government \$79.35 for 529 minutes (8.8 hours) identified as personal calls. However, a review of the numbers called indicated an additional 179 minutes of questionable calls that were not identified as personal and not reimbursed by the employee. Additionally, it is impossible to tell how many of the 421 incoming minutes were personal minutes.
- One bill for September 2001 showed cell phone charges of \$326.60 for the business manager's deputy, \$246.09 for the business manager, and \$188.18 for the Director. Individual phone numbers called were only available for the Director. We reviewed the Director's calls for that month and found that the charges included calls to a golf course, and out-of-state calls that appeared to be personal. None of these calls were reimbursed.
- The Director did not reimburse the Government for any personal calls. However, a review of his records indicate that his calls included the Grand Casino of Biloxi, Mississippi; the Navy Federal

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Credit Union loan department; several golf courses; his children; and the US Airways Chairman's Preferred Personal Liaison.

- The Deputy Director made unreimbursed calls to his home, the US Airways Dividend Miles Gold Club Preferred Reservations, and other individual residences.
- The business manager made unreimbursed calls to her home, family members' homes, Our Lady of the Lake School, Chico's, and other individuals in her hometown.

The cardholder responsible for the accounts stated that cell phones are monitored and the plan minutes increased when it appears that the individual is getting close to using all the plan minutes on a monthly basis. Monitoring consisted of the cell phone user voluntarily stating if any calls were personal in nature. Further, increasing the number of minutes on the plan rewards cell phone abusers with more minutes at the Department's expense. The Director and Deputy Director stated that cell phones are needed because they are considered to be on-call, but provided no documentation to justify that claim. Additionally, the Director stated that it is a well-established fact that businesses give out cell phones. The Director's perception that a private business gives out cell phones does not justify spending DoD funds on an unnecessary service.

A cell phone policy should be implemented that requires that a documented and valid mission need is established prior to cell phones being issued, and a monitoring process to ensure that the Government cell phones are used for Government business.

**Computer Purchases.** In FY 2002, ITC cardholders purchased computers and computer equipment without the benefit of an acquisition plan. According to bank records, ITC cardholders spent \$785,561<sup>1</sup> at computer equipment vendors. We reviewed the documentation for 21 of these computer-related purchases valued at \$364,834. These items were purchased without regard for standardization and without checking for a General Services Administration (GSA) vendor. The ITC did not have a computer equipment acquisition plan that allowed cardholders to check computer purchase requests for appropriateness, or to be able to compare the request against the GSA schedule for the best price. Additionally, the documentation did not indicate if the required computer equipment was to replace old equipment or if it was for a new employee. As a result, some individuals were responsible for numerous computers. For example, the Director had signed for five laptop computers and three desktop computers, in addition to three lost laptop computers. This also calls into question whether the purchases were actually necessary. A responsible computer acquisition plan should be developed and used to purchase appropriate computer equipment.

**Office Supplies and Media Production Center.** During FY 2002, the ITC purchased approximately \$21,049 from office supply vendors including \$10,712 at catalog and retail merchants, one of which was Office Depot. A review of the

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<sup>1</sup> This only includes purchases from merchants who identified themselves as sellers of computer products. Potential computer purchases from retailers such as Office Depot, which sells a multitude of items, are not included.

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documentation for 25 of these purchases valued at \$12,441 showed purchases of items such as:

- day planners and specialty refills,
- an electric hole punch,
- large plotter paper,
- print shop supplies and specialty paper, and
- binding combs.

Cardholders purchased all of the items without researching required sources. The ITC has its own media production center, which uses the print shop supplies, the binding combs, and specialty papers.

**Required Vendors.** Cardholders at the ITC did not determine if requested items were available from required vendors. For example, day planners are available through JWOD and paper is available from GSA Advantage from either JWOD vendors or other vendors on GSA contracts. Cardholders stated that the requestor of the supplies usually suggests the vendor. However, various Federal laws and regulations require procurement officials to acquire certain products from designated sources. Additionally, in July 2002, SPAWAR Headquarters personnel reminded ITC management that the proper sources of supply for cell phones, office products, and information technology are JWOD vendors, Navy blanket purchase agreements, current ITC contracts, GSA contract vehicles, and DoD Enterprise Software Initiative contracts. However, purchases were made without regard for required sources of supply even after the reminders. The required source of supply should be used for all applicable purchases.

**Media Production Center.** The ITC Director created his own media production center in violation of DoD regulations. ITC personnel stated that the mission of the media production center was to produce brochures, strategic planning documents, proposals, briefs, customized animation, multimedia displays, logos, posters, certificates, flyers, banners, parking passes, badges, programs, agendas, scanning services, and matting and framing. DoD Directive 5330.3 requires DoD Components to use the Document Automation and Production Service for printing support. The Document Automation and Production Service is available in New Orleans and at the other ITC office locations. As part of the Systems Engineering and Security contract, the ITC is provided personnel to run the media production center. We requested the personnel costs for the Media Production Management Division and were informed for FY 2003 the personnel costs budgeted were \$279,000. The total cost of the media production center was not available. In addition, bank records indicate that the ITC paid approximately \$31,000 for printing services from commercial sources in FY 2002. The ITC Director defended the decision to create the media production center because the staff works on his briefs until he leaves on business trips. The ITC Director's personal preference does not justify the existence of an in-house media production center for these services. The media production center should be discontinued and the assets disposed of appropriately.

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## Management Controls and Key Management Positions

Purchase card controls were ignored or not implemented and senior managers displayed a lack of integrity by promoting abusive purchase card use. In addition, senior ITC managers did not:

- fill key management positions necessary to successfully implement the purchase card program,
- establish mandatory internal operating procedures,
- adequately reduce the organization's cycle limit to reduce Government risk,
- use management tools such as the Citidirect purchase card management system to establish and monitor purchase card accounts,
- use stand down reviews effectively, and
- implement procedures necessary to reduce administrative purchase card costs.

**ITC Management.** The Director, Deputy Director, and business manager promoted the abusive use of the purchase card to obtain goods and services without justifying a Government need. These managers allowed the purchase card program to function without establishing controls that would ensure purchases were necessary, from required sources, and not prohibited by regulation. These actions reflect a lack of respect for DoD funds they were entrusted to protect. Therefore, the Commander, SPAWAR should perform a review and initiate appropriate administrative action against the ITC senior managers for purchase card abuses and should ensure the following actions occur.

- Senior management shopping trips are discontinued and managers are required to use the same office supplies as other ITC employees.
- The cardholder that made the majority of the purchases on the shopping trips should have his purchase card privileges discontinued.
- The Director's private supply room is closed and materials sent to central supply.
- Material without a valid Government need such as bicycles, global positioning systems, luggage, and binoculars are disposed of appropriately.
- The Director and Deputy Director should reimburse the Government for the cost of the personal items.
- A cell phone policy is implemented requiring that cell phone service must have a legitimate Government need, and not be a management preference. Cell phone service should be limited to those minutes necessary for Government business.

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- Computers and computer equipment are purchased based on an acquisition plan.
  - Office supplies are obtained from required sources.
  - The media production center is discontinued and assets disposed of appropriately.
  - The purchase card program is structured to reduce administrative costs through the use of bulk funding.

**Key Management Positions.** Key management positions at the ITC were vacant. These positions included a director of contracting, and a property book officer. These positions are important to the correct implementation of the purchase card program and the check and balance system to ensure that the program is working properly.

**Director of Contracting.** ITC management did not appoint a director of contracting. The recruitment announcement for the director of contracting position was approved on October 17, 2001. However, as of our visit in July 2002, the position had not been filled. The director of contracting is responsible for appointing an agency program coordinator to oversee the purchase card program. The agency program coordinator selected by ITC management did not implement controls to protect the purchase card program from fraud, waste, and abuse. The Commander, SPAWAR should ensure that a director of contracting is appointed, who will select and support an agency program coordinator capable of implementing effective purchase card controls.

**Property Book Officer.** ITC management did not appoint a property book officer, who is part of the check and balance system of accounting for property purchased by any method. During site visits at the ITC, we were informed that the property book officer retired December 2001. During our April 2002 site visit, the ITC was in the process of reorganizing to align the property book officer position under the business manager. In December 2002, the business manager informed us that a facilities/property management position had been filled. The Navy Purchase Card Program Desk Guide requires cardholders to inform the property book officer of any items purchased that are classified as accountable property. Consequently, no controls were in place to ensure that items obtained with the purchase card were properly recorded in inventory. This issue is discussed in detail in finding B.

**Internal Operating Procedures.** The ITC had not adopted internal operating procedures to ensure that only necessary supplies and services were purchased. Consequently, ITC personnel made several unjustified purchases on shopping trips and for a ribbon cutting ceremony, binoculars, bicycles, art framing, computers, cell phones, and a media production center. ITC contracting personnel created a draft operating procedure but did not implement it. However, the draft procedure did not include specific operating procedures for the ITC, but rather restated some information in Navy Supply Instruction 4200.94. The Commander, SPAWAR must ensure that controls are implemented to ensure that ITC management no longer wastes funds on unnecessary purchases. The Commander,

SPAWAR must also put controls in place to ensure purchases are from required vendors, the purchase card management system is used, and reviews are conducted properly.

**Management Controls and Tools.** Management controls such as the organizational cycle limit and management tools such as the Citidirect purchase card management system and stand down reviews were not used effectively to manage purchase card accounts.

**Organizational Cycle Limit.** The ITC organizational cycle limit was higher than needed, thereby increasing the risk to the Government that unauthorized purchases could be made. The ITC FY 2002 cycle limit was about \$31.6 million per billing cycle. The bank suggests a factor of three to set the spending limit to ensure that the customer has sufficient buying power. Since the cycle limit is a multiple of three of the actual amount the organization can spend, the ITC can spend up to \$10,524,000 per month as shown in Table 2.

<b>Account</b>	<b>Cycle Limit per Month FY 2002</b>	<b>Spending Limit per Month (Cycle Limit Divided by 3)</b>	<b>Total Dollar Value of Purchases for FY 2002</b>
91177	\$10,009,000	\$3,336,333	\$ 1,565
91176	10,014,000	3,338,000	4,666
91167	0	0	295
91166	11,549,000	3,849,667	2,589,167
<b>Total</b>	<b>\$31,572,000</b>	<b>\$10,524,000</b>	<b>\$2,595,693</b>

According to bank records, the total expenditures via the purchase card for FY 2002 were about \$2.6 million. The agency program coordinator stated that these limits were based on historical spending. However, as shown in Table 2, the monthly spending limit is four times the FY 2002 purchases. The excessive organizational cycle limits in conjunction with paper billing make it possible through fraud or error for a cardholder to spend up to the monthly limit and not be detected until a bill arrives and is reviewed. Reducing the organizational cycle limit to a reasonable amount to cover average monthly purchases reduces the risk to the Government. Reducing the ITC organizational cycle limit to \$648,000 (average monthly spending of \$216,000 times 3) per month would reduce the potential Government liability by approximately \$31 million per month.

**Purchase Card Management System.** Personnel at the ITC did not use the Citidirect purchase card management system to establish and monitor purchase card accounts, or to electronically certify billing statements. During the audit, ITC personnel could not tell the auditors the volume of current ITC purchase card charges. The auditors were able to obtain the information directly from the purchase card management system. The use of the bank system can also reduce paper transaction costs from \$17.13 to \$6.96 per transaction. The ITC accounts were established by sending a facsimile to the bank and maintained by calling in changes to bank personnel. Billing statements were certified and mailed to DFAS for payment. ITC purchase card personnel stated that Citidirect is not used to make changes to the account information because there are not a lot of changes, and it is not used to certify payments because SPAWAR is not in a hurry

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to get established for using Citidirect for billing certification. As a result, DFAS was reimbursed at the higher rate. By implementing the use of the Citidirect purchase card management system, the ITC will gain better oversight of the purchase card program; reduce expenditures to DFAS by \$10.17 per transaction; and be able to pay bills quicker, eliminating the need to pay Prompt Payment Act interest of \$8,005 for FY 2002 or run the risk of having their purchase cards suspended due to delinquencies. Therefore, the Commander, SPAWAR should require that the Citidirect system be used as a tool to help manage the purchase card program on a daily basis.

**Semiannual Reviews.** The agency program coordinator at the ITC conducted three semiannual reviews. The former coordinator performed reviews for the transactions during the period December 1998 through July 1999 and August 1999 through January 2000. Both of these reviews included a statement that there was no identifiable misuse of the card; that adequate controls were in place; cardholders were using purchase logs to document credit card purchases; and all of the cardholders had the appropriate training and appointment letters. The present coordinator performed a review for transactions during the period February 2000 through August 2000. That assessment also included a statement that no misuse of the card was identified, and that all of the cardholders had the appropriate training and appointment letters. These reviews were ineffective as we found abusive purchases, such as the bicycles that occurred in 1999.

**Annual Review.** The current agency program coordinator conducted an annual review for the period September 2000 through August 2001. This review indicated that discrepancies were found. An attachment to the memorandum of the review listed 17 items as discrepancies. These discrepancies included split purchases (11), no authorization (2), itemized list of items purchased not in the file (3), and request created after order (1). One of the items identified as not listing what was purchased was also cited as being paid in advance without explanation. However, the Office Depot shopping trip of September 18, 2000, occurred during this time period and was not mentioned in the memorandum. An administrative review should be initiated and appropriate action taken against the agency program coordinator for not identifying and reporting the abusive purchases.

**SPAWAR Inspection.** On July 8, 2002, the SPAWAR Executive Director for Contracts<sup>2</sup> issued a memorandum, "Purchase Card Program Inspection." The memorandum was a result of an inspection to satisfy the Purchase Card Exit Criteria Plan approved by DoD. The review was conducted at the ITC during June 18-20, 2002. Although the review by SPAWAR found several areas that needed additional management attention, it found the purchase card program at the ITC to be satisfactory. However, the report contained 17 recommendations; 12 of which related to internal operating procedures, including the lack of advance reservation of funds, the lack of independent receipt of goods, and the failure to use proper sources. One recommendation was to adjust the credit limits for four of the cardholders; however, that still left the monthly spending limit four times higher than FY 2002 purchases.

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<sup>2</sup> The Executive Director for Contracts is located at SPAWAR Headquarters in San Diego, California.

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We identified problems with some of the statements intended as strengths in the SPAWAR report. The SPAWAR report stated that the ITC appeared to have a good process for recording all incoming material and maintaining property control records for items meeting property accountability criteria. However, as previously discussed in this finding, not all items purchased go through central receiving. We also found items that were purchased with the purchase card that were not bar coded and entered into inventory. The issue of property accountability is addressed in finding B. However, the SPAWAR review was more comprehensive than the agency program coordinator reviews and should be continued until controls are adequate to assure that there is a low risk of fraud, waste, and mismanagement in the purchase card program.

**Purchase Card Administration.** ITC management's inadequate attention to purchase card administration did not ensure proper use of DoD funds. Purchase Card Reengineering Memorandum 3: Streamlined Financial Management Procedures, March 27, 1997, and Change 1, June 30, 1997, issued by the Under Secretary of Defense (Comptroller) requires the advance reservation of funds for all purchases made using purchase cards in order to ensure positive funds control and preclude expenditures from exceeding obligations. It also suggested that the reservation of funds take the form of bulk commitments or bulk obligations.<sup>3</sup> The Federal Acquisition Regulation states that bulk funding is to be used to the maximum extent practicable to reduce processing time, handling, and documentation. Bulk funding is particularly appropriate if numerous purchases using the same type of funds are to be made during a given period. However, ITC management did not implement this control. The ITC submitted purchase card statements to DFAS for payment based on individual lines of accounting for each transaction on the billing statement. Consequently, in FY 2001, DFAS billed the ITC for 1,153 transactions at \$17.13 per transaction for a total cost of \$19,751; and could bill the ITC for 651 transactions for FY 2002<sup>4</sup> at a cost of about \$11,152. If the ITC used bulk funding, DFAS would have billed the ITC for 36 transactions at \$17.13 for a total cost of \$617. Therefore, the ITC unnecessarily paid an additional \$19,134 for credit card administration costs in FY 2001 and \$10,535 in FY 2002. The ITC also incurred interest penalties of approximately \$13,000 because funding was inadequate. The ITC could pay approximately \$95,671 in a 5-year period for excessive credit card administration costs if controls are not implemented. The ITC should reorganize the purchase card program to take advantage of bulk funding.

**Spending Habits Continued.** The spending habits of the ITC cardholders had not changed since our visits to the ITC in April and July 2002. During the July visit, we discussed purchases and mandatory sources of supply with cardholders. Additionally, we provided Web site addresses for GSA Advantage and JWOD vendors including the local Lighthouse for the Blind. Additionally, in a July 8, 2002, memorandum, the SPAWAR Executive Director of Contracts instructed ITC personnel to buy from approved sources. However, a review of the

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<sup>3</sup> Also referred to as "bulk funding." The Federal Acquisition Regulation Part 13, Simplified Acquisition Procedures, defines bulk funding as obligating funds on purchase documents against a specified lump sum of funds reserved for the purpose for a specified period of time rather than obtaining individual obligation authority on each purchase document.

<sup>4</sup> FY 2002 is a partial year because use of the purchase card was suspended from March 2002 to July 2002.

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bank's account activity records for July 20, 2002, through September 30, 2002, showed that only 1 purchase had been made from the JWOD Web site, but that 20 purchases had been made from Office Depot and other office supply stores. The report also showed that nine Internet orders were placed with Office Depot from September 17, 2002, to September 27, 2002. The cardholder that had paid for the previous shopping trips made eight of the purchases. Instead of spending close to the single purchase limit on one annual trip, the combined nine requests totaled about \$8,204. ITC managers had increased inappropriate spending patterns after warnings from SPAWAR Headquarters and the Office of the Inspector General of the Department of Defense.

## **Conclusion**

The poor management of the purchase card program at the ITC needed improvement. Controls should be implemented and enforced regardless of the position of the employee initiating a purchase request. The Commander, SPAWAR should initiate a review and take appropriate actions against ITC personnel including the Director, Deputy Director, business manager, cardholders, approving officials, and agency program coordinator for making abusive purchases and not reporting the abuse.

## **Management Comments on Finding A and Audit Response**

A summary of management comments on finding A and our response are in Appendix F.

## **Recommendations, Management Comments, and Audit Response**

**A. We recommend that the Commander, Space and Naval Warfare Systems Command:**

**1. Initiate a review and take appropriate administrative actions against the Information Technology Center Director, Deputy Director, cardholder, approving official, and agency program coordinator for the inappropriate purchases made, and for the failure to ensure proper controls and use of the purchase cards.**

**SPAWAR Comments.** The Deputy Commander, SPAWAR concurred and stated they would initiate a review and take appropriate action in accordance with the results of the review. Subsequently, we were advised a review was completed.

**2. Require the Information Technology Center Director and Deputy Director to reimburse the Government for the inappropriate personal items purchased for their benefit.**

**SPAWAR Comments.** The Deputy Commander, SPAWAR partially concurred and stated that with the exception of the framing of the Director's art print, for which he has reimbursed the Government \$55.00, no other items were purchased

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for personal use. Unnecessary items have been or will be excessed to the Defense Reutilization and Marketing Office or otherwise properly disposed of.

**Audit Response.** Actions taken meet the intent of the recommendation. No further comments are required.

**3. Require the Information Technology Center Director to close his personal supply room and put the items in the central supply for general issue.**

**SPAWAR Comments.** The Deputy Commander, SPAWAR partially concurred and stated that all office supplies and equipment in the room referenced have been returned to central supply inventory for general use; and all needed supplies will be acquired via the central supply inventory process.

**Audit Response.** Actions taken meet the intent of the recommendations. No further comments are required.

**4. Dispose of items such as bicycles, global positioning systems, luggage, binoculars, and personal software in a manner that results in the greatest benefit to the Government.**

**SPAWAR Comments.** The Deputy Commander, SPAWAR partially concurred and stated that the bicycles, the global positioning systems, and binoculars have been excessed via Defense Reutilization and Marketing Office. The luggage, including computer carrying cases, were purchased to support frequent official travel requiring the traveler(s) to bring computer equipment, multiple copies of briefing material, and other items, but were not used for clothing (or any other personal use). The various items, except for those damaged over time through use, are in Information Technology Center-controlled spaces. The Quicken software has been destroyed since it was determined not to have been useable. The target completion date was July 31, 2003, for those actions not yet complete.

**Audit Response.** Actions taken meet the intent of the recommendations. No further comments are required.

**5. Implement a cell phone policy that requires:**

- a. A Government need be established prior to the issuance of a cell phone.**
- b. Personnel that receive cell phones to sign an agreement of understanding that the phone is for official Government use.**
- c. A monitoring process to ensure that the cell phones are used for Government business.**

**SPAWAR Comments.** The Deputy Commander, SPAWAR concurred and stated that there is a written instruction in draft. All personnel with Government cell phones are required to pay for personal calls. Periodic reviews of outgoing calls will be conducted to ensure that payments are received for personal use. The

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Information Technology Center will be instructed to ensure that the pooled minutes reflect only projected Government requirements. The target completion date was July 31, 2003.

**Audit Response.** The actions taken in response to the recommendation are commendable. However, the action did not address that a valid need exists for the current cell phones and require personnel to sign an agreement of understanding that the phones are for official Government use. An incomplete cell phone policy leaves issues to interpretation that could lead to mismanagement or abuse of cell phones. The Commander, SPAWAR should reconsider the recommendation and provide comments to the final report.

**6. Require the Information Technology Center to receive Space and Naval Warfare Systems Command approval for each cell phone issued and to reduce the number of minutes on cell phone plans to levels required for Government business and to use the phones only for official business.**

**SPAWAR Comments.** The Deputy Commander, SPAWAR partially concurred and stated that it is not necessary that the Information Technology Center receive SPAWAR approval for each cell phone issued to its employees. The Information Technology Center Deputy Director undertook examining the variety and cost of in-place plans and directed the cell phone contracts be combined and completed for a common pool of minutes, thus significantly reducing costs. This contract was put into place in October 2002.

**Audit Response.** The SPAWAR comments to this recommendation are considered nonresponsive in that the entire recommendation was not addressed. The intent of the recommendation was for SPAWAR to approve the number of phones and job positions that should have the phones, as well as ensuring the number of minutes were reduced to levels required for official Government business. Therefore, the Commander, SPAWAR should reconsider this recommendation and provide comments to the final report.

**7. Initiate appropriate actions against the Information Technology Center Director, Deputy Director, and business manager and require them to reimburse the Government for personal cell phone calls made.**

**SPAWAR Comments.** The Deputy Commander, SPAWAR partially concurred and stated that the command had been advised that all 19 cell phone users have reimbursed the Government for all personal calls. The Deputy Commander stated that validation would be part of the review that would be initiated.

**Audit Response.** Action taken meets the intent of the recommendation. No further comments are required.

**8. Require the Information Technology Center to develop and receive Headquarters, Space and Naval Warfare Systems Command approval of an annual acquisition plan for computer equipment, and require all Information Technology Center computer equipment purchases not on the approved plan to receive separate Headquarters, Space and Naval Warfare Systems Command approval.**

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**SPAWAR Comments.** The Deputy Commander, SPAWAR partially concurred and stated that the ITC coordinates all large computer purchases with SPAWAR's Chief Information Officer and agreed the Information Technology Center will continue to work with the Chief Information Officer to determine the level of review and approval required for small, repetitive purchases. This will be a continuing requirement.

**Audit Response.** Action taken meets the intent of the recommendation. No further comments are required.

**9. Require cardholders at the Information Technology Center to order office supplies from required sources such as Javits-Wagner-O'Day vendors, and initiate appropriate action against cardholders, approving officials, and the agency program coordinators that violate the requirement to make purchases from required vendors.**

**SPAWAR Comments.** The Deputy Commander, SPAWAR concurred and stated that remedial training has been provided and any additional necessary action would be addressed after completion of the management review that SPAWAR would initiate.

**10. Discontinue the funding and use of the media production center, and properly dispose of media center assets.**

**SPAWAR Comments.** The Deputy Commander, SPAWAR partially concurred and stated that the media production center (renamed Documentation Support Center to clarify its role) is used by every department within the Information Technology Center as well as by its customers. The draft report implies that all work done by the Documentation Support Center could and should be done by the Document Automation and Production Service. This is not an accurate conclusion. Most of the work involves such functions as content creation, technical writing, brief preparation, and editing. Many items produced by the Documentation Support Center represent one-time requirements with limited copies, and/or extremely short turn-around requirements. The Information Technology Center could not effectively function and complete its work in a timely manner without the services provided by the Documentation Support Center.

**Audit Response.** The command reply is not responsive. Renaming the media production center to clarify its role does not address the recommendation to discontinue the center. The media production center is in violation of current DoD Directive 5330.3, and Navy purchase card regulations. The Commander, SPAWAR should reconsider this recommendation and provide comments to the final report.

**11. Appoint a director of contracting, who will select and support an agency program coordinator capable of implementing effective purchase card controls.**

**Navy Comments.** The Deputy Assistant Secretary of the Navy (Acquisition Management) partially concurred and stated that the current level of contracting at the Information Technology Center does not warrant a DP-IV (GS- 14/15 equivalent) position. However, to ensure that effective internal controls are in

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place, the agency program coordinator (APC) function will no longer be performed by the contracts head. A new APC will be appointed by the Commanding Officer and will report back through the appropriate management chain to the Commanding Officer on the health of the purchase card program.

**Audit Response.** The action agreed to by the Deputy Assistant Secretary of the Navy meets the intent of the recommendation.

**12. Ensure that a property book officer is appointed, who will implement effective controls over accountable property.**

**SPAWAR Comments.** The Deputy Commander, SPAWAR concurred and stated that the property manager was officially appointed “Property Book Officer” in May 2003 with the responsibilities outlined in DoD Instruction 5000.64, SECNAVINST 7230.10 (Series), and SPAWARINST 11016.2 (Series).

**13. Require the Information Technology Center to develop and implement internal operating procedures in accordance with Navy eBusiness Operations Office Instruction 4200.1, “Department of Navy Policies and Procedures for the Operation and Management of the Government Commercial Purchase Card Program,” September 19, 2002. In addition to the instruction requirements, the procedures should provide:**

- a. A list of items that should not be purchased.**
- b. Lists of required vendors for types of goods and services to be checked prior to making a purchase.**
- c. Proper procedures for conducting reviews.**

**SPAWAR Comments.** The Deputy Commander, SPAWAR concurred and stated that the Information Technology Center is in the process of updating its Internal Operating Procedures (IOP). Changes have been recommended to include the review procedures in the SPAWAR Purchase Card Policy Guidance. SPAWAR has also recommended that the specific procedures for the purchase of Information Technology hardware and software, cell phones, Defense printing services, and other items described as “special interest” in the SPAWAR guidance should be included. The IOP will include the list of items that should not be purchased as well as the mandatory sources to be considered. The IOP should be signed by June 30, 2003. The Information Technology Center will provide training on changes in the IOP and internal procedures and controls. Target completion date was July 31, 2003.

**14. Reduce the Information Technology Center’s purchase card cycle limit to three times the average monthly purchase card spending amount.**

**SPAWAR Comments.** The Deputy Commander, SPAWAR concurred and stated that the cycle limits at the Information Technology Center have been continually reduced in the past year through constant oversight by the SPAWAR level 3 APC. The current cycle limits are now set at \$890,000 per cycle limit. This is a 97 percent reduction in cycle limits. This change significantly reduces the risk to the Government and allows adequate coverage for necessary purchases/payments and approval.

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**Audit Response.** We consider the comments to this recommendation to be partially responsive. While we agree that the limits have been reduced, we believe that the limits can still be substantially reduced without affecting the ability of the cardholders to perform their duties. The Citidirect Statistical Summary Report for the July 2003 billing cycle reflected that the total monthly cycle limit for the Information Technology Center was \$3.7 million. In order for the cycle limit to be reduced, in addition to actions taken, reductions need to be made to the approving official accounts. The Commander, SPAWAR should reconsider this recommendation and provide comments to the final report.

**15. Perform periodic independent inspections of the Information Technology Center purchases under the purchase card program until such time that the controls are adequate to assure that there is a low risk of fraud, waste, and mismanagement in the purchase card program.**

**SPAWAR Comments.** The Deputy Commander, SPAWAR concurred and stated that yearly independent reviews will continue. Monthly purchase card reviews are performed by the Information Technology Center and forwarded to the level 3 APC for review. SPAWAR has developed metrics to measure the health of the purchase card program. When deficiencies are noted, the level 3 APC works with the site APC to develop remedies to the problems. This is a continuing requirement.

**16. Reorganize the purchase card program to take advantage of intended benefits of the program. Specifically:**

- a. **Require the use of bulk funding as the method of advance reservation of funds for purchase card purchases.**
- b. **Require the use of the bank's purchase card management system.**

**SPAWAR Comments.** The Deputy Commander, SPAWAR concurred and stated that the Information Technology Center Comptroller now creates bulk commitment documents annually to support the purchase card. SPAWAR Headquarters has been working with the APC and Comptroller at the Information Technology Center to develop the process for bulk funding to meet the DoD deadline of Citibank on-line certification and payment by September 2003. The Commander, SPAWAR stated that the Information Technology Center has been using the Citibank system to establish and monitor purchase card accounts. This was verified during the May 2003 on-site inspection by the SPAWAR level 3 APC.

**Monetary Benefits.** The Deputy Commander, SPAWAR agreed that the implementation of bulk funding would provide potential monetary savings over the next 5 years of \$90,000.

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## B. Property Accountability

The ITC needed to improve controls over property accountability. Specifically, at least \$1.7 million of property was not recorded in the property book, property was missing and went unreported, property was at individuals' homes without adequate property passes, and pilferable property was inappropriately removed from the accountable records. This occurred in part because the ITC did not have a property book officer, and because of the lack of basic management accountability for DoD equipment and purchases. As a result, the ITC had no assurance that accountable property was accurately reflected on the property books and was protected from fraud, waste, and mismanagement.

### Accountability Procedures

SPAWAR Instruction 11016.2D, "Accountability for Plant and Minor Property," February 4, 1992, established standard property management procedures for plant and minor property including pilferable property. The instruction defined minor property as property costing between \$300 and \$5,000, and all items considered classified, sensitive, or pilferable regardless of cost.

The instruction recognized that property management has always been an important element of the management process. The instruction states that employees assigned property must sign for all property prior to possession, and notify the accountable property officer immediately of any location or accountability changes. A unique property control number is to be attached to all plant and minor property. Additionally, the instruction states that an inventory list would be provided to the employee assigned property to use as an informal inventory. The instruction also states that the acquisition, disposition, and transfer records shall be maintained in the property management reporting system.

On August 13, 2002, DoD updated its property accountability requirements by issuing Department of Defense Instruction 5000.64, "Defense Property Accountability," to provide a comprehensive framework for DoD property accountability policies, procedures, and practices. The Instruction assists DoD property managers, accounting and financial officers, and other officials in understanding their roles and responsibilities relating to property accountability.

### Property Controls

Property at the ITC was not properly controlled. Specifically, property valued at \$1.7 million was not recorded in the property book, property was missing and went unreported, property was at individuals' homes without adequate property passes, and pilferable property was inappropriately removed from the accountable records.

**Property Not Recorded.** Not all property at the ITC had been recorded on the property book. Specifically, property transferred to the ITC had not been recorded, property records did not accurately reflect the actual location of the

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property or all property assigned to the individual, and not all items purchased with the purchase card were tagged and entered in the property book.

**Transferred Property.** Property received by the ITC as a result of a property transfer had not been recorded on the property book. ITC personnel provided our auditors with documentation that 750 pieces of audiovisual equipment valued at over \$1.7 million had not been added to the property book. The ITC received property from the Navy Signal Command in February 2000 through a property transfer that was not recorded on the property book. A statement in the documentation gave the reason for not including the items on the property book as, “all items were not sighted so not recorded by inventory team.” The individual that provided the documentation could not clarify the meaning of the statement. However, we believe this statement to mean that the items were not physically located, and therefore not included in the ITC inventory.

**Property Location.** Property records did not accurately reflect the actual location of the property, or all property assigned to the individual. A limited review of property records for 151 items showed that 52 items reviewed were not at the listed location recorded on the property records. The inventory listings containing 151 pieces of equipment belonged to 14 individuals that either had a cell phone, pager, or both. Only 4 of the 14 inventory listings had the cell phones or pagers listed on the inventory records. A reverse check was performed by selecting 17 additional pieces of equipment from various work areas and then having ITC personnel search the property database in our presence to determine if the items were on the property book. These items included televisions, videocassette recorders, cell phones, and shredders. This review showed that none of the items were on the property book. For example, the Director had a television, video cassette recorder, backup drive, Altec Lansing speaker, and Palm Pilot in his office that were not on his property listing or in the property book.

**Property Tags.** Not all items purchased with the purchase card were tagged and entered in the property book. For example, a heater/air conditioner unit and a portable generator (see Appendix D) purchased with the purchase card were not on the property book, nor did they have property tags on them when inspected. As discussed in finding A, the luggage, global positioning system, and other items from the two shopping trips were delivered straight to the Director’s office instead of to central supply. According to personnel in central supply, the 10 pairs of binoculars (discussed in finding A) were delivered to supply, and were in the process of being tagged when the supply supervisor demanded the removal of the property tag and the surrender of the binoculars to security personnel. All Government property should be tagged and captured on the property book.

**Property Missing.** Property was missing from the ITC and was not reported missing by the individual responsible for the property. A visual inspection of equipment listed on inventory sheets from the ITC property accountability system showed that equipment was missing from the ITC. The disposition of 27 of the 151 items selected could not be resolved. Items that could not be located included laptops, printers, monitors, a television, and cell phones. Reasons provided by some individuals for the missing equipment included:

- the property had been missing for some time, but just had not been reported;

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- the item had been turned in but just not taken off the inventory record;
  - the item was turned in and the incorrect item was removed from the inventory listing; and
  - the item was never received.

For example, the Director's inventory listing indicated he should have a Robotics personal digital assistant. However, at the time of our review, he had a Palm Pilot. The Director stated that he originally had four personal digital assistants, and turned in three, keeping only the Palm Pilot, but that the wrong item was removed from the property listing. Employees should verify inventory listings semiannually and use diligence in ensuring the listings remain accurate by reporting changes as they occur.

**Government Equipment at Homes.** Property was at individuals' homes without adequate property passes. However, the ITC does not have a work at home program established nor does it have plans to establish one. However, a property pass log dated January 8, 2001, indicated that the ITC had 154 pieces of equipment on loan to individuals. All of the property passes had expired. Additionally, for 131 of the items, the property pass list did not indicate that the item was returned to the ITC or if another property pass was issued.

During our inventory, the Director had Government equipment valued at about \$22,000 at his home. The equipment consisted of five laptops, a printer, two monitors, a scanner, and two desktop computers. However, only two property passes were issued, one for one desktop computer, one monitor, one printer, and one scanner and another one for a laptop. The property passes for this equipment expired on December 15, 2001, and December 20, 2001. The remainder of the equipment (four laptops, one monitor, and one computer) had been inappropriately removed from the ITC. The inappropriate removal of equipment causes concern because the Director has also reported losing three laptops. The Director stated that he needed equipment at home because 90 percent of his e-mail is done at home or on a plane, and that he does a tremendous amount of work at home at night because he is too busy during the day. All equipment should be returned to the ITC and a proper inventory conducted.

**Property Removed From the Property Book.** Property was inappropriately removed from the ITC property accountability system. When we questioned why televisions, video cassette recorders, Palm Pilots, cell phones, and pagers were not on the property books, supply personnel stated that property items valued at \$2,500 or lower were removed from the ITC property accountability system. Personnel controlling the property accountability system in the absence of a property book officer stated that they had received message traffic from the Chief of Naval Operations, May 10, 2000, that stated property under \$2,500 should not be tracked in the property accountability system. The message actually stated that assets that do not meet the accountability threshold of \$2,500, but are considered pilferable, should be tracked in the Defense Property Accountability System. However, items such as cell phones, laptop computers, and other pilferable items had been removed from the property book. When the matter was brought to the attention of ITC management, a memorandum titled, "Reporting Pilferable Personal Property" from the Commander Naval Reserve Force, May 24, 2001, was provided that stated they were excluded from reporting pilferable personal

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property in the Defense Property Accountability System. However, the ITC did not belong to the Naval Reserve Force when the property was removed from the accountable property system. SPAWAR Instruction 11016.2D, “Accountability for Plant and Minor Property,” February 4, 1992, states that pilferable property should be tracked on the property accountability system. The instruction defines pilferable property as property that is easily transportable, concealable, and convertible to personal use. The instruction listed examples of pilferable property as portable power tools, cameras, binoculars, and other material with an estimated useful life of 2 years or more. The setting of a policy to lose visibility of highly desirable items from the property accountability system casts doubts on the integrity of senior management at the ITC.

## Accountable Property Officer

The ITC did not have an accountable property officer. Department of Defense Instruction 5000.64, “Defense Property Accountability,” August 13, 2002, states that accountable property officers establish and maintain the records of a property accountability system, to include a complete trail of all transactions. It also states that the accountable property officer is to:

- monitor the acquisition, storage, utilization, transfer, and disposal of property;
- ensure that property received and issued is properly identified; and
- evaluate culpability when property has been reported lost, damaged, misused, or stolen; report and recommend appropriate action, and assist in investigations, as required; and process reports of survey according to established procedures.

Since the ITC did not have a property accountability officer, these functions were either not performed or not performed correctly.

## Reporting

Cardholders did not report the purchase of accountable property; Missing, Lost, and Stolen Reports were either not prepared or not prepared properly; and the ITC had no assurance that accountable property was accurately reflected on the property books.

**Cardholder Purchases.** Cardholders at the ITC did not report the purchase of accountable property to the property book officer. Property purchased with the purchase card, including computers, software, binoculars, a heater/air conditioner unit, a gas generator, luggage, global positioning systems, and cell phones, was not reported to the property book officer. Therefore, the property was not always received in central receiving, tagged, and recorded in the property book.

**Missing, Lost, and Stolen Reports.** Missing, Lost, and Stolen Reports were not prepared, or not prepared properly.

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**Not Prepared.** Missing, Lost, and Stolen Reports were not prepared for some equipment missing from the ITC. For the 27 items identified as missing, employees indicated that 23 of the items had been missing for some time but had not been reported as such. This reporting would have started the Missing, Lost, and Stolen Report process. If still missing, these items should be reported and a Missing, Lost, and Stolen Report prepared.

**Improperly Prepared.** Missing, Lost, and Stolen Reports prepared for missing equipment at the ITC were not prepared properly. According to a memorandum and supporting documentation provided by ITC management, 219 Missing, Lost, and Stolen Reports were filed between October 7, 1999, and December 28, 2001, for a total value of \$239,077. However, at the time of our review, only 11 of the reports valued at \$21,131 were available for our review. None of the 11 reports held the employee responsible for the lost equipment. Of the 11 reports reviewed, 5 were for the Director, 2 were for the Deputy Director, and 4 were for 3 other employees.

Five reports were prepared for equipment assigned to the Director. Three of the five were not brought to conclusion. The Deputy Director signed the other two reports as the responsible officer. These two reports indicated that the Deputy Director found no negligence involved in the loss. However, the ITC Director's Missing, Lost, and Stolen Report, April 21, 2000, states that the Director left his Toshiba laptop (the one purchased at the request of his son) on a plane. The Deputy Director signed the Missing, Lost, and Stolen Report stating that there was no negligence. Additionally, the Deputy Director signed two of his own reports as the responsible officer, and found himself not negligent as well.

**Assurance.** The ITC has no assurance that accountable property is accurately reflected on the property books. As previously discussed in this finding and in finding A, not all accountable property purchased by cardholders at the ITC goes through central receiving and receives a property tag; and property holders at the ITC did not make sure that the property in their control was accurately recorded or safeguarded, or that lost equipment was reported promptly.

## Management Actions Taken

After discussing the property accountability issue with ITC management, the ITC performed an inventory. The ITC management provided copies of the inventory log sheets used to record the items on hand at the ITC during inventory. This inventory conducted by ITC personnel after our visit showed that not all items were accounted for; some equipment did not have property tags; equipment was located at individuals' homes; and some property was not inventoried.

**Items Not Included.** Not all items at the ITC were accounted for during the inventory performed after the ITC had been informed of the property accountability problems. The ITC inventory listings were reviewed for the following specific items: Toshiba laptop computers (the brand purchased at the request of the Director's son), 25 tool kits (purchased with the Director's son as the point of contact), cell phones, pagers, EarthMate Global Positioning Systems (2), Garmin Global Positioning System, binoculars, heating/air conditioner unit,

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gas generator, cordless mice, and Palm Pilots. Of the above items, six Toshiba laptop computers, one cell phone, one pair of binoculars, and three Palm Pilots were listed on the property listings.

The two EarthMate Global Positioning Systems purchased during the September 18, 2000, shopping trip were not on the property listings. When asked about the EarthMate Global Positioning Systems, the ITC business manager investigated the location of the items and stated that both of the systems had been located (one was in micro repair and one was in the Director's laptop bag) and placed in the inventory pool. However, when the ITC performed an inventory and provided the results of that inventory, the global positioning systems were not included.

The business manager provided the disposition of the 13 Palm Pilots owned by the ITC; however, only 3 appeared on the inventory listings. The three Palm Pilots that appeared on inventory lists were not on the listings for the people the business manager stated had the items. Neither the 25 tool kits, the heating/air conditioner unit, gas generator, nor the cordless mice were on the inventory listings.

**Property Tags.** A review of the ITC inventory listed showed that 259 items at the ITC that were observed at the time of their inventory did not have property tags. The items not tagged included televisions, flat screen televisions, cameras, laptop computers, desktop computers, printers, facsimile machines, computer servers, video cassette recorders, and a three-hole punch valued at \$200. The value of the equipment not tagged could not be determined because the ITC inventory did not assign a monetary value to the equipment.

**Equipment at Homes.** The ITC-furnished inventory log sheets showed that some equipment was located at the individuals' home. The inventory logs indicated that 16 individuals had items at home. However, according to the Director, only senior managers and department heads had equipment at home. A comparison of the names of individuals with equipment at home to the ITC organizational chart showed that none of the 16 individuals were directors or department heads. In fact, 3 of the 16 individuals were contractor personnel. As previously discussed, all of the property passes issued by the ITC had expired prior to 2002.

**Property Not Inventoried.** The ITC-furnished inventory log sheets showed that some equipment was not inventoried. Seven inventory log sheets were started for individuals that stated either that the equipment was not ITC equipment, or the individual said not to inventory the equipment. Additionally, an inventory log was started for the Director's equipment. However, the person conducting the inventory did not inventory any of the Director's equipment but rather had listings of what the Director had previously signed for printed out of the inventory system. The inventory sheet was not signed; therefore, we believe that the ITC staff did not inventory the Director's property. An inventory performed by the audit staff indicated that the Director had about \$22,000 of computer equipment at home in addition to the three laptops he had previously lost; and a television, video cassette recorder, backup drive, Altec Lansing speaker, and Palm Pilot that were not on his inventory listing.

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## Conclusion

Although the ITC personnel attempted to perform an inventory, it was not done properly. Some equipment was not inventoried, and ITC management did not report that they had performed a reconciliation of what was actually on hand to what was recorded in the property book. In order for property accountability to exist, an accurate inventory must be performed, periodic checks must be performed, and all transfers, turn-ins, and property passes must be promptly and properly recorded. Employees entrusted with Government property are responsible for ensuring that the property they have is safeguarded and accurately reflected in the property records. This is accomplished by checking the property tags of assigned equipment, and signing for the equipment received. If the equipment is not received, then the inventory list should either not be signed, or annotated as to what is incorrect and corrections made to the property system. An accountable property book officer is necessary to monitor the acquisition, storage, use, transfer, and disposal of property. The accountable property book officer is also required to evaluate culpability when property has been reported lost, damaged, misused, or stolen and recommend appropriate action, and assist in investigations to process reports of survey.

## Management Comments on Finding B and Audit Response

A summary of management comments on finding B and our response are in Appendix F.

## Recommendations and Management Comments

### **B. We recommend that the Commander, Space and Naval Warfare Systems Command:**

#### **1. Direct the Information Technology Center to perform a wall-to-wall inventory and reconcile inventory discrepancies to create an accurate reflection of property located at the Information Technology Center.**

**SPAWAR Comments.** The Deputy Commander, SPAWAR concurred and stated that SPAWAR representatives would provide oversight to the wall-to-wall inventory and reconciliation effort to take place July 7-18, 2003. Successful completion of the inventory will address discrepancies not already researched and reconciled.

#### **2. Oversee the wall-to-wall inventory and inventory reconciliation process.**

**SPAWAR Comments.** The Deputy Commander, SPAWAR concurred and stated that SPAWAR representatives would provide oversight to the wall-to-wall inventory and reconciliation effort to take place July 7-18, 2003.

#### **3. Direct the Information Technology Center to include pilferable items on the property book as required in Space and Naval Warfare Systems Command instructions.**

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**SPAWAR Comments.** The Deputy Commander, SPAWAR concurred and stated that the Information Technology Center included pilferable items in its property book and that SPAWAR will validate compliance during the reconciliation process [July 7-18, 2003] to ensure an accurate and complete property system.

**4. Direct the Information Technology Center senior managers to require employees with Government equipment at home to justify the need for the equipment and obtain property passes or to return the equipment to the Information Technology Center.**

**SPAWAR Comments.** The Deputy Commander, SPAWAR concurred and stated that Information Technology Center personnel have been directed to return all Government-owned equipment from off-site locations. SPAWAR will validate compliance during the reconciliation process [July 7-18, 2003] to ensure an accurate and complete property system.

**5. Direct the Information Technology Center to fill the vacant property book officer position.**

**SPAWAR Comments.** The Deputy Commander, SPAWAR concurred and stated that the interim property manager was appointed property book officer in writing on May 7, 2003.

**6. Investigate the 29 lost items not reported as missing and the 7 improperly prepared or approved Missing, Lost, and Stolen Reports. The reports for items lost by the Director, Information Technology Center should be investigated by other than Information Technology Center staff and should be approved by senior officials at the Space and Naval Warfare Systems Command.**

**SPAWAR Comments.** The Deputy Commander, SPAWAR concurred and stated that SPAWAR will ensure that the Information Technology Center investigates and processes the DD Form 200s and forwards the forms and documentation for lost and missing equipment that was in the custody of the Director to SPAWAR for appropriate action. The target completion date is December 31, 2003.

**7. Require an independent review and verification of inventory listings every 6 months until such time the risk of fraud, waste, and mismanagement of accountable property is no longer considered a high risk.**

**SPAWAR Comments.** The Deputy Commander, SPAWAR concurred and stated that SPAWAR will do an independent review of the inventory listings every 6 months as long as deemed necessary.

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## Appendix A. Scope and Methodology

We reviewed 84 of the 628 transactions processed via the purchase card for the ITC from September 2001 through March 2002, and additional transactions processed between May 1999 and September 2002 and questionable items discovered or brought to our attention. We reviewed cell phone statements available for the period of September 2001 through April 2002. We reviewed reports available from the bank's purchase card management system. We also reviewed reports of agency program coordinator reviews and the report prepared by the SPAWAR Executive Director for Contracts. We interviewed personnel in the ITC, New Orleans and the Washington D.C. detachment. We reviewed processes used by the ITC to order, receive, and account for items purchased via the purchase card. In addition, we reviewed property accountability controls and performed property inventories for 14 individuals with 151 pieces of Government equipment. We also reviewed the inventory listings provided by the ITC management.

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

**Use of Computer-Processed Data.** To achieve the purchase card audit objective, we relied on computer-processed data from the bank's purchase card management system to obtain merchants used by the ITC for July through September 2002. We also used the bank's purchase card management system to determine the ITC organizational cycle limit and the annual expenditures. We attempted to verify the reliability of the data; however, the ITC could not provide us with the amount of expenditures via purchase card, or the information on the cycle limits because only information for the New Orleans site was available. To achieve the property accountability objective we used property records the ITC maintained via computer. The data were used as a starting point to verify the inventory records. The inventory records were found to be inaccurate. (See Finding B.)

**General Accounting Office High-Risk Area.** The General Accounting Office has identified several high-risk areas in DoD. This report provides coverage 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.** Although we did not have an objective to review the management control program at the ITC, we discussed management controls and the management control program with the Director. The ITC had not performed a self-evaluation of management controls.

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**Adequacy of Management Controls.** We identified material management control weaknesses for the ITC as defined by DoD Instruction 5010.40. The ITC had not implemented controls over purchase card use to prevent questionable and abusive purchases being made, ensure that items were purchased from proper sources, and ensure proper receipt of items purchased. Recommendations A.8., A.9., A.13., A.14., and A.16., if implemented, will improve controls over the purchase card program and could result in potential monetary benefits of \$95,671. Additionally, the ITC had not implemented controls over property accountability to ensure that Government assets were properly recorded in the property book. Recommendations B.1. through B.7., if implemented, will improve property accountability controls. A copy of the report will be provided to the senior official responsible for management controls in the Department of the Navy.

**Adequacy of Management's Self Evaluation.** The ITC had not performed a self-evaluation of management controls.

## Prior Coverage

Between FY 1996 and FY 2003, over 300 audit reports identified a wide range of implementation problems in the DoD purchase card program.

**General Accounting Office.** The General Accounting Office (GAO) issued 12 reports relating to the DoD purchase card program. The most recent reports are GAO Report No. GAO-03-292, "Purchase Cards: Control Weaknesses Leave the Air Force Vulnerable to Fraud, Waste, and Abuse," December 20, 2002; GAO Report No. GAO-02-1041, "Purchase Cards: Navy is Vulnerable to Fraud and Abuse but Is Taking Action to Resolve Control Weaknesses," September 27, 2002; and GAO-02-732, "Purchase Cards: Control Weaknesses Leave Army Vulnerable to Fraud, Waste, and Abuse," June 27, 2002. GAO reports can be accessed on the Internet at <http://www.gao.gov>.

**DoD Audit Organizations.** The Inspector General of the Department of Defense (IG DoD) and audit organizations in the Military Departments and the Defense agencies issued more than 300 reports on purchase cards between FYs 1996 and 2002. IG DoD Report No. D-2002-0029, "Summary of DoD Purchase Card Program Audit Coverage," December 27, 2001, identified systemic issues with the program.

IG DoD Report No. D-2002-075, "Controls Over the DoD Purchase Card Program," March 29, 2002, identified specific risk factors that still existed in FY 2001 that required more proactive oversight. IG DoD Report No. D-2003-109, "Summary Report on the Joint Review of Selected DoD Purchase Card Transactions," June 27, 2003, identified 182 cardholders through data mining that potentially used their cards inappropriately or fraudulently.

Inspector General of the Department of Defense reports can be accessed on the Internet at <http://dodig.osd.mil/audit/reports>. The Military Departments and other Defense organizations' reports can be viewed from the DoD Internet Web site at <http://www.defenselink.mil/>.

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## Appendix B. Supply Pictures

The top picture is of the Director's supply cabinet; the bottom picture is of central supply. In the Director's supply cabinet, the top shelf and the area under the bottom shelf are where some of the luggage is stored. However, the green luggage set purchased during the September 18, 2001, shopping trip was not located.



## Appendix C. Shopping Trip Lists

<b>List of Items Purchased by the Director on September 18, 2000, From Office Depot</b>		
<b>Description</b>	<b>Quantity</b>	<b>Cost</b>
Sponge, air	2	\$ 9.98
Windows ME promo	1	49.90
CD Label Maker	2	39.98
Adapter, F4A612	1	6.99
Adapter, para	1	59.99
Cable, pcicrd	2	79.98
Kit, adapter	1	59.99
Port bdr flo	2	87.98
Luggage carrier	2	39.98
CA, Office	2	139.98
Windex	3	11.97
Vanish	2	6.98
Pledge	3	17.97
Delorme Map	1	49.99
EarthMate GP	2	319.98
Organ notes	11	43.89
Tape, cassette	2	13.98
Envelope, clasp	6	53.94
Case, comp, wheeled	1	99.99
Comp case wheeled	3	299.97
Pen, retractable	10	79.90
Pen, rlr, need	5	39.95
Cleaner, quick	2	6.98
Lysol, foam	4	13.96
Planer, calendar, 01	1	8.19
Planer, w/notepad	2	45.98
Combo-parkre	3	14.97
Daily appointment book	1	22.99
Pledge, elect	2	9.98
Punch, 1 hole	2	1.98
Cleaner, Goo	1	3.99
Pen, Uniball	5	44.95
Highlighter, liq	5	24.95
Sharpie ultra	2	7.18
Marker, Expo or	7	48.93
Marker, Expo 2	5	19.95
File, rotary	1	22.99
Binder, kit	2	16.78
Ready index	20	139.80
Pen, roll-a-ball	3	44.97

<b>List of Items Purchased by the Director on September 18, 2000, From Office Depot (cont'd)</b>		
<b>Description</b>	<b>Quantity</b>	<b>Cost</b>
Spot shot	6	29.94
Folders, letter	6	17.94
Org, pkt a-z	1	14.99
Org, zip, tape	2	69.98
Org, cl, e-run	1	74.99
Mouse, Little	3	23.97
Mouse, Logitech	1	39.99
Battery, nigm, start	1	19.99
<b>Total</b>		<b>\$ 2,404.57</b>

<b>List of Items Purchased by the Director on September 18, 2001, From Office Depot</b>		
<b>Description</b>	<b>Quantity</b>	<b>Cost</b>
Glass Cleaner	2	\$ 13.98
Cleaner	1	6.99
Soap, antibacterial	1	6.99
Soap, refill, hand	1	6.99
Portable 7.5" CD	2	79.98
IS 802.11 PC	1	49.99
IS 802.11 AC	1	299.99
CD-ROM, OD, 10 pack	2	69.98
Cartridge, Ink, SO20	4	103.96
Backpack, wheeled	2	119.98
Wheeled duffle	5	99.95
Glade	6	23.94
Portfolio, wheeled	1	89.99
Comp, poly, expandable	1	39.99
APNR, CD, 72,b	1	19.99
Quicken 2002	1	59.99
Computer case, wheeled	2	199.98
Carry-on, expandable	1	39.99
Curve, flexible	1	5.99
Compass	1	11.99
Pen, rlr, need	8	63.92
Lysol spray	5	33.95
Spray bottle	1	3.99
21" Carry-on	1	99.99
Pullman upright	1	99.99
Carry-on, wheeled	1	79.99
Cover, report	2	16.78

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<b>List of Items Purchased by the Director on September 18, 2001, From Office Depot (cont'd)</b>		
<b>Description</b>	<b>Quantity</b>	<b>Cost</b>
Pen, exact-it	3	18.87
Pencil, #2	1	2.99
Marker, Expo 2	4	31.96
Marker, Expo	2	15.98
Correction pen	2	3.98
Pen, precise	2	31.98
Cartridge, ink, C182	1	34.99
Refill, 2 ppd	1	23.99
Refill, 02, mo	2	10.78
Backpack, comp, wheeled	3	119.97
Mouse, cordless	2	119.98
<b>Total</b>		<b>\$ 2,164.71</b>

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## **Appendix D. Purchases Made at the Direction of the Director**

This is a picture of the bicycles that were purchased by cardholders at the Information Technology Center. The cost was \$2,393 for the bicycles.



This is a picture of one pair of the binoculars purchased for use at the Information Technology Center located in the Director's office. The 10 pairs of binoculars cost \$1,990.



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The following is a picture of the cat print that was matted and framed. The cost of the matting and framing paid with the purchase card was approximately \$55.



Picture from a Web site that offers the product of a Garmin Street Pilot III. This same brand and model of global positioning system was purchased by the Information Technology Center on the purchase card for the Director. The cost of the unit and the accessories shown cost approximately \$1,400.



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## Appendix E. Pictures of Items not in Inventory

This picture shows two of the Information Technology Center's flat screen televisions. These televisions are not on the property book. We did not locate the purchasing documents for these televisions; therefore, we were unable to verify their cost.



The following picture is of the gas generator purchased at Home Depot on the purchase card for \$649. The generator had not been tagged and included on the property book.



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The following is a picture of the air conditioner/heating unit purchased at A.C. Supply for \$390. The unit was not tagged or included on the property records.



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## Appendix F. Management Comments and Audit Response

**SPAWAR Comment on Scope of Report.** SPAWAR did not concur with the basis for determining the questionable costs of the ITC purchase card program because SPAWAR believes a distinction exists between making purchases and paying for purchases and if that distinction were acknowledged the questionable nature of ITC purchases would be diminished. SPAWAR indicated that improper payments made on existing contracts or orders should not be reported because they were not within the scope of the audit. Additionally, SPAWAR stated that improper payments that were not made with the purchase card should not be reported.

**Audit Response.** The purchase card can be used to pay for goods and services up to a predetermined limit and for payments against contracts. We cannot find guidance that suggests that contract payments are exempt from purchase card controls. We included questionable ITC transactions that were not made with the purchase card because they were discovered based on our purchase card review and provide DoD and Navy officials a full accounting of what we discovered.

**SPAWAR Comment on Obtaining Fair and Reasonable Prices.** SPAWAR stated that cardholders did not have to check for price reasonableness with mandatory sources of supply (Javits-Wagner-O'Day and Federal Prison Industries) or GSA because the cost of checking could outweigh the benefits.

**Audit Response.** The SPAWAR response misstates Navy purchase card direction. Navy policy requires cardholders to screen all requirements for their availability from statutory sources such as Federal Prison Industries, the Javits-Wagner-O'Day (JWOD) program, and the Document Automation and Production Service.

**SPAWAR Comment on Purchasing Windows ME Operating System Software.** SPAWAR asserts that Windows ME software was purchased because numerous ITC employees and customers use it and it was also purchased to determine compatibility with other programs.

**Audit Response.** ITC computers used Windows NT as their standard operating system; therefore, Windows ME would have been unnecessary for ITC computers. ITC personnel responsible for maintaining information systems did not make this assertion to us.

**SPAWAR Comment on the Ribbon Cutting Ceremony.** SPAWAR stated that the May 1999 ceremony was a building dedication ceremony for the two predecessor organizations, but that neither organization had Official Representation Funds. SPAWAR also stated that the purchases were made using Chief of Naval Reserve Forces funds, without obtaining the required pre-authorization from the Assistant for Administration, Office of the Under Secretary of the Navy. SPAWAR concluded that the expenditure of funds for the ceremony were appropriate.

**Audit Response.** The expenditure of funds without the required pre-authorization is inappropriate.

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**SPAWAR Comment on Windows 98.** SPAWAR stated that the Windows 98 operating system is an appropriate operating system for laptop computers. SPAWAR also indicates that the ITC Director's son was an ITC employee.

**Audit Response.** ITC personnel stated that Windows NT was the official operating system used by the ITC. We could not determine how the two computers were being used because they could not be located. Windows 98 may be an appropriate operating system but it was not the system the ITC was using. The Director's son recommended purchasing the Windows 98 computers on June 2, 1999; however, ITC records indicate the son was employed from June 7, 1999, to August 18, 1999, as an office automation clerk. Thus the purchase was suggested prior to the son's employment.

**SPAWAR Comment on Spending Habits.** SPAWAR stated the IG reached the wrong conclusion that the ITC continued with inappropriate spending patterns with inappropriate sources because purchases from Office Depot should be considered compliant with JWOD requirements since Office Depot personnel will replace any item a Federal customer orders with a JWOD item.

**Audit Response.** The Navy requires cardholders to screen all requirements for their availability from statutory sources. Additionally, SPAWAR acknowledged that the ITC did not in all cases make purchases from JWOD sources. As discussed in the SPAWAR response, JWOD suggests using gsaadvantage.com or the DoD E-mall in addition to the JWOD site. Therefore, we stand by the position in the report.

**SPAWAR Comment on Government Property at Homes.** SPAWAR stated that the list of equipment for the Director was only partially correct and does not support a \$22,000 estimate. SPAWAR also stated that the Director did not have five laptops at his home, but rather only had three laptops, one of which was used in an adjoining conference room.

**Audit Response.** As stated in the report, the Director had Government equipment valued at about \$22,000 at his home. We do not vouch for the completeness of the ITC records; however, these are the values of the equipment that was recorded. The equipment consisted of five laptops, a printer, two monitors, a scanner, and two desktop computers. When we requested to review the Director's equipment he stated it was at his home. The Director, himself, brought the five laptops for our review and produced pictures of the other equipment.

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## **Appendix G. 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**

Assistant Secretary of the Navy (Financial Management and Comptroller)  
Assistant Secretary of the Navy (Manpower and Reserve Affairs)  
Naval Inspector General  
Commander, Space and Naval Warfare Systems Command  
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

### **Unified Command**

Commander, 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 Finance  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Reform

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## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member (cont'd)**

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 and Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform



# Department of the Navy Comments



DEPARTMENT OF THE NAVY  
OFFICE OF THE ASSISTANT SECRETARY  
RESEARCH, DEVELOPMENT AND ACQUISITION  
1000 NAVY PENTAGON  
WASHINGTON DC 20350-1000

JUL 18 2003

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

Subj: DODIG DRAFT REPORT "PURCHASE CARD USE AT THE SPACE AND NAVAL WARFARE SYSTEMS COMMAND, INFORMATION TECHNOLOGY CENTER, NEW ORLEANS, LOUISIANA, DATED 21 MAY 2003 (PROJECT No. D2002CK-0099)."

Encl: (1) Space and Naval Warfare Systems Command Response of 13 June 03 to DODIG Draft Report, "Purchase Card Use at the Space and Naval Warfare Systems Command, Information Technology Center, New Orleans, dated 21 May 03 (Project No. D2002CK-0099)."

Enclosure (1) is submitted in response to the subject DODIG draft report. This office has discussed recommendation A.11 with the Space and Naval Warfare Systems Command, which has agreed to modify the response contained in Enclosure (1) as follows:

**Recommendation A.11:** Appoint a director of contracting, who will select and support an agency program coordinator capable of implementing effective purchase card controls.

**Current response:**

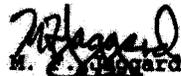
Non-concur. The current DP-III (GS-1102-13 equivalent) Contracts Head is satisfactorily performing the job with a \$500,000 warrant and is certified Level III in contract acquisition. The current level of contracting at the SITC does not warrant a DP-IV (GS 14-15 equivalent) position. The incumbent Contracts Head is dual-hatted as the APC and is capable of implementing effective controls.

**Revised response:**

Partially-concur. The current DP-III (GS-1102-13 equivalent) Contracts Head is satisfactorily performing the job with a \$500,000 warrant and is certified Level III in contract acquisition. The current level of contracting at the SITC does not warrant a DP-IV (GS 14-15 equivalent) position. The incumbent Contracts Head is currently dual-hatted as the APC. However, to ensure that effective internal controls are in place, the APC function will no

longer be performed by the Contracts Head. A new APC will be appointed by the SITC Commanding Officer and will report back through the appropriate management chain to the SITC Commanding Officer on the health of the Purchase Card Program.

The Navy concurs or partially concurs with all of the other recommendations of the draft report.



M. S. Gagnard  
Chief of Staff/Policy  
for Deputy Assistant Secretary of  
the Navy (Acquisition Management)



DEPARTMENT OF THE NAVY  
SPACE AND NAVAL WARFARE SYSTEMS COMMAND  
4301 PACIFIC HIGHWAY  
SAN DIEGO, CA 92110-3127

5040  
Ser 00G/053  
13 Jun 03

From: Commander, Space and Naval Warfare Systems Command  
To: Assistant Secretary of the Navy, Research, Development  
and Acquisition

Subj: DODIG DRAFT REPORT "PURCHASE CARD USE AT THE SPACE AND  
NAVAL WARFARE SYSTEMS COMMAND, INFORMATION TECHNOLOGY  
CENTER, NEW ORLEANS, LOUISIANA, DATED 21 MAY 2003  
(PROJECT NO. D2002CK-0099)"

Encl: (1) Space and Naval Warfare Systems Command Response to  
DODIG Draft Report, "Purchase Card Use at the Space  
and Naval Warfare System Command, Information  
Technology Center, New Orleans," dated 21 May 03  
(Project No. D2002CK-0099)

1. This is the Space and Naval Warfare Systems Command (SPAWAR) response to the subject DODIG draft report. Our response and comments to the findings and recommendations are provided in enclosure (1).

2. The DODIG Draft Report highlights a number of deficiencies in the SITC's Purchase Card and Property Accountability programs. Many of the deficiencies have been corrected. A lack of sufficient oversight by present and previous SITC senior management and poor judgment on their part, in some instances, contributed to the problems.

3. Controls over the Purchase Card Program have been strengthened since Commander, SPAWAR, suspended the Program in March 2002. Additional remedial training has been accomplished, new cardholders and approving officials are procurement and contract-oriented personnel, cycle limits have been reduced 97%, claimancy purchase card policy has been issued, and metrics have been developed and are used to measure the health of the program.

4. With regard to Property Accountability, controls have also been strengthened, the SITC has transitioned to DPAS, a Property Book Officer has been appointed, and a wall-to-wall inventory and reconciliation, with SPAWAR on-scene oversight, is scheduled for July.

Subj: DODIG DRAFT REPORT "PURCHASE CARD USE AT THE SPACE AND  
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(PROJECT NO.D2002CK-0099)"

5. I have initiated a management review of SITC senior management, led by an SES member of my staff, to be completed by 20 June 2003. When I receive his report, appropriate accountability action will be taken, including disciplinary action, if warranted. A further management review addressing the actions of other personnel at the SITC will be conducted shortly thereafter.

6. SPAWAR has been and remains committed to ensuring compliance with all applicable regulations and procedures related to these programs. We have dedicated substantial management attention to these areas. We have made substantial progress and are dedicated to further improvement.

7. Questions concerning this correspondence may be directed to Captain Jan Rosen-Serafini, Inspector General, at (619) 524-7064 or DSN 524-7064.



SCOTT R. RANDALL  
Deputy Commander

**Response to**  
**DoD Inspector General**  
**Draft**  
**of a**  
**Proposed Report**

**Project No. D2002CK-0099, May 21, 2003**

**Purchase Card Use at the Space and Naval Warfare Systems Command, Information Technology Center, New Orleans, Louisiana**

- Attachment:**
- (1) CNRF authorization to procure memento for May 99 dedication ceremony e-mail of 12 May 99**
  - (2) Under Secretary of the Navy, Assistant for Administration ltr of 21 Apr 00 approving purchase of Memento (with supporting documentation)**
  - (3) CNRF/ORF funding documentation supporting purchase of dedication ceremony cakes**
  - (4) NAVRESINFOSYSOFF documentation supporting rental of stage for dedication ceremony (notes NAVSUP approval)**

Not included  
Not included  
Not included  
Not included

Enclosure (1)

## **SPACE AND NAVAL WARFARE SYSTEMS COMMAND OVERVIEW**

The DoD IG Draft Report highlights a number of deficiencies in the SITC's Purchase Card and Property Accountability programs. Many of the deficiencies have been corrected. A lack of sufficient oversight by present and previous SITC senior management and poor judgment on their part, in some instances, contributed to the problems.

Controls over the Purchase Card Program have been strengthened since Commander, SPAWAR, suspended the Program in March 2002. Additional remedial training has been accomplished, new cardholders and approving officials are procurement and contract-oriented personnel, cycle limits have been reduced 97%, claimancy purchase card policy has been issued, and metrics have been developed and are used to measure the health of the program.

With regard to Property Accountability, controls have also been strengthened, the SITC has transitioned to DPAS, a Property Book Officer has been appointed, and a wall-to-wall inventory and reconciliation, with SPAWAR on-scene oversight, is scheduled for July.

We have initiated a management review of SITC senior management, led by an SES member of my staff, to be completed by 20 June 2003. When we receive his report, appropriate accountability action will be taken, including disciplinary action, if warranted. A further management review addressing the actions of other personnel at the SITC will be conducted shortly thereafter.

SPAWAR has been and remains committed to ensuring compliance with all applicable regulations and procedures related to these programs. We have dedicated substantial management attention to these areas. We have made substantial progress and are dedicated to further improvement.

## **Comments are keyed to the headers of the DoD IG Draft Report**

### **EXECUTIVE SUMMARY**

The "Background" section fails to include information important to an understanding of the two predecessor activities to the SPAWAR Information technology Center (SITC), their relationship, and the events that took place prior to the stand-up of the SITC in November 2000. We request that the following be added:

The DoD IG Draft Report covers events and actions occurring from May 1999 through July 2002. The SITC was established in November 2000 as a field activity of the Space and Naval Warfare Systems Command (SPAWAR). Prior to its establishment there were two predecessor organizations, the Naval Reserve Information Systems Office (NRISO) and the Systems Executive Office for Manpower and Personnel (SEO (MP)).

NRISO was headed at the time of the merger by a Navy Captain as Commanding Officer (CO), and by several different civilian directors prior to the CO's assignment. NRISO was an Echelon III organization reporting to the Commander, Naval Reserve Force (CNRF). The SEO (MP), headed by Commander, Naval Reserve Force, dual-hatted as the Systems Executive Officer, reported to the Assistant Secretary of the Navy for Research, Development and Acquisition (RD&A).

The majority of the specific items addressed in the Draft Report that relate to the Purchase Card Program were acquired prior to SPAWAR's suspension of the Purchase Card Program in March 2002.

The Program is now in substantial compliance with applicable regulations and guidance and any areas of non-compliance are being addressed.

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## BACKGROUND

### Information Technology Center Purchase Card Program

The Purchase Card is authorized as both a purchase method and a payment method. SITC primarily utilizes the Purchase Card as a method of payment for services and supplies under existing separately awarded small purchase orders, GSA orders and open market contracts. Approximately 80-85% of the total dollars identified to the SITC Purchase Card program are these kinds of contract action "payments", and not direct "purchases". These orders and contracts are fixed price, fully funded vehicles where the purchase card is used to pay the invoice submitted by contractors in accordance with the terms and conditions of each order and contract. Additionally, Federal Acquisition Regulation (FAR) 13.301(a) states "the Governmentwide commercial purchase card is authorized for use in making and/or paying for purchases of supplies, services, or construction. Since the FAR makes the distinction between "making purchases" and "paying for purchases", SPAWAR requests that the DoD IG acknowledge the same in its background commentary concerning the dollar value of the SITC Purchase Card Program. This is a fundamental distinction in the usage of the purchase card and needs to be adequately addressed. This distinction also affects the questionable costs that the DoD IG attributes to the SITC Purchase Card Program. SITC purchases that were made through the normal requirements determination process and awarded through SITC's Contracts Branch on separate contracts and/or orders and then subsequently paid for through the purchase card should not be considered questionable costs attributed to the SITC Purchase Card Program. If the DoD IG considers these contract and/or order purchases "questionable", then it is outside the scope of this review and should be a separate review of the SITC requirements approval and contract awards process. SPAWAR does not concur with the DoD IG's basis for determining the questionable costs attributed to the SITC Purchase Card Program.

### A. PURCHASE CARD USE

We only agree in part with the general introductory statements regarding program controls, management, organization, and financial risk, as detailed below.

#### Purchases

DoD IG states that 74 of 84 transactions "had the incorrect source of supply." According to the FAR, there are only three mandatory sources to consider for "making purchases": Federal Prison Industries (FPI or UNICOR), JWOD, and the Government Printing Office. The DoD IG acknowledges this fact on page 4 of its draft report. If the requirement has been screened through these sources and is not available, and is at the micro-purchase threshold or lower, the cardholder may use the card to "make the purchase" through one of several direct purchasing methods: 1) on-line internet sale/phone sale with commercial vendors; or walking into a vendor's storefront location and "making the purchase"; or placing an order off an existing Governmentwide contract vehicle, such as the GSA's

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Federal Supply Schedules (FSS) or applicable DoD Service (Navy, Army, or Air Force) contracts. In regards to the GSA's FSS Schedules, the Defense Federal Acquisition Regulation (DFARS) 208.404-1 states: "The DoD will not be a mandatory user of any schedule unless individual DoD activities elect to provide annual requirements estimates to GSA." There is no requirement for cardholders to either use or check with GSA FSS Schedules for micro-purchases. The DoD IG in its response back to initial SPAWAR comments stated that cardholders did not generally look for the best price and bought from the recommended source exclusively. For micro-purchases, FAR 13.202 states: "Micro-purchases may be awarded without soliciting competitive quotations if the contracting officer or individual appointed in accordance with 1.603-3(b) considers the price to be reasonable." The administrative cost of verifying the reasonableness of the price for purchases may more than offset potential savings from detecting instances of overpricing. Therefore, action to verify price reasonableness need only be taken if --

(i) The contracting officer or individual appointed in accordance with 1.603-3(b) suspects or has information to indicate that the price may not be reasonable (e.g., comparison to the previous price paid or personal knowledge of the supply or service); or

(ii) Purchasing a supply or service for which no comparable pricing information is readily available (e.g., a supply or service that is not the same as, or is not similar to, other supplies or services that have recently been purchased on a competitive basis)".

The DoD IG is mistaken in stating that cardholders "must" solicit and/or check with multiple vendors to determine what is the best price for the Government amongst those vendors for micro-purchases. This is inconsistent and contrary to current FAR regulations for micro-purchases. SPAWAR does not concur with this DoD IG determination.

SPAWAR does not concur with the table that shows "Incorrect Source of Supply." The only incorrect sources of supply would be if the cardholder did not use one of the three mandatory sources of supply. This is what the table should show. There is nothing in current regulations that prohibit cardholders from "making purchases" from the source recommended by their customer.

Request that the DoD IG revise the table on page 5 accordingly.

SPAWAR does acknowledge that the SITC did not use JWOD sources in all appropriate cases. This was one of the areas reviewed during both the on-site review conducted in July 2002 and the SPAWAR IG inspection in May 2003. It was a formal finding, part of the official SPAWAR HQ report on the SITC Purchase Card Program.

#### **September 18, 2000 Shopping Trip and September 18, 2001 Shopping Trip**

We concur that the Director and Deputy Director exercised poor judgment through their personal participation and choice of some, although not all, of the items purchased. Our comments below address certain of the items:

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-- The GPS systems were an unnecessary purchase. They have been inventoried, tagged and tracked in the Defense Property and Accountability System (DPAS) and will be excessed to the Defense Reutilization and Marketing Office (DRMO).

-- Numerous SITC employees and customers use MS Windows ME. It was purchased to determine compatibility with other programs. It is inventoried, tagged and currently located in SITC's central supply inventory.

-- Quicken was purchased for evaluation as a COTS tool for managing SITC business efforts, was determined to not be useful, and was destroyed. It is no longer an SITC asset.

-- The luggage, including computer carrying cases and wheeled carry-ons, backpacks and duffle bags, were purchased to support frequent official travel requiring the traveler(s) to bring computer equipment, multiple copies of briefing material, and other items, but were not used for clothing (or any other personal use). The various items, except for those damaged over time through use, are in SITC-controlled spaces. There is no evidence to support personal use.

-- All other items listed in Appendix C have either been consumed for official use (pens, envelopes, cleaning supplies, etc.) or remain in SITC-controlled spaces.

#### **ITC Ribbon Cutting Ceremony**

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The May 1999 ceremony was a building dedication ceremony for the two predecessor organizations, NRISO and the SEO (MP), not a ceremony for the SITC, which did not stand-up until November 2000. The then Director of Business Management (now retired) received guidance from and coordinated with Navy Comptroller Policy (ASN/FM&C). Over 1,000 people attended the ceremony with 12 honored guests and dedications made by five VIPs.

Not included.

Neither NRISO nor the SEO (MP) had Official Representation Funds (ORF). CNRF authorized the purchase of the briolette bowl and two cakes using CNRF ORF. Procurement of the briolette bowl was an approved expenditure (Attachment 1). Neither NRISO nor SEO (MP) knew at the time of the ceremony that CNRF had not obtained the required pre-authorization from the Assistant for Administration, Office of the Under Secretary of the Navy (Attachment (2)). The cakes were served as official courtesies in honor of a specific DoD official as authorized by SECNAVINST 7042.7J (ORF). CNRF received additional ORF from the Assistant for Administration, Office of the Under Secretary of the Navy on 3 May 1999 and provided the accounting data to NRISO for the purchase of the cakes (Attachment (3)).

Not included.

Not included.

The vehicles in question were rented, not leased; the Purchase Order was authorized and contracted by NRISO in accordance with NAVSUPINST 4200.85C, stating its intent to "provide commanding officers of the activity with the flexibility to meet peak or

unplanned vehicle needs and is authorized by DoD REG. 4500.36-R, Management, Acquisition and Use of Motor Vehicles.”

The Procurement Management Review (PMR) team at Naval Supply Systems Command (NAVSUP) granted permission to rent the stage after all other attempts to obtain a stage from local activities failed. Authorization was annotated on the Purchase Order at the time of execution (Attachment (4)).

Not  
included

We conclude that the expenditure of funds as detailed above in support of this important ceremony was appropriate.

#### **Binoculars**

This September 2001 purchase was an understandable over-reaction to the events of September 11, 2001. The purchase was made because the SITC is located on the shore of Lake Pontchartrain with a substantial public beach area easily approachable from the lake and with no perimeter fence or other barrier (since installed). It was believed that binoculars would provide an added measure of security. All of the binoculars were inventoried, tagged, and tracked in DPAS and will be excessed via DRMO.

#### **Bicycles**

Upon review of usage, the bicycles were excessed and are no longer SITC assets.

#### **Personal Art Framing**

The Director has reimbursed the government \$55.00, the cost of the framing.

#### **Windows 98 Based Computers**

The Director's son was an NRISO temporary summer employee. Both laptops in question were acquired competitively. One was lost and the loss was documented; the other is issued to a current SITC employee. Windows 98 was an appropriate operating system for laptops.

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#### **Cell Phone Purchases and Plans**

There is a written instruction in draft at the SITC. All SITC personnel with government cell phones are required to pay for personal calls. Current SITC cell phone bills itemize outgoing call numbers but not incoming calls. The provider has told the SITC that incoming numbers cannot be provided. SPAWAR has also researched two other cell phone providers and they too do not itemize incoming calls. Periodic reviews of outgoing calls will be conducted to ensure that payments are received for any personal use. Further, the SITC will be instructed to ensure that the pooled minutes reflect only projected government requirements. With regard to the individuals' personal phone calls identified, the SITC has advised that payments have been received.

### **Computer Purchases**

DoD IG stated that SITC cardholders "purchased computers & computer equipment without the benefit of an acquisition plan" for \$785,561. DFARS 207.103 requires a written acquisition plan only when the requirement exceeds \$15M a year. The DoD IG makes no distinction as to how much of this total is for "purchases" or for "payments." Also, DoD IG states that these items were purchased "without checking for a GSA vendor." As stated previously under Comment 2 above, DFARS 208.404-1 states: "The DoD will not be a mandatory user of any schedule unless individual DoD activities elect to provide annual requirements estimates to GSA". Thus, there is no requirement for cardholders to either use or check with GSA FSS Schedules for micro-purchases.

SPAWAR does not concur that a written acquisition plan was required for these purchases, in accordance with DFARS 207.103. Additionally, DoD IG has determined, based on absence of an acquisition plan and the Director, SITC having signed for various computers, that the total amount of \$785,561 is considered questionable. This amount accounts for 70% of the \$1.1million the DoD IG determined to be questionable for the entire SITC Purchase Card Program. SPAWAR does not concur that there is an adequate basis on which to make this determination. Additionally, as previously stated, SITC purchases that were made through the normal requirements determination process and awarded through the SITC contracts branch on separate contracts and/or orders and then subsequently paid for through the purchase card should not be considered questionable costs attributed to the SITC Purchase Card Program. The SITC has confirmed that the majority of these costs are "payments" made under separately awarded contracts and/or orders. SPAWAR requests the amount of \$785,561 be deleted from the total amount of questionable costs.

SPAWAR does not concur with the statement: "These items were purchased without checking for a GSA vendor". DFARS 208.404-1 does not require DoD to be a mandatory user of GSA FSS Schedules. As such, there is no requirement to either use or check prices from GSA vendors when making micro-purchases. It is noted that the SPAWAR Contracts Directorate Inspection Report of 8 July 2002 directed that IT hardware be purchased through existing Navy FSS BPAs or GSA contract vehicles. This was a new requirement mandated by the Director, Defense Procurement, by Memorandum dated 29 May 2002, specifically applicable to SPAWAR. This requirement is applicable for "purchases" and not for "payments".

### **Office Supplies and Media Production Center**

Past practices by cardholders purchasing items without researching required sources has ceased. Cardholders have been counseled and trained on locating and using mandatory sources and are adhering to the regulations implementing the JWOD Act. Cardholders are now aggressively pursuing JWOD products and are taking appropriate actions to ensure the JWOD Act is followed and that regulatory requirements are met.

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### **Required Vendors**

As previously discussed, substantial compliance with this requirement has been met.

### **Media Production Center**

The Media Production Center (renamed Documentation Support Center to clarify its role) is used by every department within the SITC as well as by SITC customers. The Draft Report implies that all work done by the Documentation Support Center could and should be done by the DAPS. This is not an accurate conclusion. Most of the work involves such functions as content creation, technical writing, brief preparation and editing. Many items produced by the Documentation Support Center represent one-time requirements with limited copies, and/or extremely short turn-around requirements. The SITC could not efficiently function and complete its work in a timely manner without the services provided by the Documentation Support Center.

Additionally, SITC's copiers are procured through DAPS. All supplies are now procured in accordance with required sources, are inventoried, accounted for and are for official use only.

All work for which DAPS is a mandatory source will be sent to DAPS.

Note: In its discussion concerning the appropriateness of the SITC Media Production Center, DoD IG states that the total cost of the media production center was not available. The personnel costs budgeted for the SITC Media Production Management Division were \$279,000. DoD IG has included the \$279,000 costs as part of its questionable costs attributed to the SITC Purchase Card Program. There is no basis for the DoD IG to attribute this amount to the SITC Purchase Card Program. There is no documentation that connects the cost of \$279,000 to the SITC Purchase Card Program. SPAWAR requests that the amount of \$279,000 be deleted from the total amount of questionable costs.

### **Management Controls and Key Management Positions**

SPAWAR concurs that senior SITC management and previous management could and should have done a better job managing the Purchase Card Program. With regard to the additional management issues detailed on pages 11-16 of the Draft Report, our comments follow:

**ITC Management.** We concur in part and will take appropriate action. See responses to Recommendations 1 – 16 below.

#### **Key Management Positions.**

**Director of Contracts.** The current DP-III (GS-1102-13 equivalent) is satisfactorily performing the job with a \$500,000 warrant and is certified Level III

in contract acquisition. The current level of contracting at the SITC does not warrant a DP-IV (GS 14-15 equivalent) position.

**Property Book Officer.** The interim DS-III/GS-12 Property Manager was officially appointed "Property Book Officer" in May 2003 with the responsibilities outlined in DoD Instruction 5000.64; SECNAVINST 7230.10 (Series) and SPAWARINST 11016.2 (Series) with first-line supervision by the DP-III/GS-13 Facilities and Property Management Division Head. Additionally, the Property Book Officer has received formal training on the Defense Property Accountability System (DPAS) and is well qualified for the job. No further recruitment action is required and the report should note progress made in this area.

**Internal Operating Procedures.** SITC's Internal Operating Procedures (IOP) initial draft was reviewed by SPAWAR during the assist visit in July 2002. An updated IOP, including E-Business Systems Office Instruction 4200.1 (EBUSOPSOFFINST 4200.1) was forwarded to SPAWAR HQ for approval on 6 March 03, following instructions given during the Purchase Card VTC on 5 March 03 (attachment 5). This document is being prepared for issuance.

#### **Management Controls and Tools**

**Organizational Cycle Limit.** The cycle limits at the SITC have been continually reduced in the past year through constant oversight by SPAWAR. From the high of \$31,572,000 per cycle limit, as noted by the DoD IG, the current cycle limits are now set at \$890,000 per cycle limit. This is a 97% reduction in cycle limits.

**Purchase Card Management System.** Concurrent with SPAWAR, the SITC will begin to transition its Purchase Card program to incorporate the Citidirect Purchase Card Management System to facilitate account/transaction monitoring and billing certification.

**Semiannual Review.** The former Agency Program Coordinator responsible for the semiannual reviews through January 2000 has retired. Some of the examples of abuse cited by the DoD IG auditors, including the bicycles, predate the current APC. Incidents which occurred during the tenure of the current APC will be reviewed and appropriate action taken.

**Annual Review.** The report states the current Agency Program Coordinator did not identify abusive purchases yet states the agency program coordinator listed 17 items as discrepancies. The current Agency Program Coordinator conducted extensive reviews and has continued to work to improve the purchase card program. She also successfully reorganized the purchase card program so that all cardholders and Approving Officials are procurement and contract oriented personnel

**SPAWAR Inspection.** SPAWAR performed an on-site review of the SITC's Purchase Card Program in July 2002, as discussed in the DoD IG report.

Additionally, an inspection was completed in May 2003 as a part of the SPAWAR IG's inspection of the SITC. Yearly independent reviews will continue. In addition, monthly purchase card reviews are performed by the SITC and forwarded to SPAWAR for review. SPAWAR has developed metrics to measure the health of the program at each site. For any deficiencies noted, SPAWAR will ensure corrective action is taken.

**Purchase Card Administration.** The SITC Comptroller's office creates bulk commitment documents annually to support the purchase card for major purchasing programs/activities. The five major SITC programs/activities are the Defense Integrated Military Human Resources System (DIMHRS), the Navy Standard Integrated Personnel System (NSIPS), SITC Management/Operations, and the Washington D.C. and Millington, TN detachments. The Comptroller is currently working towards establishing a single bulk document for the SITC to meet the mandated "online certification" requirements related to Purchase Card administration. We believe the potential monetary savings over the next five years could be approximately \$90,000.

**Spending Habits Continued.** The DoD IG, based on review of Citibank's records from July to September 2002, asserts that the SITC did not change its spending habits and continued to make purchases from non-JWOD sources for office supplies. The DoD IG states that only one purchase had been made from the JWOD Website and that Office Depot and other office supply stores have been utilized. SPAWAR's position is that Citibank's records cannot be used to quantifiably ascertain that the SITC used an incorrect JWOD source.

The following guidance comes directly from the JWOD Website, <http://jwod.com>: Can products be purchased anywhere other than JWOD.com? Yes. Although JWOD.com offers the largest and newest inventory of JWOD products, you may also purchase JWOD items through a number of other distribution channels. These channels include GSA depots ([www.gsaadvantage.gov](http://www.gsaadvantage.gov)), DoD Email (<http://www.dla.mil/>), your installation Base Supply Centers, and through an authorized MAS (Multiple Awards Schedule) vendor.

Per the JWOD website, [http://www.jwod.gov/jwod/participate/current\\_distributors.html](http://www.jwod.gov/jwod/participate/current_distributors.html), commercial firms such as Boise Cascade Office Products, Corporate Express, and Office Depot are currently authorized to distribute Javits-Wagner-O'Day (JWOD) Program products to Federal customers as required by FAR 8.7. These firms have been determined to be "outstanding" JWOD distributors during the past FY. This designation was achieved based on an evaluation of specific performance factors. These firms are required by the JWOD Program to substitute the appropriate JWOD item in the event a Federal customer inadvertently orders a commercial item that is "essentially the same" as a JWOD product. Their items typically carry the SKILCRAFT® brand name. Firms such as Office Depot and Staples Advantage currently deliver JWOD products through their catalog programs, but not in their retail stores.

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The important facts that come directly from the JWOD website are:

- Can products be purchased anywhere other than JWOD.com? Yes. Although JWOD.com offers the largest and newest inventory of JWOD products, you may also purchase JWOD items through a number of other distribution channels.
- Office Depot is an authorized JWOD distributor and is considered by JWOD to be an "outstanding" JWOD distributor.
- JWOD distributors are required by the JWOD Program to substitute the appropriate JWOD item in the event a Federal customer inadvertently orders a commercial item that is "essentially the same" as a JWOD product.

The DoD IG has come to the wrong conclusion, based on incomplete data, that the SITC continued with inappropriate spending patterns with inappropriate sources. Office Depot is an authorized JWOD distributor and as such is required to provide an appropriate JWOD item even if the SITC had requested some other non-JWOD item. SPAWAR does not concur with the DoD IG's assessment in this paragraph.

It is noted that the recent review conducted by SPAWAR HQ in May 2003 for the period 1 October 2002 to 31 March 2003 found that the SITC did not in all cases make purchases from JWOD sources. The purchase cardholders at SITC were confused about the requirements of JWOD. In some cases, prices were compared between JWOD sources and GSA sources with the purchase being made from the less expensive GSA source. There is no authorized exception not to use JWOD approved products, even though they may be more expensive than similar commercial products. In other cases, the GSA schedule was used without verifying whether the item was JWOD. Remedial training was given to the cardholders and AOs on 2 May 2003 on the correct method of buying JWOD items and the documentation required in the transaction file. Additionally, the HQ APC, during the SPAWAR HQ inspection in May 2003, addressed JWOD requirements with the SITC APC, AOs and cardholders. Details of actions taken to assure proper review for use of Government sources for purchases and appropriate file documentation include:

-- SPAWAR Headquarters has issued purchase card policy for the Claimancy. This policy was added to the SPAWAR Contract Policy and Procedures Manual (SCPPM), SPAWARINST 4200.26B. This policy includes specific requirements for mandatory use of JWOD and web sites for sources of JWOD items.

-- All off-site Cardholders accounts (Washington D.C and Millington) were cancelled May 2003 to provide better management oversight for all purchases. SITC New Orleans will make the purchases for those sites.

-- All cardholders & AOs received additional training 2 May 2003. The training reviewed the purchase card process overall, and specifics of use and documentation for JWOD purchases. The Head of Contracts at the SITC provided the training. Training

materials provided by SPAWAR HQ were used. All participants received training certificates which were put in the individual's purchase card file.

-- All new cardholders will be from the Acquisition series and reside in the contracts branch at the SITC. This will provide cardholders with more overall knowledge regarding contracting procedures and policy.

Additionally, SPAWAR has an approved mandatory "Deficiencies and Remedial Actions" Chart in the SPAWAR Purchase Card Policy Guide. The chart provides for disciplinary action for each deficiency with correlation to the number of offenses. The chart does address disciplinary action for deficiencies concerning JWOD. It was effective April 2003 and is not mandatory for transactions made before that date.

### **Conclusion**

The DoD IG Draft Report highlights known deficiencies in several processes and procedures in the SITC's Purchase Card Program. SPAWAR has been and remains committed to ensuring compliance with all applicable regulations and procedures related to the Program. We have dedicated substantial management attention to these areas. We have made substantial progress and are dedicated to further improvement.

### **DoD IG Recommendations**

**Recommendation A.1. Concur.** SPAWAR will initiate a review and take appropriate action in accordance with the results of the review. Target completion date is 30 September 2003.

**Recommendation A.2. Partially Concur.** With the exception of the framing of the Director's art print, for which he has reimbursed the government \$55.00 (the total cost), no other items were purchased for personal use. Those items determined to be unnecessary have been or will be excessed to DRMO or otherwise properly disposed of. Action complete.

**Recommendation A.3. Partially concur.** All office supplies and equipment in the room referenced have been returned to the central supply inventory for general issue; all needed supplies will be acquired via the central supply inventory process. However, there is no objection to the front office staff maintaining supplies in a front office supply closet for the use of the staff working in that area. Action complete

**Recommendation A.4. Partially concur.**

- The bicycles have been excessed and are no longer SITC assets.
- The GPS' were inventoried, tagged, and tracked in DPAS and have been excessed via the DRMO.

- The luggage, including computer carrying cases, were purchased to support frequent official travel requiring the traveler(s) to bring computer equipment, multiple copies of briefing material, and other items, but were not used for clothing (or any other personal use). The various items, except for those damaged over time through use, are in SITC-controlled spaces.
- The binoculars were inventoried, tagged, and tracked in DPAS and have been excessed via the DRMO.
- The software at issue, Quicken, has been destroyed since it was determined not to have been useable. DRMO does not accept software.

Target completion date is 31 July 2003 for those actions not yet complete.

**Recommendation A.5. Concur.** There is a written instruction in draft at the SITC. All SITC personnel with government cell phones are required to pay for personal calls. Current SITC cell phone bills itemize outgoing call numbers but not incoming calls. The provider has told the SITC that incoming numbers cannot be provided. SPAWAR has also researched two other cell phone providers and they too do not itemize incoming calls. Periodic reviews of outgoing calls will be conducted to ensure that payments are received for any personal use. Further, the SITC will be instructed to insure that the pooled minutes reflect only projected government requirements. With regard to the individuals' personal phone calls identified, the SITC has advised that payments have been received. The draft SITC instruction will be reviewed at SPAWAR prior to its promulgation. Target completion date is 31 July 2003.

**Recommendation A.6. Partially concur.** It is not necessary that the SITC receive SPAWAR approval for each cell phone issued to SITC employees. The SITC Deputy Director undertook examining the variety and cost of in-place plans and directed the cell phone contracts be combined and competed for a common pool of minutes, thus significantly reducing costs. This contract was put into place in October 2002. Action complete.

**Recommendation A.7. Partially concur.** We are advised that all 19 cell phone users have reimbursed the government for all personal calls. Validation will be part of the review that will be initiated (see response to Recommendation A.1.). Target completion date is 30 September 2003.

**Recommendation A.8. Partially concur.** SITC currently coordinates all large computer purchases with SPAWAR's CIO for approval and/or appropriate waivers. SITC will continue to work with the CIO to determine the level of review and approval required for small, repetitive purchases. This will be a continuing requirement.

**Recommendation A.9. Concur.** Remedial training has been provided and any additional necessary action will be addressed after completion of the management review

that SPAWAR will initiate (see Recommendation A.1). Target completion date is 30 September 2003.

**Recommendation A.10. Partially concur.** The Media Production Center (renamed Documentation Support Center to clarify its role) is used by every department within the SITC as well as by SITC customers. The Draft Report implies that all work done by the Documentation Support Center could and should be done by the DAPS. This is not an accurate conclusion. Most of the work involves such functions as content creation, technical writing, brief preparation and editing. Many items produced by the Documentation Support Center represent one-time requirements with limited copies, and/or extremely short turn-around requirements. The SITC could not efficiently function and complete its work in a timely manner without the services provided by the Documentation Support Center.

Additionally, SITC's copiers are procured through DAPS. All supplies are now procured in accordance with required sources, are inventoried, accounted for and are for official use only.

All work for which DAPS is a mandatory source will be sent to DAPS.

SITC will meet with DAPS and develop written policy on what, when, and how items will be sent to DAPS for printing. This policy will be staffed with SPAWAR. Target completion date is 30 September 2003.

**Recommendation A.11. Non-concur.** The current DP-III (GS-1102-13 equivalent) Contracts Head is satisfactorily performing the job with a \$500,000 warrant and is certified Level III in contract acquisition. The current level of contracting at the SITC does not warrant a DP-IV (GS 14-15 equivalent) position. The incumbent Contracts Head is dual-hatted as the APC and is capable of implementing effective controls.

**Recommendation A.12. Concur.** The interim DS-III/GS-12 Property Manager was officially appointed "Property Book Officer" in May 2003 with the responsibilities outlined in DoD Instruction 5000.64; SECNAVINST 7230.10 (Series) and SPAWARINST 11016.2 (Series). The Property Manager's first-line supervisor is the DP-III/GS-13 Facilities and Property Management Division Head. Additionally, the Property Book Officer has received formal DPAS training. Action complete.

**Recommendation A.13. Concur.** The SITC is in the process of updating their Internal Operating Procedures (IOP). SPAWAR Contracts Policy Branch and the level 3 APC have reviewed the IOP. Changes have been recommended to include the review procedures in the SPAWAR Purchase Card Policy Guidance. SPAWAR has also recommended that the specific procedures for the purchase of IT hardware and software, cell phones, Defense Printing Services, and other items described as "special interest" in the SPAWAR guidance, should be included. The IOP will include the list of items that should not be purchased as well as the mandatory sources to be considered. The IOP is

See Navy  
response  
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expected to be signed by 30 June 2003. SITC will provide training on changes in the IOP and internal procedures and controls. Target completion date is 31 July 03.

**Recommendation A.14. Concur.** The cycle limits at the SITC have been continually reduced in the past year through constant oversight by the SPAWAR level 3 APC. From the high of \$31,572,000 per cycle limit, as noted by the DoD IG, the current cycle limits are now set at \$890,000 per cycle limit. This is a 97% reduction in cycle limits. Currently there are only 3 cardholders and 1 AO. All the cardholders are new and within the acquisition series. Two of the cardholders have two cards, one for purchase and one for payments. Their appointment letters reflect the particular use of each card. This will provide better internal control to allow for tracking payments and purchases separately. There is no differentiating element in Citibank between purchase and payments. The use of two purchase cards by the same person is approved for this purpose by the E-Business office. Changes to limits are currently being made. In addition, two AO accounts and one CH account are being closed. When all transaction for those accounts clear, the accounts will be closed. However, the card has been returned.

Current DON guidance in EBUSOPSOFFINST 4200.1 requires limits to be based on the following: choose the highest month for the last 12 months and add 20% to establish cycle limits. The suspension of the SPAWAR purchase card program, March 2002 - June 2002 caused the data from June - Sept 2002 to be inaccurate because sites used a phased-in approach for reactivation of the purchase card. The limits for SITC New Orleans are based on the six months Oct 2002 - March 2003. The highest month was \$350,000. Adding 20% to the highest amount results in a cycle limit of \$420,000. Two of the cardholders are alternates for each other; so they will both have the \$420,000 cycle limit. The third cardholder is to be used only in emergencies and her limit will be \$50,000. That results in a total cycle limit of \$890,000. This change significantly reduces the risk to the Government and allows adequate coverage for necessary purchases /payments and approval. SITC designated an alternate AO on 27 May 03. Action complete.

**Recommendation A.15. Concur.** SPAWAR Contracts Policy Branch performed an on-site review of the SITC in July 2002, as discussed in the DoD IG Draft Report. Additionally, an inspection was completed in May 2003 as a part of the SPAWAR IG Inspection of the SITC. Yearly independent reviews will continue. In addition, monthly purchase card reviews are performed by the SITC and forwarded to the level 3 APC for review. SPAWAR has developed metrics to measure the health of the program at each of its claimancy activities. When deficiencies are noted, the level 3 APC works with the site APC to develop remedies to the problems. The metrics are reported to the site Commanding Officer/Activity Head and to the SPAWAR Commander. This is a continuing requirement.

**Recommendation A.16.a. Concur.** The SITC Comptroller's office now creates bulk commitment documents annually to support the purchase card only for major purchasing programs/activities. The five major SITC programs/activities are the Defense Integrated Military Human Resources System (DIMHRS), the Navy Standard Integrated Personnel System (NSIPS), SITC Management/Operations, and the Washington D.C. and

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Millington, TN detachments. The Comptroller is currently working towards establishing a single bulk document for the SITC to meet the mandated "online certification" requirements related to Purchase Card administration. SPAWAR Headquarters has been working with the APC and Comptroller at SITC to develop the process for bulk funding to meet the DoD deadline of Citibank on-line certification and payment by September 2003.

**Recommendation A.16.b. Concur.** The SITC has been using the Citibank system to establish and monitor purchase card accounts. This was verified during the May 2003 on-site inspection by the SPAWAR level 3 APC. Action complete.

## **B. PROPERTY ACCOUNTABILITY**

As discussed below, the SITC has taken steps to implement sufficient controls over property accountability and to protect against fraud, waste and abuse. The Final Report should recognize the measures implemented and reflect the SITC's commitment to correcting any property accountability deficiencies.

Prior to the organizations' (NRISO and SEO(MP)) merger and realignment to SPAWAR, and until October 2002, the Controlled Equipage Inventory System (CEIS) served as the organizations' official property book. DPAS was implemented in October 2002. The SITC's delayed conversion to DPAS was due to the two organizations relocating from one physical location to another over a protracted period of time, and then merging and realigning under SPAWAR. SITC property records were updated in DPAS November 2002.

Specific progress made by the SITC follows:

**Transferred Property.** The 750 pieces of audio-visual equipment valued collectively at \$1.7M were not recorded in the then-existing property book because individual pieces were either valued under \$5,000 or deemed to not be pilferable (securely affixed to a wall, bolted to a ceiling mount, etc.). However, the Audio-Visual staff was maintaining an inventory independent of the property book. Currently, all pieces are inventoried, tagged and recorded in DPAS. During the upcoming 7-18 July 2003 wall-to-wall inventory and reconciliation effort, to be conducted with SPAWAR oversight, records will be verified and the new DPAS bar code tags will be affixed to each piece of equipment.

**Property Location.** Prior to converting to DPAS, items indicated as examples, "television, video cassette recorder, backup drive, Altec Lansing speaker, and Palm Pilot" were not recorded in the property books and therefore did not appear on individual property listings provided to the DoD IG auditors. Applicable items are now included in DPAS and will be validated/updated during the upcoming inventory. The actual property location will be updated in the property book as the inventory is completed. New processes require that when personnel relocate within the facility the Property Book Officer be notified so the property location can be updated in DPAS.

**Property Tags.** Processes and procedures are now in place to ensure all SITC accountable property and office supplies are delivered to the command's shipping and receiving area for proper accountability. Cardholders now provide copies of all documents for equipment purchases to the Property Book Officer and Central Shipping and Receiving when the order is placed. Cardholders also ensure the 'ship to' address on all orders is the Command's Shipping and Receiving area. The Shipping and Receiving warehousemen are responsible for notifying the Property Book Officer when equipment is received so that a determination may be made regarding accountability. This process facilitates proper management of the warehouse space, ensures notification of equipment and other items expected to be received, and early identification of equipment that will

need to be inventoried and tagged by the Property Book Officer prior to issuance. As stated previously, during the upcoming inventory and reconciliation effort, records will be verified and new DPAS bar code tags will be affixed to each piece of equipment.

**Property Missing.** SITC has taken steps to implement controls over property accountability and to protect against fraud, waste and abuse. Many of the discrepancies noted in the report have been researched and reconciled. SPAWAR will send representatives to SITC 7-18 July 2003 for oversight of the wall-to-wall inventory and reconciliation effort. Successful completion of this inventory will resolve remaining discrepancies. Currently, the individual responsible for the property initiates the Financial Liability Investigation of Property Loss, DD Form 200, at the time the loss/damage/destruction occurred. Procedures outlined in SECNAVINST 5500.4 (series) will be followed regarding the processing/disposition of the completed form. SPAWAR will provide guidance regarding a number of older, partially or erroneously completed DD Form 200s.

**Government Property at Homes.** SITC personnel were directed to return all government-owned equipment from off-site locations. A physical inventory is being conducted on this equipment and DPAS records updated accordingly. As of this date, all but 35 of the 154 items have been located and accounted for in DPAS or equipment disposition records. SITC personnel are continuing efforts to locate the remaining items. New procedures are in place whereby any equipment approved by management for off-site use, including cell phones and pagers, are issued a property pass and property records updated accordingly. Property passes are now issued and tracked by the Property Book Officer.

The Draft Report correctly asserts that the Director did not have properly issued property passes for equipment; however, the list of equipment is only partially correct and does not support a \$22,000 estimate. The Director did not have five laptops at his home. A Toshiba laptop was previously reported as lost (left on US Airways plane); another old laptop he had prior to 1999, was turned into the central inventory pool, but the property audit trail is incomplete and the MLSR will not be closed out until the audit trail paperwork is reconciled.

At the time, the Director utilized three laptops, but for different functions (these laptops have been turned in and are no longer on the Director's inventory):

- The first, a small Toshiba unit, was used for email, but not suitable for doing desktop or formal presentations while on travel.
- A second, a Compaq, was utilized for preparing presentations and doing more desktop type work while on official travel. This laptop was not at his home, but was at his worksite.
- A third, an Acer laptop was utilized in the conference room adjoining the Director's office. This unit was necessary for conference room presentations and remained at the worksite.

See Appendix F  
Audit Response

There were two desktop computers at the Director's home. He has returned all government owned equipment to the workplace. All equipment has been inventoried, tagged, and tracked in DPAS.

**Property Removed from the Property Book.** The Draft Report states "Property was inappropriately removed from the ITC property accountability systems." NRISO was directed by its then-major claimant, Commander, Naval Reserve Force, by Naval Message R111445Z Feb 00, to "expend all non-ADP personal property records valued at \$2,500 and under from their Controlled Equipage Inventory System (CEIS)." NRISO purged its CEIS program of all low-cost items such as PDAs, cameras, and other such equipment. At that time NRISO also managed property accountability for the SEO (MP). After an analysis was conducted by the SITC in the June/July 2002 timeframe, current SITC management made the decision to recapture these assets in the official property book and DPAS was updated accordingly for televisions, Palm Pilots, cell phones, pagers, video cassette recorders, etc. This information will be verified during the upcoming inventory and reconciliation effort, and new DPAS bar code tags will be affixed to each piece of equipment.

**Accountable Property Officer.** Prior to the merger and realignment, NRISO staff performed the role of Property Book Officer as required by NAVRESINFOSYSOFFINST 4400.1. After the merger and realignment under SPAWAR, this role continued to be performed by the same individual until his retirement in December 2001. Between that point in time and September 2002, this function was temporarily assigned to an experienced logistics government employee (DG-II/GS-7). In order to provide stability and the required controls over SITC property, the overall property and inventory management function was transferred to the Corporate Management Directorate (formally the Strategic & Business Management Directorate) in June 2002. Since then, a Business Management Department Head (DP-IV/GS-14 equivalent) was hired in June 2002; an interim Property Manager (DS-III/GS-12) was assigned in September 2002; and a Facilities and Property Management Division Head (DP-III/GS-13 equivalent) was hired in December 2002. The interim DS-III/GS-12 Property Manager was officially appointed "Property Book Officer" in May 2003 with the responsibilities outlined in DoD Instruction 5000.64; SECNAVINST 7230.10 (Series) and SPAWARINST 11016.2 (Series) with first-line supervision by the DP-III/GS-13 Facilities and Property Management Division Head. Additionally, the Property Book Officer has received formal training on DPAS. The Final Report should note forward progress made in this area.

**Cardholder Purchases.** See previous comments on "Property Tags."

**Missing, Lost, and Stolen Reports.** The Draft Report states "Missing, Lost, and Stolen Reports were not prepared, or not prepared properly." During the upcoming wall-to-wall inventory, a review of all existing records and a diligent effort to locate or account for any and all items previously identified as missing will occur. Once the inventory is complete, the proper physical inventory reconciliation requirements of

SECNAVINST 7320.10 will be met. This includes the proper preparation and submission of a Financial Liability Investigation of Property Loss, DD Form 200, if required. Any DD Form 200s required for the Director, SITC will be submitted to SPAWAR Headquarters for resolution. See also, comments above on "Property Missing."

**Not Prepared.** Concur that missing items should be reported through the Missing, Lost, and Stolen Report process. However, without the details of the 27 items, SITC cannot address the particular circumstances. As described above, review will follow the July 2003 inventory.

**Improperly Prepared.** The Draft Report states "Missing, Lost, and Stolen Reports were not prepared for some equipment missing from the ITC." SPAWAR will ensure that all incomplete DD Form 200s are resolved and will take appropriate action regarding any missing or lost equipment.

**Assurance.** SITC has taken steps to implement sufficient controls over property accountability and to protect against fraud, waste and abuse. Many of the discrepancies noted in the report have been researched and reconciled. SPAWAR will send representatives to SITC 7-18 July 2003 to lead the wall-to-wall inventory and reconciliation effort. Successful completion of this inventory will address remaining discrepancies.

**Items Not Included.** All data gathered during the subject inventory will be verified and validated during the upcoming inventory and reconciliation effort. Successful completion of this inventory will address remaining discrepancies. The status of items identified in the Draft Report follows:

-- The first Toshiba laptop issued to the Director was reported lost or stolen (left on a plane and not there when the Director went back for it).

-- The second Toshiba laptop was issued to a senior manager, transferred to another employee when the first employee left government service, and is now assigned to another government employee; all paperwork is updated in DPAS.

-- The 25 tool kits are computer repair kits and have been used during the course of business. They would not appear on the inventory listing provided for accountable property.

-- Cell phones are inventoried, tagged, and tracked in DPAS.

-- Pagers are inventoried, tagged, and tracked in DPAS.

-- The Garmin Global Positioning System and two EarthMate Global Positioning Systems were inventoried, tagged, and tracked in DPAS and were excessed via DRMO.

-- The binoculars were inventoried, tagged, and tracked in DPAS and were excessed via DRMO.

-- The heating/air conditioning unit is inventoried, tagged, and tracked in DPAS.

-- The gas generator is inventoried, tagged, and tracked in DPAS.

-- Tracking the cordless mice in DPAS is not required; they are tracked in the command's central supply inventory. They would not appear on the inventory listing provided for accountable property.

**Property Tags.** SPAWAR agrees with the finding that not all items purchased with the purchase card were tagged and entered in the property book. Processes and procedures are in place whereby items procured either by purchase order or purchase card are received and tagged if required in Shipping and Receiving by the Property Book Officer prior to issuance. As stated previously, during the upcoming wall-to-wall inventory, records will be verified and the new DPAS bar code tags will be affixed to each piece of equipment.

**Equipment at Home.** See comments titled "Government Property at Homes."

**Property Not Inventoried.** SITC has taken steps to implement controls over property accountability and to protect against fraud, waste and abuse. Many of the discrepancies noted in the report have been researched and reconciled and will be validated/updated through the planned 7-18 July 2003, wall-to-wall inventory and reconciliation effort. The actual property location will be updated in the property book as the inventory is completed. The Draft Report states that the Director had "...a television, video cassette recorder, backup drive, Altec Lansing Speaker, and Palm Pilot that were not on his inventory listing." These items are now included in DPAS or the commands central supply inventory and will be validated by the wall-to-wall inventory and reconciliation effort.

**DoD IG Conclusion.** The DoD IG Draft Report highlights known deficiencies in several SITC property accountability processes and procedures. Efforts are well underway to correct these, and much progress has already been made.

#### **DoD IG Recommendations**

**Recommendation B.1. Concur.** SITC has taken steps to implement controls over property accountability and to protect against fraud, waste and abuse. Many of the discrepancies noted in the reported have been researched and reconciled. SPAWAR will send representatives to SITC for oversight of the 7-18 July 2003 wall-to-wall inventory and reconciliation effort. Successful completion of this inventory will address remaining discrepancies.

**Recommendation B.2. Concur.** As stated in the response to Recommendation B.1, SPAWAR will send representatives to SITC for oversight of the 7-18 July 2003 wall-to-wall inventory and reconciliation effort.

**Recommendation B.3. Concur.** SITC has already included pilferable items in its property book and SPAWAR will validate compliance during the reconciliation process to ensure an accurate and complete property system.

**Recommendation B.4. Concur.** SITC personnel have been directed to return all government-owned equipment from off-site locations. A physical inventory is being conducted and the property book records updated accordingly. Procedures are in place whereby individuals approved by management for off-site equipment use, including cell phones and pagers, will be issued a property pass and the property records will be updated accordingly. Property passes will be issued and tracked by the Property Book Officer. SPAWAR will validate compliance during the reconciliation process to ensure an accurate and complete property system.

**Recommendation B.5. Concur.** This action has been completed. The interim property manager, assigned since September 2002, was appointed Property Book Officer in writing on 7 May 2003. The Property Book Officer previously successfully managed a software inventory database and library of over 6,000 pieces of off-the-shelf software. The Property Book Officer and her immediate supervisor received formal training on DPAS in April 2003.

**Recommendation B.6. Concur.** SITC has two binders with incomplete DD Form 200s. Many of these outstanding DD Form 200s have been unresolved for years. SPAWAR will ensure that SITC investigates and processes these DD Form 200s and forwards the forms and documentation for lost or missing equipment that was in the custody of the Director to SPAWAR for appropriate action. Target completion date is 31 December 2003.

**Recommendation B.7. Concur.** SPAWAR will do an independent review of the inventory listings every six months as long as deemed necessary.

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## **APPENDIX A.**

### **MANAGEMENT CONTROL PROGRAM REVIEW**

The SITC prepared a self-assessment of the Management Control Program (MCP) in preparation for the May 2003 SPAWAR IG inspection. During the inspection, the MCP, including the applicable self-assessment, was evaluated. Although several deficiencies were identified, inspection personnel found that the MCP Coordinator had made good progress towards establishing a viable MCP. The deficient areas identified will be tracked, as part of the SPAWAR IG inspection follow-up, for correction.

SPAWAR HQ reported the Purchase Card Program as a claimancy-wide material weakness in the FY2002 Management Control Certification Statement. Since then, SITC conducted a semi-annual review and continues to conduct monthly reviews of purchases. SPAWAR HQ Contracts Directorate also conducted a review of the Purchase Card Program in July 2002. Additionally, the SITC accomplished self-assessments of both the Purchase Card Program and Property Accountability in preparation for the May 2003 SPAWAR IG inspection. Deficiencies were noted and POA&Ms were developed. Additional deficiencies in both of these areas were identified by SPAWAR inspection team members and brought to SITC management's attention. All deficiencies will be tracked for corrective actions.

## **Team Members**

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