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U.S. European Command Headquarters
Government Purchase Card Controls

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Acronyms

AO	Approving Official
APC	Agency Program Coordinator
CJCSI	Chairman of the Joint Chiefs of Staff Instruction
DFAR	Defense Federal Acquisition Regulation
EUCOM	U.S. European Command Headquarters
FAR	Federal Acquisition Regulation
GPC	Government Purchase Card
OIG	Office of Inspector General
ORF	Official Representation Funds
USACCE	U.S. Army Contracting Command-Europe
USAREUR	U.S. Army Europe



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June 24, 2008

MEMORANDUM FOR COMMANDER, U.S. EUROPEAN COMMAND
HEADQUARTERS
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL
MANAGEMENT AND COMPTROLLER)
COMMANDER, U.S. ARMY CONTRACTING COMMAND
EUROPE

SUBJECT: Report on U.S. European Command Headquarters Government Purchase
Card Controls (Report No. D2008-106)

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

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The U.S. Army Contracting Command Europe comments were partially responsive. We request additional comments on Recommendation A.2.a. As a result of management comments, we revised A.1.b. to clarify our intention. Therefore, we request that the Commander, U.S. European Command and Commander, U.S. Army Contracting Command Europe provide comments on Recommendations A.1.b. and A.2.a respectively by July 24, 2008.

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

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

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(Project No. D2007-D000FJ-0179.000)

U.S. European Command Headquarters Government Purchase Card Controls

Executive Summary

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

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

During the 13-month period ending April 2007, EUCOM incurred 4,025 purchase card transactions valued at more than \$2.4 million. We judgmentally selected 278 transactions, valued at \$349,445, completed during that period, for review.

Results. EUCOM purchase cardholders did not adequately adhere to guidance on the use of the Government Purchase Card for most of the transactions in our sample. Of the 278 transactions that we reviewed:

- documentation did not exist or was insufficient for 123 of the transactions,
- use of the purchase card was not proper for 40 of the transactions, and
- an abuse of the purchase card occurred for one of the transactions.

EUCOM approving officials need to communicate and enforce existing requirements to minimize the potential for fraud, waste, and abuse. Also, the agency program coordinator needs to establish an effective oversight program to improve performance (finding A).

EUCOM did not follow the Joint Chiefs of Staff Instruction or EUCOM guidance when using Official Representation Funds. EUCOM personnel did not verify the availability of funds for 39 of the 41 purchases we examined. Additionally, EUCOM personnel did not provide required documentation to fully support the Official Representation Funds purchases we reviewed. Although gift items were not a part of our sample, during testing of the Official Representation Funds process we observed that EUCOM inappropriately retained 3,349 gift items (valued at more than \$28,000) in inventory. EUCOM needs to improve its controls over the use of Official Representation Funds to minimize the risk of improper use of those funds (finding B).

Management Comments on the Findings and Audit Response. The Chief of Staff, U.S. European Command generally concurred with the audit findings and the intent of the recommendations. He stated that as a result of the audit, measures were taken to better communicate and enforce standards throughout the command. He believed the measures would ensure greater transparency and strengthen internal controls already in place. As a result of some of his detailed comments, we modified part of the report and one of our recommendations. Therefore, we are requesting additional comments from the Chief of Staff to the revised recommendation in the final report by July 21, 2008.

We received comments from the Director, U.S. Army Contracting Command-Europe that were not fully responsive to one of our recommendations. Therefore, we are requesting that the Director reconsider his position on one recommendation and provide additional comments by July 21, 2008.

See the Finding section for the complete discussion of the management actions.

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Background

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

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

Use of the Government Purchase Card. According to the Federal Acquisition Regulation (FAR) Subpart 13.2, “Actions at or below the Micro-Purchase Threshold,” the GPC is the preferred method to purchase and pay for “micro-purchases.” A micro-purchase is an acquisition of supplies or services using simplified acquisition procedures. Use of the purchase card as a procurement and payment tool for micro-purchases is explained in FAR 13.301(c), “Governmentwide Commercial Purchase Card.” The micro-purchase threshold during our period of review was initially \$2,500. The threshold was increased to \$3,000 in September 2006. The increased threshold does not affect the results of our review. The GPC may also be used in excess of the micro-purchase threshold up to \$25,000 for purchases made outside the United States, for use outside the United States, in accordance with DFARS 213.301.

U.S. European Command. On August 1, 1952, DoD established the European Command Headquarters (EUCOM) as a unified command representing all 3 Military Departments in the European Theater. The Command employs military personnel from the Army, Navy, Air Force, and Marine Corps. The headquarters for EUCOM is at Patch Barracks, Stuttgart, Germany. The headquarters staff consists of Army, Navy, Air Force, and Marine Corps officers and enlisted personnel, plus civilian employees. There were 135 GPC cardholders at EUCOM in April 2007. During the 13-month period that the audit covered, ending April 2007, EUCOM incurred 4,025 purchase card transactions.

U.S. Army Contracting Command Europe. The U.S. Army Contracting Command, Europe (USACCE) serves as the Principal Assistant Responsible for Contracting and provides the full range of contracting support throughout U.S. Army Europe (USAREUR). In addition, USACCE is the proponent for the GPC Program in USAREUR. The level IV Agency Program Coordinator (APC) for EUCOM is located at the Regional Contracting Office (RCO) in Seckenheim, Germany. The APC for EUCOM is required to conduct GPC training for prospective cardholders and approving officials, process GPC applications, conduct surveillance of cardholders, and maintain effective oversight of the EUCOM GPC Program.

Objectives

Our audit objective was to assess whether U.S. European Command Headquarters was in compliance with applicable laws and regulations that governed use of GPCs. We also reviewed internal controls over use of the GPC and Official Representation Funds. See Appendix A for a discussion of the scope and methodology.

Review of Internal Controls

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

A. Use of and Controls Over Government Purchase Cards

European Command Headquarters purchase cardholders did not adequately adhere to guidance on the use of the Government Purchase Card for most of the transactions in our sample. Of the 278 transactions that we reviewed:

- documentation did not exist or was insufficient for 123 of the transactions,
- use of the purchase card was not proper for 40 of the transactions, and,
- an abusive use of the purchase card occurred for one of the transactions.

We attribute these irregularities to European Command Headquarters approving officials (AOs) not performing effective reviews and not enforcing regulatory requirements. Additionally, the Agency Program Coordinator at Regional Contracting Office Seckenheim did not maintain effective oversight of the European Command Headquarters Government Purchase Card Program. Unless the overall purchase card control environment is strengthened and management engages in proactive oversight, the potential for fraud, waste, and abuse will not be minimized.

Criteria

DoD Guidance. “Department of Defense Government Charge Card Guidebook for Establishing and Managing Purchase, Travel, and Fuel Card Programs,” January 20, 2006, was published to help DoD personnel establish and manage charge card programs.

Army Regulation AR-715-xx.¹ Department of the Army Regulation AR-715-xx, “Government Purchase Card Program,” revised March 21, 2006, establishes policies and procedures required to implement, maintain, and operate an effective GPC Program. The Regulation delegates the responsibility for the GPC Program to the Chief of Contracting Offices. Because EUCOM GPCs are issued by USACCE, EUCOM is required to follow established Army procedures for use of the card and falls under the oversight responsibility of the APC at USACCE.

Definitions. The Government Accountability Office’s Purchase Card Audit Guide uses the following definitions when describing GPC misuse.

¹ Army Regulation AR-715-xx is a draft regulation.

- An improper purchase is one that is for Government use but is not permitted by law, regulation, or organizational policy.
- An unauthorized purchase is a purchase of goods or services that is unauthorized and intended for personal use or gain.
- An abusive purchase is a purchase of authorized goods or services that is excessive, for a questionable Government need, or both.

Purchase Card Transactions Reviewed

We judgmentally selected 278 purchase card transactions (valued at \$349,445) for review. EUCOM purchase cardholders and AOs did not ensure that the majority of these transactions satisfied GPC regulatory guidance. Of 278 transactions, 164 (valued at \$134,370) had irregularities. Irregularities include purchases lacking supporting documentation, improper purchases, and abusive purchases, as shown in Table 1.

Table 1. Irregular Transactions

	Number of Transactions	Amount	Description
Missing or Insufficient Documentation	123	\$ 82,161	Undocumented or incomplete documentation for transaction.
Improper Purchase	40	50,417	Purchased item not authorized by regulations.
Abusive Purchase	1	1,792	Purchase of unnecessary or excessive items.
Total	164	\$134,370	

Purchase Card Documentation

Army Regulation AR-715-xx. Army Regulation AR-715-xx, “Government Purchase Card Program,” prescribes policies, guidance, responsibilities, and procedures associated with the use of the GPC. The regulation applies to all U.S. Army organizations, units, and activities.

Army Regulation AR-715-xx also requires that approving officials and cardholders retain supporting documentation for at least 6 years and 3 months. Maintaining documentation is essential to ensuring that an adequate audit trail exists.

EUCOM Supporting Documentation. EUCOM could not provide or locate required supporting documentation for 123 transactions, totaling \$82,161. EUCOM did not provide the documentation, nor was it located in the cardholder or AO files provided to us. For example, for 22 sample transactions, EUCOM did

not provide supporting documentation. In addition, for 101 sample transactions, some of the key documents, such as the purchase request, invoice, or receipt, were not available. In several cases, the responsible cardholder told us that purchase requests required by Army Regulation AR-715-xx had not been prepared. Rather, the cardholders made the purchase based on an oral request or by direction of a senior official. Without a purchase request, EUCOM could not document the Government need, requester, required authorization, and pre-purchase certification of fund availability.

Improper Transactions

Our review disclosed that 40 of the transactions were improper. The Government Accountability Office’s GPC Audit Guide defines an improper transaction as one that is for Government use but is not permitted by law, regulation, or organizational policy. See Table 2 for details on the 40 improper transactions.

Table 2. Improper Transactions

	Number of Transactions	Amount	Description
Failure to Obtain Pre-purchase Approvals	16	\$ 18,980	Purchase made without required approval or approval obtained after-the-fact in violation of Army policy.
Appropriation Issues	12	19,919	Appropriated funds used for the purchase of personal gifts.
Split Procurements	3	1,907	Separate charges for single purchase.
Foreign Tax Paid	7	1,184	Tax improperly paid.
Erroneous Charge	1	1,601	Billed twice for same item.
Unauthorized Use	1	6,826	Card used by unauthorized personnel.
Total	40	\$ 50,417	

Pre-purchase Approval. Army Regulation AR-715-xx states that the purchase of certain items is prohibited unless a specified agency official approves it in advance. Failure to obtain any required approval prior to purchase may result in the cardholder or AO reimbursing the Army for the purchase price of the unapproved item. Items that require pre-purchase approval include the procurement of information technology. Cardholders must obtain prior approval from the installation’s Information Management Office before purchasing information technology services, computer equipment, and software. This requirement for prior approval includes network equipment, printers, data storage devices, other computer peripherals and related software, and information technology services.

EUCOM cardholders circumvented this required internal control on 11 occasions by purchasing computer equipment, software, and peripheral equipment totaling \$14,604, without the required pre-purchase approval. For 5 sample transactions (valued at \$4,376), the cardholder first made a purchase and later obtained required approvals.

Appropriation Issues. As a general rule, appropriated funds may not be used for the procurement of personal gifts or give-away items unless there is specific statutory authority to do so. For 12 transactions (valued at \$19,919), the Command Staff purchased EUCOM commemorative coins to give away. EUCOM did not maintain inventory records and controls to monitor distribution of the coins. Also, EUCOM did not maintain records regarding how the coins were distributed. One unit that used its GPC to purchase EUCOM commemorative coins operated a snack bar where, in addition to sodas and candy bars, EUCOM commemorative coins were sold. During the audit, EUCOM could not provide information on whether the commemorative coins sold by the activity were the same coins obtained with the purchase card. EUCOM needs to fully investigate how these coins were obtained.

Split Procurements. The splitting of procurements is the intentional breakdown of a known requirement or purchase amount to stay within a cardholder's delegated or authorized spending limit and is a violation of Federal regulation. For one sample transaction the cardholder provided documentation that showed that the original purchase request that the AO approved was for procuring seven air conditioner units. The value of the seven air conditioners was \$2,700. Because the cardholder's single purchase limit was \$2,500, the cardholder split the procurement and made two purchases, minutes apart—one purchase for three air conditioners valued at \$1,157 and one purchase for four air conditioners valued at \$1,543.

Foreign Tax Paid. The U.S. Government has Status of Forces Agreements in place with its host nations. The European Status of Forces Agreement provides for the exemption of foreign taxes on all purchases from the host nation's economy. However, EUCOM cardholders inappropriately paid foreign tax ("value added tax," referred to as "VAT" in Germany) on 7 sample transactions totaling of \$1,184.

Management Comments to Foreign Tax. In response to the draft of this report, the USACE requested that we consider that the vendor is under no obligation to accept the tax relief, and therefore, there may be situations where the tax will have to be paid in order to obtain the required goods. Furthermore, in some instances we need to recognize the limited source pool of vendors overseas who accept credit cards. Although we stand by the results of our finding, it is duly noted that there may be circumstances in which the VAT tax may have to be paid.

Erroneous Charge. One of our sample transactions (valued at \$1,601) was for framed artwork from The Great American Picture Company, a distributor for Capitol Supply (the manufacturer). The cardholder became dissatisfied with the service she received from the distributor and called the manufacturer to fill the order. Both The Great American Picture Company and Capitol Supply billed the

cardholder for the same order. The double billing was not identified during either the cardholder or the AO reconciliation of purchases. This transaction occurred in August of 2006, and the erroneous charge was not identified until this audit, in July 2007. The AO is now in the process of recovering the overcharge from the distributor.

Unauthorized Use. One of our sample transactions (valued at \$6,826) was for the purchase of 3 classified shredders made by an unknown person after the authorized cardholder left Government service. EUCOM conducted an informal investigation into the purchase but was unable to determine who purchased the shredders or who approved the purchase of the shredders. The informal investigation concluded that the intent of the purchase was not one of deceit or to commit fraud, as EUCOM could account for all items. An additional purchase was made with this card after the cardholder left the Government that was not investigated.

Abusive Transaction

The GAO GPC Audit Guide defines an abusive purchase as the purchase of authorized goods or services that are excessive or for a questionable need. Our review disclosed 1 transaction in which the GPC was used to purchase 8 television sets valued at \$1,792.80. The purchase request and justification authorized the procurement of only seven televisions. However, the purchase request for seven televisions was manually altered to a quantity of eight, and eight televisions were actually purchased. At the time of our audit, nearly a year after the purchase of the televisions, the activity purchasing the televisions could locate only seven of the eight televisions. Three of the eight televisions were still unused and in their original boxes at the time of audit, and we concluded that there was questionable need for the items.

In addition to the questionable need for these items, we found that the televisions were not recorded on EUCOM property records. Army Regulation AR-715-xx requires AOs to ensure that nonexpendable property and sensitive or highly pilferable items be properly recorded on Government property records. Television sets are highly pilferable. As such, EUCOM should determine the need, location, and accountability for all eight televisions and ensure that they are recorded on property records and distributed only where needed.

Causes of Transaction Irregularities

EUCOM AOs did not adhere to Army guidance or institute effective procedures and controls over its GPC Program. Also, the APCs for the EUCOM GPC Program did not provide effective oversight of the program.

AO Responsibilities. Army Regulation AR-715-xx requires that AOs be responsible for oversight of purchase cardholders. An AO's primary responsibility involves GPC administration for cardholder accounts, including

approval or disapproval of all purchases, verification of funds availability, certification of invoices, and surveillance of all cardholders under the AO's purview. Other responsibilities include ensuring that:

- transactions are necessary to support the cardholder's work area and Government purchases are permitted in accordance with GPC policy and guidance,
- billing statements are certified within established timeframes,
- the Property Book Officer is notified of all accountable property acquired,
- each cardholder fulfills his or her responsibilities related to the GPC, and
- a copy of each billing statement and all original supporting documentation is retained for 6 years and 3 months after final payment.

The results of our review indicated that the AOs at EUCOM were not performing these responsibilities fully. Cardholders made improper purchases and did not maintain complete supporting documentation for those purchases. AOs that were required to monitor these purchases approved them without adequately scrutinizing them.

APC Responsibilities. The APC for the EUCOM GPC Program is at RCO Seckenheim. The APC is responsible for implementing and administering the EUCOM GPC Program, establishing policy and guidance, conducting training, and monitoring GPC usage. Specific responsibilities include:

- developing and implementing local procedures to identify and make cardholders aware of items that the local command prohibits from purchase with the GPC,
- ensuring that cardholders and AOs have completed mandatory training and maintaining records of the training received, and
- performing annual oversight reviews to ensure that AOs adhere to policies and procedures.

Because of the extent of irregularities found at EUCOM, we visited RCO Seckenheim to discuss its oversight responsibilities of the EUCOM GPC Program. RCO Seckenheim management advised us that they performed their oversight through electronic surveillance of purchases and correspondence whenever a purchase was questioned. RCO Seckenheim did not review files at EUCOM to ensure proper documentation of purchases, nor did they routinely review original supporting documentation. RCO Seckenheim cannot adequately perform its monitoring responsibilities of EUCOM without a review of all original supporting documentation, including receipts, logs, invoices, and approvals. Additionally, RCO Seckenheim did not maintain a complete record of reviews of EUCOM purchase card transactions.

The GPC surveillance conducted by RCO Seckenheim, the APC for the EUCOM GPC Program, was ineffective. Unless the overall purchase card control environment is strengthened and management engages in proactive oversight, the potential for fraud, waste, and abuse will not be minimized.

Management Comments on the Finding and Audit Response

Management Comments on the Internal Controls for Computer Equipment. The Chief of Staff, European Command stated that he could not identify or verify the computer purchases or lack of preapprovals. However, he has revised the GPC guidance, which now includes a standard cardholder purchase form that requires preapproval of computer equipment.

Audit Response. The course of action taken by EUCOM as a step in improving the internal controls over the purchase of all computer equipment and related components is responsive to our recommendation

Management Comments on Coin Purchases. The Chief of Staff concurred with the finding. He stated that to be able to substantiate the 12 transactions reported, he needed specific examples. In addition, he stated that the EUCOM commemorative coins sold in the snack bar were not purchased with appropriated funds. However, as a result of the audit visit, he instituted a log to document all coin purchases sold at the snack bar.

Audit Response. The course of action taken by EUCOM is responsive to the audit recommendation.

Management Comments on the Repair of Leased Vehicles Using the GPC. The Chief of Staff non-concurred with the finding. He stated that the vehicles mentioned in the report were Government owned vehicles purchased with Defense Security Cooperation Agency funds.

Audit Response. As a result of management comments, we deleted the paragraph in the body of the report that discussed leased vehicles and revised the overall table summarizing the results of our finding.

Management Comments on the Split Disbursement. The Chief of Staff non-concurred with the finding. He stated that the cardholder was unaware of the total cost due the unusually high shipping costs charged by the vendor without notifying the cardholder. He also stated that the vendor split the purchase without notifying the cardholder. This transaction was identified by the AO, who notified the cardholder and the RCO in Seckenheim, however, the purchase had already been shipped. The Chief of Staff stated that no items will be charged in the future unless all costs are known upfront.

Audit Response. We agree with the management comments that the split disbursement did not originate with the cardholder. As a result, we deleted the paragraph in the body of the report that identified the split disbursement as a cardholder issue.

Management Comments on Foreign Tax. The Chief of Staff stated that the tax relief program will be reemphasized in the updated GPC directive. In addition, all cardholders and billing officials will receive additional training.

Audit Response. We agree with the course of action taken by EUCOM.

Management Comments on Double Billing. The Chief of Staff concurred with the finding and stated that the cardholders account has been credit for the overcharge.

Management Comments on Unauthorized Use of Card. The Chief of Staff concurred with the finding. He stated that the card in question has been destroyed and they had conducted an informal investigation that resulted in instituting a more stringent management control system. He further stated that as a result of their pre-management control inspection of the GPC in March 2008, all deficiencies identified had been resolved. EUCOM planned to incorporate an annual GPC inspection of its management controls.

Management Comments on the Purchase of Eight Televisions. The Chief of Staff nonconcurred with this finding. He agreed that the original purchase was for seven televisions but had later been manually changed to reflect a purchase of eight. The Chief of Staff admitted that the additional television purchase was not submitted for to the AO for prior approval. However, he stated that the total purchase cost for eight televisions was less than the original purchase request of the seven televisions. Furthermore, although the Chief of Staff agreed that only seven of the eight televisions could be located during our audit, he noted that the eight televisions were located in an area under construction, which prevented access to the location of the eighth. He stated that all eight televisions were inventoried by serial number and that the information was provided to our office. In addition, he argued that the televisions did not need to be placed on EUCOM's property records, because the minimum value requirement for recording equipment was \$5,000. Finally, the Chief of Staff did not agree that the televisions were a highly pilferable item, because of their size, weight, and the fact that they were located in a Sensitive Compartmentalized Information Facility and were secured. However, he stated that all of the televisions serial numbers and locations are maintained.

Audit Response. We believe that the cardholder should have obtained approval prior to the purchase being made. Additionally, we do not agree that the television sets were not pilferable. However, we believe the action taken to maintain all serial numbers and locations as part of the tracking system will improve the process

Recommendations, Management Comments, and Audit Response

Revised Recommendations. As a result of management comments, we revised draft Recommendation A.1.b to clarify the nature of the actions needed to investigate the purchase and sale of commemorative coins.

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

a. Require cardholders and approving officials to follow the proper procedures when using the Government Purchase Card, as outlined in Army Regulation AR-715.xx.

Management Comments. The Chief of Staff, U.S. European Command Headquarters generally concurred with the recommendation. He stated that a database was implemented to monitor cardholder and approving official training and surveillance and that visits were made to cardholders to provide assistance and review files. He also said that the European Command Government Purchase Card directive would be updated.

Audit Response. The response from the Chief of Staff was acceptable, and we consider his actions to be responsive to this recommendation.

b. Designate an independent party not connected directly with the Commander, European Command Headquarters to investigate the purchase and sale of commemorative coins at European Command Headquarters. This designee should also investigate the purchase and accountability of the eight televisions and any use of the Government Purchase Card by anyone other than the authorized cardholder. European Command Headquarters should also review the 22 sample transactions that were not supported by documentation.

Management Comments. The Chief of Staff, European Command generally agreed with the recommendation, except for the finding on the eight televisions. However, he proposed that instead of the European Command Headquarters Inspector General conducting the investigation, he would like the flexibility to select someone on his staff to conduct any needed investigations.

Audit Response. While we agree that the Commander, European Command should be free to designate who should perform the reviews, we believe that person should be independent of the Command staff. As a result, we modified the recommendation above to say that “Commander, EUCOM designate an independent party to investigate the purchase and accountability of the eight televisions and any use of the Government Purchase Card by anyone other than the authorized cardholder. European Command Headquarters should also review the 22 sample transactions that were not supported by documentation.” We request additional comments on the revised recommendation.

A.2. We recommend that the Commander of the U.S. Army Contracting Command Europe:

a. Institute, as part of the annual review of the Billing Official’s records and procedures, a review of all original supporting documentation to include receipts, logs, invoices, and approvals. These inspections should ensure that GPC files are properly maintained.

Management Comments. The Head of Contracting Activity, Army Contracting Command (Provisional), stated that billing officials are trained to ensure that they are aware of their responsibility for retaining a copy of each billing statement and maintaining all original supporting documentation. He further stated that he believes AR 715-XX does not require a 100 percent review of the original documents and noted that the regulation states that Level IV Activity/Organization Purchase Coordinator should annually inspect a sample of transactions of each billing official account. The Head of Contracting Activity stated that hands-on inspections are preferred, but he believes that alternative methods are allowable. Therefore, the Head of Contracting Activity believes that based on risk and experience, RCO Seckenheim does not need to perform a 100 percent review of original documents.

Audit Response. We consider the management comments to be nonresponsive. We did not recommend a review of 100 percent of the transactions. We recommended that reviews include all supporting documentation for the transactions selected for review. We request that the Head of Contracting Activity provide additional comments that specifically address the intent of the recommendation.

b. Maintain complete records of surveillance reviews performed and the results.

Management Comments. The Head of Contracting Activity, Army Contracting Command (Provisional) concurred and stated that the RCO Seckenheim has corrected the problem identified during the audit and that complete surveillance records are being maintained.

Audit Response. We consider the management comments to be responsive and commend RCO Seckenheim for taking corrective actions.

B. Use of and Controls Over Official Representation Funds Transactions

European Command Headquarters (EUCOM) did not follow established guidance for the use of Official Representation Funds for 39 of the 41 purchases we reviewed. Specifically, EUCOM personnel did not verify the availability of funds prior to making purchases. Also, Official Representation Funds purchase card transactions were not properly documented and supported by EUCOM personnel in accordance with the Chairman of the Joint Chiefs of Staff Instruction and EUCOM policies and procedures. Additionally, although gift items were not part of our sample transactions, we observed during the testing of the Official Representation Funds process that EUCOM inappropriately retained 3,349 gift items (valued at more than \$28,000) in inventory. These conditions occurred because the Command Staff Protocol Office, the Deputy Commander's Office, and the Comptroller's Office did not properly monitor Official Representation Funds purchase cardholders' transactions. EUCOM management needs to strengthen Official Representation Funds purchase controls and improve Official Representation Funds oversight to minimize the potential for improper and questionable use of Official Representation Funds.

Guidance on Use of Official Representation Funds

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

Chairman of the Joint Chiefs of Staff Instruction 7201.01A. Chairman of the Joint Chiefs of Staff Instruction (CJCSI) 7201.01A, "Combatant Commanders' Official Representation Funds," February 7, 2006, requires the commanding officer (or authorized designee), the command protocol officer, the command

comptroller, and the command staff judge advocate to review the use of ORF to fund an event prior to its occurrence.

Army Regulation 37-47. Army Regulation 37-47, “Representation Funds of the Secretary of the Army,” March 12, 2004, implemented DoD Directive 7250.13. Although this regulation is applicable only to the active Army, the Army National Guard, and the Army Reserves, the policies and procedures are based on the guidelines detailed in both DoD Directive 7250.13 and the CJCSI 7201.01A.

EUCOM Directive 50-12. EUCOM Directive 50-12, “Comptroller - Administration of Representation Funds,” November 9, 1994, requires that EUCOM personnel and its subordinate levels apply internal management controls to financial, administrative, and operations activities to ensure reasonable safeguards against waste, loss, unauthorized use, or misappropriation of representation funds or other assets. In addition, expenditures must be certified by the approving official prior to submission of reimbursement vouchers. The directive also provides detailed guidance on the roles and responsibilities of EUCOM personnel who request the use of ORF.

EUCOM ORF Program

The ORF Program should be handled by personnel from the Command Staff Protocol Office, Comptroller’s Office, the Deputy Commander’s Office, and Office of the Command Staff Judge Advocate. The following identifies the roles and responsibilities of the respective offices at EUCOM.

Use of GPC for ORF Events. Staff Protocol Office personnel informed us that they rarely use the GPC for ORF events. Instead, ORF events were paid for on a cash basis (using checks issued against appropriated funds), and these transactions were not included in the GPC review.

Use of GPC for ORF Gifts. Cardholders from the Staff Protocol Office and the Deputy Commander’s Office made purchases using the GPC for ORF gifts. Personnel in the Deputy Commander’s Office maintained the inventory of these gift purchases.

Sources of ORF Funding. The Chairman of the Joint Chiefs of Staff provided funding for the ORF Program. In addition, EUCOM subordinate elements used Security Assistance Organization representation funds and Operations and Maintenance, Army representation funds as required.

Comptroller’s Role and Responsibility. EUCOM Directive 50-12, section 7 states that the comptroller is to provide guidance concerning the use of ORF, submit ORF requirements to the appropriate DoD activity during the budget cycle, and issue individual limitations to EUCOM and its subordinate elements for the use of ORF. The Directive also requires that the EUCOM Comptroller review the use and management of ORF during command inspections and other reviews. Likewise, CJCSI 7201.01A, enclosure A-2, paragraphs 1.d. (3) and (4) require the command comptroller to:

-
- monitor ORF requests for compliance with guidance,
 - forward the requests to the combatant commander and the Chairman of the Joint Chiefs of Staff, and
 - review the use of ORF to fund an event prior to its occurrence.

Command Staff Judge Advocate. CJCSI 7201.01A, Appendix B, paragraph 1 states that the command staff judge advocate should be included in the review of the use of ORF prior to the event.

Monitoring of ORF Program at EUCOM

The Command Staff Protocol Office, the Deputy Commander's Office, and the Comptroller's Office did not properly monitor ORF purchase cardholders. For 39 of the 41 ORF GPC card purchases reviewed, personnel at EUCOM did not follow established guidance to ensure that:

- funds were available prior to the purchase,
- purchase requests were properly documented, and
- purchases were based on current year requirements.

Verification of ORF Fund Availability. Documentation for the ORF purchase card transactions in our sample showed that all of the purchases occurred before the appropriate officials verified the availability of ORF funds to pay for the purchase. DoD Directive 7250.13, paragraph E.2.4.8 states: "Fund availability shall be verified before the use of ORF (preferably 10-15 days prior to the event)." Also, CJCSI 7201.01A, enclosure A-2, paragraph 1.d.(4) specifies that the combatant commander's comptroller is to review each request for ORF prior to the scheduled event to ensure the availability of funds. EUCOM did not follow these procedures. As a result, EUCOM put itself at a greater risk of incurring a potential Antideficiency Act violation.

Violations of the Antideficiency Act include obligations or expenditures in excess of the amount in the affected account, the amount apportioned, or the amount allotted. Section 1341(a)(1)(A), title 31, United States Code (31 U.S.C. 1341) prohibits making or authorizing an expenditure from, or creating or authorizing an obligation under, any appropriation in excess of the amount available. In addition, 31 U.S.C. 1341(a)(1)(B) prohibits involving the Government in any obligation to pay money before funds have been appropriated for that purpose.

We asked EUCOM Comptroller personnel about the process for identifying ORF expenditures for gifts and how purchases occurred before the appropriate officials verified the availability of ORF funds to pay. Comptroller personnel stated that EUCOM ORF cardholders were using a GPC that was established through an Army appropriation, rather than the Defense, Operations and Maintenance appropriation provided by the Chairman of the Joint Chiefs of Staff. Therefore,

until the cardholder notified them that an expenditure for ORF gifts had been made, they would not know whether ORF funds were available and whether the purchase was proper. Upon notification, a cost transfer had to be made to correctly charge the right appropriation.

EUCOM Comptroller personnel provided documentation to substantiate their ORF GPC purchases that identified only one cardholder. However, we noted that two additional cardholders made ORF GPC purchases during the first quarter of FY 2007, which increased the risk of overobligation and expenditure of ORF funds. In addition, there were discrepancies in the dollar value charged to the ORF account, including the failure to deobligate funds subsequent to an expenditure. This also increased the risk of overobligation of funds and the potential for an Antideficiency Act violation. These discrepancies were provided to EUCOM for their review. Unless EUCOM cardholders are required to verify the availability of ORF funds before making purchases and controls are improved to ensure that all ORF GPC purchases are properly identified and recorded, EUCOM will unnecessarily risk incurring a potential Antideficiency Act violation.

Required Documentation. Our review of the 41 judgmentally selected ORF purchase card transactions showed that EUCOM cardholders did not properly document 34 of the transactions. The CJCSI 7201.01A, Appendix B, paragraph 1 requires the commanding officer (or authorized designee), the command protocol officer, the command comptroller, and the command staff judge advocate to review the use of ORF to fund an event prior to its occurrence. CJCSI 7201.01A also specifies that “records concerning the use of ORF will be maintained on an event-by-event basis to provide data on how and why these funds are used.” It further states, “Records should document the purpose for which funds were used, including names, titles, and the organizations of the persons attending.” To ensure compliance with established procedures, EUCOM personnel who are responsible for requesting obligations and expenditures for ORF events or gift purchases need to provide complete details regarding their use. The following table identifies the sample number and dollar amount of the transactions that were not properly documented.

Table 3. ORF Transactions with Inadequate Documentation

Sample No.	Amount (in dollars)	Sample No.	Amount (in dollars)
ORF 5	\$ 993.97	ORF 30	\$ 75.00
ORF 8	26.00	ORF 31	75.00
ORF 13	1,934.98	ORF 32	75.00
ORF 14	2,068.69	ORF 33	75.00
ORF 16	325.51	ORF 34	75.00
ORF 18	170.00	ORF 35	75.00
ORF 19	75.00	ORF 36	75.00
ORF 20	75.00	ORF 37	75.00
ORF 21	75.00	ORF 38	75.00
ORF 22	75.00	ORF 39	449.40
ORF 23	75.00	ORF 43	249.80
ORF 24	75.00	ORF 44	415.00
ORF 25	75.00	ORF 50	2,074.87
ORF 26	75.00	ORF 54	717.40
ORF 27	75.00	ORF 72	158.27
ORF 28	75.00	EUCOM 191	1,718.60
ORF 29	75.00	EUCOM 193	206.50
	.	Total	\$13,008.99

Current Year Requirements. The CJCSI 7201.01A specifies that ORF requirements are based on fiscal year use only, which would prohibit the use of current year funds to meet future year requirements. Of the 34 transactions with irregularities, all purchases were made to satisfy anticipated needs in future fiscal years

Inventory of Gift Items

EUCOM maintained an excessive inventory of gift items for future use. As stated previously, the CJCSI 7201.01A specifies that ORF requirements are based on fiscal year use only, which would prohibit the use of current year funds to meet future year requirements. EUCOM's gift locker list identified 3,349 gift items, valued at more than \$28,000, that were being retained in inventory. None of these items were designated to be presented to a specific distinguished visitor or other dignitary in the near term. EUCOM needs to discontinue further purchases of gifts until the inventory is depleted and institute procedures to purchase items only when a specific need is identified. If a long lead time is required to purchase gifts for an event that will occur during the next fiscal year, EUCOM should request a waiver from the Chairman of the Joint Chiefs of Staff to get permission to use current fiscal year funds.

Summary

EUCOM internal controls for ORF were not adequate for the purchases we reviewed. The primary control deficiency resulted from EUCOM personnel not requesting prior approval for expenditures and not ensuring adequate fund availability. The request for obligation of funds prior to expenditure needs to include all supporting documentation, as outlined in the CJCSI 7201.01A. In addition, EUCOM personnel need to take action to eliminate the excessive inventory of gift items and institute procedures to prevent the future purchase of items unless a specific need is identified.

Management Comments on the Finding

Management Comments on Following Established Guidance. The Chief of Staff concurred that EUCOM did not follow established guidance governing ORF cardholders who were using GPCs established with an Army appropriation. He indicated that EUCOM has revised its ORF procedures to require prior approval of all expenditures and mandatory use of request forms.

Management Comments on Proper Documentation. The Chief of Staff concurred with the finding. He stated that their ORF guidance dated March 21, 2008, has been revised to include the ORF approval process.

Management Comments on Inventory of Gift Items. The Chief of Staff concurred with comment to the finding. He stated that several factors contributed to the excessive inventory. EUCOM is coordinating with the Joint Chiefs of Staff and the Office of the Secretary of Defense for the removal of gift items that are considered obsolete.

Management Comments on ORF Expenditure Process. The Chief of Staff concurred with the finding. He stated that the revised ORF expenditure approval procedures that were developed reinforce the Comptroller's funds verification process.

Management Comments on Number of ORF Cardholders. The Chief of Staff concurred with the finding. He stated that procedures have been implemented for one assigned ORF GPC cardholder, per the Deputy Commander's Office and the Staff Protocol Office.

Management Comments on Prohibited Use of Current Year Funds for Future Requirements. The Chief of Staff concurred with the finding. He stated that ORF gift cardholders have been provided instruction in accordance with Joint Chiefs of Staff and EUCOM revised guidance. The approval process will capture and reject any gift purchases to be used for future fiscal years. In addition, request forms will be utilized as required by current guidance.

Overall Audit Response. We agreed with all steps implemented by EUCOM concerning the overall ORF program. The completed or proposed actions are responsive and should improve the ORF program at EUCOM.

Recommendations, Management Comments and Audit Response

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

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

Management Comments. The Chief of Staff concurred with the recommendation and stated that new procedures have been implemented.

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

Management Comments. The Chief of Staff concurred with the recommendation and stated that their guidance has been revised to reflect an improved approval process and to include new request forms that require amounts requested and method of payment.

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

Management Comments. The Chief of Staff concurred with the recommendation and stated that procedures outlined in comments to the finding have been implemented.

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

Management Comments. The Chief of Staff concurred with the intent of the recommendation and stated that all unprogrammed requirements during the first month of the fiscal year will be submitted to the Chairman of the Joint Chiefs of Staff in accordance with current guidance.

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

Management Comments. The Chief of Staff concurred with the recommendation and stated that the European Command regulations have been revised to include no more than a 3-month supply of gifts on hand.

f. Require the Comptroller to identify Official Representation Funds cardholders and issue a purchase card with the applicable funding line of accounting that is for Official Representation Funds use only.

Management Comments. The Chief of Staff concurred with the recommendation. He stated that the Comptroller has identified two Official Representation Funds cardholders and that each cardholder has been provided a Government Purchase card for Official Representation Funds use only.

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

Management Comments. The Chief of Staff concurred with the recommendation by stating that the procedures outlined in Recommendation B.1.a and in the comments to the finding address this recommendation.

B.3. We recommend that the Government Purchase Card approving official for Official Representation Funds reject all purchases made without prior approval unless an immediate, official need is documented because of an unannounced visit by an authorized distinguished visitor.

Management Comments. The Chief of Staff concurred with the recommendation. He stated that the approval process can be processed electronically to shorten the process. The addition of blocks on the request form to identify unprogrammed events and explain immediate expenditures for unannounced visits by authorized distinguished visitors is responsive to this recommendation.

Appendix A. Scope and Methodology

We conducted this performance audit from July 2007 through May 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Use of Technical Assistance. We requested European Command Headquarters (EUCOM) purchase card transactions from the DoD IG, Data Mining Directorate. They provided us with a universe of 4,025 purchase card transactions, valued at \$2.434 million, made by 135 EUCOM cardholders from April 4, 2006 through April 30, 2007. We used the indicators provided by the Data Mining Directorate to identify transactions that were high-risk based on dollar amount, date of purchase, vendor, and other indicators of possible Government Purchase Card (GPC) misuse. Applying these indicators, we judgmentally selected 278 transactions with a total value of \$349,445. The 278 transactions were associated with 61 cardholders. In addition, we reviewed 41 Official Representation Funds transactions valued at \$16,374. The 41 transactions were associated with 5 cardholders. Because the review was limited to a judgmental selection of transactions, we could not project our results over the entire population of purchase card transactions.

We performed the audit at EUCOM, Patch Barracks, Stuttgart, Germany. Our objective was to evaluate the controls over the use of the GPC. We conducted interviews with EUCOM management personnel, individual cardholders, approving officials, and the Staff Judge Advocate. We also obtained relevant supporting documentation, including credit card statements, invoices, training records, and other documentation maintained by EUCOM. We reviewed DoD, Army, and EUCOM policies and regulations regarding responsibilities and procedures for the control and use of the GPC, as well as guidance issued by the Chairman of the Joint Chiefs of Staff.

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

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

Appendix B. Prior Coverage

During the last 5 years, the Government Accountability Office (GAO) and the DoD Inspector General (DoD IG) have issued reports discussing DoD Government purchase card programs. Unrestricted GAO reports can be accessed at www.gao.gov and unrestricted DoD IG reports can be accessed at www.dodig.mil/audit/reports.

GAO

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

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

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

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

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

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

DoD IG

DoD IG Report No. D-2007-043, “Controls Over the Army, Navy, and Air Force Purchase Card Programs,” January 10, 2007

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

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

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

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

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

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

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

Appendix C. Report Distribution

Office of the Secretary of Defense

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

Joint Staff

Director, Joint Staff

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Commander, U.S. Army Contracting Command Europe
Auditor General, Department of the Army

Combatant Commands

Commander, U.S. European Command
Inspector General, U.S. European 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 Homeland Security and Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Oversight and Government Reform
House Subcommittee on Government Management, Organization, and Procurement,
Committee on Oversight and Government Reform
House Subcommittee on National Security and Foreign Affairs,
Committee on Oversight and Government Reform

U.S. European Command Comments



HEADQUARTERS
UNITED STATES EUROPEAN COMMAND
Office of the Chief of Staff
UNIT 33400
APO AE 09131

ECGS

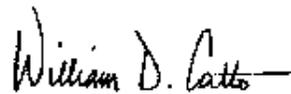
02 Apr 08

MEMORANDUM FOR Program Director, Defense Financial Auditing Service, Inspector General, Department of Defense, 400 Army Navy Drive, Arlington, VA 22202-4704

SUBJECT: Response to Report on Headquarters, United States European Command Purchase Card Controls

1. Reference Memorandum, DoDIG, 4 March 2008, subject: Report on U.S. European Command Headquarters Government Purchase Card Controls (Project No D2007-D0000FJ-G179.000)
2. EUCOM greatly appreciates your efforts in reviewing our GPC Program as well as the Official Representation Funds (ORF) processing procedures. We valued both the assistance of your team and the dialogue over ways to better strengthen the overall internal controls of these processes that are essential to the overall effectiveness of the mission.
3. As you are well aware, the EUCOM is a complex organization responsible for operations across 93 countries. The breadth and depth of the mission and the laws of the foreign countries we conduct operations serves to complicate the business of simple acquisitions. The government purchase card assists in our effort to provide logistical support. However, the approval process, purchase, and methods of documentation, are not as straightforward as those performed in the U.S. environment.
4. As a result of the July 2007 DoDIG audit, several measures were taken to better communicate and enforce standards throughout the command. These measures should ensure greater transparency and strengthen internal controls already in place.
5. HQ, EUCOM's response to the findings and recommendations are attached.

Encis


WILLIAM D. CATTO
Major General, USMC
Chief of Staff

ENCL 1

ODIG DRAFT REPORT – DATED 4 MARCH 2008
Project No. D2007-0000FJ-0179-006

U.S. European Command Headquarters Government Purchase Card Controls

EUCOM COMMENTS TO THE GPC FINDINGS AND RECOMMENDATIONS

Note: Those findings in which we could not identify the transaction(s) (because it was stated that the particular finding was across the headquarters) we did not concur/non-concur because it was not possible to provide verification. However, in deference to the auditors' judgment, we took actions that were equivalent to a concurrence with the finding.

FINDING 1: EUCOM cardholders circumvented this required internal control by purchasing, on 11 occasions, computer equipment and software peripheral equipment, totaling \$14,604.00, without the required pre-purchase approval. For five sample transactions (valued at \$4,376), the cardholder first made a purchase and then later obtained required approvals.

EUCOM RESPONSE: Although we could not identify or verify the IT purchases or lack of preapprovals, EUCOM has rewritten the GPC Guidance and it is currently in staffing. The draft guidance explains the regulation concerning the purchase of IT gear. It also provides a standard card holder purchase form which requires preapproval as the first step of the acquisition process.

FINDING 2: For 12 transactions (valued at \$19,919), the Command Staff purchased EUCOM commemorative coins to give away. EUCOM did not maintain inventory records and controls to monitor distribution of the coins. Also, EUCOM did not maintain records regarding how the coins were distributed. One unit that used its CPC to purchase EUCOM commemorative coins operated a snack bar where, in addition to sodas and candy bars, EUCOM commemorative coins were sold. During the audit, EUCOM could not provide information on whether the commemorative coins sold by the activity were the same coins obtained with the purchase card. EUCOM needs to fully investigate how these coins were obtained.

EUCOM RESPONSE: Concur with comment. With respect to the coin purchase without inventory or distribution records (12 transactions), it is difficult to check or substantiate without specific examples. In reference to the snack bar sale of EUCOM commemorative coins, the coins that are sold in the snack bar were purchased with the funds that result from operating the snack bar. As evidence, the auditors were provided a copy of the community bank wire receipt (dated 20 NOV 2006, which fell during the scope of audit dates) that showed a payment from the snack bar unit account (not appropriated fund) to the coin vendor. As a result of the audit visit, a log was started documenting coin purchases at the unit funded snack bar.

FINDING 3: Transactions in our sample showed that a EUCOM cardholder paid for the repair of leased General Services Administration vehicles on three different occasions.

The combined value of the payments was \$3,787. The regulation specifically prohibited those types of transactions.

EUCOM RESPONSE: Non-concur. We don't have leased vehicles at the location in which the GPC (Government Purchase Card) was used for purchase of vehicle repairs. All the vehicles at this particular remote location were purchased with Defense Security Cooperation Agency (DSCA) funds and are government owned vehicles. We routinely use our GPC for repairs and normal maintenance/upkeep of our government owned vehicles. We are budgeted yearly to pay for the repairs and normal maintenance and upkeep associated with these vehicles via the GPC.

FINDING 4: For one example transaction (valued at \$3,520), the cardholder provided documentation that showed that the original purchase request that was approved by the AO was for the procurement of an antenna, costing \$592. However, the activity needed an entire antenna system, including a receiver and mounting brackets. The actual cost of the entire system that was charged to the GPC was \$1,827.43, plus an additional \$1,682.50 for shipping. The total charge was \$3,519.93. The cardholder ordered additional material without preparing an additional purchase request or obtaining authorization from the AO for the additional charges. Because the cardholder's single purchase limit was \$2,500, the company split its bill into two invoices so the transactions would not exceed the cardholder's single purchase limit.

EUCOM RESPONSE: Non-concur. The total charge for the two purchases from one vendor for one requirement on the same day was \$3,519.93. This is a fact and is not disputed. The documentation provides evidence that the original requirement for \$592 changed nine days after the original approval. The new amount was still well below the \$2,500 limit. It's only after the vendor added an unexpectedly high shipping cost that the total purchase ended up exceeding the \$2,500 limit. The vendor split the purchase, not the cardholder. Had the vendor notified the cardholder before processing the transactions of the total cost, the cardholder would not have authorized the purchase.

The Approving Official (AO) noticed the two transactions in the web-based GPC management system (C.A.R.E.) and notified both the cardholder and the Regional Contracting Office (RCO) at Seckenheim, but the items had already shipped. In the future, no items will be charged unless the total cost is known up front.

FINDING 5: EUCOM cardholders inappropriately paid foreign tax (that is, value added tax, referred to as VAT tax in Germany) on seven of our sample transactions totaling of \$1,184.

EUCOM RESPONSE: Although we could not identify or verify specific transactions, the tax relief program will be reemphasized in the updated GPC directive. All cardholders and billing officials receive training informing them that they are to provide the value added tax relief forms to German vendors at time of purchase in order to secure foreign tax relief.

FINDING 6: One of our sample transactions (valued at \$1,601) was for framed artwork from The Great American Picture Company, a distributor for Capitol Supply (the manufacturer). The cardholder became dissatisfied with the service she received from the distributor and called the manufacturer to fill the order. Both The Great American

Picture Company and Capitol Supply billed the cardholder for the same order. The double billing was not identified during either the cardholder or the AO reconciliation of purchases. This transaction occurred in August of 2006, and the erroneous charge was not identified until this audit in July 2007. The AO is now in the process of recovering overcharge from the distributor.

EUCOM RESPONSE: Concur. Both the AO and the now cardholder worked closely with the vendor to correct this double billing. Our account has been credited \$7,801.

FINDING 7: One of our sample transactions (valued at \$6,826) was for the purchase of three classified shredders made by an unknown person after the authorized cardholder left government service. EUCOM conducted an informal investigation concluded that the intent of the purchase was not one of deceit or to commit fraud as EUCOM could account for all items. An additional purchase was made with this card after the cardholder left the Government that was not investigated.

EUCOM RESPONSE: Concur. We conducted an informal investigation in June 2007 as described in the DoDIG audit findings. The Government Purchase Card has been destroyed. As a result of the informal investigation, the directorate has instituted a more stringent Management Control system. The Government Purchase Cards will be inspected once a year. The directorate conducted a pre-Management Control inspection of the Government Purchase cards in March 2008. Deficiencies identified have been resolved. The directorate will follow-up with an official Management Control inspection in June 2008. The Government Purchase Card will continue to be an annual inspection for that directorate's Management Control system.

FINDING 8: Our review disclosed one transaction in which the GPC was used to purchase eight television sets valued at \$1,792.50. The purchase request and justification authorized the procurement of only seven televisions. However, the purchase request for seven televisions was manually altered to the quantity of eight, and eight televisions were actually purchased. At the time of our audit, nearly a year after the purchase of the televisions, the activity purchasing the televisions could locate only seven of the eight televisions. Three of the eight televisions were still unused and in their original boxes at the time of the audit, and we concluded that there was questionable need for the items. In addition to the questionable need for these items, we found that the televisions were not recorded on EUCOM property records.

EUCOM RESPONSE: Non-concur. Staying abreast of current news, especially in the intelligence business, is a valid requirement and the television sets purchased were low cost (eight at less than \$250 each). We agree that the original purchase request was approved for seven televisions but was later manually altered to reflect eight. Prior to the actual purchase, but after the initial request had been approved, one office increased its requirement from two to three. Because the total actual cost of eight television sets was less than the estimated (and approved) cost of seven, the cardholder modified the purchase request without resubmitting to the AO.

We agree with the statement that only seven of the eight could be located during the audit. However, the eighth could not be visually located because construction work prevented access to the room where the set was located. The auditor indicated that he would accept an email detailing the room locations by television-set serial number as

proof that all televisions were present. Once construction debris was removed, the televisions were inventoried, all eight televisions accounted for, and an e-mail confirmation sent to the DoDIG auditor on 25 July 2007. DoDIG stated that three of the eight were still in boxes and therefore questions the "need for these items." Two attempts were made to install the sets, but base maintenance determined that both the walls and the mounts were unable to support the weight of the televisions. Installation had been halted but is included in current (ongoing) building renovations. DoDIG also stated that the televisions are not recorded in the EUCOM property records. This is correct. However, in the regulation cited by the IG, AR 715-XX, the minimum for recording equipment is \$5,000. At \$224.10 per television, each set was below the minimum which was acknowledged by the auditor in person. We also debate that these televisions are highly pilferable. Each set is a 29" Samsung with the following dimensions: 2.5feet x 2feet x 2feet, weighs more than 50 lbs., and are located in a secured, Sensitive Compartmentalized Information Facility (SCIF). Currently, all television serial numbers and locations are maintained.

RECOMMENDATION 1a: We recommend that the Commander of the European Command Headquarters require cardholders and approving officials to follow the proper procedures when using the Government Purchase Card, as outlined in AR 715.xx.

EUCOM RESPONSE: As a result of DoDIG concerns communicated at the visit outbrief, the following actions were taken on the part of EUCOM: Visit to RCO Seckenheim to gain a better understanding of oversight responsibilities of accountable individuals, a database was built at EUCOM to monitor cardholder and billing official training and surveillance compliance, visits were made to cardholders to provide assistance and review files, the EUCOM GPG directive is being updated (currently in staffing with an expected publication before 1 May 2008), and the auditors outbrief comments, although preliminary, were added to the 2007 EUCOM Statement of Assurance.

We will readdress the audit findings in the 2008 EUCOM Statement of Assurance and render a qualified opinion. We will also address actions taken with completion dates when applicable.

RECOMMENDATION 1b: We recommend that the Commander of the European Command Headquarters direct the EUCOM Inspector General to investigate the purchase and sale of commemorative coins at EUCOM Headquarters. Also, the Inspector General should investigate the purchase and accountability of the eight televisions and the use of the Government Purchase Card by anyone other than the authorized cardholder. EUCOM Headquarters should also review the 22 sample transactions with no supporting documentation.

EUCOM RESPONSE: It is recommended that the specific tasking of the European Command Headquarters Inspector General be removed. The Commander or Deputy Commander, USEUCOM should be afforded the opportunity to select/designate who, on his staff, should conduct any needed investigations.

HOEUCOM COMMENTS TO THE ORF FINDINGS AND RECOMMENDATIONS

FINDING 1: EUCOM personnel did not follow established guidance for the use of Official Representation Funds (ORF) for 39 of 41 purchases reviewed. Documentation for the ORF purchase card transactions in our sample showed that all of the purchases occurred before the appropriate officials verified that availability of ORF funds to pay for the purchase. DoD Directive 7250.1S, paragraph E.2.4.8 states: "Funds availability shall be verified before the use of ORF." CJCSI 7201.01A specifies that the combatant commander's comptroller is to review each request for ORF prior to the scheduled event to ensure the availability of funds.

EUCOM RESPONSE: Concur. ORF cardholders utilized GPCs that were established through an Army appropriation. Funds were available for the 41 purchases through the GPC transactions. EUCOM has revised its ORF procedures require prior approval of all ORF expenditures and mandatory use of request forms.

FINDING 2: ORF purchase card transactions were not properly documented and supported by EUCOM personnel in accordance CJCSI 7201.01A and EUCOM policies and procedures.

EUCOM RESPONSE: Concur. HQ, EUCOM ECG 7200.02, Official Representation Funds (ORF), dated 21 March 2008, has been revised to include the ORF approval process. Enclosure B of the above guide provides ORF event expenditure prior approval process. Redefined steps in the approval process are outlined with the Enclosure. These steps include the following: Protocol coordinates with Comptroller and Finance to establish petty cash fund to pay for events. Protocol prepares ORF Request Form - Event showing all required information for the event. Protocol forwards request form (electronically via email) to Staff Judge Advocate (SJA) for legal review. Upon review completion, SJA forwards request form to the Comptroller for review and availability of funds. Commitment is made for specific event. Upon review completion, the Comptroller forwards request form to the Deputy Commander office for final approval. On hand petty cash funds will be used to pay for event. Once event is completed, Protocol reconciles with Finance through the Comptroller to affix proper document number and line of accounting to ensure obligation is properly recorded for pending disbursement. Protocol provides SF1034, signed by Finance, and purchase receipts to the Comptroller within one week following the event. The Comptroller office updates the ledger. Protocol updates their event ledger to show actual cost.

FINDING 3: EUCOM maintained an excessive inventory of gift items for future use. EUCOM inappropriately retained 3,349 gift items (valued at more than \$28,000) in inventory. None of these items were designated to be presented to a specific distinguished visitor or other dignitary in the near term.

EUCOM RESPONSE: Concur with comment. EUCOM intent is not to store excessive gift inventory. Several factors over a period of years have contributed to the larger than normal inventory. One was a prior requirement for a certain inventory on hand in the event of un-announced visitors. Another was that lead times in purchasing certain gifts require that they be bought in advance of designated use. Finally, certain gifts that were stored had been purchased years ago and are now rendered obsolete for several

reasons. We have made coordination with JCS and OSD for removal of those from the inventory and proper disposal.

FINDING 4: We asked EUCOM Comptroller personnel about the process for identifying ORF expenditures for gifts and how purchases occurred before the appropriate officials verify the availability of ORF funds to pay. Comptroller personnel stated that EUCOM ORF cardholders were using a GPC that was established through an Army appropriation rather than the Defense, Operations and Maintenance appropriation provided by the Chairman of the Joint Chiefs of Staff. Therefore, until the cardholder notified them that an expenditure for ORF gifts had been made, they would not know whether ORF funds were available and whether the purchase was proper.

EUCOM RESPONSE: Concur. Operations and Maintenance Appropriations were utilized for ORF expenditures. GPC Utilizes Army Operations and Maintenance Appropriations. Cardholders were instructed to utilize assigned GPC for ORF purchases, since the GPC provided purchase accountability and assigned dollar limits. Comptroller personnel identified all ORF purchases made with the GPC, through monthly cardholder account reconciliation process, and transferred the obligations between the two OMA accounts. Revised ORF expenditure approval procedures, as outlined in EUCOM response to Finding 2 and Recommendation 1Ba, reinforces the Comptroller's funds verification process.

FINDING 5: EUCOM Comptroller personnel provided documentation to substantiate their ORF GPC purchases identified only one cardholder. We noted two additional cardholders made ORF GPC purchases during the 1st Quarter of FY 2007. In addition, there were discrepancies in the dollar value charged to the ORF account that included the failure to de-obligate funds subsequent to the expenditure.

EUCOM RESPONSE: Concur. Procedures have been implemented for one assigned ORF GPC cardholder per the Deputy Commander's Office and Staff Protocol Office. Each assigned cardholder has received the appropriate GPC purchase training. Revised procedures require prior expenditure approval and timely submission of supporting documentation to the Comptroller's office. Comptroller personnel will continue to review obligated amounts and promptly de-obligate unused funds.

FINDING 6: The CJCSI 7201.01A specifies that ORF requirements are based on fiscal year use only, which would prohibit the use of current year funds to meet future year requirements. Of the 34 transactions with irregularities, all purchases were made to satisfy anticipated needs in future fiscal years.

EUCOM RESPONSE: Concur. Personnel responsible for ORF gift purchases have been provided instruction in accordance with CJCSI 7201.01A and HQ, EUCOM ECC 7200.02 guidance. Revised policy mandates all ORF gift purchases must have prior approval. Request forms utilized for all gift purchases include person/party receiving the gift, description of the gift, and justification for gift purchase. The justification approval process will capture and reject any intent to purchase gifts for use in future fiscal years.

RECOMMENDATION B1a: Direct Official Representation Fund cardholders to obtain authorization and approval for obligation and expenditures prior to a scheduled event.

EUCOM RESPONSE: New procedures were outlined in ORF response to Finding 2.

RECOMMENDATION B1b: Require all "Request for Obligation Representation Funds" forms to include complete documentation and explanations of each event in accordance with the Chairman of the Joint Chiefs of Staff Instruction 7201.01A.

EUCOM RESPONSE: HQ, EUCOM ECG 7200.02, Official Representation Funds (ORF), dated 21 March 2008, has been revised to include the ORF approval process. Enclosure B of the above guide provides ORF event expenditure prior approval process and requires use of ORF Request – Event and ORF Request Form – Gift. Each request form requires description and justification of the event/gift, Command Staff Judge Adjutant, Comptroller, and Deputy Commander's representative approvals, amounts requested and method of payment.

RECOMMENDATION B1c: Require all Official Representation Funds cardholders to identify and make purchases of gifts to be given to distinguished visitors during the fiscal year of the visit.

EUCOM RESPONSE: As described in EUCOM response to Finding 6, personnel responsible for ORF gift purchases have been provided instruction in accordance with CJCSI 7201.01A and HQ, EUCOM ECG 7200.02 guidance. Revised policy mandates all ORF gift purchases must have prior approval against the annual plan. Gift expenditure request forms, to include the person/party receiving the gift, description of the gift, and purchase justification, are submitted for approval prior to the event. The justification approval process will capture and reject any intent to purchase item for use in future fiscal years.

RECOMMENDATION B1d: Request a waiver from the Chairman of the Joint Chiefs of Staff in the event that gifts are required within the first month of the subsequent fiscal year or there is a long lead time required for the gift purchase.

EUCOM RESPONSE: Annual ORF plans are submitted to the Chairman of the Joint Chiefs of Staff through the Joint Staff Comptroller for all programmed requirements during the fiscal year, to include the first month of each fiscal year. If there is an unprogrammed requirement during the first month of the fiscal year, EUCOM personnel will submit the request to the Chairman of the Joint Chiefs of Staff through the Joint Staff Comptroller in accordance with CJCSI 7201.01A.

RECOMMENDATION B1e: Direct the Command Staff Protocol Office to use all gifts in its inventory until the stockpile is depleted and prevent future stockpiling of gifts by making purchases only as needed.

EUCOM RESPONSE: HQ, EUCOM ECG 7200.02, Official Representation Funds (ORF), dated 21 March 2008, has been revised to include no more than a three-month supply of gifts should be on hand at any given time. This will allow an adequate supply of gifts to be on hand in the event of unplanned visitors by distinguished visitors.

RECOMMENDATION B1f: Require the Comptroller to identify Official Representation Funds cardholders and issue a purchase card with the applicable funding line of accounting that is for Official Representation Funds use only.

EUCOM RESPONSE: Comptroller has identified two ORF funds cardholders within the headquarters. Each cardholder has been given a GPC for ORF expenditure use only. Comptroller personnel will review GPC ORF purchases against approved request form amount and enter obligated purchase amounts within appropriate accounting ledgers.

RECOMMENDATION B2: We recommend that the Command Staff Protocol Office ensure that all applicable requirements of DoD Directive 7250.13 and Chairman of the Joint Chiefs of Staff Instruction 7201.01A are met prior to approving official representation events.

EUCOM RESPONSE: In accordance with HQ EUCOM ECG 7200.02, all ORF event expenditures must have prior approval. The approval process, as stated in EUCOM response to Recommendation B1a above, requires the Command Staff Protocol Office to process ORF event expenditure request forms through the Command Staff Judge Adjutant, Comptroller, and Deputy Commander's Office.

RECOMMENDATION B3: We recommend that the Government Purchase Card approving official for Official Representation Funds reject all purchases made without prior approval unless an immediate, official need is documented because of an unannounced visit by an authorized distinguished visitor.

EUCOM RESPONSE: In accordance with HQ EUCOM ECG 7200.02, all ORF event expenditures must have prior approval. The approval process, as stated in EUCOM response to Recommendation B1a above, requires the Command Staff Protocol Office to process ORF event expenditure request forms through the Command Staff Judge Adjutant, Comptroller, and Deputy Commander's Office. The approval process can be performed electronically, which in turn will shorten approval processing time. Both event and gift expenditure request forms provide blocks for un-programmed events. Explanations can be provided on the requests forms for immediate expenditures for unannounced visits by authorized distinguished visitors.

Department of the Army Comments



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
U.S. ARMY MATERIEL COMMAND
9301 CHAPEK ROAD
FORT BELVOIR, VA 22060-6527

S: May 14, 2008

AMSOC-RM

MEMORANDUM FOR Program Director, Acquisition and Contract Management, Department of Defense Inspector General, 4000 Army Navy Drive Arlington, Virginia 22202

SUBJECT: Report on U.S. European Command (EUCOM) Headquarters Government Purchase Card (GPC) Controls (Project No. D2007-D000F4-0179-000)

1. The Army Contracting Command (ACC) provides the following comments in response to subject draft report.

a. Recommendation: Institute, as part of the annual review of the Billing Official's records and procedures, a review of all original supporting documentation to include receipts, logs, invoices, and approvals. These inspections should ensure that GPC files are properly maintained.

b. Concur: Billing Officials are trained to ensure that they are aware of their responsibility of retaining a copy of each billing statement and maintaining all original supporting documentation which includes receipts, logs, invoices, delivery tickets, approvals, and any other associated, pertinent backup. AR 715-XX does not require a 100% review of the original documents. The regulation states the following: Level IV Activity/ Organizational Purchase Card (AOPCs) will annually inspect a representative, randomly selected sample of transactions of each Billing Official account. Hands-on inspections are preferred, but alternative methods are allowable. Regional Contracting Office, Seckenheim (RCO-S) conducts different levels of surveillance based on risk, and the experience at RCO-S does not indicate a need for 100% review of original documents.

2. The following comments are provided in response to the audit recommendations addressed to the U.S. Army Contracting Command Europe (USACCE) Commander:

a. Recommendation: Maintain complete records of surveillance reviews performed and the results.

b. Concur: RCO-S corrected the problem identified during the audit, and complete surveillance records are being maintained.

AMSCC-G8

SUBJECT: Report on U.S. European Command (EUCOM) Headquarters Government Purchase Card (GPC) Controls (Project No. D2007-D000FJ-0179 000)

3. The cover letter is addressed to Commander, RCO-S. Please change to read Commander, USACCE.

Page 1: Background/Use of the Government Purchase Card (GPC). Please revise the last sentence of this paragraph to read: The GPC may also be used in excess of the micro-purchase threshold up to \$25,000 for purchases made outside the United States for use outside the United States in accordance with DFARS 213.301.

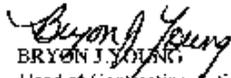
Page 1: Background/USACCE. Please change the third sentence of this paragraph to read: The level IV Agency Program Coordinator (APC) for EUCOM is located at the RCO-S.

Page 3 Para A: Use and Controls over GPC's. Please change any reference to APC at USACCE to read: APC at RCO-S.

Page 6: Foreign Tax Paid. Note: As you stated correctly, the European Status of Forces Agreement provides for the exemption of foreign taxes on all purchases from the Host Nation's economy. Please consider, however, that the vendor is under no obligation to accept the tax relief, and therefore, there may be situations where the tax will have to be paid in order to obtain the required goods. Furthermore, in some instances we need to recognize the limited source pool of vendors overseas who accept credit cards.

Page 8: APC Responsibilities. Please revise the first sentence to read: The APC for the EUCOM GPC Program is at RCO-S. In addition, please change any reference to USACCE in the remainder of the paragraph to read RCO-S.

4. The ACC points of contact are Ms. Patricia Wingers, ACC G8 GPC A/OPC at commercial phone number: (703) 806-2494, and Mr. Randy Hamilton, Chief, Contract Operations Division, USACCE, at DSN 314-375-3239.


BRYON J. YOUNG
Head of Contracting Activity
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