October 03, 2002

# Acquisition

## Controls for the DoD Aviation Into-Plane Reimbursement Card

(D-2003-003)

Department of Defense
Office of the Inspector General

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**Acronyms**

| | |
|---|---|
| AFB | Air Force Base |
| AFWCF | Air Force Working Capital Fund |
| AIR | Aviation Into-Plane Reimbursement |
| AVEDS | Automated Voucher Examining and Disbursing System |
| DESC | Defense Energy Support Center |
| DFAS | Defense Finance and Accounting Service |
| DLA | Defense Logistics Agency |
| FBO | Fixed Base Operator |
| GAO | General Accounting Office |
| OMB | Office of Management and Budget |

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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ARLINGTON, VIRGINIA 22202-4704

October 3, 2002

MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
DIRECTOR, DEFENSE LOGISTICS AGENCY
NAVAL INSPECTOR GENERAL
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Report on Controls for the DoD Aviation Into-Plane Reimbursement Card (Report No. D-2003-003)

We are providing this report for review and comment. We considered comments from the Army, Navy, Air Force, Defense Logistics Agency and Defense Finance and Accounting Service.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. We request that the Army provide comments on Recommendation 9. and that the Marine Corps provide comments on Recommendation 8. We also request that the Navy provide additional comments on Recommendation 9. and that the Defense Logistics Agency provide additional comments on Recommendations 1.a., 1.b., 1.c., 3., 4., and 9. We further request that the comments be provided by November 18, 2002.

If possible, please provide management comments in electronic format (Adobe Acrobat file only). Send electronic transmissions to the e-mail addresses cited in the last paragraph of this memorandum. 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 classified SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Ms. Evelyn R. Klemstine at (703) 604-9172 (DSN 664-9172) (eklemstine@dodig.osd.mil) or Ms. Nancee K. Needham at (703) 604-9474 (DSN 664-9474) (nkneedham@dodig.osd.mil). See Appendix G for the report distribution. The team members are listed inside the back cover.

David K. Steensma

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Deputy Assistant Inspector General
for Auditing

**Office of the Inspector General of the Department of Defense**

**Report No. D-2003-003** **October 3, 2002**
(Project No. D2002LG-0006)

# Controls for the DoD Aviation Into-Plane Reimbursement Card

## Executive Summary

**Who Should Read This Report and Why?** DoD civilian and military personnel who are authorized to use an Aviation Into-Plane Reimbursement Card or to supervise any aspect of the Aviation Into-Plane Reimbursement Card program should read this report. The report discusses how to maintain a process that would validate AIR Card transactions to monthly bills and prevent waste in this program.

**Background.** The Office of the Secretary of Defense issued a memorandum regarding the Department of Defense Charge Card Programs on June 21, 2002. That memorandum discusses the fraud and misuse of Government cards. The memorandum directs that all DoD Components provide the Under Secretary of Defense (Comptroller) a report of actions taken that resolve the current cases of charge card misuse, abuse, and delinquencies and preclude future cases from occurring. Further, the memorandum requests that the Inspector General of the Department of Defense coordinate audits and investigations of charge card programs to ensure fraudulent and inappropriate activities are addressed. The DoD Charge Card Task Force, formed in March 2002 by the Under Secretary of Defense (Comptroller), issued a report on June 27, 2002, regarding its evaluation of the credit card programs and offering 25 recommendations for improvement of the programs.

The Government Aviation Into-Plane Reimbursement Card is a commercially accepted credit card that DoD uses to purchase aviation fuel, fuel-related supplies, and ground handling services from commercial airport Fixed Base Operators. Kropp Holdings, Incorporated, doing business as AVCARD, is the credit card processor under contract for the Aviation Into-Plane Reimbursement Card. The Aviation Into-Plane Reimbursement Card is accepted at Defense Energy Support Center into-plane contract locations and locations that do not have a contract with the Defense Energy Support Center. The Defense Energy Support Center negotiates and manages the Aviation Into-Plane Reimbursement Card contract as well as implements future changes of the transaction processing procedures. In FY 2001 the card was used to make $222 million in purchases.

**Results.** The Defense Logistics Agency, the Defense Energy Support Center, and the Services needed to improve management controls and establish written policies that define the methods and responsibilities for using the Aviation Into-Plane Reimbursement Card. Controls include review of contractor performance, program oversight, system

edit-checks, and training. Controls should ensure that DoD Components have an adequate process in place that would match Aviation Into-Plane Reimbursement Card receipts for fuel and ground services to monthly bills, preclude duplicate payments, and recoup fuel and ground service taxes from which DoD was exempt. Reviews of 17 sites judgmentally selected showed that 69 percent of 24,959 Aviation Into-Plane Reimbursement Card receipts valued at $37.3 million were never verified to monthly bills. Of the units reviewed, only three Navy units were doing an adequate job of matching receipts to monthly bills. The Defense Energy Support Center, the Defense Finance and Accounting Service and the Services need to initiate action to recover $8.3 million of duplicate payments and tax overpayments. For details of the audit results and recommendations, see the Finding section of the report.

**Management Comments and Audit Response.** The Acting Director for Sustainment, Office of the Army Deputy Chief of Staff for Logistics; the Deputy Assistant Secretary of the Navy Planning, Programming, and Resources; and the Assistant Deputy Chief of Staff for Installations and Logistics, Air Force Headquarters, agreed with most of the recommendations and were initiating corrective actions. Comments were not received from the Marine Corps. The Director, Logistics Operations, Defense Logistics Agency, stated that adequate regulations and controls currently existed and that no specific additional instruction was warranted. The Director agreed to implement an annual site visit to the contractor facility to monitor performance. The Director stated that the Defense Energy Support Center could publish only overarching interim guidelines and that the operations and missions of the Services limited totally standardizing Aviation Into-Plane Reimbursement Card training. The Director further stated that the Automated Voucher Examining and Disbursing System already incorporates a number of edits designed to preclude duplicate payments and agreed to take steps to recover tax overpayments. The Defense Finance and Accounting Service, Deputy Director, Commercial Pay Services agreed to coordinate with Defense Energy Support Center to expand the edit check process in the Automated Voucher Examining and Disbursing System and to develop specific criteria to identify duplicate transactions.

Management comments were partially responsive but require more detail. Specifically, the Army and the Navy need to provide further details on how they plan to recover tax overpayments and the Marine Corps needs to provide comments on the final report. We do not consider the Defense Logistics Agency comments responsive. In general, the Director believes that adequate regulations and controls currently exist and that the issues identified in the report are not the responsibility of the Defense Energy Support Center. We disagree with that assertion. The Defense Energy Support Center, as the program manager of the Aviation Into-Plane Reimbursement Card, needs to provide solutions for the issues identified in the report. Specifically, the general guidance that exists needs to be updated to include defining responsibilities and provide detailed processes for collecting and turning in receipts, validating interfund charges and ground service transactions. In addition, the Defense Energy Support Center needs to establish interim procedures until final guidance is published in accordance with the recommendations. We request that the Army, the Navy, the Marine Corps, and the Defense Logistics Agency provide comments to the final report by November 18, 2002. See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete comments.

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## Background

The Office of the Secretary of Defense issued a memorandum regarding the Department of Defense Charge Card Programs on June 21, 2002. That memorandum discusses the fraud and misuse of Government cards. The memorandum directs that all DoD Components provide the Under Secretary of Defense (Comptroller) a report of actions taken that resolve the current cases of charge card misuse, abuse, and delinquencies and preclude future cases from occurring. Further, the memorandum requests that the Inspector General of the Department of Defense coordinate audits and investigations of charge card programs to ensure fraudulent and inappropriate activities are addressed. The DoD Charge Card Task Force, formed in March 2002 by the Under Secretary of Defense (Comptroller), issued a report on June 27, 2002, regarding its evaluation of the credit card programs and offering 25 recommendations for improvement of the programs.

**AIR Card.** The Government Aviation Into-Plane Reimbursement (AIR) Card is a commercially accepted credit card that DoD uses to purchase aviation fuel, fuel-related supplies, and ground handling services from commercial airport Fixed Base Operators (FBOs). Kropp Holdings, Incorporated, doing business as AVCARD,[1] is the credit card processor under contract for the AIR Card. The AIR Card is accepted at the Defense Energy Support Center (DESC) into-plane[2] contract locations and locations that do not have an into-plane contract with DESC. At FBOs that do not have an into-plane contract with DESC, the AIR Card is used in place of local purchase procedures and provides discounts from the commercial price for fuel. DESC negotiates and manages the AIR Card contract as well as implements future changes of the transaction processing procedures.

**Issuance of the AIR Card.** On January 23, 1997, DESC awarded the AIR Card contract to AVCARD for an 8-month test period, which ended September 30, 1997, with 2 option years. During the test period, AVCARD was responsible for issuing AIR Cards to participating military units,[3] providing computer system training, and processing AIR Card transactions. During that test period, the

[1]The contractor will be referred to as AVCARD for the remainder of the report.

[2]Into-plane refers to aviation fuels delivered into aircraft at commercial airports worldwide. DESC awards into-plane contracts worldwide to suppliers for estimated quantities of fuel based on military service requests. A minimum annual estimated purchase of 15,000 gallons is required for a commercial location to establish a DESC into-plane contract. DESC into-plane contracts are used as the source of supply where no military fuel support is available (including at commercial locations) and provides fuel at the lowest cost to the Government, ensures product availability, and requires that Government quality assurance and safety standards be met for product and servicing.

[3]The terms unit(s) used throughout the report refers to the various customer organizations responsible for AIR Card purchases.

contractor issued approximately 500 AIR Cards to selected military units intended for purchasing ground handling services and fuel at those FBOs not holding an into-plane contract with DESC.

On September 29, 1997, DESC exercised option year one of the contract, which extended the contract period to September 30, 1998. Option year one required expansion of the use of the AIR Card throughout DoD as well as interface with the DESC Fuels Automated System[4] for invoicing of purchases at those FBOs that did not have an into-plane contract with DESC. During option year one, the number of AIR Cards distributed throughout DoD increased from 500 to 15,000. Option year two of the contract was exercised October 1, 1998. That option expanded distribution and use of the AIR Cards to all Federal civilian agencies while maintaining the same transaction processing services as previous years. Option year two also expanded coverage of the AIR Card program to include purchases at DESC into-plane contract locations. On October 8, 1999, DESC awarded a second contract to AVCARD for the AIR Card with 3 option years. The performance period for the second contract began January 1, 2000, and ended September 30, 2001. The first option year, exercised on October 1, 2001, extended the contract to September 30, 2002.[5]

**Using the AIR Card.** DESC into-plane contract locations are required to accept the AIR Card for any contract fuel deliveries. In addition, ground services can be purchased, if an agreement is in place with AVCARD, at those FBOs that do not have an into-plane contract with DESC. When the aircraft lands at a commercial airport with a request for fuel or ground service support, the aircrew presents the AIR Card to the supplier. The supplier records any sales onto a commercial delivery ticket. The aircrew signs for the purchase and retains a copy of the signed receipt. When into-plane contract fuel (contract fuel) is purchased, the Defense Finance and Accounting Service (DFAS) is responsible for making payments directly to the contract fuel provider citing the Defense Working Capital fund. When either non-into-plane contract fuel (non-contract fuel) or ground services are purchased, AVCARD processes the transactions and directly reimburses the provider. AVCARD issues periodic billing statements to the Services for payment.

Using the AIR Card involves DESC, DFAS, and the Service Petroleum Offices. DoD Manual 4140.25-M, "DoD Management of Bulk Petroleum Products, Natural Gas, and Coal Acquisition and Technology," June 22, 1994, states that the Military Services established the Army Petroleum Center, the Naval Petroleum Office, and the Air Force Petroleum Office as the Service Control Points for central management function.

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[4]The Fuels Automated System is an Automated Information System designed to support DESC and the Military Services in performing their responsibilities in fuel management and distribution. The Fuels Automated System provides point of sale data collection, inventory control, finance and accounting, procurement, and facilities management.

[5]Portions of background information derived from IG DoD Report No. 98-189, "Procuring Fuel and Ground Handling Services at Commercial Airports," August 18, 1998.

**Defense Logistics Agency.** The Defense Logistics Agency (DLA) provides policy and guidance as well as assigns functional responsibilities for bulk petroleum products. DLA prepared DOD Manual 4140.25-M, which states that DESC is the integrated manager for bulk petroleum products and associated storage facilities. DESC is responsible for administering DESC contracts and associated contractor-Government relationships. DESC has procurement responsibility for petroleum contracts in DoD.

**DFAS.** DoD Directive 5118.5, "DFAS," November 26, 1990, states that DFAS responsibilities and functions include directing and enforcing finance and accounting requirements, systems, and functions. The Directive requires that DFAS provide finance and accounting services to DoD Components and other Federal activities, as designated by the DoD Comptroller. For the purposes of the AIR Card program, DFAS Columbus provided finance and accounting services to DESC for contract fuel. Other local DFAS offices provided finance and accounting services to the Military Departments for non-contract fuel and ground services.

**Army Petroleum Center.** The Army Petroleum Center, along with the Army Deputy Chief of Staff for Logistics, prepares and disseminates Army petroleum policy. The Army Petroleum Center also conducts Army laboratory certification programs and manages Army aviation and fleet credit card programs.

**Naval Petroleum Office.** The Naval Petroleum Office is the logistics integrator and supply chain manager for all of the Navy and Marine Corps petroleum products. The Naval Petroleum Office also issues the AIR Card program policies and procedures for jet fuel purchases at commercial air facilities within the Navy.

**Air Force Petroleum Office.** The Air Force Petroleum Office establishes Air Force fuel policies and procedures for operational forces. The Air Force Petroleum Office interacts with DESC and other DLA agencies to represent and advocate Air Force interests and programs, and establishes standard prices as well as standardization of fuel quality documents.

## Objectives

The audit objective was to evaluate the use of the AIR Card and the controls over the processing of AIR Card payments. We also reviewed the management control program as it related to the overall objective. See Appendix A for a discussion of the audit scope and methodology, the review of the management control program, and prior coverage.

# Controls Over the DoD Aviation Into-Plane Reimbursement Card Program

The DoD Components did not have an adequate process in place that would match AIR Card receipts for fuel and ground services to monthly bills, preclude duplicate payments, and recoup fuel and ground service taxes from which DoD was exempt. Reviews of 17 sites judgmentally selected showed that 69 percent[1] of 24,959 AIR Card receipts valued at $37.3 million were never verified to monthly bills. Of the units reviewed, only three Navy units were doing an adequate job of matching receipts to monthly bills. Existing guidance was incomplete, outdated, or not followed for controls over matching receipts to monthly bills and recoupment of taxes, resulting in the Service's lack of an adequate process. Further, neither DLA, DESC, nor the Services provided standard training for the AIR Card program. DFAS lacked adequate edits and controls to preclude paying twice for the same purchase. As a result, increased risk existed that the majority of AIR Card fuel and ground service charges valued at $222.4 million were paid during FY 2001 without assurance that the charges were legitimate. In addition, DoD overpaid FBOs during FY 2001 at least $495,982 in duplicate transactions. Also, the Services paid about $7.8 million in FY 1999 through FY 2001 for taxes, from which DoD may have been exempt.

## Policies and Procedures

The purpose of internal controls is to determine a program's efficiency and effectiveness and the degree to which controls help identify and address major risks for fraud, waste, abuse, and mismanagement. The following Office of Management and Budget (OMB), General Accounting Office (GAO), and DoD policies prescribe procedures for applying controls that safeguard assets prior to issuing payments.

**OMB Circulars.** OMB Circular A-123, "Management Accountability and Control," June 21, 1995 (OMB Circular A-123), states that each agency head must establish controls that reasonably ensure that assets are safeguarded against waste, loss, and abuse and that all revenues and expenditures are properly recorded and accounted for. The circular further states that Government management control standards shall include ensuring that appropriate authority, responsibility, and accountability are defined and delegated.

**GAO Manual.** GAO "Policy and Procedures Manual," May 1993, title 7, chapter 6, section 6.2 (GAO Policy and Procedures Manual) states that disbursements shall be supported by basic payment documents either in hard copy

[1]Judgment sample percentage does not generalize to universe.

or machine-readable source records that shall include purchase orders and receiving reports. Chapter 6 further states that effective control over disbursements ordinarily requires the prepayment examination and approval before vouchers are validated for payment.

**DoD Regulation.** DoD Regulation 7000.14-R, "Financial Management Regulation," February 1996, volume 6, chapter 2 defines the role and responsibility of DFAS and its customers for preparing financial reports as well as how to treat transactions associated with the financial reports. The Regulation states that customer organizations are responsible for the accuracy, completeness, timeliness, and documentation of the data generated for input into the finance and accounting systems and any financial reports. It emphasizes that customer organizations must ensure that the amounts in the DFAS financial report are consistent and reconcilable with management reports that the customer organizations prepared. The Regulation also requires customer organizations to validate source data associated with financial transactions.

**Army Regulation.** The Army Deputy Chief of Staff for Logistics is responsible for supply policy. Army Regulation 710-2, "Inventory Management Supply Policy Below the Wholesale Level," October 31, 1997, provides guidance on the purchase of aviation products. The Regulation was issued prior to the AIR Card and simply provides guidance on using Government credit cards for aviation fuel purchases. The Regulation also states that the using unit will submit with the monthly fuel report a copy of any credit card slip along with a written explanation for any missing slips. It further states that the using unit will review credit purchases to ensure that the quantity and fuel type are compatible with the vehicle used and that the dates of the purchase correspond with dispatch records. In addition, the Regulation requires that at least twice annually, the using unit conduct a review or validation of credit card transaction against the commercial fuel billings. The Regulation requires the aircrew in charge of the aircraft to ensure, immediately upon return to the unit, that the delivery slips for any purchases made are turned in to the responsible supply officer.

**Navy Instruction.** The Chief of Naval Operations had not issued Navy and Marine Corps guidance for AIR Card management. However, the Commander, Naval Air Atlantic Instruction 7310.1W, "Financial Regulations Concerning Flight Operations Funds," March 3, 1999, provides specific guidance on procurement of fuel and ground services with the AIR Card. The Instruction requires that the aircrew review the purchase receipt to ensure the information is complete and correct. The aircrew must also sign and keep a copy of the receipt. The aircrew is required to turn the receipt in to the command supply or materiel control officer. The Instruction states that food, lodging, and maintenance requirements are not authorized with the AIR Card. The Instruction also provides payment and billing instructions that require units ensure certification of payment includes verification that the material or services have been received, inspected, and accepted. Any discrepancy is required to be identified to the Naval Petroleum Office.

**Navy and Marine Corps Desk Guide.** The Navy and Marine Corps AIR Card Desk Guide, October 2000, was issued by the Naval Petroleum Office. The guide provides standard operating procedures and was established to train and assist

personnel on how to the use the AIR Card. The guide states that the aircrew's copy of the receipt establishes the obligation for the fuel or ground service purchase. The guide requires that, prior to certifying the invoice for payment, the using unit verify the information on the invoice with the aircrew's copy of the fuel receipt.

**Air Force Instruction.** The Air Force Deputy Chief of Staff, Installations and Logistics is responsible for supply policy. Air Force Instruction 23-202, "Buying Petroleum Products, and Other Supplies and Services Off-Station," July 19, 1994, provides guidance regarding purchases of non-Air Force aviation fuel. The Instruction was issued prior to the use of the AIR Card and provides instructions on how the aircrew should handle receipts and resource personnel certifications of any vendor invoices. The Instruction requires that aircrews return any procurement or purchase documents and invoices to the home station once they have returned from the mission. When aircrews are away from the home location, the aircraft commander must report by message or phone non-Air Force refueling data to the applicable home station within 4 calendar days of the month following the purchase. The Instruction also states that if the resource personnel cannot find a base-level record to validate a non-Air Force refueling, they should contact the major command for assistance in ensuring the purchases were for valid purposes.

**Data Quality Contract Requirement.** The AIR Card contract requires that AVCARD provide detailed transaction data that ensures timely and accurate billing to the appropriate payment office. The contract also requires that AVCARD maintain a quality assurance program that ensures that the information provided for reports in accordance with the contract is complete, accurate, and timely.

## Matching AIR Card Receipts With Payments

The DoD Components did not have an adequate process in place that would match AIR Card receipts for fuel and ground services to monthly bills, preclude duplicate payments, and recoup fuel and ground service taxes from which DoD was exempt. For FY 2001, we selectively reviewed the controls over the processing of 24,959 purchases, valued at $37.3 million. Controls were not adequate over the following aspects of the program:

- the Services certified and paid 69 percent of fuel and ground service transactions reviewed without examining supporting documentation that verified AIR Card charges;
- some transactions to FBOs were paid more than once; and
- the Services did not always file for reimbursement for various Federal, State, and local taxes paid for fuel and ground services.

**Certifying and Paying AIR Card Transactions.** The Services certified and paid fuel and ground service transactions without reviewing supporting documentation that verified AIR Card charges. According to OMB

Circular A-123 and the GAO Policy and Procedures Manual, Government agencies are required to establish controls that provide disbursing officers with reasonable assurance that vouchers are accurate prior to payment. DoD Regulation 7000.14-R and Service guidance state that prior to making payments, organizations are required to match vendor invoices with receipt data.

**AIR Card Billing and Disbursing Process.** The process for billing and disbursing differs among the Services and between contract fuel purchases and the non-contract fuel and ground service purchases. After fueling or receiving ground services, aircrews certify by signing the appropriate sales receipt provided by the FBO including the type of product, quality of the service, and quantity of fuel purchased. The FBO and the aircrew retain copies of each sales receipt. The FBO uses one of two processing systems to submit an invoice to AVCARD for payment. For manual invoice processing, the vendor mails or transmits a facsimile of the invoice and sales receipt to AVCARD. For electronic invoice processing, the FBO electronically transmits for processing invoice and receipt data to AVCARD.

AVCARD forwards contract fuel billing information to DESC, which then electronically transfers the billing data to DFAS Columbus. DFAS Columbus pays the FBOs on behalf of DESC. DESC obtains reimbursement from each Service through interfund billings[2] that are processed through DFAS Columbus. AVCARD pays all of the non-into-plane FBOs for non-contract fuel and ground services. AVCARD then issues monthly billing statements to each of the units for payment. See Appendixes B, C, and D for detailed sample results.

**Contract Fuel Transactions.** The Services did not reconcile contract fuel charges using receipt data to verify that quantities of fuel purchased from the FBOs, and paid by DFAS, matched quantities of fuel received. Aircrews did not always collect and turn in AIR Card fuel receipts, and certifying officials[3] did not use receipts to reconcile the AIR Card charges. That situation existed because the Services had not implemented consistent receipt data collection procedures that would effectively fulfill interfund billing reconciliation responsibilities. We visited 17 sites and reviewed 18,865 charges to the AIR Card for contract fuel. Table 1 shows the number of transactions not reconciled at the sites visited. See Appendix E for detailed sample results.

[2]The billing office will credit the appropriation or fund of the selling Component that owns the materiel or finances the accessorial charges and charge the appropriations or funds of the purchasing Component.

[3]Certifying officials were part of the comptroller division at some sites visited and part of the supply division at other sites visited.

**Table 1. Contract Fuel Transactions**

| | Total Transactions | | Transactions Not Reconciled | | |
|---|---|---|---|---|---|
| Service | Value | Receipts | Value | Receipts | Percent* |
| Army | $ 4,094,263 | 7,720 | $ 4,094,263 | 7,720 | 100 |
| Navy | 4,678,086 | 6,598 | 512,488 | 536 | 11 |
| Air Force | 13,027,227 | 1,708 | 8,287,837 | 1,297 | 64 |
| Marine Corps | 4,000,369 | 2,839 | 3,792,116 | 2,612 | 95 |
| **Total** | **$25,799,945** | **18,865** | **$16,686,704** | **12,165** | **65** |

*Judgment sample percentage does not generalize to universe.

**Army.** We visited 5 Army sites—Fort Campbell, Kentucky; Fort Hood, Texas; Fort Stewart, Georgia; Hunter Army Airfield, Georgia; and Savannah Airfield, Georgia—and reviewed 7,720 AIR Card transactions for contract fuel, valued at $4.1 million. Certifying officials at those sites approved, without reconciling receipt data to DFAS interfund reports, 100 percent of those transactions. Overall, the Army aircrews turned in most fuel receipts at mission debriefs. In some cases, however, the receipts were taken to the logistics office and filed. In other cases, the receipts were taken to the comptroller's office and filed. Certifying officials did not receive DFAS interfund reports and were unaware that the reports existed. The certifying officials were also unaware of the requirement to use receipts and did not have a system in place to perform the reconciliation.

**Navy.** We visited 4 Navy sites—Navy Flight Demonstration Squadron, Florida; North Island Naval Air Station, California; Oceana Naval Air Station, Virginia; and Training Wing Six, Florida—and reviewed 6,598 AIR Card transactions for contract fuel valued at $4.7 million. At the 4 Navy sites visited, certifying officials approved, without reconciling receipt data to DFAS interfund reports, $512,488 or about 11 percent of the transactions. Of the units reviewed, only three Navy units were doing an adequate job of matching receipts to monthly bills. The Navy Flight Demonstration Squadron and the Training Wing Six at Pensacola Naval Air Station as well as VF-101 at Oceana Naval Air Station had a system in place to validate AIR Card charges (for contract fuel, non-contract fuel, and ground services) and followed an adequate validation process. At those three Navy sites, procedures to collect and file receipts and to create obligations for each purchase were in place. Certifying officials received DFAS interfund reports and compared the itemized expenditures to the value of the obligations established from the receipts on file. If the interfund information contained expenditures for which certifying officials did not have an obligation, either the aircrew was contacted and instructed to find the receipt or the FBO was contacted and asked to provide to certifying officials a facsimile copy of the original receipt.

If the aircrew or the FBO could not find the receipt, the transaction was challenged for proper credit. At North Island Naval Air Station, however, some of the aircrew did not turn in all receipts, and certifying officials approved 45 percent of the transactions without reconciling receipt data to DFAS interfund reports.

**Air Force.** We visited 5 Air Force sites—Andrews Air Force Base (AFB), Maryland; Dyess AFB, Texas; Eglin AFB, Florida; March Air Reserve Base, California; and McChord AFB, Washington—and reviewed 1,708 AIR Card transactions for contract fuel valued at $13 million. Certifying officials at those sites approved, without reconciling receipt data to DFAS interfund reports, $8.3 million or about 64 percent of the transactions. At three of the sites visited, aircrews turned in receipts at mission debrief. The receipts were filed by date in the resource manager's office. However, certifying officials did not use receipts to reconcile the transactions to DFAS interfund reports. At one site visited, a reconciliation process was in effect at the beginning of FY 2001, but the process stopped after 5 months when a position change took place. At another site visited, about 48 percent of the total amount DFAS interfunded had not been reconciled using receipt data. Air Force certifying officials primarily cited lack of manpower resources as the reason for the lack of reconciliation.

**Marine Corps.** We visited 3 Marine Corps sites—Marine Corps Air Station Miramar, California; Marine Corps Base Camp Pendleton, California; and Marine Corps Base Quantico, Virginia—and reviewed 2,839 AIR Card transactions for contract fuel valued at $4 million. Certifying officials at those sites approved, without reconciling receipt data to DFAS interfund reports, $3.8 million or about 95 percent of the transactions. Aircrews were generally not turning in receipts after returning from missions. When receipts were turned in, certifying officials created obligations for the fuel and filed the receipts. However, receipts were not matched with the DFAS interfund reports. Certifying officials did not compare the itemized expenditures to the value of the obligations established from the receipts on file, or question or challenge interfund transactions. Marine Corps certifying officials stated that they were unaware that a process to reconcile contract fuel purchases to DFAS interfund reports existed.

**Non-Contract Fuel and Ground Service Transactions.** The Services paid AVCARD invoices, through DFAS, for non-contract fuel and ground services without using receipt data to verify that quantities billed by AVCARD matched quantities received prior to certifying the invoices for payment by DFAS. Aircrews did not always collect and turn in AIR Card fuel and ground service receipts or certifying officials did not use receipts to validate the AIR Card charges. The Services did not implement consistent receipt data collection procedures required to effectively fulfill their AVCARD billing verification responsibilities. We visited 17 sites and reviewed 6,094 charges to the AIR Card for non-contract fuel and ground services. Table 2 shows the number of transactions not validated at the sites visited. See Appendix E for detailed sample results.

**Table 2. Non-Contract Fuel and Ground Service Transactions**

| | Total Transactions | | Transactions Not Validated | | |
|---|---|---|---|---|---|
| Service | Value | Receipts | Value | Receipts | Percent* |
| Army | $ 2,039,987 | 2,400 | $2,039,987 | 2,400 | 100 |
| Navy | 750,877 | 406 | 70,292 | 77 | 9 |
| Air Force | 7,632,056 | 2,249 | 6,313,714 | 1,941 | 83 |
| Marine Corps | 1,088,241 | 1,039 | 777,017 | 769 | 71 |
| **Total** | **$11,511,161** | **6,094** | **$9,201,010** | **5,187** | **80** |

*Judgment sample percentage does not generalize to universe.

**Army.** At the 5 Army sites visited, we reviewed 2,400 transactions for non-contract fuel and ground services valued at $2 million. Certifying officials at those sites approved, without validating receipt data to the AVCARD billing statements, 100 percent of those transactions. Overall, the Army aircrews turned in most fuel receipts at mission debrief. In some cases, however, the receipts were taken to the logistics office and filed. In other cases, receipts were taken to the comptroller's office and filed. Certifying officials did not use the original receipts to validate AVCARD billing statements. The certifying officials were unaware that a requirement to use receipts existed and did not have a system in place to perform the validation.

**Navy.** At the 4 Navy sites visited, we reviewed 406 transactions for non-contract fuel and ground services valued at $750,877. Certifying officials at those sites approved $70,292 or about 9 percent of the transactions without validating receipt data to AVCARD billing statements. At three of the Navy sites visited, procedures to collect and file receipts and to create obligations for each purchase were in place. When certifying officials received AVCARD statements, receipts were pulled from the file and matched to the transactions on the statements. If AVCARD statements contained a charge for which certifying officials did not have a receipt, either the aircrew was contacted and instructed to find the receipt or the FBO was contacted and asked to provide to certifying officials a facsimile copy of the original receipt. If the aircrew or the FBO could not find a receipt, the AVCARD transaction was challenged and not paid. At North Island Naval Air Station, however, some of the aircrew did not turn in all receipts and certifying officials approved 19 percent of those transactions without validating receipt data to AVCARD billing statements.

**Air Force.** At the 5 Air Force sites visited, we reviewed 2,249 transactions for non-contract fuel and ground services valued at $7.6 million. Certifying officials at those sites approved $6.3 million or about 83 percent of the transactions without validating receipt data to AVCARD billing

statements. At three of the sites visited, aircrews turned in receipts at mission debrief. The receipts were filed by date in the resource manager's office. However, receipts were not used to validate AVCARD billing statements. At one site visited, a validation process was in effect at the beginning of FY 2001, but the process stopped after 5 months. At another site visited, about 55 percent of the total AVCARD transactions billed had not been validated using receipt data. Air Force certifying officials primarily cited lack of manpower resources as the reason for lack of validation.

**Marine Corps.** At the 3 Marine Corps sites visited, we reviewed 1,039 transactions for non-contract fuel and ground services valued at $1.1 million. Certifying officials at those sites approved $777,017 or about 71 percent of the transactions without validating receipt data to AVCARD billing statements. Aircrews were generally not turning in receipts after returning from missions. When receipts were turned in, certifying officials created obligations for the fuel and filed the receipts. When the AVCARD billing statements arrived, the officials matched receipts to the statements. If the AVCARD billing statements had transactions for which original receipts were not available, certifying officials created a receipt-like document from the AVCARD billing statement. The certifying officials then used the receipt-like document to create the obligation and filed the receipt-like document in place of the actual receipt. Marine Corps certifying officials stated that aircrews not turning in receipts caused the lack of validation of the AVCARD billing statement.

**Overall Reconciliation and Validation.** At the 17 sites visited, the Services approved $16.7 million or about 65 percent of the contract fuel transactions without reconciling receipt data to DFAS interfund reports. In addition, the Services approved $9.2 million or about 80 percent of the non-contract fuel and ground service transactions without validating receipt data to AVCARD billing statements. As a result of the Services' lack of reconciliation and validation, increased risk existed that the majority of AIR Card fuel and ground service charges, valued at $222.4 million, were paid in FY 2001 without assurance that the charges were legitimate.

**Duplicate Payments.** Transactions to FBOs were paid more than once. Analysis of the AVCARD database identified transactions valued at $2.9 million in potential duplicate payments, which would have resulted in $1.4 million in overpayments. Whenever available, we reviewed copies of receipts obtained from DFAS Columbus or original documents obtained at the sites visited. We verified that $62,025 of the transactions were not overpayments. Because of the limited number of sites visited and because of the lack of documentation at the sites, we were unable to verify whether $1 million of the transactions were overpayments. We were, however, able to confirm that management controls that would have identified $358,676 of overpayments were not in place.

Specifically, lack of management controls at DESC and DFAS Columbus resulted in the processing and payment of duplicate transactions. AVCARD processed and transmitted inaccurate billing data to the Automated Voucher Examining and Disbursing System (AVEDS). DESC was responsible for administering AVEDS as well as monitoring the transmission of data and was unable to detect the duplicate transactions. DFAS Columbus used AVEDS to generate payment

vouchers and was also unable to identify the duplicate transactions before they were paid. In one instance, the FBO submitted a transaction twice, AVEDS system edit checks failed to identify the transaction as a duplicate, and $3,552 was paid twice. In another instance, AVEDS system edit checks identified the transaction as a duplicate and rejected it. However, DFAS Columbus personnel re-entered the transaction, forcing it through the system by modifying the document control number; and $4,491 was paid twice. In addition, other sets of transactions were submitted twice but using different document control numbers. Those transactions were submitted both by mail and through electronic transfer, and $109,949 was paid twice.

The Services could not identify duplicate transactions because management controls did not ensure that transactions billed were validated with the receipts. Generally, the Services did not have in place effective processes that could validate the fuel and ground service transactions; therefore, they were unable to challenge the charges when they came through their accounts twice.

In response to our inquiries, DFAS Columbus identified $137,306 of overpayments in addition to the $358,676 that we had already identified. As a result, during FY 2001 the Services overpaid at least $495,982 of operations and maintenance funding for fuel and ground service transactions.

**Reimbursement of Taxes.** The DLA did not issue guidance to the Services on how to file for reimbursement of taxes paid. Therefore, the Services did not file for reimbursement for various Federal, State, and local taxes paid on fuel and ground services for FY 1999, FY 2000, and FY 2001. Federal, State, local, and other miscellaneous taxes were included in the prices for aviation fuel and ground services purchased by the Services. In most cases, however, DoD is exempt from paying the taxes and could recoup the tax dollars.

DESC assumed responsibility for filing for Federal excise tax reimbursement claims on contract fuel for the Services. The filing responsibilities for tax reimbursement claims on non-contract fuel and ground services differ among the Army, Navy and Air Force.

For non-contract fuel and ground service taxes, the Army was responsible for filing the appropriate reimbursement claims. DESC had an agreement with the Navy to file reimbursement claims for Federal excise taxes for the Navy and the Marine Corps. However, as of April 23, 2002, DESC had not filed for those reimbursement claims. DESC San Antonio[4] (Texas) was responsible for filing the appropriate reimbursement claims for fuel for the Air Force. The Air Force was responsible for filing tax reimbursement claims on ground services.

**FY 2001 Taxes Paid.** We analyzed the AVCARD database to determine the total in all categories of taxes each Service paid for contract fuel, non-contract fuel, and ground services. See Appendix F for details on taxes paid in FY 2001.

[4]During FY 2001, DESC San Antonio was the centralized location for aviation fuel payments for the Air Force.

During FY 2001, the Services paid $14.1 million in taxes for contract fuel purchased with the AIR Card. Nearly 100 percent of that amount was Federal excise tax. Of the $14.1 million, the Army paid $3.1 million (22 percent), the Navy paid $4.7 million (33 percent), and the Air Force paid $6.3 million (45 percent). Through DFAS Columbus, DESC filed for tax reimbursement claims totaling $14 million. Neither DESC nor the Services filed claims for the remaining $87,015.

During FY 2001, the Services paid a total of $3.7 million in taxes for non-contract fuel and ground services purchased with the AIR Card. Of that amount, the Army paid $700,089 (19 percent), the Navy paid $547,953 million (15 percent), and the Air Force paid $2.4 million (66 percent). Of the $3.7 million paid, $1.3 million was Federal excise tax that the Air Force paid. DESC San Antonio filed tax reimbursement claims for the Air Force for $708,699. In addition, the Air Force paid $395,023 for Canadian Goods and Services Tax for which DESC San Antonio filed reimbursement claims for $116,771. Neither DESC nor the Services filed claims for the remaining $2.9 million, which included 18 different types of taxes.

**FY 1999 and FY 2000 Taxes Paid.** The statute of limitations for filing Federal reimbursement claims is 3 years after the close of the fiscal year; therefore, we requested tax information from AVCARD for FY 1999 and FY 2000. AVCARD provided us with data that supported $24 million in taxes paid. DESC and the Services filed for reimbursement for FY 1999 through FY 2000 taxes, resulting in $19.1 million in reimbursements. However, neither DESC nor the Services filed claims for the remaining $4.9 million, which included 18 different type of taxes.

We were unable to determine the exact dollar amount of the taxes the Services could recoup. While the Federal Government is generally exempt from State and local taxation, considerable litigation and interpretation exists. Government counsel must review each statute that imposes a tax or levy and determine whether the Federal Government is in fact exempt.

Management controls were not in place to ensure the Services had guidance on how to file for reimbursement of taxes; however, at most of the sites visited, officials were not aware that DoD was exempt from many of the taxes and had not seen any guidance or policy on how they could individually file for the reimbursement of those resources. The Services may have paid $7.8 million during FY 1999 through FY 2001 for taxes for which they may have been exempt and able to recoup. As much as $7.8 million in operations and maintenance funding could be recouped.

## Policies, Procedures, and Responsibilities

Controls over matching receipts to monthly bills and recoupment of taxes pertained to guidance that was incomplete, outdated, or not followed. In addition, program management and oversight of AIR Card validation was not adequate.

Further, DESC or the units did not provide standard training for the AIR Card program. DFAS lacked adequate edits and controls to preclude paying twice for the same transactions.

**Development and Use of Policies and Procedures.** OMB Circular A-123 states that controls such as policies and procedures help managers achieve results and safeguard the integrity of programs. However, DLA did not develop and provide policies and procedures for using the AIR Card to the Services. In addition, existing DLA and Service instructions and regulations were not followed or outdated. Further, the management and oversight of the AIR Card program was inadequate.

**DLA Manual.** The DLA-prepared DoD Manual 4140.25-M was outdated because it was issued prior to the use of the AIR Card. The Manual provides basic guidance on into-plane issues and requires verification of the purchase with the receipts. However, the Manual does not provide specific procedures for matching receipts to invoices. In addition, DLA did not provide guidance on how to file for reimbursement of the taxes paid, and to which accounts the reimbursements could be applied.

**Service Instructions and Regulations.** Army Regulation 710.2 was outdated because it was issued prior to the use of the AIR Card. However, the Regulation does provide basic guidance on the use of Government credit cards for aviation fuel purchases and requires retention of credit card receipts and validation of transactions. Army sites visited did not follow the Army regulation because the units were unaware that guidance existed.

Commander, Naval Air Atlantic Instruction 7310.1W, was issued after the introduction of the AIR Card and provides specific guidance on procurement of fuel and ground services using the AIR Card. The Instruction requires retention of receipts and provides instructions for payments and certifications. The Naval Air Atlantic sites visited were in compliance with the regulation. However, the Naval Air Pacific site visited was not aware of the procedures required for payments and certifications of AIR Card purchases.

The Navy and Marine Corps AIR Card Desk Guide provides standard procedures for using the AIR Card. The guide requires that an aircrew's copy of a receipt is used to establish the obligation and certify the invoice for payment. The Navy Flight Demonstration Squadron, the Training Wing Six, and the Oceana Naval Air Station followed the guidance. However, the North Island Naval Air Station or the Marine Corps sites visited did not follow the guidance.

Air Force Instruction 23-202, which provides guidance on purchases of non-Air Force aviation fuel, was also issued prior to the AIR Card program. The Instruction provides guidance on aircrew handling of receipts and resource personnel certification of invoices. The Air Force Instruction was not followed at the Air Force sites visited.

**Program Management and Oversight.** The AIR Card program's management and oversight was not adequate because DESC and the Service Petroleum Offices did not develop specific procedures for improving oversight and management

controls over the AIR Card program. In addition, the Army and the Air Force did not issue guidance that establishes unit-level oversight and management controls over the AIR Card program. The Navy, however, incorporated the AIR Card into Navy Supply Instruction 5450.29H, "Mission, Functions and Tasks of Naval Petroleum Office (NAVPETOFF)," September 10, 1998. Procedures should include annual program oversight reviews that both require adequate training and AVCARD compliance with contract requirements.

**DESC.** DESC performed annual Management Control Review Assessments on the adequacy of controls over the AIR Card purchases. The assessments for FY 1999 through FY 2001 state that the greatest risk associated with the AIR Card is improper card use, which obligates the Government for unauthorized, unacceptable, or improper expenditures. The FY 2001 assessment also states that the risk is considered minimal because of the nature of the purchases and the scrutiny of the purchases by the certifying officials who certified invoices. However, the DESC risk assessment was based on the assumption that the Services were scrutinizing the charges. The results of our review showed that, in most cases, the Services did not validate the charges.

**Service Petroleum Offices.** The Service Petroleum Offices did not perform annual oversight reviews. In addition, units did not conduct internal reviews of the AIR Card program. Even though the petroleum offices are the points of contact for DESC for the AIR Card contract, DESC did not issue any standard operating procedures that would establish a role for the petroleum offices within the program to include oversight responsibility. In addition, the Army and the Air Force did not assign their petroleum offices oversight responsibility. Army Petroleum Center officials cited DoD Manual 4140.25-M as a basis for any policy and procedure for managing aviation fuels and the AIR Card. However, the Manual was issued before the AIR Card program and does not address the roles and responsibilities for the Army Petroleum Center regarding the program. The Air Force Petroleum Office officials cited Air Force Instruction 23-201 as the source of the Air Force Petroleum Office's roles and responsibilities. Air Force Instruction 23-201 does not, however, define any role and function that relates to the AIR Card. Navy Supply Instruction 5450.29H requires that the Naval Petroleum Office issue policy and procedures for the AIR Card program within the Navy, but does not require annual oversight reviews.

**Standardized Training.** DESC and the Service Petroleum Offices need to ensure that program participants understand the roles and responsibilities for using AIR Cards. However, no DoD guidance defines the specific training aircrews should receive before using the AIR Card or the training individuals who certify AVCARD bills for payment should receive. The Charge Card Task Force the Under Secretary of Defense (Comptroller)/Chief Financial Officer established is developing a training program for the DoD charge card users. DESC and the Service Petroleum Offices should join with the Charge Card Task Force to develop a separate AIR Card training program for aircrews and approving officials. The program should include initial training for new users and periodic refresher training.

As an example of specific training needs, the Army and the Marine Corps sites visited did not have the necessary training to access DFAS interfund reports. Without the reports, certifying officials could not reconcile contract fuel receipts to amounts paid. In addition, certifying officials at Air Force sites visited were not trained in collecting and retaining receipts, and certifying bills for payment. Also, certifying officials were not trained on the procedures for reconciling monthly interfund reports for fuels paid.

**System Edit Checks.** DESC and DFAS lacked adequate edits and controls to preclude paying twice for the same transactions. FBOs submitted some transactions more than once for payment to AVCARD. Although the AVCARD contract requires AVCARD to maintain a quality assurance program, AVCARD processed the duplicate transactions and electronically transmitted the transactions to AVEDS. DESC administered AVEDS and monitored the transmission of data. DFAS accessed AVEDS and printed reports for review. DFAS Columbus personnel reviewed the reports, corrected any identified errors, and forwarded the reports to an entitlement specialist. DFAS entitlement specialists reviewed the transactions listed in the reports, made sure any identified errors were corrected, and then certified the reports. DFAS Columbus generated payment to vendors using AVEDS and during the process, DFAS Columbus did not identify duplicate transactions. DESC should expand the edit checks in AVEDS to detect any duplicate transactions AVCARD processed. DFAS should implement controls to prevent personnel from forcing payment of duplicate transactions.

## The Purple Hub

On October 1, 2001, DESC capitalized the transfer of bulk fuel management from the Military Departments to DESC. Beginning in FY 2002, DESC became responsible for paying for all DoD AIR Card fuel charges, seeking repayment from the Services through the interfund billing process, and filing for reimbursement of any Federal excise tax. DESC is responsible for developing and implementing the Fuels Automated System Enterprise Server, commonly referred to as the Purple Hub. The Purple Hub is a Web-based environment that collects, routes, and reports transactions among bases, contractors, DESC, and DFAS. The Services no longer generate the obligations for fuel purchased. Obligations are automatically generated each night in the Services' general accounting financial systems as soon as the transaction enters the Purple Hub.

**Filing of Tax Reimbursement Claims.** Beginning October 1, 2001, DESC pays the fuel provider and directly bills the Services through DFAS Columbus. DFAS Columbus, being the centralized location of all of DoD aviation fuel payments, also assumed the responsibility of filing Federal Excise reimbursement claims on behalf of DESC. Filing of reimbursement claims for taxes paid on ground services remains a responsibility of the Services.

**Validation of Fuel Transactions.** Using the Purple Hub could further complicate issues that relate to the validation process as well as increase the need for stronger and additional controls. Certifying officials have less visibility over each individual transaction because the Purple Hub does not require action from the certifying officials to generate obligations and issue payments. The Purple Hub processes all transactions electronically and pays all transactions automatically unless certifying officials challenge a transaction.

Each certifying official can review transactions generated in the Purple Hub and choose to reject or dispute individual transactions. The process for challenging transactions includes the following:

- advise DESC of the challenge;
- allow DESC 5 working days to research the challenge;
- depending on the outcome, DESC might reinstate the transaction;
- if the disagreement continues, certifying officials might challenge the transaction again;
- if challenges are not resolved by the end of the month, the transactions will be automatically paid; and
- further challenges would be accomplished in person, no longer through the system.

Once the transactions enter the Purple Hub, certifying officials have 17 days to review the transactions online. If not validated or challenged within 17 days, the transaction will be paid in error and duplicate payments will continue to go unchallenged. As of June 13, 2002, no requirement existed for certifying officials to validate transactions. Because the Purple Hub generates obligations automatically and pays transactions automatically, stronger controls ensure that all Service users validate each individual transaction using receipt data.

Although paid by DESC, non-contract fuel had not been incorporated into the Purple Hub. The objective of DESC is to process non-contract fuel through the Purple Hub in the same manner as contract fuel. Once integrated, however, processing non-contract fuel may present the same problems as contract fuel.

**Purple Hub Training.** Certifying officials can access and validate the electronic transactions using the Web-based system. Certifying officials will, therefore, require training specific to the Purple Hub.

## Conclusion

Oversight and management controls over the AIR Card program were not adequate. While DESC performed risk assessments, those assessments are based on the assumption that the Services validated charges. However, the results of

our review showed that, in most cases, the Services did not validate the charges. The lack of controls allowed the Services to certify and pay for 217,485 transactions for fuel and ground services without reviewing supporting documentation. Furthermore, DESC and the Service Petroleum Office guidance did not ensure that units consistently collected and retained receipts to support effective reconciliation. Management controls were not in place to prevent payment of duplicate transactions and to ensure the Services had guidance on how to file for reimbursement of various taxes. As a result, AIR Card charges of approximately $222.4 million were paid during FY 2001, without any assurance that the charges were legitimate. In addition, DoD overpaid FBOs at least $495,982 in duplicate transactions during FY 2001. Also, the Services paid more than $7.8 million during FY 1999 through FY 2001 for taxes from which DoD may have been exempt. Recommendations, if implemented, could result in potential monetary benefits of at least $8.3 million for the recovery of duplicate transaction and tax overpayments.

## Recommendations, Management Comments, and Audit Response

**1. We recommend that the Director, Defense Logistics Agency establish written guidance that:**

**a. Clearly defines the Services' responsibilities for using the Aviation Into-Plane Reimbursement Card, collecting and turning in receipts, retaining and filing receipts, and processing Aviation Into-Plane Reimbursement Card invoices.**

**b. Requires the Services to validate interfund AVCARD charges for contract fuel and non-contract fuel using receipt data.**

**c. Requires the Services to validate, prior to payment, ground service transactions that AVCARD bills to the unit using receipt data.**

**d. Provides information on the taxes from which DoD is exempt, how to file for a reimbursement of the taxes paid, and to which accounts the reimbursements can be applied.**

**DLA Comments.** DLA, Director, Logistics Operations concurred with the intent of Recommendation 1.a. The Director described several sources of guidance on fuel procurement and stated that DoD 4140.25 and business rules have been added to the DESC website. The Director further stated that the procedures were generic and should be supplemented by the Services. The Director nonconcurred with Recommendations 1.b. and 1.c., stating that the guidance already exists in DoD 4000.25-7-M and DoD 7000.14R, chapter 6. The Director further stated that no specific additional instruction was warranted. The Director concurred with Recommendation 1.d. and stated that DESC has developed a compilation of fuel

taxes and posted the compilation on the DESC Web site. The information is updated regularly and provides information on tax rates, tax exemption status, and how to file for refunds.

**Audit Response.** DLA comments on Recommendations 1.a., 1.b., and 1.c. are not responsive. We disagree with the Director that adequate and specific guidance already exists and that no specific additional instruction is warranted. While we agree that general guidance exists, the guidance is outdated and inadequate. The discussion section of the report provides documentation that the existing guidance does not ensure that units consistently validate the AVCARD bills and interfund charges for payment. Guidance that defines responsibilities and the detailed processes for collecting and turning in receipts, validating interfund charges, and ground service transactions is still needed. The Army Deputy Chief of Staff for Logistics, Director for Sustainment, the Deputy Assistant Secretary of the Navy Planning, Programming, and Resources, and the Air Force Assistant Deputy Chief of Staff, Installations and Logistics have generally concurred with the finding and recommendations and have indicated that they will implement the new DESC guidance and update the Service directives when that guidance is received. We ask that DLA review the Service responses provided to the report and reconsider its position on Recommendations 1.a., 1.b., and 1.c. in response to the final report. DLA comments on Recommendation 1.d. are responsive.

**2. We recommend that the Director, Defense Energy Support Center review the Aviation Into-Plane Reimbursement Card contractor's performance (AVCARD) to determine if the contractor complies with the quality assurance requirements of the contract and take remedial action where needed.**

**DLA Comments.** DLA, Director, Logistics Operations partially concurred with Recommendation 2. The Director stated that a review of the contract has shown that the contractor is in compliance with the quality assurance clause of the contract. The Director stated that DESC will implement an annual site visit to the contractor facility to monitor performance. DESC will conclude the site visit with a report documenting findings, discussions, and recommendations.

**Audit Response.** Although DLA partially concurred with Recommendation 2., DLA comments are responsive.

**3. We recommend that the Director, Defense Energy Support Center in conjunction with the Service Petroleum Offices:**

**a. Establish interim procedures until final guidance is published that corrects deficiencies outlined in Recommendation 1.**

**b. Establish policies and procedures that require Service Aviation Into-Plane Reimbursement Card officials to submit reports on the results of oversight reviews and provide guidance that will effect corrective actions as needed.**

**c. Coordinate with the DoD Charge Card Task Force to establish a standard training for Service Aviation Into-Plane Reimbursement Card user organizations on the use of the Aviation Into-Plane Reimbursement Card, collection of receipts, processing of ground service payments to AVCARD, and validation of fuel purchased through DESC.**

**DLA Comments.** DLA, Director, Logistics Operations partially concurred with Recommendation 3.a. The Director stated that DESC could publish only overarching guidelines and will use the DLA One Book as a single source of answers for concerns raised. The Director nonconcurred with Recommendation 3.b., stating that the Contracting Officer Representative for each Service has oversight of the contract and the responsibility to report any problems with the contractor. The Director stated that to date, no outstanding discrepancies with the AVCARD contractor were noted. The Director concurred with Recommendation 3.c., however, and stated that the operations and missions of the Services limit total standardized AIR Card training. The Director indicated that DESC already provides standardized information through DoD 4140.25, the DESC Web site, Business Rules, and other printed material provided at conferences and AIR Card briefings. The Director further stated that DESC was unaware of any established DoD Charge Card Task Force and would welcome the opportunity to discuss program enhancement or process improvements. The Director would also encourage the Office of the Secretary of Defense to direct DFAS to streamline and restructure a single payment office for each branch of Service or the use of one standardized accounting and payment practice.

**Audit Response.** DLA comments on Recommendations 3.a., 3.b., and 3.c. are not responsive. We agree that processes must continually be reviewed to ensure that proper applications are utilized. DESC, however, still needs to establish interim procedures until final guidance is published in accordance with Recommendation 1. Interim guidance needed should define responsibilities and the detailed processes for collecting and turning in receipts, validating interfund charges and ground service transactions. In addition, DESC also needs to establish policies and procedures that require Service AIR Card officials to submit reports of each organization's oversight reviews and provide the guidance to the Services to take corrective actions. Regarding Recommendation 3.c., the Deputy Secretary of Defense Memorandum, "Department of Defense Charge Card Programs," June 21, 2002, directed that management at all levels ensure necessary oversight of Government charge cards and education that will eliminate fraud, misuse, and abuse of those cards. On March 19, 2002, the Under Secretary of Defense (Comptroller) directed the establishment of an internal Task Force to examine the Department's management of charge card programs. That particular direction arose because of increased concern that insufficient management oversight was allowing Government charge cards to be misused. The Under Secretary directed DoD Components to provide a report on actions taken to resolve cases of charge card misuse, abuse, and delinquencies and preclude the problems in the future. The Under Secretary also directed that the Task Force examine charge card operations, identify major deficiencies in the program, and develop recommendations for modifying management of those programs. The Task Force is working on development of a training program for purchase card

users. We ask that DLA review the Service responses provided to the report and reconsider its position on Recommendations 3.a., 3.b., and 3.c. in response to the final report.

**Army Comments.** The Office of the Army Deputy Chief of Staff for Logistics, Director for Sustainment concurred with the recommendation and stated that the Army Petroleum Center is issuing interim guidance to participating units.

**Navy Comments.** The Deputy Assistant Secretary of the Navy Planning, Programming, and Resources, concurred with Recommendations 3.a., 3.b., and 3.c. and further recommended that the Navy and Marine Corps AIR Card Desk Guide be used as a template for other Services in meeting the recommendation.

**Air Force Comments.** The Assistant Deputy Chief of Staff, Installations and Logistics concurred with the intent of the recommendation and stated that the Air Force will publish interim operating procedures within 30 days of the receipt of DLA interim guidance and will implement final guidance published by DLA. The Assistant Deputy estimated completion date is February 7, 2003.

**4. We recommend that the Director, Defense Energy Support Center in conjunction with the Director, Defense Finance and Accounting Service:**

**a. Review and expand, as necessary, the edit check process in the Automated Voucher Examination Disbursing System so that charges that are input more than once are not accepted for payment by the system.**

**b. Review AVCARD transactions for, at a minimum, FY 2000 through FY 2002 to identify duplicate transactions and initiate action to recover any overpayments.**

**DLA Comments.** The DLA, Director, Logistics Operations concurred with the recommendation and stated that AVEDS already incorporates a number of edits designed to preclude duplicate payments and inaccurate information. The Director stated that the effectiveness of those edits is demonstrated by the amount of duplicate payments the report identifies, which represents less than one-half of 1 percent of the entire program. The Director indicated that DESC had altered the manner in which duplicates for contract purchases were identified systematically, which will correct the deficiency. The Director agreed to take action that will recover any payments if irregularities surface during the process.

**Audit Response.** DLA comments on Recommendations 4.a. and 4.b. are not responsive. The Director concurred with the recommendations but did not identify the steps that will either expand the edit check process or recover the overpayments. The DFAS, Columbus Center concurred with the recommendation and agreed to work with DESC to expand the edit check process. We request that DLA review the comments DFAS provided and reconsider its position on Recommendation 4.a. in response to the final report.

**DFAS, Columbus Center Comments.** The Deputy Director, Commercial Pay Services concurred with Recommendations 4.a. and 4.b. The Deputy Director stated that systemic controls are necessary in AVEDS to ensure duplicate transactions related to AVCARD purchases are only entered and paid once. The Deputy Director further stated that the Commercial Pay Business Line will coordinate with DESC relative to expanding the edit check process in AVEDS. In addition, the Commercial Pay Business Line will develop specific criteria to identify duplicate transactions in conjunction with DESC.

**5. We recommend that the Army Deputy Chief of Staff, Logistics update Army Regulation 710.2, "Inventory Management Supply Policy Below the Wholesale Level," October 31, 1997, and require compliance with the policies and procedures that the Defense Energy Support Center and the Services' Petroleum Offices developed based on Recommendations 1.a., 1.b., 1.c., 1.d., 3.a., and 3.b.**

**Army Comments.** The Office of the Army Deputy Chief of Staff for Logistics, Director for Sustainment concurred with the recommendation and stated that the Office of Deputy Chief of Staff for Logistics is working with the Army Petroleum Center and the DESC to correct the deficiencies. The Deputy further stated that AR 710-2, "Inventory Management Supply Policy Below the Wholesale Level," October 31, 1997, is being updated with changes that will reflect guidance from the Army Petroleum Center and DESC. The expected completion date is June 2003. In addition, the Deputy stated that the Army Petroleum Center is issuing interim guidance to participating units as a Standard Operating Procedures Desk Guide.

**6. We recommend that the Chief of Naval Operations issue policy and procedures to all Navy Aviation Into-Plane Reimbursement Card users based on Commander, Naval Air Atlantic Instruction 7310.1W, March 3, 1999, and include the guidance that the Defense Logistics Agency, the Defense Energy Support Center, and the Services' Petroleum Offices developed based on Recommendations 1.a., 1.b., 1.c., 1.d., 3.a., and 3.b.**

**Navy Comments.** The Deputy Assistant Secretary of the Navy Planning, Programming, and Resources, concurred with the recommendation.

**7. We recommend that the Air Force Deputy Chief of Staff, Installations and Logistics update Air Force Instruction 23-202, July 19, 1994, and require compliance with the policies and procedures that the Defense Logistics Agency, the Defense Energy Support Center, and the Services' Petroleum Offices developed based on Recommendations 1.a., 1.b., 1.c., 1.d., 3.a., and 3.b.**

**Air Force Comments.** The Assistant Deputy Chief of Staff, Installations and Logistics concurred with the recommendation and stated that the Air Force will publish interim operating procedures within 30 days of receipt of DESC interim guidance. In addition, the Assistant Deputy stated that the Air Force will implement final guidance DESC publishes through issuance of an Air Force Instruction.

**8. We recommend that the Marine Corps Deputy Chief of Staff for Aviation issue policies and procedures for use of the Aviation Into-Plane Reimbursement Card and include the policies and procedures that the Defense Logistics Agency, the Defense Energy Support Center, and the Services' Petroleum Offices developed based on Recommendations 1.a., 1.b., 1.c., 1.d., 3.a., and 3.b.**

**Marine Corps Comments.** The Marine Corps did not comment on a draft of this report. We request that the Marine Corps provide comments on the final report.

**9. We recommend that the Director, Defense Energy Support Center; Director, Army Petroleum Center; Commander, Naval Petroleum Office; and Director, Air Force Petroleum Office identify the taxes paid for FY 1999 through FY 2002 for which reimbursement claims have not been filed and file for reimbursement as appropriate.**

**DLA Comments.** The Director, Logistics Operations partially concurred with the recommendation, however, did not provide any specific actions that will be taken.

**Audit Response.** DLA comments are not responsive. We request DLA provide additional comments in response to the final report. The comments should identify specific actions that will meet the intent of the recommendation.

**Army Comments.** The Office of the Deputy Chief of Staff for Logistics did not comment on Recommendation 9. We request that the Army provide comments on the final report.

**Navy Comments.** The Deputy Assistant Secretary of the Navy Planning, Programming, and Resources, concurred with the recommendation and stated that DESC has an agreement with the Navy to file reimbursement claims on behalf of the Navy and Marine Corps. In addition, the Navy recommended DESC take the recommendation for action.

**Audit Response.** The Navy comments are partially responsive. The Navy has an agreement with the DESC to file tax returns for Federal Excise taxes for FY 1999 through FY 2001. However, the Navy needs to identify a plan to file for taxes on ground services and taxes from other categories. We request the Navy provide additional comments in response to the final report. The comments should identify specific actions that will meet the intent of the recommendation.

**Air Force Comments.** The Assistant Deputy Chief of Staff, Installations and Logistics concurred with the intent of the recommendation, but he stated that the Air Force Petroleum Office is not the appropriate Air Force agency to perform the function. The Deputy Chief of Staff will coordinate with the appropriate Air Force activities and identify which reimbursement claims have not been submitted so that the claims can be filed.

## Management Comments on Management Controls and Audit Response

**DLA Comments.** DLA, Director, Logistics Operations nonconcurred with our assessment that management control weaknesses exist. The Director stated that as noted in Recommendation 4., changes that will preclude overpayment in the future have been incorporated. In addition, the Director made reference to DLA comments on Recommendation 9., which state that DESC is responsible for the filing of taxes for product when funded by DESC.

**Audit Response.** We do not agree with the Director's comments. We believe that DLA needs to strengthen internal controls. In the response to Recommendation 4., the DFAS Deputy Director, Commercial Pay stated that ownership of AVEDS resides with DESC and that coordination was necessary to expand the edit check process. In addition, we believe that DLA must provide the specific actions that will be taken to address Recommendation 9.

# Appendix A. Scope and Methodology

We reviewed guidance and procedures issued by OMB, GAO, and the Office of the Secretary of Defense that provides direction on financial management and controls, and Service regulations and instructions that should be used for purchasing aviation fuel at commercial airports, and for processing contractor invoices for payment. We analyzed OMB Circular A-123, GAO Policy and Procedures Manual, DoD Regulation 7000.14-R, Army Regulation 710-2, Commander Naval Air Atlantic Instruction 7310.1W, Navy and Marine Corps AIR Card Desk Guide, and Air Force Instruction 23-202.

We evaluated the use of the AIR Card and the controls over processing reimbursement card payments. AVCARD issued 19,787 AIR Cards in FY 2001. We examined the DESC AIR Card program payment system and related internal controls, including certified vendor invoices for payment, recorded payments, and submitted interfund bills to the Services for FY 2001. Furthermore, we researched duplicate transactions for FY 2001, identified resulting overpayments, researched tax payments for FY 1999 through FY 2001, and identified taxes that were not filed for reimbursement. In addition, we interviewed personnel associated with the AVCARD fuel payment and reconciliation processes, including the Purple Hub, at DFAS, DESC, Service Petroleum Offices and Service organizations.

We researched OMB, GAO, Office of the Secretary of Defense, and Military Departments policies and instructions. We analyzed guidance to the Military Departments on how to purchase aviation fuel at commercial airports and to process the contractor billing statements for payment. We evaluated the guidance to determine if it was adequate to ensure consistent validation of the AIR Card charges for aviation fuel.

We selected and reviewed automated AVCARD billing data for FY 1999 through FY 2001. We used billing data for FY 1999 through FY 2000 to determine the amount of taxes paid. We reviewed detailed transaction information for FY 2001 to determine the amount of taxes paid and to evaluate controls over using the AIR Cards as well as processing AVCARD billings. AVCARD processed 217,485 transactions valued at $222.4 million in FY 2001.

Through the use of data mining[1] techniques, we analyzed transaction data and verified the payment process for each of the 24,959 fuel and ground service purchases valued at $37.3 million.

We interviewed personnel responsible for developing and implementing DESC and Military Department guidance, including personnel from DESC; DESC San Antonio; DFAS Columbus; and U.S. Forces Command. We also interviewed personnel responsible for developing and using the Purple Hub system at DESC,

[1]Data mining is a method of research that uses automated tools while searching for information in large databases.

the Service Petroleum Offices, and the units. We also interviewed AIR Card users to determine the processes for validating and paying the AIR Card fuel and ground service charges at 17 sites: Fort Campbell, Fort Hood, Fort Stewart, Hunter Army Airfield, Savannah Airfield, Navy Flight Demonstration Squadron, North Island Naval Air Station, Oceana Naval Air Station, Training Wing Six, Andrews AFB, Dyess AFB, Eglin AFB, March Air Reserve Base, McChord AFB, Marine Corps Air Station Miramar, Marine Corps Base Camp Pendleton, and Marine Corps Base Quantico. In addition, we interviewed AVCARD personnel in Baltimore, Maryland.

The purpose of the judgmental sampling plan was to determine the amount of transactions approved without reconciling receipt data to monthly bills. The AVCARD database contained transaction information for customer units of the Army, Navy, and Air Force during FY 2001. Marine Corps transactions were listed as Navy transactions. The database included 217,485 fuel and ground service transactions valued at $222.4 million for customers worldwide. Of those, 210,009 transactions valued at $212.7 million were for customers in the United States.

We selected our judgmental sample by identifying the higher end users in the United States. We refrained from visiting Air Force locations that had been recently visited by the Air Force Audit Agency. In addition, we were unable to visit sites where crews had been deployed because of operation Enduring Freedom. Because of time restrictions, we selected sites in Virginia and Maryland to cover the survey phase of the audit. We visited a total of 17 sites and reviewed 24,959 AIR Card transactions valued at $37.3 million. Reviews of the 17 sites showed that 69 percent[2] of 24,959 AIR Card receipts valued at $37.3 million were never verified to monthly bills. See Appendix E for detailed sample results.

We performed this audit from October 2001 through May 2002 in accordance with generally accepted government auditing standards. We did not validate the tax information received from AVCARD for FY 1999 through FY 2001. The majority of potential duplicate transactions confirmed were for contract fuel that DFAS Columbus paid. Non-contract fuel and ground services were paid for through local DFAS offices. We visited only DFAS Columbus and were not able to confirm the potential duplicate payments as duplicates at the local offices. We did not validate or test the Purple Hub system.

**Use of Computer-Processed Data**. To achieve the audit objective, we extensively relied on computer-processed data contained in the AVCARD Service Card System. Through data mining techniques, we determined that the data did not accurately reflect the source records. For example, we identified occurrences such as:

[2]Judgment sample percentage does not generalize to universe.

- records with the wrong ticket numbers,
- tickets billed to the wrong customer, and
- tickets billed twice.

Although we did not perform a formal reliability assessment of the computer-processed data, we determined that the AIR Card transactions the Services paid generally agreed with the computer-processed data. We did not find errors that would preclude the use of computer-processed data to meet the audit objectives or that would change the conclusions in this report.

**Use of Technical Assistance.** We received technical assistance from the Quantitative Methods Division, Audit Followup and Technical Support Directorate, Office of the Inspector General of the Department of Defense. Quantitative Methods personnel assisted in the judgmental sample used during the audit.

**General Accounting Office High-Risk Area.** GAO has identified several high-risk areas in DoD. This report provides coverage in the Acquisition Management and Financial Management high-risk areas.

## Management Control Program Review

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

**Scope of the Review of the Management Control Program.** We reviewed the adequacy of controls over the issuance and use of AIR Cards at 17 sites; DFAS Columbus, Ohio; and DESC, Virginia. We reviewed FY 2001 annual statements of assurance for the Army, Navy, Air Force, Marine Corps, other Defense organizations, and the FY 2000 DoD-wide statement of assurance. We further reviewed management controls to evaluate the controls over validating AVCARD billings.

**Adequacy of Management Controls.** We identified material management control weaknesses related to the AIR Card program the DoD Instruction 5010.40 defines. Controls over the AVCARD billing validation process at most DoD organizations visited were not adequate to provide reasonable assurance that both sufficient and effective internal controls existed.

Specifically, we verified that management control weaknesses existed with bill payers who were certifying and paying fuel and ground service transactions without reviewing supporting documentation to verify AIR Card charges. The bill payers certified the bills for payment without validating their accuracy. The supporting documentation needed to validate the bills was not maintained. In

addition, management control weaknesses prevented DFAS Columbus, DESC, and the Services from identifying overpayments that resulted from duplicate transactions, and from filing for reimbursement for taxes from which DoD may be exempt.

Recommendations in this report, if implemented, will improve controls over the AVCARD validation process by assisting in ensuring that the billings are accurate; that transactions are not paid twice; that tax reimbursement claims are filed whenever appropriate; and that fraud and waste are kept to a minimum. In addition, Recommendations 2., 4., and 9., if implemented, could result in potential monetary benefits of at least $8.3 million. A copy of the report will be provided to the senior official responsible for management controls in the Army, the Navy, the Air Force, and DESC. See the Finding section for a discussion of the audit results.

**Adequacy of Management's Self-Evaluation.** The self-evaluations reviewed did not identify or report the material management control weaknesses related to the AVCARD process identified by the audit.

# Prior Coverage

During the last 5 years, no specific coverage on the AIR Card has taken place. However, the GAO and the Inspector General of the Department of Defense (IG DoD) have conducted multiple reviews related to the DoD purchase card program. GAO reports can be accessed on the Internet at http://www.gao.gov. IG DoD reports, including the four following reports with related coverage on credit cards, can be accessed over the Internet at http://www.dodig.osd.mil/audit/report.

## IG DoD

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

IG DoD Report No. D-2002-065, "Summary of DoD Travel Card Program Audit Coverage," March 18, 2002

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

IG DoD Report No. 98-189, "Procuring Fuel and Ground Handling Services at Commercial Airports," August 18, 1998

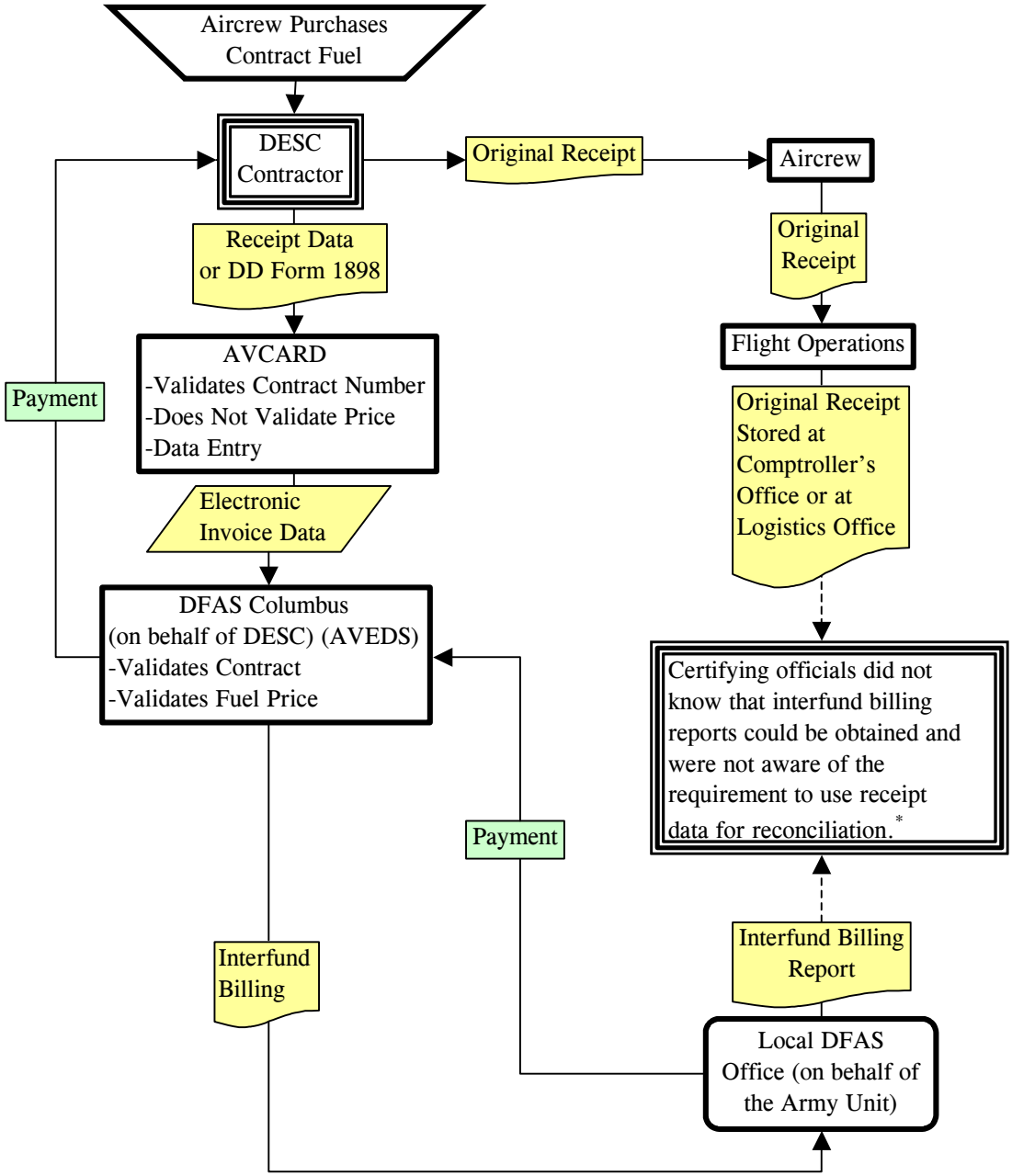
# Appendix B. Army AVCARD Payment Process

The AVCARD payment process, as observed during our visits to Army sites, was as follows. AVCARD processed all fuel and ground service charges made through the AIR Card. Charges for contract fuel, non-contract fuel, and ground services were billed and paid through two distinct processes.

**Receipts.** After refueling or receiving ground services, the aircrew received a receipt for the transaction from the FBO. The aircrew certified the product or service delivery by signing the receipt. Generally, the aircrew would turn in the receipts at mission debriefs at flight operations. The receipts were sometimes carried from the debrief area to the logistics office or to the comptroller's office, where they were filed. The receipts were not validated to monthly bills.

**Contract Fuel.** AVCARD received billing information from the into-plane contractors, processed it, and forwarded it to DESC. The billing data were transferred electronically to the AVEDS. DFAS Columbus used AVEDS to pay the into-plane contractors on behalf of DESC. DESC then obtained any reimbursement from each Army unit in the form of interfund billings processed through DFAS Columbus. The Army units could receive interfund billing information through their local DFAS office in either printed reports or Web-accessed reports. Certifying officials were unaware that the reports existed. They were also unaware of the requirement to use receipt data and did not have a system to perform the reconciliation. See Figure B-1 for a flowchart of the Army payment process for contract fuel as observed during our visits.

**Figure B-1. Army AVCARD Payment Process for Contract Fuel**




AVEDS Automated Voucher Examination Disbursing System

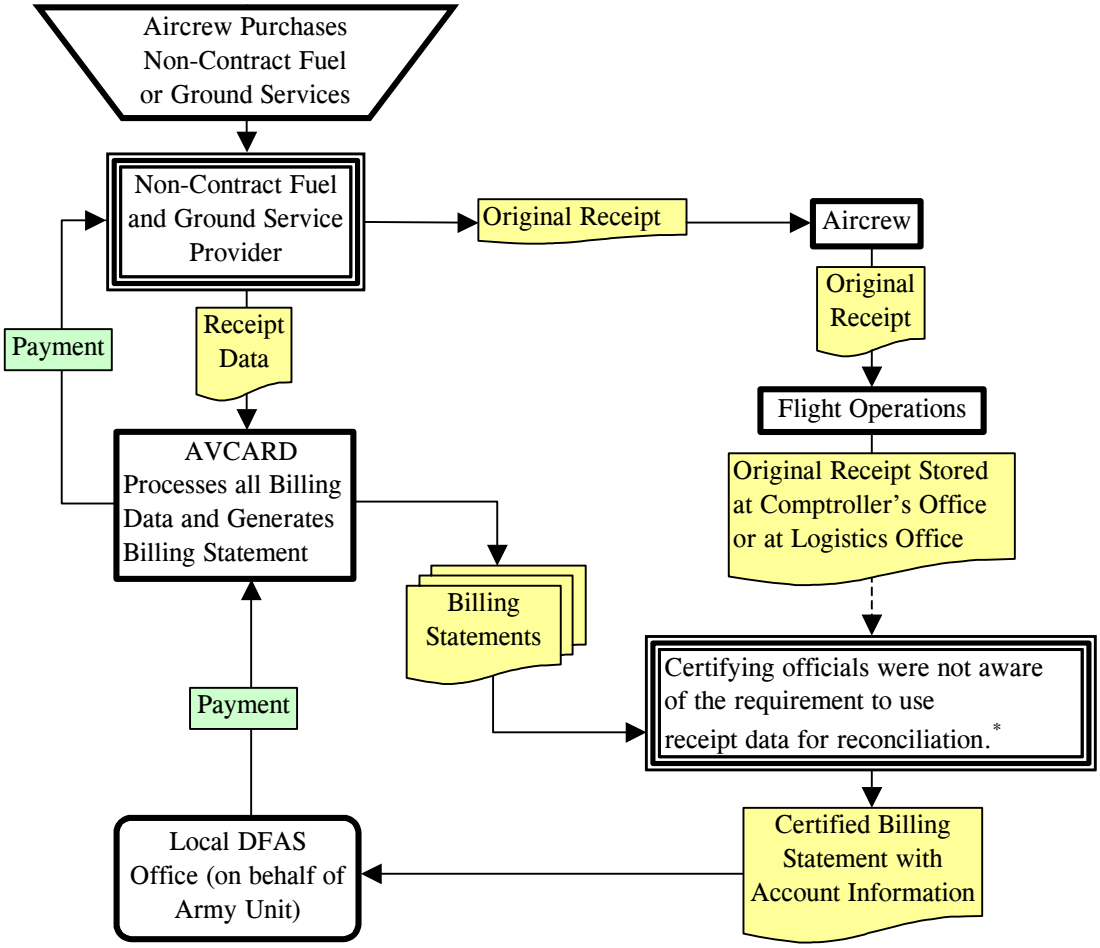
⟶ Indicates Information Flow

- - - -▶ Indicates the Channel the Documentation Should Follow

*Indicates Area of Concern

**Non-Contract Fuel and Ground Services.** AVCARD paid all non-into-plane vendors for non-contract fuel and ground services. AVCARD then issued monthly billing statements to each Army unit. Certifying officials visually scanned the billing statements for any unusual charges and matched each charge against the training calendar to verify that the aircraft was at the stated location. Next, certifying officials filled out the appropriate forms to process payment through their local DFAS office. The certifying officials were unaware of the requirement to validate receipt data to the AVCARD billing statements and did not have a system to perform the reconciliation. See Figure B-2 for a flowchart of the Army payment process for non-contract fuel and ground services as observed during our visits.

**Figure B-2. Army AVCARD Payment Process for Non-Contract Fuel and Ground Services**




AVEDS Automated Voucher Examination Disbursing System
→ Indicates Information Flow
- - - → Indicates the Channel the Documentation Should Follow

*Indicates Area of Concern

# Appendix C. Navy AVCARD Payment Process

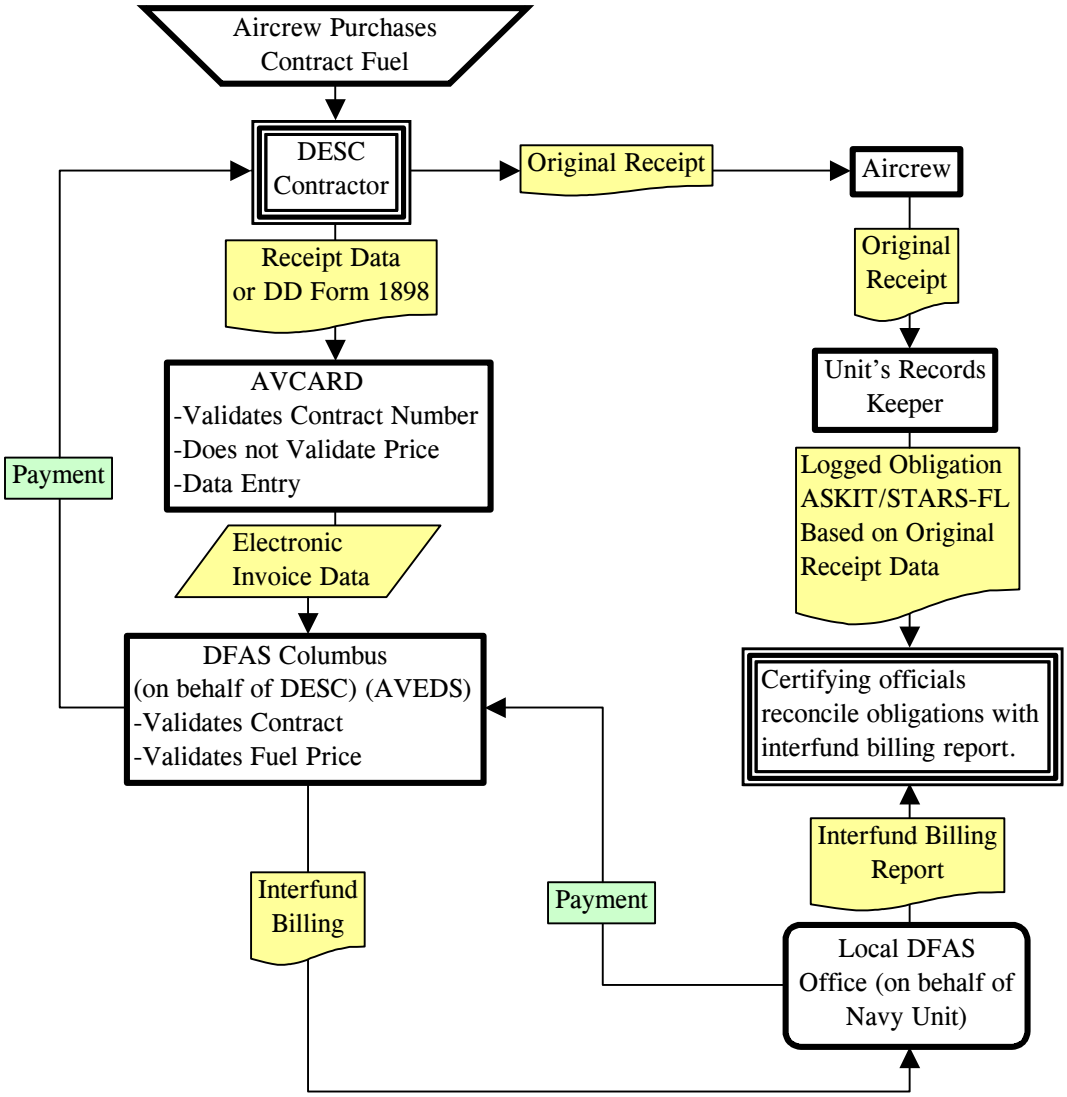
The AVCARD payment process, as observed during our visits to Navy sites, was as follows. AVCARD processed all fuel and ground service charges made through the AIR Card. Generally, each Navy unit generated obligations in preparation for fuel billings; however, instances existed when the unit generated the obligations after the fuels bills were posted. Charges for contract fuel, non-contract fuel, and ground services were billed and paid through two distinct processes.

**Receipts.** After refueling or receiving ground services, the aircrew received from the FBO a receipt for the transaction. The aircrew certified the product or service delivery by signing the receipt. Generally, after returning from missions, the aircrews turned in all the collected receipts to the unit's records keeper.

**Obligations.** Generally, a unit's records keeper established the corresponding obligations using receipt data. Various systems were used to post obligations, including the Aviation Storekeeper Information Tracking System and the Standard Accounting and Reporting System - Field Level. Obligations could also be kept in the Operations Target log, a manually created report that contains receipt information.

**Contract Fuel.** AVCARD received billing information from the into-plane contractors, processed it, and forwarded it to the DESC. The billing data were transferred electronically to AVEDS. DFAS Columbus used AVEDS to pay the into-plane contractors on behalf of DESC. DESC then obtained reimbursement from each Navy unit in the form of interfund billings processed through DFAS Columbus. The Navy units received interfund billing information through their local DFAS office. The local DFAS office processed monthly interfund billing reports called Summary Filled Order/Expenditure Difference Listings and sent those reports to the Navy units. Summary Filled Order/Expenditure Difference Listings are listings that display itemized expenditures that differ from the value of the obligation established for a particular requisition. Summary Filled Order/Expenditure Difference Listings also include unmatched expenditures for which no obligation was found. Generally, the Navy units examined the monthly Summary Filled Order/Expenditure Difference Listings and compared those reports to their obligation logs to determine whether the charges were accurate. However, some of the aircrew did not turn in all their receipts. In those cases, the Navy unit created the obligations after the fact using the information in the Summary Filled Order/Expenditure Difference Listings report rather than the information on the original receipts the aircrew provided. See Figure C-1 for a flowchart of the Navy payment process for contract fuel as observed during our visits.

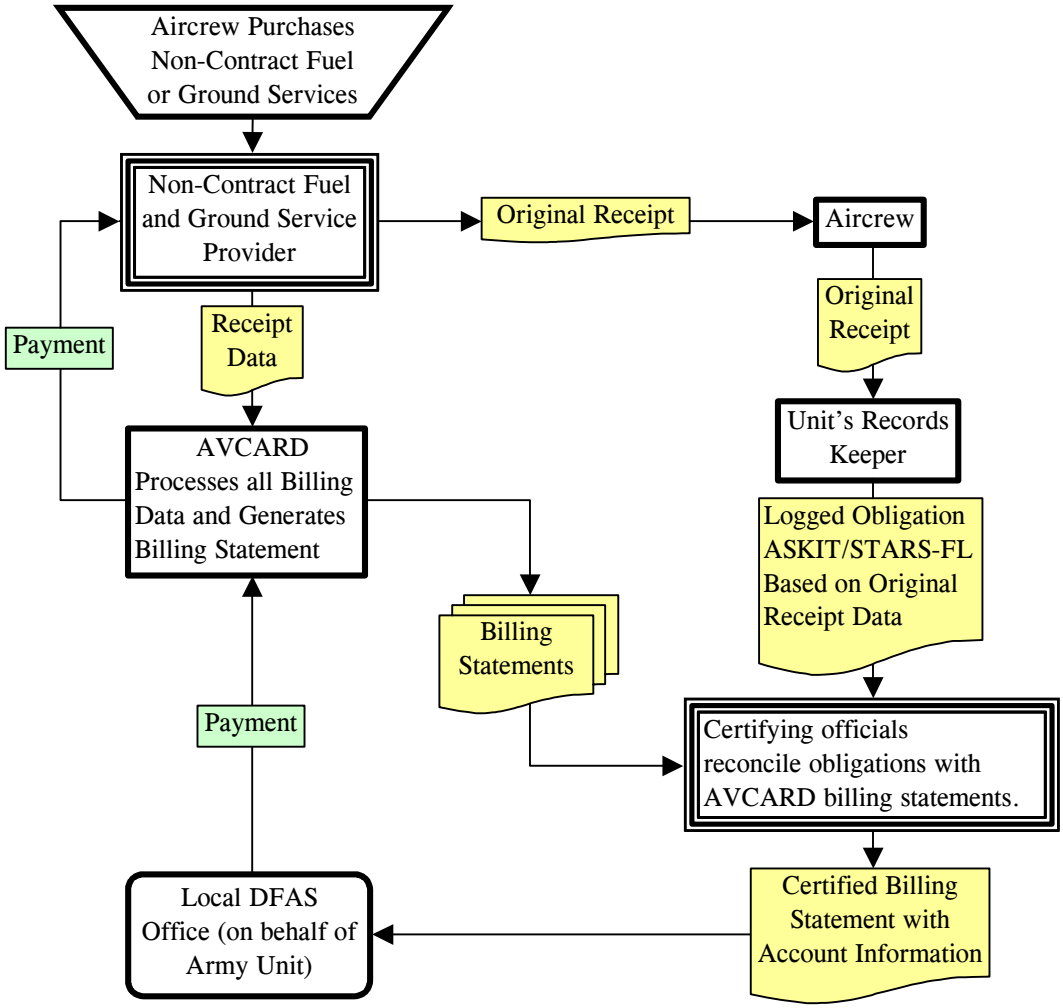
**Figure C-1. Navy AVCARD Payment Process for Contract Fuel**




| | |
|---|---|
| ASKIT | Aviation Storekeeper Information Tracking System |
| AVEDS | Automated Voucher Examination Disbursing System |
| STARS-FL | Standard Accounting and Reporting System - Field Level |

**Non-Contract Fuel and Ground Services.** AVCARD paid all non-into-plane vendors for non-contract fuel and ground services. AVCARD then issued monthly billing statements to each Navy unit. Generally, certifying officials verified and certified AVCARD billing statements for payment, validated fuel charges with the obligations previously logged, and filled out the appropriate forms to process payment through their local DFAS office. However, some of the aircrew did not turn in all of their receipts. In those cases, certifying officials created the obligations after the fact using the information in the AVCARD billing statement rather than the information on the receipts the aircrew provided. See Figure C-2 for a flowchart of the Navy payment process for non-contract fuel and ground services as observed during our visits.

**Figure C-2. Navy AVCARD Payment Process for Non-Contract Fuel and Ground Services**




ASKIT Aviation Store Keeper Information Tracking System
STARS-FL Standard Accounting and Reporting System - Field Level

# Appendix D. Air Force AVCARD Payment Process

The AVCARD payment process, as observed during our visits to Air Force sites, was as follows. AVCARD processed all fuel and ground service charges made through the AIR Card. Generally, the Air Force units did not use receipt data to generate obligations. Instead, obligations were set up based on past information. Charges for contract fuel, non-contract fuel, and ground services were billed and paid through three distinct processes.

**Receipts.** After refueling or receiving ground services, the aircrew received from the FBO a receipt for the transaction. The aircrew certified the product or service delivery by signing the receipt. The aircrew then logged the receipt on Air Force Form 664, "Aircraft Fuel/Grounds Servicing Documentation Log." The receipts were sometimes carried from a debrief area to the resource manager's office where they were filed. Generally, the receipts were not validated with monthly bills.

**Obligations.** The Air Force units did not generate obligations based on the information on the original receipts. Obligations were generally set up at the beginning of each period based on past information. For example, some units based obligation allocations on prior year flying hours.

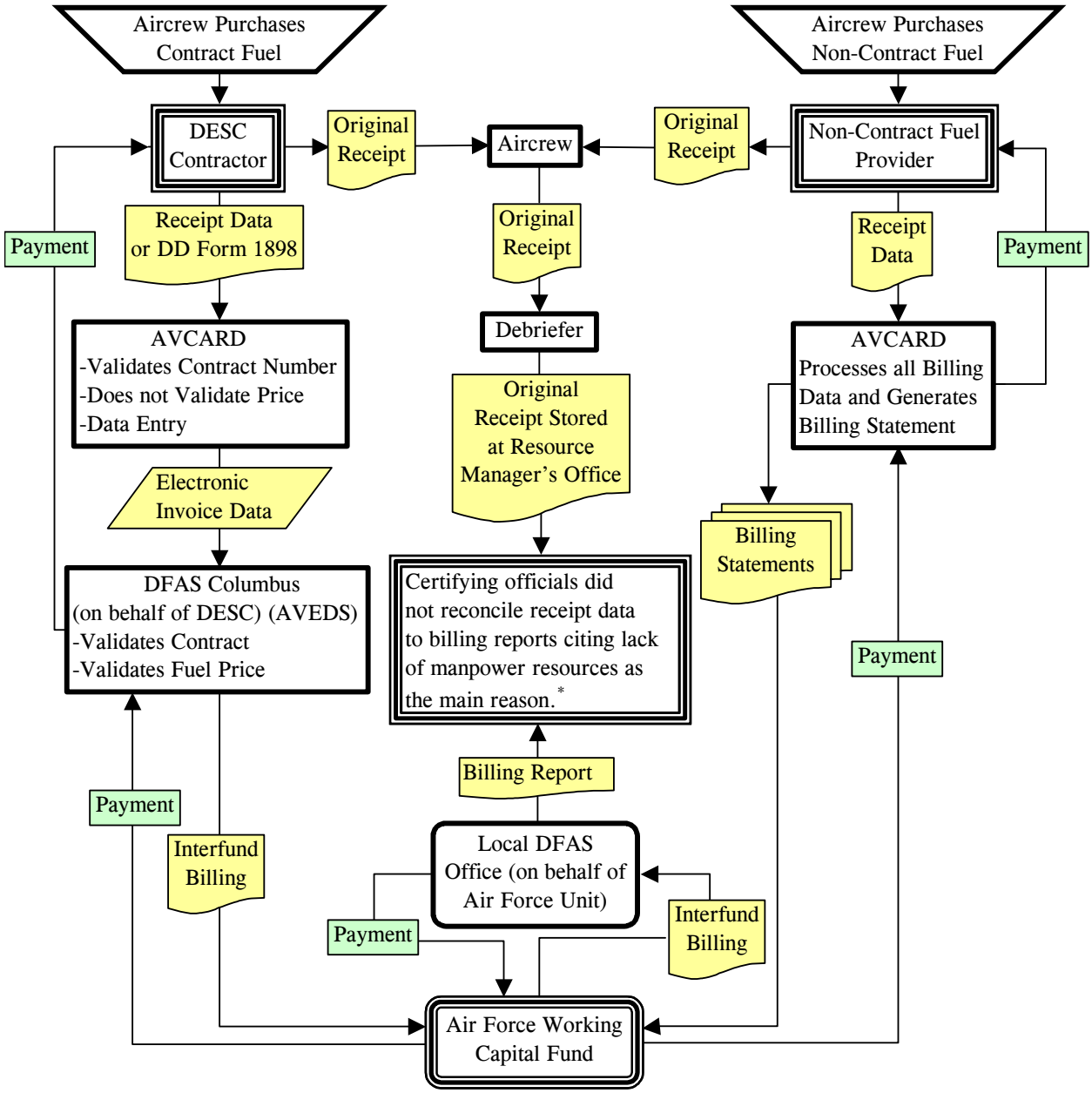
**Fuel.** During FY 2001, the Air Force paid aviation fuel out of the Air Force Working Capital Fund (AFWCF). The Detachment 3 Air Force Petroleum Office, Kelly AFB managed the AFWCF. Contract fuel and non-contract fuel were paid as follows:

- **Contract Fuel.** AVCARD received billing information from the into-plane contractors, processed, and forwarded to DESC. The billing data were transferred electronically to AVEDS. DFAS Columbus used the AVEDS to pay the into-plane contractors on behalf of DESC. Then DESC obtained reimbursement from the AFWCF.

- **Non-Contract Fuel.** AVCARD paid all non-into-plane vendors for non-contract fuel and ground services. AVCARD then separated fuel from ground services and billed the fuel to the AFWCF.

In turn, each Air Force unit reimbursed the AFWCF in the form of interfund billings. The Air Force units received interfund billing information through their local DFAS office. The local DFAS office processed monthly billings and was able to provide the activities with monthly reports. Generally, certifying officials did not reconcile receipt data to billing reports. Air Force certifying officials cited lack of manpower resources as the reason for lack of reconciliation. See Figure D-1 for a flowchart of the Air Force payment process for contract and non-contract fuel as observed during our visits.

**Figure D-1. Air Force Payment Process for Contract and Non-Contract Fuel**

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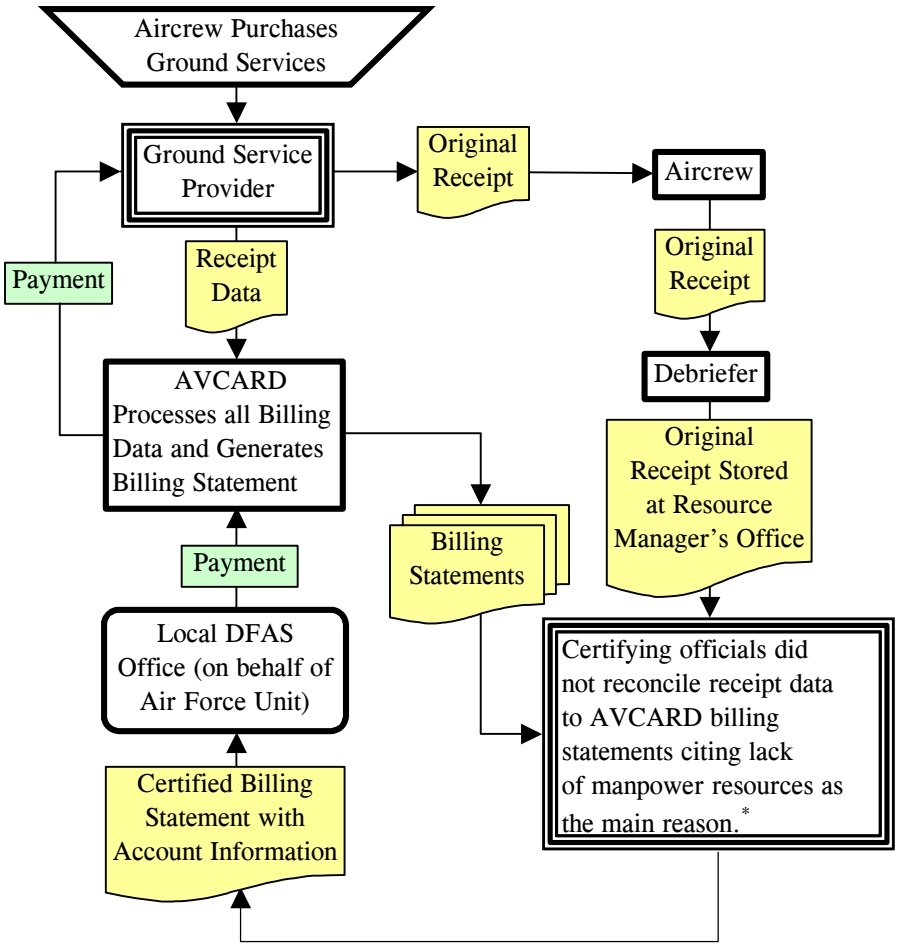
*Indicates Area of Concern

**Ground Services.** AVCARD generated billing statements for all Air Force units. Upon receiving the invoices, certifying officials signed the certification for payment and attached the relevant accounting information to process payment through their local DFAS office. See Figure D-2 for a flowchart of the Air Force payment process for ground services as observed during our visits.

**Figure D-2. Air Force Payment Process for Ground Services**




*Indicates Area of Concern

# Appendix E. Sample Results

The following tables show contract fuel, non-contract fuel, and ground service transactions not properly reconciled or validated for payment.

**Table E-1. Contract Fuel Amounts Not Properly Reconciled**

| Site | Total | Transactions Not Reconciled Value | Transactions Not Reconciled Percent |
|---|---|---|---|
| Army | | | |
| Fort Campbell | $ 2,015,780 | $ 2,015,780 | 100 |
| Fort Hood | 1,308,361 | 1,308,361 | 100 |
| Fort Stewart | 163,344 | 163,344 | 100 |
| Hunter Airfield | 558,708 | 558,708 | 100 |
| Savannah Airfield | 48,070 | 48,070 | 100 |
| **Subtotal** | **$ 4,094,263** | **$ 4,094,263** | **100** |
| Navy | | | |
| Flight Demonstration Squadron | 752,072 | 0 | 0 |
| North Island NAS[1] | 1,137,448 | 512,488 | 45 |
| Oceana NAS | 190,976 | 0 | 0 |
| Training Wing Six | 2,597,590 | 0 | 0 |
| **Subtotal** | **$ 4,678,086** | **$ 512,488** | **11** |
| Air Force | | | |
| Andrews AFB[2] | 1,741,739 | 1,741,739 | 100 |
| Dyess AFB | 975,680 | 792,690 | 81 |
| Eglin AFB | 570,192 | 570,192 | 100 |
| March Air Reserve Base | 921,966 | 921,966 | 100 |
| McChord AFB | 8,817,650 | 4,261,250 | 48 |
| **Subtotal** | **$13,027,227** | **$ 8,287,837** | **64** |
| Marine Corps | | | |
| MCAS[3] Miramar | 3,243,950 | 3,136,331 | 97 |
| MCB[4] Camp Pendleton | 446,982 | 346,348 | 77 |
| MCB Quantico | 309,437 | 309,437 | 100 |
| **Subtotal** | **$ 4,000,369** | **$ 3,792,116** | **95** |
| **Total** | **$25,799,945** | **$16,686,704** | **65** |

[1]NAS Naval Air Station
[2]AFB Air Force Base
[3]MCAS Marine Corps Air Station
[4]MCB Marine Corps Base

**Table E-1. Contract Fuel Receipts Not Properly Reconciled** (cont'd)

| Site | Total | Transactions Not Reconciled: Receipts | Transactions Not Reconciled: Percent |
|---|---|---|---|
| Army | | | |
| Fort Campbell | 3,190 | 3,190 | 100 |
| Fort Hood | 3,453 | 3,453 | 100 |
| Fort Stewart | 195 | 195 | 100 |
| Hunter Airfield | 781 | 781 | 100 |
| Savannah Airfield | 101 | 101 | 100 |
| **Subtotal** | **7,720** | **7,720** | **100** |
| Navy | | | |
| Flight Demonstration Squadron | 214 | 0 | 0 |
| North Island NAS[1] | 718 | 536 | 75 |
| Oceana NAS | 116 | 0 | 0 |
| Training Wing Six | 5,550 | 0 | 0 |
| **Subtotal** | **6,598** | **536** | **8** |
| Air Force | | | |
| Andrews AFB[2] | 520 | 520 | 100 |
| Dyess AFB | 196 | 157 | 80 |
| Eglin AFB | 170 | 170 | 100 |
| March Air Reserve Base | 103 | 103 | 100 |
| McChord AFB | 719 | 347 | 48 |
| **Subtotal** | **1,708** | **1,297** | **76** |
| Marine Corps | | | |
| MCAS[3] Miramar | 1,634 | 1,566 | 96 |
| MCB[4] Camp Pendleton | 869 | 710 | 82 |
| MCB Quantico | 336 | 336 | 100 |
| **Subtotal** | **2,839** | **2,612** | **92** |
| **Total** | **18,865** | **12,165** | **64** |

[1]NAS Naval Air Station
[2]AFB Air Force Base
[3]MCAS Marine Corps Air Station
[4]MCB Marine Corps Base

**Table E-2. Non-Contract Fuel and Ground Service Amounts Not Properly Validated**

| Site | Total | Transactions Not Validated Value | Transactions Not Validated Percent |
|---|---|---|---|
| Army | | | |
| Fort Campbell | $ 1,081,174 | $1,081,174 | 100 |
| Fort Hood | 476,359 | 476,359 | 100 |
| Fort Stewart | 173,530 | 173,530 | 100 |
| Hunter Airfield | 237,054 | 237,054 | 100 |
| Savannah Airfield | 71,870 | 71,870 | 100 |
| **Subtotal** | **$ 2,039,987** | **$2,039,987** | **100** |
| Navy | | | |
| Flight Demonstration Squadron | 335,759 | 0 | 0 |
| North Island NAS[1] | 372,265 | 70,292 | 19 |
| Oceana NAS | 25,307 | 0 | 0 |
| Training Wing Six | 17,546 | 0 | 0 |
| **Subtotal** | **$ 750,877** | **$ 70,292** | **9** |
| Air Force | | | |
| Andrews AFB[2] | 2,851,183 | 2,851,183 | 100 |
| Dyess AFB | 1,025,784 | 906,083 | 88 |
| Eglin AFB | 454,764 | 454,715 | 100 |
| March Air Reserve Base | 654,597 | 642,188 | 98 |
| McChord AFB | 2,645,728 | 1,459,545 | 55 |
| **Subtotal** | **$ 7,632,056** | **$6,313,714** | **83** |
| Marine Corps | | | |
| MCAS[3] Miramar | 347,271 | 286,069 | 82 |
| MCB[4] Camp Pendleton | 180,543 | 180,543 | 100 |
| MCB Quantico | 560,427 | 310,405 | 55 |
| **Subtotal** | **$ 1,088,241** | **$ 777,017** | **71** |
| **Total** | **$11,511,161** | **$9,201,010** | **80** |

[1]NAS Naval Air Station
[2]AFB Air Force Base
[3]MCAS Marine Corps Air Station
[4]MCB Marine Corps Base

**Table E-2. Non-Contract Fuel and Ground Service Receipts Not Properly Validated** (cont'd)

| Site | Total | Transactions Not Validated Receipts | Percent |
|---|---|---|---|
| Army | | | |
| Fort Campbell | 944 | 944 | 100 |
| Fort Hood | 604 | 604 | 100 |
| Fort Stewart | 525 | 525 | 100 |
| Hunter Airfield | 196 | 196 | 100 |
| Savannah Airfield | 131 | 131 | 100 |
| **Subtotal** | **2,400** | **2,400** | **100** |
| Navy | | | |
| Flight Demonstration Squadron | 91 | 0 | 0 |
| North Island NAS[1] | 202 | 77 | 38 |
| Oceana NAS | 51 | 0 | 0 |
| Training Wing Six | 62 | 0 | 0 |
| **Subtotal** | **406** | **77** | **19** |
| Air Force | | | |
| Andrews AFB[2] | 1,125 | 1,125 | 100 |
| Dyess AFB | 245 | 208 | 85 |
| Eglin AFB | 139 | 137 | 99 |
| March Air Reserve Base | 124 | 108 | 87 |
| McChord AFB | 616 | 363 | 59 |
| **Subtotal** | **2,249** | **1,941** | **86** |
| Marine Corps | | | |
| MCAS[3] Miramar | 232 | 196 | 84 |
| MCB[4] Camp Pendleton | 293 | 293 | 100 |
| MCB Quantico | 514 | 280 | 54 |
| **Subtotal** | **1,039** | **769** | **74** |
| **Total** | **6,094** | **5,187** | **85** |

[1]NAS Naval Air Station
[2]AFB Air Force Base
[3]MCAS Marine Corps Air Station
[4]MCB Marine Corps Base

# Appendix F. Taxes Paid on AVCARD Charges

The following tables show the breakdown of taxes paid for contract fuel as well as for non-contract fuel and ground services in FY 2001.

**F-1. FY 2001 Taxes Paid on Contract Fuel**

| Service Tax Description | Army | Navy | Air Force | Total |
|---|---|---|---|---|
| Manufacturing Tax | $ 346 | $ 3,689 | $ 4,790 | $ 8,825 |
| Federal Excise Tax | 3,052,255 | 4,712,611 | 6,306,379 | 14,071,245 |
| Federal Excise Tax Non-Fuel | 233 | 0 | 32 | 265 |
| **Total** | **$3,052,834** | **$4,716,300** | **$6,311,201** | **$14,080,335** |

**F-2. FY 2001 Taxes Paid on Non-Contract Fuel and Ground Services**

| Service Tax Description | Army | Navy | Air Force | Total |
|---|---|---|---|---|
| Airport Head | $ 0 | $ 216 | $ 0 | $ 216 |
| Canadian Goods and Services | 7,532 | 55,956 | 395,023 | 458,511 |
| Canadian Goods and Services Non-Fuel | 4,778 | 7,484 | 32,138 | 44,400 |
| City | 169 | 374 | 2,584 | 3,127 |
| County | 2,551 | 1,344 | 1,239 | 5,134 |
| Departure | 578 | 9,784 | 24,413 | 34,775 |
| Duties | 9 | 26,035 | 3,616 | 29,660 |
| Federal Excise | 461,719 | 265,034 | 1,310,152 | 2,036,905 |
| Hydro Carbon | 0 | 740 | 0 | 740 |
| Local | 566 | 9,709 | 6,950 | 17,225 |
| Mineral Oil | 599 | 6,118 | 23,185 | 29,902 |
| Other | 19,313 | 20,185 | 43,355 | 82,853 |
| Other Non-Fuel | 122 | (618) | 3,222 | 2,726 |
| Provincial | 1,151 | 4,336 | 16,950 | 22,437 |
| Sales | 119,220 | 88,543 | 191,017 | 398,780 |
| Sales Non-Fuel | 6,759 | 12,793 | 65,698 | 85,250 |
| State Excise | 63,445 | 17,553 | 109,577 | 190,575 |
| State Motor Fuel | 22 | 0 | 0 | 22 |
| Total Value Added | 8,929 | 16,991 | 180,648 | 206,568 |
| Total Value Added Non-Fuel | 2,289 | 5,140 | 11,274 | 18,703 |
| Underground Storage | 338 | 236 | 1,548 | 2,122 |
| **Total** | **$700,089** | **$547,953** | **$2,422,589** | **$3,670,631** |

**F-3. FY 2001 Total Taxes Paid**

| Fuel and Ground Services | Army | Navy | Air Force | Total |
|---|---|---|---|---|
| Contract Fuel | $3,052,834 | $4,716,300 | $6,311,201 | $14,080,335 |
| Non-Contract Fuel and Ground Services | 700,089 | 547,953 | 2,422,589 | 3,670,631 |
| **Total** | **$3,752,923** | **$5,264,253** | **$8,733,790** | **$17,750,966** |

# Appendix G. Report Distribution

## Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
- Director, Defense Procurement
  - Director, Purchase Card Joint Program Management Office
  - Director for Acquisition Initiatives

Under Secretary of Defense (Comptroller)/Chief Financial Officer
- Deputy Chief Financial Officer
- Deputy Comptroller (Program/Budget)

## Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Auditor General, Department of the Army
Director, Army Petroleum Office
Commanding General, Fort Hood
Commanding General, Fort Campbell
Commanding General, Fort Stewart

## Department of the Navy

Commandant of the Marine Corps
Assistant Secretary of the Navy
Naval Inspector General
Auditor General, Department of the Navy
Commander, Naval Petroleum Office
Commanding Officer, North Island Naval Air Station
Commanding Officer, Pensacola Naval Air Station
Commanding Officer, Oceana Naval Air Station
Commanding General, Marine Corps Air Station Miramar
Commanding General, Marine Corps Base Camp Pendleton
Commanding General, Marine Corps Base Quantico

## Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force
Director, Air Force Petroleum Office
Commander, Air Force Reserve Center, Robins Air Force Base
Commander, March Air Reserve Base

## **Department of the Air Force** (cont'd)

Commander, Andrews Air Force Base
Commander, Dyess Air Force Base
Commander, Eglin Air Force Base
Commander, McChord Air Force Base

## Other Defense Organizations

Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency
Director, Defense Energy Support Center

## Non-Defense Federal Organization

Office of Management and Budget

## Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform
House Subcommittee on Technology and Procurement Policy, Committee on Government Reform

# Department of the Army Comments

**DEPARTMENT OF THE ARMY**
**OFFICE OF THE DEPUTY CHIEF OF STAFF FOR LOGISTICS**
**500 ARMY PENTAGON**
**WASHINGTON, DC 20310-0500**

REPLY TO
ATTENTION OF

DALO-SMT 13 SEP 2002

MEMORANDUM THRU DEPUTY CHIEF OF STAFF, G-4

FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE (AUDITING)

SUBJECT: Audit Report on Controls for the DoD Aviation Contract Fuel Program (Project No. D2002LG-0006)--INFORMATION MEMORANDUM

1. This is in response to e-mail of 16 Jul 02 (Tab A), which requested Office of the Deputy Chief of Staff, G-4 (ODCS, G-4) respond to memorandum of 28 Jun 02, (Encl to Tab A).

2. The ODCS, G-4 is working with the Army Petroleum Center, (APC) and Defense Energy Support Center (DESC) to correct the deficiencies noted as Recommendation # 5, in the subject report.

3. Recommendation # 5 requires the Army Deputy Chief of Staff, Logistics to update Army Regulation (AR) 710-2, "Inventory Management Supply Policy Below the Wholesale Level," 31 Oct 97, and rewrite compliance with the policies that the DESC and the APC developed.

4. The ODCS, G-4 concurs with the recommendations of the subject report. The AR 710-2 is being updated with changes to reflect guidance from the APC and DESC (Tab B). The projected publication date for the revision is Jun 03. Additionally, the APC is issuing interim guidance to participating units as a Standard Operating Procedures Desk Guide (Tab C).

3 Encls

DONNA L. SHANDS COL, GS
Acting Director for
Sustainment

CF: (w/encls)
VCSA
CDR, USAMC
SAIG-PA
DALO-ZXA

# 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

11 SEP 2002

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, DEPARTMENT OF DEFENSE

Subj: DODIG DRAFT AUDIT REPORT "CONTROLS FOR THE DOD AVIATION CONTRACT FUEL PROGRAM" (PROJECT D2002LG-0006)

Ref: (a) DoDIG Memo dated 28 June 2002

Encl: (1) DoN Response to DoDIG Draft Audit Report Project D2002LG-0006

In response to reference (a), enclosure (1) is forwarded as the Department of the Navy response to the draft audit.

Please note that while we do concur with recommendations 3 and 6, the timeline for implementing corrective actions is dependent upon coordination with the Defense Energy Support Center. Upon completion of this coordination, a plan of action will be established and forwarded to your office for inclusion in your audit records.

William J. Schaefer
Deputy Assistant Secretary of the Navy
Planning, Programming, and Resources

Copy to:
NAVAL INSPECTOR GENERAL (N43)
CNO (N41)

**DEPARTMENT OF THE NAVY COMMENTS**
**ON**
**DODIG DRAFT REPORT OF 28 JUNE 2002**
**ON**
**CONTROLS FOR THE DOD AVIATION CONTRACT FUEL PROGRAM**
**(PROJECT NO. D2002LG-0006)**

**Recommendations**

3. We recommend the Director, Defense Energy Support Center in conjunction with the Service Petroleum Offices:

a. Establish interim procedures until final guidance is published that correct deficiencies outlined in recommendation 1.

**DON Comment:** Concur. Further recommend that the Navy and Marine Corps AIR Card Desk guide be used as a template for other Services in meeting this recommendation.

b. Establish policies and procedures that require Service Aviation Into-Plane Reimbursement Card officials to submit reports on the results of oversight reviews and provide guidance that will effect corrective actions as needed.

**DON Comment:** Concur

c. Coordinate with the DoD Charge Card Task Force to establish a standard training for Service Aviation Into-Plane Reimbursement Card user organizations on the use of the Aviation Into-Plane Reimbursement Card, collection of receipts, processing of ground service payments to AVCARD, and validation of fuel purchased through DESC.

**DON Comment:** Concur.

6. We recommend the Chief of Naval Operations issue policy and procedures to all Navy Aviation Into-Plane Reimbursement Card users, based on Commander, Naval Air Atlantic Instruction 7310.1W, March 3, 1999 and include the guidance that the Defense Logistics Agency, the Defense Energy Support Center, and the Services' Petroleum Offices developed based on Recommendations 1.a., 1.b., 1.c., 1.d., 3.a., and 3.b.

**DON Comment:** Concur.

9. We recommend the Director, Defense Energy Support Center; Director, Army Petroleum Center; Commander, Navy petroleum Office; and Director, Air Force Petroleum Office identify the taxes paid for FY 1999 through FY 2002 for which reimbursement claims have not been filed and file for reimbursement as appropriate.

**DON Comment:** Concur - with comment. Per the report, DESC has an agreement with the Navy to file reimbursement claims on behalf of the Navy and Marine Corps. Recommend the DESC take this for action.

# Department of the Air Force Comments

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON, DC 20330

30 AUG 2002

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

FROM: HQ USAF/IL
1030 Air Force Pentagon
Washington, DC 20330-1030

SUBJECT: DoDIG Draft Report, Controls for the DoD Aviation Contract Fuel Program (Project Number D2002LG-0006)

This is in reply to your memorandum requesting the Assistant Secretary of the Air Force (Financial Management and Comptroller) to provide Air Force comments on subject report.

We generally concur with the findings of this report and with the overall intent to validate aviation fuel purchases prior to payment. Specific management comments are attached.

If you have any questions or concerns with our comments, please contact Maj Jon A. Larvick, AF/ILGP, DSN 227-2369.

Susan A O'Neal
SUSAN A. O'NEAL
Assistant DCS/Installations & Logistics

Attachment:
Management Comments

DoDIG Draft Report
Controls for the DoD Aviation Contract Fuel Program (Project Number D2002LG-0006)

**DoDIG Recommendation 3.**

We recommend that the Director, Defense Energy Support Center, in conjunction with the Service Petroleum Offices:

a. Establish interim procedures until final guidance is published that correct deficiencies outlined in Recommendation 1.

b. Establish policies and procedures that require Service Aviation Into-Plane Reimbursement Card officials to submit reports on the results of oversight reviews and provide guidance that will effect corrective actions as needed.

c. Coordinate with the DoD Charge Card Task Force to establish a standard training for Service Aviation Into-Plane Reimbursement Card user organizations on the use of the Aviation Into-Plane Reimbursement Card, collection of receipts, processing of ground service payments to AVCARD, and validation of fuel purchased through DESC.

**AF/IL Comments:** Concur with intent of the DoDIG recommendation, the Air Force will publish interim operating procedures within 30 days of receipt of DLA interim guidance as recommended in the DoD IG report and implement final guidance published by DLA to satisfy both audits (Estimated Completion Date is 7 Feb 03).

**DoDIG Recommendation 7.**

We recommend that the Air Force Deputy Chief of Staff, Installations and Logistics update Air Force Instruction 23-202, July 19, 1994 and require compliance with the policies and procedures that the Defense Logistics Agency, the Defense Energy Support Center, and the Services' Petroleum Offices developed based on Recommendations 1.a., 1.b., 1.c., 1.d., 3.a., and 3.b.

**AF/IL Comments:** Concur DoDIG recommendation. The Air Force will publish interim operating procedures within 30 days of receipt of DESC interim guidance as recommended in para 3a of the subject audit report. Additionally, the Air Force will implement final guidance published by DESC through issuance of an appropriate Air Force Instruction.

**DoDIG Recommendation 9.**

We recommend that the Director, Defense Energy Support Center; Director, Army Petroleum Center; Commander, Naval Petroleum Office; and Director, Air Force Petroleum Office identify the taxes paid for FY 1999 through FY 2002 for which reimbursement claims have not been filed and file for reimbursement as appropriate.

**AF/IL Comments:** Concur with overall intent to identify taxes paid for ground services, FY 1999 through FY 2002, which are eligible for reimbursement claims, but the Air Force Petroleum Office is not the appropriate Air Force agency to perform this function. The Air Force Deputy Chief of Staff, Installations and Logistics will coordinate with the appropriate Air Force agencies to identify which reimbursement claims have not been submitted so reimbursement claims can be filed as appropriate.

# Defense Logistics Agency Comments

**DEFENSE LOGISTICS AGENCY**
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD, SUITE 2533
FT. BELVOIR, VIRGINIA 22060–6221

IN REPLY REFER TO J-3

AUG 23 2002

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
DEPARTMENT OF DEFENSE

SUBJECT: Controls for the DoD Aviation Contract Fuel Program
(Project No. D2002LG-0006)

This is in response to the subject draft report dated June 28, 2002. If you have any questions, please contact Mrs. Peggy Hayes, (703) 767-6262.

HAWTHORNE L. PROCTOR
Major General, USA
Director, Logistics Operations

Encl

Federal Recycling Program Printed on Recycled Paper

Final Report Reference

**SUBJECT**: Draft Report on Controls for the DoD Aviation Contract Fuel Program (Project No. D2002LG-0006)

Page 4

**FINDING (page 5):** The DoD Components did not have an adequate process in place that would match AIR CARD receipts for fuel and ground services to monthly bills, preclude, duplicate payments, and recoup fuel and ground service taxes from which DoD was exempt. Reviews of 17 sites judgmentally selected showed that 69 percent of 24,959 AIR CARD receipts valued at $37.3 million were never verified to monthly bills. Of the units reviewed, only three Navy units were doing an adequate job of matching receipts to monthly bills. Existing guidance was incomplete, outdated, or not followed for controls over matching receipts to monthly bills and recoupment of taxes, resulting in the Service's lack of an adequate process. Further, neither DLA, DESC, or the Services provided standard training for the AIR CARD program. DFAS lacked adequate edits and controls to preclude paying twice for the same purchase. As a result, increased risk existed that the majority of AIR CARD fuel and ground service charges valued at $222.4 million were paid during FY 2001 without assurance that the charges were legitimate. In addition, DoD overpaid FBOs during FY 2001 at least $495,982 in duplicate transactions. Also, the Services paid about $7.8 million in FY 1999 through FY 2001 for taxes, from which DoD may have been exempt.

**DLA COMMENTS:** Partially Concur:

Defer to the Military Services to comment on having an adequate process in place to reconcile bills. Defer to the Military Services on the payment of taxes/recovery of taxes under their funding umbrella.

At the inception of the AIR Card program in 1997, DESC legal counsel met with IRS officials to confirm that U.S. government officials were not exempt from paying tax at the point of sale. DESC instructed each Contracting Officer Representative to inform the military services that exemption of any state taxes can only occur if the aircraft (usually Guard or Reserve) present their state tax exemption documentation at the time of the sale to allow the merchant to file for immediate reimbursement from the State.

See comments on recommendation 1.b to address validation of interfund AVCARD charges for contract fuel and non-contract fuel using receipt data.

See comments on recommendation 4 to address duplicate payments and edits.

Page 28

**INTERNAL MANAGEMENT CONTROL WEAKNESS (page 24):**
( X ) Nonconcur
( ) Concur; weakness will be reported in the DLA Annual Statement of Assurance

As noted in recommendation 4, changes have been incorporated to preclude overpayments in the future. See comments on recommendation 9 addressing taxes. Defer to the Military Services on the reconciliation of bills to supporting documentation.

1

**SUBJECT**: Draft Report on Controls for the DoD Aviation Contract Fuel Program (Project No. D2002LG-0006)

**RECOMMENDATION 1:** We recommend that the Director, Defense Logistics Agency establish written guidance that:

a. Clearly defines the Services' responsibilities for using the Aviation Into-Plane Reimbursement Card, collecting and turning in receipts, retaining and filing receipts, and processing Aviation Into-Plane Reimbursement Card invoices;
b. Requires the Services to validate interfund AVCARD charges for contract fuel and non-contract fuel using receipt data;
c. Requires the Services to validate, prior to payment, ground service transactions that AVCARD bills to the unit using receipt data; and
d. Provides information on the taxes from which DoD is exempt, how to file for a reimbursement of the taxes paid, and to which accounts the reimbursements can be applied.

**DLA COMMENTS:** Partially Concur.

Recommendation 1.a: Concur with intent. DESC implemented the AIR Card program as a paperless, electronic initiative to meet DoD mandates of commercial contracting, electronic data interchange, paperless initiatives, and Federal Acquisition Streamlining Act regulations. As such, the acquisition regulations and procurement processes were re-vamped, which eliminated procurement action lead-time, and increased just in time purchases. This served to greatly improve purchasing practices with the authorized use of purchase cards, credit cards, and electronic ordering systems. Conversely, the DoD accounting process varies greatly between the Military Services, as de-centralized OPLOC personnel use non-standardized approaches to process purchases. The Financial Management Regulations do not reflect any of the electronic means available today, which are successfully being utilized by the commercial banking industry worldwide, nor do they take into consideration the cost of money being floated by banks or credit card processors. The DoD payment process has not been revised or updated to reflect paperless transactions, electronic transmittals, Internet capabilities, or real time processing techniques. As such, the DoD is chronically late paying vendors for items procured more than 30 days prior. In contrast to DoD, the GSA authorized a "pay and chase" approach under the Master Smart Pay Contract. As such, GSA receives rebate points, which equate to millions of dollars, for reimbursing the bank on credit card purchases within seven days of each recorded purchase. Those credit card purchases that are disputed are done so after the fact, similar to your personal credit card account, and the account is credited accordingly.

Many entities are responsible for the smooth flow of an AIR Card transaction. They are, in part, the aircrew, the supplier, the AIR Card contractor, DFAS, and the Military Services Home Station's support personnel and their applicable OPLOC. Responsibilities shift from one entity to another during the entire process. The primary responsibility of all the Military Services is for their airmen to use the AIR Card for refueling DoD aircraft. This is clearly defined in Department of Defense Manual 4140.25, DoD Management of Bulk Petroleum

Products, Natural Gas, and Coal, Chapter 5. The DoD 4140.25 directs aircrews to consult their applicable Service Control Point (SCP) for additional guidance. There are other sources for the Military Servicemen to turn to that describe their responsibilities during the process. For example, the Business Rules for DoD Local Purchases of Aviation Fuel, the DESC Web page, and the tri-fold leaflet distributed to customers and vendors, information provided to the Department of State for service members assigned to US Embassy offices, and numerous briefings and presentations that have been provided at fuel or industry conferences. Additionally, the DoD 4140.25 and business rules have been published on the DESC website, and will be posted to the DLA One Book website. Because of the complexity of the AIR Card program, and the different missions of the Military Services, the procedures are generic in nature, and should be supplemented by the Military Services as necessary, since each DFAS OPLOC office handles non-fuel purchases differently. DESC would request HQ DFAS to designate one payment office per branch of service to mirror the method used by DFAS-Columbus to pay for fuel.

Recommendation 1.b: Non-concur. DoD 4000.25-7-M specifically outlines that billed offices will review all charges to ensure items billed were ordered and correct. Additionally, DoD 7000.14R, Chapter 61 requires billed offices must match line items billed to line items ordered. No specific additional instruction is warranted for AVCARD billings as the requirement exists for all billings.

Recommendation 1.c: Non-concur. Guidance exists as mentioned in Recommendation 1.b. Defer to Services for Services' guidance.

Recommendation 1.d: Concur. In late 2001, DESC developed a Compilation Of United States Fuel Taxes, Inspection Fees And Environmental Taxes And Fees. The Compilation is available at http://www.desc.dla.mil/DCM/DCMPage.asp?LinkID=DESCGCounsel. DESC maintains and updates the Compilation regularly. It provides information on current tax rates, tax exemption status and how to file for a refund for Federal and State taxes. Additional information was developed on specific refund procedures for jet fuel in each state.

**DISPOSITION:**
( ) Action is Ongoing. Estimated Completion Date:
(X) Action is considered complete.

**ACTION OFFICERS:** Deborah VanKleef
Michael Earp
Louise Hansen

**SUBJECT**: Draft Report on Controls for the DoD Aviation Contract Fuel Program (Project No. D2002LG-0006)

**RECOMMENDATION 2:** We recommend that the Director, Defense Energy Support Center review the Aviation Into-Plane Reimbursement Card contractor's performance (AVCARD) to determine if the contractor complies with the quality assurance requirements of the contract and take remedial action where needed.

**DLA COMMENTS:** Partially Concur. A review of the contract has shown the AIR Card contractor's performance to be in compliance with contract section C.5.3.2 Quality Assurance and with DESC Clause I1.03-1 CONTRACT TERMS AND CONDITIONS - COMMERCIAL ITEMS (APR 1998). Each Military Service petroleum office has an assigned Contracting Officer's Representative trained to report any problems, transaction disputes or invoice discrepancies through the Contracting Officer. To date, the COR's have no outstanding discrepancies which have not been resolved with AVCARD's performance. However, DESC will implement an annual site visit schedule to the AVCARD facility to monitor AVCARD's performance. DESC will conduct an on-site quality surveillance of routine daily operations and hold discussions on any technical or contractual issues. Each Military Service COR will be advised of the site-visit schedule and is encouraged to accompany DESC personnel on the site visit. Concluding the visit, a report will be documented to highlight any recommendations, findings, and discussions, and will outline any action items for follow-up tasking. This report will be retained in the contract file for future reference.

**DISPOSITION:**
( ) Action is Ongoing.
( X ) Action is considered complete.

**ACTION OFFICER:** Deborah VanKleef

4

**SUBJECT**: Draft Report on Controls for the DoD Aviation Contract Fuel Program (Project No. D2002LG-0006)

**RECOMMENDATION 3:** We recommend that the Director, Defense Energy Support Center in conjunction with the Service Petroleum Offices:

a. Establish interim procedures until final guidance is published that correct deficiencies outlined in Recommendation 1.
b. Establish policies and procedures that require Service Aviation Into-Plane Reimbursement Card officials to submit reports on the results of oversight reviews and provide guidance that will effect corrective actions as needed.
c. Coordinate with the DoD Charge Card Task Force to establish a standard training for Service Aviation Into-Plane Reimbursement Card user organizations on the use of the Aviation Into-Plane Reimbursement Card, collection of receipts, processing of ground service payments to AVCARD, and validation of fuel purchased through DESC.

**DLA COMMENTS:** Partially Concur.

Recommendation 3.a: Partially Concur. DESC must continually review processes to ensure proper applications are utilized, however the lack of standardized procedures in each of the Military Services will require DESC to publish only over-arching generic guidelines. The fact that the DoD 4140.25 and Local Purchase Business Rules are currently in revision is testimony that DESC does not have responsibility for the level of detail needed by each of the Military Services' specific guidance. DESC will also utilize the DLA One Book as a single source for answers to concerns raised in Recommendation 3.a.

Recommendation 3.b: Non-concur. One of the primary AIR Card officials for the Military Services with responsibility for oversight of the contract is the Contracting Officer's Representative, (COR). The COR is appointed by the Contracting Officer and one of his/her duties as COR is to monitor the contractor's performance and report monthly to the Contracting Officer concerning performance of services rendered under the contract. The Contracting Officer notifies the Contractor either in writing or by telephone of complaints, problems, or discrepancies as they surface. Another duty of the COR includes acting as the military liason between the applicable branch of Service and AVCARD. The COR's have been encouraged to report problems concurrently to AVCARD and DESC as they occur. Issues are resolved between all parties in a timely manner. To date, there are no outstanding discrepancies with the current contractor. Lastly, overall DESC guidance published through the DLA One Book will specify guidance for all aviation customers to access.

Recommendation 3.c: Concur. The various operations and missions of the Military Services limit total standardized AIR Card training. However, guidance has been provided to each Service representative to supplement applicable Service directives. Standardized information that explains AIR Card processes is provided by DESC through DoD 4140.25, DESC web page, Business Rules, and other printed material provided at conferences and AIR Card briefings. Unlike the purchase or travel card, the AIR Card is assigned to individual aircraft

not to an individual that are directly accountable by having their name imprinted on the card. DESC is unaware of any established DoD Charge Card Task Force and would welcome the opportunity to discuss program enhancement or process improvements. DESC would also encourage OSD to direct HQ DFAS to streamline and restructure to a single payment office per branch of Service and/or the utilization of one standardized accounting and payment practice.

**DISPOSITION:**
( ) Action is Ongoing.
( X ) Action is considered complete.

**ACTION OFFICER:** Deborah Van Kleef

**SUBJECT**: Draft Report on Controls for the DoD Aviation Contract Fuel Program (Project No. D2002LG-0006)

**RECOMMENDATION 4:** We recommend that the Director, Defense Energy Support Center in conjunction with the Director, Defense Finance and Accounting Service:

a. Review and expand, as necessary, the edit check process in the Automated Voucher Examination Disbursing System so that charges that are input more than once are not accepted for payment by the system.
b. Review AVCARD transactions for, at a minimum, FY 2000 through FY 2002 to identify duplicate transactions and initiate action to recover any overpayments.

**DLA COMMENTS:** Concur. The DoD IG did not provide specific work papers to verify with 100% accuracy the cause of the duplicate payments. As background, AVEDS incorporates a number of edits to preclude duplicate payments and inaccurate information. As testimony to the effectiveness of these edits, the sum of duplicate payments identified represents less than ½% of the entire program. However, subsequent to the publishing of this report, DESC altered the manner in which duplicates for contract purchases were identified systemically and believe this will correct the deficiency noted. Additionally, DESC is actively pursuing a query to review historical data for the time period noted to ensure no other duplicate payments were made. Action will be taken to recover overpayments if the results of these queries surfaces irregularities.

**DISPOSITION:**
(X) Action is Ongoing. Estimated Completion Date: Feb 03
( ) Action is considered complete.

**ACTION OFFICER:** Michael Earp

**SUBJECT**: Draft Report on Controls for the DoD Aviation Contract Fuel Program (Project No. D2002LG-0006)

**RECOMMENDATION 9:** We recommend that the Director, Defense Energy Support Center; Director, Army Petroleum Center; Commander, Naval Petroleum Office; and Director, Air Force Petroleum Office identify the taxes paid for FY 1999 through FY 2002 for which reimbursement claims have not been filed and file for reimbursement as appropriate.

**DLA COMMENTS:** Partially Concur. DESC requests the DoD IG detailed work papers which support the finding that taxes paid during this time frame were not correctly filed for. Thus far, we are unable to substantiate the claim that the pertinent taxes were not filed for. Note: DESC/DFAS were in the process of filing for Navy tax reimbursements prior to this report and will complete this action in the near term. Fiscal year 1999 and 2000 have been completed. DESC is responsible for the filing of taxes for product when funded by DESC. Taxes related to ground services continue to be the responsibility of the Military Services to file.

**DISPOSITION:**
(X) Action is Ongoing. Estimated Completion Date: October 1, 2002
( ) Action is considered complete.

**ACTION OFFICER:** Michael Earp

Final Report Reference

**Notes on Content of Report:**

Pg 14, para. 3. "Neither DESC nor the Services filed claims for the remaining $2.9 million, which included 18 different types of taxes." Page 13

**Comment:** During fiscal year 2001, the Military Services had responsibility for filing for taxes, with the exception of Navy. Navy requested assistance from DESC to file on their behalf and as noted earlier. The filing was in progress prior to this report and will be completed in NLT October 2002.

Pg 17, para. 4. "The Services no longer generate the obligations for fuel purchased. Obligations are automatically generated each night in the Services' general accounting financial systems…" Page 16

**Comment:** DESC does **not** obligate the Military Services money for fuel purchases. The DESC sends a file to the Military Service legacy system so that their system obligates the money.

Pg. 18, Para 1: "The Purple Hub processes contract fuel transactions only." Page 16

**Comment: The statement above is incorrect. Currently, the Purple Hub processes non-contract fuel (off station, local purchase) transactions only.** During FY 2001, DESC did not have the responsibility to fund local purchase transactions. However, as the report is dated June 28, 2002, this statement is no longer true. The Purple Hub now processes local purchase (non-contract) fuel transactions that DESC began funding in FY02.

Pg. 18, Para 6: " The objective is to process non-contract fuel through the Purple Hub in the same manner as contract fuel." Page 17

**Comment: The statement above should be inverted to read, "The objective is to process contract fuel through the Purple Hub in the same manner as non-contract fuel".** Non-contract fuel and contract fuel is not processed the same today. Contract fuel purchases are not incorporated within the Hub as are non-contract fuel transactions. The objective is to incorporate contract fuel purchases into the Hub however the processing will be substantially different.

**General Note**: The report tended to mix responsibilities in terms of the DoD community. While it is true that DESC administers the program and has a larger role in ensuring the program meets regulatory guidelines, funding plays a large role in determining the appropriate action officers. The IG tended to mix responsibilities in the discussion of taxes without regard to who funded the transactions.

# Defense Finance and Accounting Service Comments

**DEFENSE FINANCE AND ACCOUNTING SERVICE**
**COLUMBUS CENTER**
P.O. BOX 182317
COLUMBUS, OHIO 43218-2317

IN REPLY REFER TO DFAS-BS/CC

AUG 19 2002

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE, OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Management Comments to Department of Defense Inspector General (DoD IG) Draft Report, Project Number D2002LG-0006, "Controls for DoD Aviation Contract Fuels Program" dated July 7, 2002

As requested in your memorandum, dated June 28, 2002, the subject audit report has been reviewed. Our comments and corrective actions for Recommendation 4 are attached. The audit report directs requests for management comments for Recommendations 1 through 3 and 5 through 9 to other DoD Agencies.

If you have additional questions on this matter, please contact Mr. LerDon Woodfolk, DFAS-BSPC/CC, at DSN 869-6215 or 614 693-6215.

for Stephen K. Worton
Deputy Director
Commercial Pay Services

Attachment
As stated

**Management Comments to Department of Defense Inspector General (DoD –IG) Draft Report, Project No, D2002LG-0006, "Controls for DoD Aviation Contract Fuel Program" dated June 28, 2002**

**Recommendation 4:** We recommend that the Director, Defense Energy Support Center in conjunction with the Director, Defense Finance and Accounting Service:

a. Review and expand, as necessary, the edit check process in the Automated Voucher Examination Disbursing System so that charges that are input more than once are not accepted for payment by the system.

b. Review AVCARD transactions for, at a minimum, FY 2000 through FY 2002 to identify duplicate transactions and initiate action to recover any overpayments.

**Management Comments:**

a. Concur. Systemic controls are necessary in AVEDS to ensure duplicate transactions related to AVCARD purchases are only entered and/or paid once. However, ownership of AVEDS resides with DESC and implementation of this recommendation is not under the control of the Director, Commercial Pay Services. The Commercial Pay Business Line (CPBL) will coordinate with DESC, as needed, relative to expanding the edit check process in AVEDS.

b. Concur. The CPBL will coordinate with DESC to identify parameters for which extraction of the selected records can be made. Specific criteria that identifies duplicate transactions will be developed in conjunction with the initial request to DESC.

**Estimated Completion Dates:**

a. DESC owns and operates AVEDS and is assigned the office of primary responsibility. We will coordinate all of our efforts, until resolution, based on an estimated completion date as determined by DESC. The estimated completion date is not discernible at this time.

b. We will coordinate all of our efforts based on an estimated completion date as determined by DESC. An estimated completion date is not discernible at this time. We will continue to monitor and coordinate with DESC to ensure prompt resolution of the recommendation.

## Team Members

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