

Naval Audit Service



Audit Report



Navy Enterprise Resource Program – Purchase Card Capabilities

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N2011-0001
1 October 2010

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MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT AND COMPTROLLER) OFFICE OF
FINANCIAL OPERATIONS
NAVY ENTERPRISE RESOURCE PROGRAM, PROGRAM
OFFICE
CONSOLIDATED CARD PROGRAM MANAGEMENT
DIVISION

Subj: **NAVY ENTERPRISE RESOURCE PROGRAM — PURCHASE CARD
CAPABILITIES (AUDIT REPORT N2011-0001)**

Ref: (a) NAVAUDSVC memo N2009-NFA000-0099, dated 1 July 2009
(b) SECNAV Instruction 7510.7F, “Department of the Navy Internal Audit”

1. The report provides results of the subject audit announced in reference (a). Section A of this report provides our findings and recommendations, summarized management responses, and our comments on the responses. Section B provides the status of the recommendations. The full text of management responses is included in the Appendices.

2. Actions planned by the Assistant Secretary of the Navy (Financial Management and Comptroller) (Office of Financial Operations); Navy Enterprise Resource Program, Program Office; and Naval Supply Systems Command meet the intent of the recommendations, and these recommendations are considered open pending completion of the planned corrective actions, and are subject to monitoring in accordance with reference (b). Naval Supply Systems Command responded for the Consolidated Card Program Management Division (CCPMD). Management should provide a written status report on the recommendations within 30 days after target or interim completion dates. Please provide all correspondence to the Assistant Auditor General for Financial Management and Comptroller Audits, XXXXXXXXXXXX, by e-mail at XXXXXXXXXXXXXXXXXXXX, with a copy to the Director, Policy and Oversight, XXXXX XXXXXX by e-mail at XXXXXXXXXXXXXXXXXXXX. Please submit correspondence in electronic format (Microsoft Word or Adobe Acrobat file), and ensure that it is on letterhead and includes a scanned signature.

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**Subj: NAVY ENTERPRISE RESOURCE PROGRAM — PURCHASE CARD
CAPABILITIES (AUDIT REPORT N2011-0001)**

3. Any requests for this report under the Freedom of Information Act must be approved by the Auditor General of the Navy as required by reference (b). This audit report is also subject to follow-up in accordance with reference (b).

4. We appreciate the cooperation and courtesies extended to our auditors.



XXXXXXXXXXXXXXXXXXXX

Assistant Auditor General
Financial Management and Comptroller
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Executive Summary

Overview

The Department of Navy has chosen to use a system other than that provided by the vendor bank to track and reconcile transactions and certify invoices associated with its purchase card program. The Navy Enterprise Resource Planning (ERP) Program customized standard SAP¹ purchase card capabilities and developed a solution that encompasses a suite of custom applications to facilitate the reconciliation, certification, and payment of purchase card invoices. To demonstrate the integrity of the new application and its compliance with the relevant Department of Defense (DoD) internal controls, the Navy ERP Program Office implemented the system on a limited production basis at the Naval Air Systems Command (NAVAIR) and the Naval Supply Systems Command (NAVSUP). The Naval Audit Service (NAVAUDSVC) was tasked by the Deputy Assistant Secretary of the Navy (Financial Management Operations) to audit the program to ensure compliance with the required DoD internal controls for a purchase card program and provide its findings and recommendations (if applicable). Such action allows management to address any issues and ensure process and application integrity in the Navy ERP Purchase Card system before the system is implemented enterprise wide.

Office of the Under Secretary of Defense² policy requires 20 internal controls that must all be resident in any electronic capability used within the Department to reconcile, certify, and pay purchase card invoices. The audit verified whether the 20 DoD internal controls resided in the Navy ERP Purchase Card system. We judgmentally selected 37 purchase card transactions (18 NAVAIR and 19 NAVSUP) (see Exhibit B. Scope and Methodology) that occurred from 20 March to 19 June 2009 to follow through the system, to determine if the 20 DoD internal controls were in place. While the universe contained 48,152 transactions (24,596 debit transactions totaling \$20,503,916.25; and 23,556 credit transactions³ totaling \$19,931,586.16), we judgmentally selected 37 transactions (36 debit transactions totaling \$914,341.18; and 1 credit transaction totaling \$28.52) that originated from NAVAIR and NAVSUP and represented the

¹ SAP AG is the commercial company name that develops and markets computer software products. SAP stands for Systems Analysis and Program Development. The company's best known product is the SAP Enterprise Resource Planning (SAP ERP) software modules that support functional areas (i.e.; financial, logistics and human resource management systems). The Navy used SAP ERP, commercial off the shelf software products, as the engine for its business revolution to streamline their business processes. It also adopted internet-based technology in support of warfighting efforts.

² Office of the Under Secretary of Defense (OUSD) (Acquisition, Technology, and Logistics) memorandums dated 19 December 2005 Subj: Internal Controls for the Purchase Card Program, and 17 October 2007 Subj: Revised Purchase Card Internal Controls.

³ Credit transactions included payments, returns, and other credit adjustments.

three authorized uses of the purchase card.⁴ We also reviewed hard copy documentation to review controls that did not reside within the system.

Thirty-one of the 37 transactions selected were in the system and 6 were not. The six transactions that were not in Navy ERP, according to Program Office representatives, were non-invoiceable⁵ transactions. Therefore, our testing of the controls within Navy ERP involved the 31 transactions.

Reason for Audit

The audit objective was to verify that: (1) the Navy ERP Purchase Card capability processes transactions with the expected degree of integrity and accuracy; and (2) internal controls are in place to ensure compliance with applicable financial management laws and regulations. To answer the objectives, we tested the Navy ERP Purchase Card system for the 20 DoD Internal Controls. This audit was requested by Department of the Navy (DON) Office of Financial Operations (FMO).

Conclusions

From the testing of the 31 judgmentally selected transactions, we determined that the Navy ERP electronic purchase card capabilities complied with 10 of the 20 required DoD internal controls. However, 1 of these 10 controls residing in the system was not used appropriately. The remaining 10 controls that were not in the system were handled using processes outside of the Navy ERP electronic purchase card capabilities. According to representatives at both the Assistant Secretary of the Navy (Financial Management and Comptroller (FM&C)) Office of Financial Operations (FMO) and the Navy ERP Program Office, they did not consider it a requirement that all 20 DoD internal controls be resident within the capabilities of the Navy ERP purchase card system. In a December 2009 memo, DoD acknowledged that some internal controls may not be resident in the system. Consequently, it planned to set up a discussion with the Navy ERP Program Office, FMO, and CCPMD on where the controls should reside (PCOLS,⁶ Navy ERP, or Bank

⁴ (i) micro purchases; purchases under \$3,000; (ii) purchase of training services, training services not to exceed \$25,000; and, (iii) purchase card used as a method of payment for contracts, partial contract payments not to exceed \$9.9 million.

⁵ According to FMO, Consolidated Card Program Management Division (CCPMD) and ERP Purchase Card Program Office representatives, invoiceable transactions consist of only purchases or credits for goods and/or services. The non-invoiceable transactions include: prompt payment (credit and debit interest), payments to the vendor bank, debit to purchase balance, misposted payment, and debit card balance of less than \$1.

⁶ Purchase Card Online System (PCOLS) is a DoD measure implemented to reinforce the purchase card internal management control environment. PCOLS includes a work flow tool, AIM, (Authorization, Insurance and Maintenance) system, and; a data mining third party service that strengthen the purchase card internal environment against fraudulent, improper, and abusive purchase card activity. The Navy's purchase card program, in conjunction with CitiBank, uses an "Audit Tool," automated capability to mine data and identify purchases that have the greatest likelihood of being fraudulent, improper or abusive, and timely notifies APCs, AOs, and cardholders to review and validate the supporting documentation for that purchase.

system) after completion of the NAVAUDSVC audit. However, without the Navy ERP Purchase Card system demonstrating all 20 DoD internal controls, DON cannot be assured that the electronic capability enhances the degree of integrity and accuracy for purchase card transactions.

While conducting the audit, we observed transactions on the vendor's purchase card statements that were not included in the Navy ERP Purchase Card System. Specifically, the Navy ERP system did not include 222 transactions because the transactions did not have the necessary fields for Navy ERP Purchase Card inclusion. Also, 6 of the 37 selected transactions that were not in Navy ERP, according to Program Office representatives, were non-invoiceable transactions. Invoiceable transactions consist of only purchases or credits for goods and/or services. Non-invoiceable transactions include: prompt payment (credit and debit interest), payments to the vendor bank, debit to purchase balance, misposted payments, and debit card balance of less than \$1.

Communication with Management. Throughout the audit, we kept FMO, Navy ERP Program Office, NAVAIR Headquarters, NAVSUP Headquarters, and NAVSUP's Consolidated Card Program Management Division (CCPMD) informed of the conditions noted. Specifically, we held opening meetings with FMO; Navy ERP Program Office; NAVSUP, CCPMD, and NAVAIR, on 11 May 2009, 15 July 2009, and 16 September 2009 respectively. During the audit we briefed the Navy FMO on 9 September 2009 and held a joint meeting with ASN (FM&C) (FMO), Navy ERP Program Office, OUSD (AT&L), and the DoD Purchase Card Program Management Office on 29 October 2009 to discuss the results to date of our review of the DoD Internal Controls for a Purchase Card Program. We met 2 March 2010 and 8 April 2010 with FMO, CCPMD, and Navy ERP Program Office to discuss the audit results and recommendations.

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act of 1982, as codified in Title 31, United States Code, requires each Federal Agency head to annually certify the effectiveness of the agency's internal and accounting system controls. In our opinion, the conditions noted in this report do not warrant reporting in the Auditor General's annual FMFIA memorandum identifying management control weaknesses to the Secretary of the Navy.

Corrective Actions

To correct issues found during our audit, we recommended that ASN (FM&C) (FMO) require the remaining 10 DoD Internal controls for the purchase card program be resident in Navy ERP or obtain approval from DoD to fully implement Navy ERP Purchase Card system without these controls. We also recommended that ASN (FM&C) (FMO) establish an electronic purchase log in Navy ERP, and require scanning of supporting

documentation to promote a paperless process. Further, FM&C and CCPMD should establish the electronic Navy ERP Purchase Card system's role-based authorization capabilities to comply with separation of functions policy. We recommended that Navy ERP Program Office complete efforts to eliminate the manual process for partial contract payments and assess the feasibility of a tool that maintains a trail of these transaction details. We also recommended that CCPMD incorporate the electronic process to reconcile, approve, certify and pay purchase card invoices in the NAVSUPINST 4200.99.

Actions planned by the ASN (FMC) (FMO); Navy ERP Program Office; and NAVSUP meet the intent of the recommendations, and these recommendations are considered open pending completion of the planned corrective actions. Naval Supply Systems Command responded for CCPMD.

Section A:

Finding, Recommendations, and Corrective Actions

Finding: Internal Controls for Navy Enterprise Resource Planning Purchase Card System

Synopsis

The Navy Enterprise Resource Planning (ERP) purchase card electronic system complied with 10 of 20 required Department of Defense (DoD) internal controls. However, one control was not used properly. The remaining 10 controls with which ERP did not comply were handled using processes outside of the Navy ERP electronic purchase card capabilities. Office of the Under Secretary of Defense policy requires that all 20 DoD internal controls for a purchase card program be resident in an electronic purchase card system⁷ and operate properly before full implementation of the system is approved. The Assistant Secretary of the Navy (Financial Management and Comptroller (FM&C) Office of Financial Operations (FMO) and the Navy ERP Program Office representatives did not consider it a requirement that all 20 DoD Internal Controls be resident within the capabilities of the Navy ERP Purchase Card system. In a December 2009 memo, DoD acknowledged that some internal controls may not be resident in the system and planned to set up a discussion with Navy ERP Program Office, FMO, and Consolidated Card Program Management Division (CCPMD) on where the controls should reside (Purchase Card Online System (PCOLS), ERP, or Bank system) after completion of the Naval Audit Service audit. As a result, without the Navy ERP Purchase Card system demonstrating all 20 DoD internal controls, DON cannot be assured that the electronic capability enhances the degree of integrity and accuracy of purchase card transactions.

Background

The Department of Navy has chosen to use a system other than the vendor bank system to track and reconcile transactions and certify invoices associated with its purchase card program. The ERP purchase card program customized standard Systems Analysis and Program Development (SAP) purchase card capabilities and developed a solution that

⁷ DoD guidance provided information that components (Navy) that wish to nominate electronic solutions other than use of the existing bank systems must work with the Purchase Card Program Office, the Office of the DoD Comptroller, and the appropriate component-level audit community to validate that all of the required internal controls in the proposed alternate capability are resident and operate properly in a limited production environment before a full implementation is approved. (OSD memo dated, 19 December 2005, Subj: Internal Controls for the Purchase Card Program)

encompasses a suite of custom applications to facilitate the reconciliation, certification and payment of Citibank’s purchase card invoices. The Navy ERP Program Office stated that the Navy ERP suite is used in lieu of Citibank’s CitiDirect for integrating the purchase card program with Major Command-wide programs and project management, budgetary and financial management, human resources, and other areas. Further, use of Navy ERP purchase card capabilities also avoids significant line of accounting (LOA) double-entry and maintenance, and streamlines reconciliation, certification, and payment. Finally, the Navy ERP offers enhanced access security and financial reporting. The Navy ERP Program Office implemented the system on a limited production basis at the Naval Air Systems Command (NAVAIR) and the Naval Supply Systems Command (NAVSUP).

Audit Results

Internal Controls Residing in Navy ERP Purchase Card System

Our testing of 31 of the 37 selected transactions demonstrated that the Navy ERP Purchase Card System (“the system”) only complied with 10 of 20 required DoD internal controls. However, for one control, functional responsibility, NAVAIR and NAVSUP did not use it to its fullest extent. The 10 internal controls that resided in the Navy ERP purchase card system are:

1. Functional Responsibility Controls – The system has the capability to segregate role-based capabilities and limit access to these functions to individuals with appropriate authority. The Navy’s purchase card program policy, NAVSUPINST 4200.99, Chapter 2, paragraph 5, “Separation of Function,” requires that activities shall ensure the same person does not initiate the requirement, award the purchase action or receive the materials. However, NAVAIR and NAVSUP did not use the control appropriately for the 31 transactions tested. For example, cardholders were assigned capabilities to accomplish all functional responsibilities in making a purchase; preparing the requisition; creating the purchase order; and signing for receipt of goods or services. In the system, separation of functions was not accomplished because NAVAIR officials assigned all roles to the cardholder; while NAVSUP, using ad hoc procedures, separated the purchase funding approval role to another official and not the cardholder. Cardholders at both commands were assigned the “receipt of goods” role for all purchases reviewed. However, both commands maintained manual records for separation of functions for the requirement and receipt of materials external to the system. Use of manual records reduces the effectiveness of an electronic, role-based capability, which is required by Navy ERP purchase card system. See the section titled, “Paperless Requirement Opportunity for Navy ERP Purchase Card.”

2. Positive Fund Control – The system has the capability to tie spending limits directly to funding allocated for each managing and card account. It also includes a role-based identifier for reviewing and approving the funding assigned to a purchase. According to the Navy ERP program officials, each command’s comptroller is responsible for ensuring that there is adequate funding and, if funding is not adequate, the request for goods and services is denied. We verified that this control was effective through our examination of each of the 31 transactions through the approval processes. We determined that the process begins with the vendor bank setting the card limit for each cardholder. Those limits are then put into Navy ERP. When there is a request for purchases, a requisition is created and entered into Navy ERP. From there, the requisition is passed to the comptroller, via Navy ERP, for approval that funding is available prior to issuance of the purchase order. We verified that the system ties spending limits to funding allocated.

3. Separation of Duties – For the 31 transactions reviewed, the system has the capability to electronically provide separation of duties controls based on the role-based assignments. Key duties such as making purchases; certifying invoices for payment; certifying availability of funds; establishing policy; independent verification of property; and reviewing and auditing functions can be assigned to different individuals within the Government Purchase Card (GPC) hierarchal structure to minimize the risk of misuse to the greatest extent possible. However, as noted in Functional Responsibility Controls section, activities were not using role-based assignments appropriately for making purchases.

4. Transaction Review by Cardholder – For the 31 transactions reviewed, the system has the capability to aid the cardholder in the daily and monthly review process for approving the reimbursement amounts to Citibank. This process encompasses: (1) verifying the purchases; (2) reconciling or verifying that the purchases made were appropriate; (3) reallocating to another line of accounting, if necessary; (4) approving purchases for reimbursement payments to Citibank; and (5) disputing erroneous transactions posted to their account. The cardholders’ use of their Common Access Card (CAC) to log into Navy ERP and perform these functions demonstrated in the systems’ electronic records that the daily and monthly transaction reviews were performed by the designated official. After all monthly purchase card transactions are reviewed by the cardholder, the cardholder gives his or her authorization to reimburse Citibank.

However, this electronic process was not being done for contract partial payments made with the purchase card in the Navy ERP system. Five of the 31 transactions reviewed, totaling \$770,636.61, used the purchase card to make contract partial

payments. A work-around process called “Exception Pay”⁸ was used because Navy ERP could not show the review of these purchase card transactions for contract payments in their electronic records. The cardholder reviews, approves, and reimburses Citibank through the exception pay process. Exception pay is a manual process involving filling-out forms; “Exception Condition Processing of Daily 821 Transactions, and, 810 Monthly Statement Purchase Card Manual Solution;” created by the Navy ERP Program Office; then submitting this form to the Command business office for authorization for reimbursement payment to Citibank. After approval the form is submitted to the activities’ comptroller for approval and then to the Defense Finance and Accounting Service (DFAS) for the reimbursement payment to Citibank. This exception pay process is not visible within Navy ERP and is time consuming. During the audit this manual process was brought to the attention of Navy FMO officials. An Engineering Change Proposal (ECP) was approved and funded to allow the Navy ERP system to electronically record these transactions. The Navy ERP Program Office plans to have the ECP completed and implemented by Fiscal Year (FY) 2011. Implementation of the ECP will ensure that electronic approval records exist for all purchase card transactions (including contract partial payments) and the approval process to authorize reimbursement payments to Citibank. No manual records will be involved in the cardholder’s review of transactions.

This is the first step in the certification process that verifies invoices have been approved and certified in their entirety.

5. Transaction Review by Approving Official (AO) – The system has the capability to aid the AO with transaction reviews to ensure: (1) all supporting documentation was obtained and correct; (2) cardholder reviews were completed properly; (3) receipt of all accountable property has been properly documented; (4) all transactions were necessary Government purchases; and (5) other administrative functions were performed. For the 31 transactions reviewed, the AO’s use of their CAC demonstrated in the systems’ electronic records that the daily and monthly transaction reviews were performed by a designated official assigned that role. However, the vendor bank invoice received by the AO shows transactions that are not included in the Navy ERP Purchase Card system. Specifically, 6 of the 37 transactions selected were not in Navy ERP. The six transactions that are not included in the system are considered “non-invoiceable” transactions (i.e., prompt payment (credit and debit interest), payments to the vendor bank, debit to purchase balance, misposted payment, and debit card balance of less than \$1).

This is the second step in the certification process that verifies invoices have been approved and certified in their entirety

⁸ Exception Pay is a manual versus electronic process used to pay the contract payment.

6. Transaction Review by Certifying Official – For the 31 transactions reviewed, the system has the capability to aid the Certifying Officer in (1) certifying that the items listed were correct and proper for payment from the funds designated; and (2) the proposed payment was legal, proper, and correct.

This is the final step in the certification process that verifies invoices have been approved and certified in their entirety.

7. Available Funding Integrity – For the 31 transactions reviewed, the system: (1) assigned the role that encompasses approving the funding (appropriation/lines of accounting) for purchases, (2) traced funding through disbursement, and (3) showed changes to original (account defaults) lines of accounting were documented and appropriately certified.
8. Transaction Data Integrity – For the 31 transactions reviewed, the system restricted cardholders from altering transaction reviews after they approved their Statement of Account (SOA) unless their Approving Official returned the SOA to them for corrections. Certifying Officers were not able to alter invoice data after electronic certification.
9. Data Exchange Security – We obtained credit card data for 48,152 transactions between 20 March and 19 June 2009. We tested the data to determine if the data could have been altered; it could not. We also compared data we received from the vendor bank to data obtained from Navy ERP. We found that the data matched for all transactions except for the non-invoiceable transactions and 222 invoiceable transactions. The Navy ERP system operates within the Navy Marine Corps Intranet (NMCI) and has all of the appropriate system security and secure transmissions required for Navy systems. All data received by the Navy ERP system from Citibank is routed through the Defense Automated Addressing System (DAAS). The DAAS is the standard for DoD transmission line for secure data exchange between commercial information systems and DoD systems. This transfer is a one-way line interface communication, in which data is sent from the vendor bank to the Navy ERP purchase card system. Also, the Navy ERP system does not interface or have direct access with the CitiDirect system and does not provide any data feed to the bank's system. By accessing and comparing approval records from the system, our test of the 31 sampled purchase card transactions confirmed that original data was not altered.
10. Invoice Integrity – The system had an electronic certification process that maintained the official (original unaltered) electronic invoice, which was traceable from the vendor (bank) through the certification and entitlement processes and retained in a Government record. Of the 31 transactions that we reviewed in Navy

ERP, we could verify they were in the database we obtained directly from Citibank. We also verified the transactions were certified and approved by the Approving Official and Certifying Official, and these historical records were maintained in Navy ERP. We relied on both Navy ERP approval records and hard copy supporting documentation to validate the 31 purchases.

Internal Controls Not Residing in Navy ERP Purchase Card System

We verified that the remaining 10 internal controls did not reside in the Navy ERP purchase card system (“the system”). These controls were handled using processes outside of the system. Our audit focused on verification of controls that reside in the Navy ERP Purchase Card System; therefore, we did not verify the effectiveness of the controls outside of the system. The 10 controls were:

1. Training – The system did not maintain training records on the use of the Government purchase card (GPC) for any participants in the GPC program. The training records are maintained in the CCPMD Web site database. In order to determine if a potential Navy ERP user had the proper training, the supervisor must call their Purchase Card Agency Program Coordinator (APC) or CCPMD and receive verification.
2. Delegation of Authority – The system was not programmed to maintain the cardholder’s delegation of contracting authority that established specific spending and usage limitations. This is being accomplished the CitiDirect system through the delegation of authorities/instructions. According to FMO, CCPMD, and Navy ERP Program Office representatives, these records are external to the system, and maintained by the APC. Navy ERP program officials stated this control was not directed to be programmed into the system.
3. System Access Security – The system did not provide safeguards to control issuance and safeguarding of access credentials to the vendor bank’s electronic access system (EAS). The vendor bank provides safeguards to control the access credentials to their CitiDirect system. According to Navy ERP Program Office representatives, these management internal controls are external to the system. Citibank grants access to its system when documentation is presented to them by Navy ERP personnel for cardholders, approving officials and certifying officials. Navy ERP has no capability to gain access on its own without the approval of Citibank. Also, according to Navy ERP Program Office representatives, this internal control was not programmed into Navy ERP, but if determined by DoD it must be, the control will be financed and accomplished.
4. Purchase Log – The system did not maintain an electronic purchase log that documented purchase information for each transaction made using the purchase

card. The Navy FMO and ERP Purchase Card Office did not incorporate the requirement for an electronic purchase card log in the specifications for the Navy ERP purchase card system. While the system recorded and stored most purchase information, the cardholders maintained an Excel spreadsheet with the required purchase information, external to the system.

5. Cardholder Account Initiation – The system did not maintain information for initiation of cardholder accounts. The DON process involved an initiation of a supervisor’s request to open a new cardholder account. The request was then approved by the APC. Navy ERP program officials stated this control was not directed to be programmed into the Navy ERP system. This control is administered by the APC officials’ role-basing and authorities in the CitiDirect system. All records documenting account initiation are retained by the APC.
6. Authorization Controls – The system did not establish spending limits, budget limits, and merchant category code (MCC) access tailored to each cardholder account. NAVSUP Instruction (NAVSUPINST) 4200.99 provides the process for establishing spending and budget limits and MCC access for each cardholder account. A delegation letter is issued containing this information. Then, the vendor bank establishes the controls in their system based on the parameters outlined in the delegation letters. Navy ERP program officials stated this control was not directed to be programmed into the Navy ERP system.
7. Span of Control – The system did not limit the number of cardholders assigned to an approving official. NAVSUPINST 4200.99 establishes that an AO can have a maximum of 7 cardholders and a Certifying Official can have a maximum of 300 AOs. We obtained a complete listing of Navy ERP cardholders, approving officials and certifying officials. Doing a query, we determined there was no approving official with more than 7 cardholders, nor was there a certifying official with more than 300 approving officials. This internal control is not a function of Navy ERP at this time. Navy ERP program officials stated this control was not directed to be programmed into the Navy ERP system. Again, the APC officials and the CitiDirect system maintain this control.
8. Management Controls – The system did not provide reasonable assurance that:
(a) purchase card programs using electronic systems were used efficiently, economically, effectively, and legally to achieve the purposes for which the program was established; and (b) the system complied with applicable laws and regulations. In addition, NAVSUPINST 4200.99 has not been revised to incorporate policy and procedures for controls resident in an electronic role-based capability system. Also, purchase card officials continue to incorporate manual processes and hard copy supporting records to validate purchases. Specifically, policy does not exist for:

- The proper use of the role-based function for electronic approvals and separation of functions;
 - Standardized processes for reconciling, certifying, and paying purchase card invoices from an electronic system;
 - Requirement of an electronic purchase log; and
 - Maintaining electronic supporting documentation of purchase transactions (paperless procurement system).
9. Dispute Authority – The system did not incorporate the process for disputing a transaction. The vendor bank gives the cardholder 60 days from the date of the billing statement to formally dispute transactions. Navy ERP program officials stated this control was not directed to be programmed into the Navy ERP system. A disputed transaction is recorded and documented by the APC/cardholder in the CitiDirect system.
10. System Administration Integrity – The system did not contain Engineering Change Proposals (ECPs) to the operating system environment. According to Navy ERP Program Office personnel, this documentation was maintained within the Program Office and not within Navy ERP. The Program Office has a Requirements Management Plan, which outlines the ECP process and Navy ERP Senior Integration Board (NESIB) governance; a Configuration Management (CM) Plan that describes the Configuration Control (CCB/CMB/TCCB) process and an Enterprise Change Request Process and Procedures (ECRPP) that describes the procedures. The Navy wants to know when and by whom software programs are changed/modified. This is being accomplished outside Navy ERP.

Reason Why the Navy ERP Purchase Card System Did Not Contain All 20 Internal Controls

In December 2005, the OUSD (Acquisition, Technology and Logistics) directed the Secretaries of the Military Departments to ensure that their purchase card guidance and instructions are consistent with the agreed-to portfolio of internal controls that are appropriate to safeguard Government resources and manage risk associated with the use of the Government Purchase Card. The portfolio described 20 Internal Controls for the Purchase Card program. OUSD directed that components who wish to nominate electronic solutions other than the use of the existing bank's systems must ensure that these controls are resident in any electronic capability used within the Department to reconcile, certify, and pay purchase card invoices. Additionally, a validation that all of the required internal controls in the proposed alternate capability are resident and operate properly in a limited production environment is required before full implementation is

approved. Systems that satisfy this validation process will be authorized by the Director of Defense Procurement and Acquisition Policy to settle purchase card invoices. This was to be accomplished by working with the DoD Purchase Card Program Management Office, the Office of the DoD Comptroller, and the component-level audit community.

The Memorandum of Understanding (MOU) dated 28 August 2007 (involving the Navy ERP Program Office, FMO, Consolidated Card Program Management Division (CCPMD); DoD Purchase Card Program Management Office, Under Secretary of Defense (Comptroller); and OUSD (Acquisition, Technology, and Logistics) stated that the Navy ERP purchase card system was developed to be a suite of custom applications that would facilitate the reconciliation and certification of the purchase card invoices. According to FMO, Program Office, and CCPMD officials, their interpretation of the memo is that the system is only to certify and verify the purchase card invoices for payment, and it is not required to meet all 20 DoD controls. These representatives also indicated that they rely on management internal controls established outside of the Navy ERP purchase card system to accomplish the remaining 10 internal control requirements.

The MOU of 28 August 2007 stated the Navy ERP Purchase Card Application Suite, combined with NAVAIR's Purchase Card Program Management Controls, ensures all of the required internal controls are in effect. The responsibility for maintaining systemic internal controls will lie within Navy ERP. Non-systemic, or program management, internal controls will lie with NAVAIR purchase card APCs, AOs, and cardholders. NAVAIR management internal controls for each individual company code/plant, combined with the controls inherent in the Navy ERP solution, could, if properly utilized, minimize risks and provide effective controls and audit capabilities throughout the production environment for an effective GPC system.

In August 2008 the Navy ERP Program Management Office (PMO) issued a memorandum to the Office of the Secretary of Defense, advising them that 12 internal controls⁹ would reside in the Navy ERP. The memo also stated that these controls, combined with NAVAIR's purchase card program management internal controls, are in effect. However, according to our verification, 3 of the 12 controls were not within Navy ERP, and 1 control outside the 12 was in Navy ERP.¹⁰ Exhibit E provides a breakdown of the 20 required DoD internal controls relative to the proposed electronic Navy ERP purchase card system.

In a 10 December 2009, OUSD (AT&L) issued a memorandum to the ASN (FM&C) (FMO) granting approval to field the Navy ERP purchase card functionality at

⁹ The 12 internal controls are: Functional Responsibility Controls, Separation of Duties, Purchase Log, Management Controls, Transaction Review by Cardholder, Transaction Review by Approving Official, Transaction Review by Certifying Official, Available Funding Integrity, Dispute Authority, Transaction Data Integrity, Data Exchange Security, and Invoice Integrity.

¹⁰ Purchase Log, Management Controls, and Dispute Authority are not present in the Navy ERP PC System. Positive Fund Control is not required, but we determined that it is resident in Navy ERP.

SPAWAR. The decision expanded the Navy's current limited production environment to NAVAIR, NAVSUP, and SPAWAR. The memo required DON to provide a plan that brings all Systems Commands into compliance with identical standard business rules and internal controls over Navy ERP purchase card functionality. The Navy must also designate one Systems Command to use the Purchase Card On-Line System (PCOLS) data mining/risk assessment tool. DoD acknowledged, in their December 2009 memo, that some internal controls were not resident in the system and planned to set up a discussion with Navy ERP Program Office, FMO, and CCPMD on where the controls should reside (PCOLS, ERP, or bank system) after completion of NAVAUDSVC audit.

As of 28 May 2010, the DoD and the Navy had not discussed waivers to the requirement that all 20 internal controls must reside in any electronic capability used to reconcile, certify, and pay purchase card invoices.

Paperless Requirement Opportunity for Navy ERP Purchase Card

In an effort to achieve best business practices and move to a paperless procurement system, DoD established Defense Reform Initiative Directives No. 46 and No. 47 in December of 1998. Directive No. 46 calls for the elimination of paper contracting. DoD states that by the date of 1 January 2001, all paper documentation in the acquisition area of contracting shall be eliminated. Directive No. 47 creates an "end to end" procurement process that calls for a common, integrated system throughout the department, to eliminate the need for paper documentation and stand-alone automated systems. On 23 June 2000, DoD issued Directive 1890.2 establishing policy for the electronic business/electronic commerce program. This directive instructed that all DoD components plan, develop, and implement electronic business, as well as facilitate global file sharing and appropriate security measures. With the introduction of Navy ERP Purchase Card system, it would be timely to incorporate the requirement for going paperless and require the scanning of purchase card transaction supporting documentation. We recommend that the Navy assess the feasibility of requiring scanning of supporting documentation (such as purchase request and receipt documentation) associated with each purchase transaction to promote a paperless process. If this option is determined to be feasible, incorporate this recommendation into the standard Navy ERP purchase card business process.

Summary

All 20 required DoD Internal Controls for a purchase card program did not reside within the Navy ERP purchase card system. Ten of the controls resided within the system while the remaining 10, according to Navy ERP Program Office officials, were handled using processes outside of the system. The DON cannot be assured that the electronic purchase card system enhances the degree of integrity and accuracy for purchase card transactions. In addition, redundancies may not be eliminated and processes may not be standardized and streamlined into one completely integrated system. The implementation of the Navy ERP purchase card

system at NAVAIR and NAVSUP may not improve the internal controls that are required for a manual purchase card operation. Current purchase card operations with Navy ERP continue to rely on controls that are largely manual and external to an electronic system and may not achieve the expected benefits from the Navy ERP system's electronic internal control process capabilities. Implementation of these recommendations will enhance the capabilities of the electronic system. Incorporating a paperless process will eliminate the retention of hard document records and ensure a seamless and continuous audit trail on purchase card transactions.

Recommendations and Corrective Actions

We made recommendations to ASN (FM&C) (FMO), Navy ERP Program Office, and CCPMD. All Navy offices provided timely responses and target completion dates for planned actions. Below are the summarized management responses, and our comments on the responses. The full text of the management responses can be found in the Appendices.

We recommended that the Assistant Secretary of the Navy, Financial Management and Comptroller, Office of Financial Operations (FMO):

Recommendation 1. Integrate the remaining 10 DoD Internal Controls for Purchase Card Program in the Navy ERP, or obtain a waiver to the DoD memorandum of 19 December 2005.

ASN (FM&C) (FMO) response to Recommendation 1. Partially concur. We agree that not all 20 internal controls are included in the Navy ERP Purchase Card capabilities as 10 controls are handled using processes outside of the system. However, controls from the original purchase card program are still in place and are not adversely affected by the implementation of Navy ERP. The reliance on controls present elsewhere in the purchase card program is consistent with Office of the Secretary of Defense's (OSD's) vision and is illustrated in their 10 December 2009 memorandum. FMO maintains that all required internal controls are present and operating effectively through a combination of Program Management, Navy ERP, Citibank's Purchase Card System (CitiDirect), and the Program Audit Tool.

FMO and Navy ERP Program Management Office (PMO) do not consider it a requirement that all 20 internal controls identified in the OSD memo "Internal Controls for Purchase Card Program" of 19 December 2005 be resident within the purchase card capabilities of the Navy ERP. Our understanding that it is not DoD's intent that all 20 internal controls be resident in the Navy ERP is supported by their signature on the original Naval Air Systems Command (NAVAIR) Memorandum of Understanding (MOU) and implied by their 10 December 2009

Space and Naval Warfare Systems Command (SPAWAR) implementation memo. Both the NAVAIR MOU and the SPAWAR memo specifically identified internal controls expected to reside outside of the Navy ERP purchase card capabilities.

To address NAVAUDSVC's concern, and as directed by OSD's 10 December 2009 memo, FMO will discuss with OSD and reach agreement on where the controls should reside. FMO will provide the results to NAVAUDSVC and address any discrepancies in current system operations and/or standard operating procedures as appropriate. FMO's target completion date is 16 December 2010.

Naval Audit Service comment on response to Recommendation 1. Even though FMO indicated a partial concurrence, the planned actions to discuss with OSD and reach agreement on where the 10 controls should reside should resolve the noted issue. This recommendation is considered open pending completion of planned actions.

Recommendation 2. Update the Navy ERP purchase card system to include the capability for an electronic purchase log report. When considering alternatives for an electronic purchase log, include the business case for the capability that already resides in the system.

ASN (FM&C) (FMO) Response to Recommendation 2. Concur. FMO and Navy ERP PMO agree that all cardholders are required to document purchase information for each transaction made using the card in an electronic log (or a manual log if not electronic data interchange enabled).

Per the 28 August 2007 NAVAIR MOU, the Navy ERP purchase card capabilities support the purchase log requirement by capturing and maintaining an electronic audit trail of all procurement transactions. This includes the purchase requisition, the purchase order, maintenance of the purchase order, goods receipt posting for materials and services, and all related financial account postings. However, there is no single report or screen shot that provides all of this information in one place. FMO and Navy ERP PMO will present to OSD the business case for accepting as a purchase log the report already in place with the understanding that we are working to add receipt date and receiver name--information which is already captured by Navy ERP. Target Completion Date: 30 December 2011.

Naval Audit Service comment on response to Recommendation 2. FMO and Navy ERP PMO planned action meets the intent of the recommendation. However, we request that FMO provide us with an interim status report on actions taken as of 31 March 2011. This recommendation is considered open pending completion of planned actions.

Recommendation 3. Assess the feasibility of requiring scanning of supporting documentation (such as purchase request and receipt documentation) associated with each purchase transaction to promote a paperless process. If this option is determined to be feasible, incorporate this recommendation into the standard Navy ERP purchase card business process.

ASN (FM&C) (FMO) response to Recommendation 3. Concur. The Navy has added the requirement to scan and attach to the Navy ERP Purchase Request/Purchase Order all relevant documentation. An icon will identify on transaction reports the presence of such documentation. Selecting the icon will access the documentation.

Navy ERP currently has the capability to scan and attach supporting documentation; however, its use to support purchase card transactions was not required. FMO will require, through the issuance of a Navy ERP business process standardization memo, that Navy ERP sites utilize the scanning capability available within Navy ERP and scan and attach all supporting documentation, such as Purchase Request/Purchase Order documentation, to purchase card Purchase Requests. Target Completion Date is 28 February 2011.

Naval Audit Service comment on response to Recommendation 3. FMO's planned actions meet the intent of the recommendation. This recommendation is considered open pending completion of planned actions.

Recommendation 4. In conjunction with CCPMD, require that the electronic Navy ERP purchase card system's role-based authorization capabilities comply with separation of functions policy, and incorporate a consistent methodology for handling separation of functions in the standard Navy ERP purchase card business process.

ASN (FM&C) (FMO) response to Recommendation 4. Concur. The Navy has developed and is implementing across all Navy ERP sites a standardized Navy ERP purchase card business process which will prevent an overlap in duties performed and guarantee compliance with the separation of functions control. FMO has documented and analyzed current business processes and is in the process of drafting the Navy ERP purchase card capability standard business process. To ensure compliance at all Navy ERP sites (current and future), a Navy ERP business process standardization memo will be issued mandating use of the standard process, which accounts for the separation of functions control. The Access Enforcer tool will be used to enforce this particular control. Target Completion Date is 28 February 2011.

Naval Audit Service comment on response to Recommendation 4. FMO's planned actions meet the intent of the recommendation. This recommendation is considered open pending completion of planned actions.

We recommend the Navy ERP Program Office:

Recommendation 5. Complete the process of the Engineering Change Proposals to eliminate the manual process for partial contract payments using the purchase card. In addition, assess the feasibility of a tool that maintains a trail of the transaction details of the partial payments.

Program Manager, Navy ERP Program response to Recommendation 5. Concur. The Engineering Change Proposal (ECP) NBO_0050_PCard Split Reconciliation Enhancements (RFC2586) has been approved and the Navy ERP purchase card software enhanced to provide partial invoicing capability. Specifically, functionality is now provided for bank invoice transactions to be systemically reconciled as partial contract payments using the purchase card. Included are debit and credit invoices posting against single and multi-item purchase orders. The new functionality eliminates the manual "Exception Condition" process used previously and provides a complete electronic audit trail of all user actions accomplished. Target Completion Date is scheduled for production release on 17 October 2010.

Naval Audit Service comment on response to recommendation 5. The Navy ERP Program Office's planned actions meet the intent of the recommendation. This recommendation is considered open pending completion of planned actions.

We recommend the Consolidated Card Program Management Division (CCPMD):

Recommendation 6. Incorporate the processes related to the use of electronic systems to reconcile, approve, certify and pay purchase card invoices in the NAVSUPINST 4200.99.

NAVSUP response to Recommendation 6. Concur. We plan to incorporate the processes related to the use of electronic systems to reconcile, approve, certify and pay purchase card invoices in NAVSUPINST 4200.99 after the Office of the Secretary of Defense approves Navy Enterprise Resource Planning (ERP) for certifying Purchase Card Invoices. Estimated target completion date is 31 October 2010.

Naval Audit Service comment on response to Recommendation 6.
CCPMD's planned actions meet the intent of the recommendation. This recommendation is considered open pending completion of planned actions.

Observations

While conducting our review, we observed that some Citibank transactions were not included in the Navy ERP Purchase Card System. Specifically, the system did not include 222 transactions that did not have the necessary fields for Navy ERP Purchase Card system inclusion. Also, six transactions that were not in Navy ERP, according to Program Office representatives, were non-invoiceable transactions.

When we compared the vendor database universe of 20 March – 19 June 2009 with the Navy ERP electronic invoice file for the same period, we found 222 “invoiceable” transactions that were not in Navy ERP. We provided the 222 invoiceable transactions to CCPMD and Navy ERP Program Office personnel to investigate. CCPMD representatives determined that these transactions were missing required information in fields necessary for Navy ERP Purchase Card system inclusion. Three fields must have the following information: the AAA must be “050120” (the routing code for Navy ERP), the field titled “OPTI” must be “W,” (originally this was indicating Working Capital Fund, but applicable for Navy ERP); and the Card Classification Indicator must be “E” (Electronic). If the Card Classification Indicator is “P,” that transaction was Paper (rather than Electronic), therefore, the bank sends neither electronic transactions nor invoices to Navy systems, Navy ERP, or anywhere else. CCPMD and Navy ERP Program Office agreed to further investigate the 222 transactions to determine whether or not they should be in Navy ERP and to make the appropriate corrections to the fields that were incorrectly coded.

Six of the 37 purchase card transactions selected for review were not in Navy ERP. According to FMO, CCPMD, and Navy ERP Program Office representatives, the six transactions were non-invoiceable transactions. The non-invoiceable transactions include: prompt payment (credit and debit interest), payments to the vendor bank, debit to purchase balance, misposted payment, and debit card balance of less than \$1. CCPMD stated these transactions are used to balance the billing accounts at Citibank and should not be included in Navy ERP. Our audit did not include a review of transactions used to balance the billing accounts at Citibank.

Section B:

Status of Recommendations

Recommendations							
Finding ¹¹	Rec. No.	Page No.	Subject	Status ¹²	Action Command	Target or Actual Completion Date	Interim Target Completion Date ¹³
1	1	15	Integrate the remaining 10 DoD Internal Controls for Purchase Card Program in the Navy ERP, or obtain a waiver to the DoD memorandum of 19 December 2005.	O	ASN (FMC) (FMO)	12/16/10	
1	2	16	Update the Navy ERP purchase card system to include the capability for an electronic purchase log report. When considering alternatives for an electronic purchase log, include the business case for the capability that already resides in the system.	O	ASN (FMC) (FMO)	12/30/11	3/31/11
1	3	17	Assess the feasibility of requiring scanning of supporting documentation (such as purchase request and receipt documentation) associated with each purchase transaction to promote a paperless process. If this option is determined to be feasible, incorporate this recommendation into the standard Navy ERP purchase card business process.	O	ASN (FMC) (FMO)	2/28/11	
1	4	17	In conjunction with CCPMD, require that the electronic Navy ERP purchase card system's role-based authorization capabilities comply with separation of functions policy, and incorporate a consistent methodology for handling separation of functions in the standard Navy ERP purchase card business process.	O	ASN (FMC) (FMO)	2/28/11	
1	5	18	Complete the process of the Engineering Change Proposals to eliminate the manual process for partial contract payments using the purchase card. In addition, assess the feasibility of a tool that maintains a trail of the transaction details of the partial payments.	O	Navy ERP Program Office	10/17/10	

¹¹ / + = Indicates repeat finding.

¹² / O = Recommendation is open with agreed-to corrective actions; C = Recommendation is closed with all action completed; U = Recommendation is undecided with resolution efforts in progress.

¹³ If applicable.

Recommendations							
Finding ¹¹	Rec. No.	Page No.	Subject	Status ¹²	Action Command	Target or Actual Completion Date	Interim Target Completion Date ¹³
1	6	18	Incorporate the processes related to the use of electronic systems to reconcile, approve, certify and pay purchase card invoices in the NAVSUPINST 4200.99.	O	CCPMD	10/31/10	

Exhibit A:

Background and Pertinent Guidance

The Assistant Secretary of the Navy (Financial Management and Comptroller) Office of Financial Operations (ASN (FM&C) (FMO)) is responsible for providing financial management policy to the Navy. They provide policy to the Naval Supply Systems Command (NAVSUP) Consolidated Card Program Management Division (CCPMD), which in turn provides policy for systems and functions; especially for purchase card implementation. The Navy Enterprise Resource Planning (ERP) Program Office follows policy issued by both FMO and CCPMD, and acts as the system administrator for Navy ERP. Each command is independent of the other for administrative purposes.

The Department of Navy has chosen to use a system other than that provided by the vendor bank to track and reconcile transactions and certify invoices associated with its purchase card program. The Navy ERP program has developed a suite of custom applications that will facilitate the reconciliation and certification of purchase card invoices. This suite is used in lieu of Citibank's CitiDirect for these purposes. In order to demonstrate the integrity of the new application and its compliance with the relevant internal controls, the Program Office has begun implementing the system on a limited-production basis. The Naval Audit Service was tasked with auditing the program and providing findings and recommendations to help ensure process and application integrity as the Navy ERP program, inclusive of the custom purchase card solution, is implemented enterprise wide.

Office of the Secretary of Defense Memo, "Internal Controls for the Purchase Card Program" of 19 December 2005 states: "Components who wish to nominate electronic solutions other than use of the existing banks systems must work with the Purchase Card Program Office, the Office of the DoD Comptroller, and the appropriate Component-level audit community to validate that all of the required internal controls in the proposed alternate capability are resident and operate properly in a limited production environment before a full implementation is approved."

In August 2007, Navy ERP, Deputy ASN (FM&C) (FMO), NAVSUP CCPMD, Department of Defense PC PMO, Office of the Secretary of Defense (OSD) (C), and OSD Acquisition, Technology and Logistics (AT&L) signed the Memorandum of Understanding for Limited Production Implementation of Navy ERP purchase card capabilities at Naval Air Systems Command (NAVAIR).

In October 2007, NAVAIR implemented Navy ERP, including purchase card capabilities, and the Office of the Under Secretary of Defense (Comptroller) (OUSD (C)) Deputy Chief Financial Officer (DCFO) and OUSD (AT&L) (Defense Procurement and

Acquisition Policy (DPAP)) updated the Internal Controls for the Purchase Card Program to include fraud.

In January 2008, NAVAIR monthly purchase card delinquencies peaked at approximately 35 percent and in June 2008, NAVAIR purchase card delinquencies returned to less than the DoD goal of 1 percent.

In August 2008, FMO requested that the Naval Audit Service perform an audit of Navy ERP purchase card internal controls. Also, FMO received from DPAP verbal concurrence to expand the limited production scope to accommodate implementation of Navy ERP at NAVSUP with formal concurrence pending scheduling of audit. In late August 2008, FMO formally requested expansion of limited production scope.

In October 2008, NAVSUP implemented Navy ERP, including purchase card capabilities.

In December 2008, FMO reviewed purchase card internal controls at NAVAIR. NAVAIR completed a purchase card semi-annual review with minimal findings.

In January 2009, the Naval Audit Service published its Fiscal Year 2009 Audit Plan; a Navy ERP audit was scheduled to begin in the 2nd Quarter. FMO completed review of purchase card internal controls at NAVAIR.

On 10 December 2009, DoD issued a memorandum stating a review of the 20 internal controls would be accomplished after the issuance of the “Navy ERP Purchase Card Capabilities” audit. These controls would be distributed among PCOLS, Navy ERP, and the existing purchase card vendor bank.

Exhibit B:

Scope and Methodology

We performed this audit of the implementation of the Navy Enterprise Resource Planning (ERP) pilot programs throughout the aviation, maritime, supply, and financial communities, between 15 July 2009 and 2 August 2010. Implementation began at Naval Air Systems Command (NAVAIR) in October 2007.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We determined there were no Naval Audit Service, Department of Defense Inspector General, or Government Accountability Office reports published in the past 5 years covering Navy ERP Purchase Card Capabilities; therefore no followup on prior audits was required.

The Data Mining personnel of the Naval Audit Service received a download from Citibank and pulled CitiDirect transactions identified to NAVAIR and NAVSUP that posted from 20 March to 19 June 2009. Our universe comprised 48,152 transactions from NAVAIR and NAVSUP. The breakdown of the 48,152 transaction universe contained 24,596 debit transactions, totaling \$20,503,916.25; and 23,556 credit transactions (which includes payments, returns, and other credit adjustments) totaling \$19,931,586.16. We judgmentally selected 37 transactions (36 debit transactions totaling \$914,341.18; and 1 credit transaction totaling \$28.52) to follow through the Navy ERP purchase card system to determine if the 20 DoD internal controls were in place.

The 37 transactions originated from 18 NAVAIR and 19 NAVSUP commands and represented the three uses of the purchase card: (i) micro purchases, purchases under \$3,000; (ii) purchase of training services (training services not to exceed \$25,000); and (iii) purchase card used as a method of payment for contracts (partial contract payments not to exceed \$9.9 million). We also reviewed hard copy documentation to test controls that did not reside within the system.

The judgmental sample of 37 transactions was taken from a universe of 24,596 debit transactions, and was chosen to include both high-dollar transactions and an arbitrary selection of lower-dollar-value transactions. The table below provides the details on sorting of CitiDirect data that we used to judgmentally select transactions to review the supporting purchase documentation and approvals.

Data Sort Categories		NAVAIR Transactions	NAVSUP Transactions
High Dollar Value	Contract Payments >\$3,000 - \$9.9M	6	2
	Training Service Purchases \$1 - \$25,000	1	6
Lower Dollar Value	Micro Purchases <\$3,000	7	8
	< \$3,000 Purchases by CitiDirect Reference Number – (Non-invoiceable trans.)	4	
Card-Holder Limitation - \$1 and \$0			3
Total Transactions Sampled = 37		18	19

Figure 1.

After identifying transactions to review, we used the Navy ERP Citrix database to compare and validate information that was provided from the CitiDirect data. We compared information such as the cardholder name, approving official, agency program coordinator, and transaction amount and transaction post date. Other fields that were relied on for the purchase card approval process were the initiation of the purchase request, the initiation of the purchase order, the receipt and acceptance of goods and/or services and the accounts payable posting initiator as well as the ad hoc approval process for the validation of the purchase. We accessed the Navy ERP system and used the system records to verify approval for: the procurement functions; requirement/requisition, funding, purchase order, receipt inspection and acceptance, and the vendor bank's monthly reimbursement payment. An Excel spreadsheet was made to accommodate this data in a readable format with fields relating to each category of interest for validating the purchase supporting documentation and approvals. The spreadsheet included columns which were pulled from the data mining CitiDirect data. It also included columns that were post-filled after retrieving data from Navy ERP Citrix.

We noted and relied upon the system's capability to segregate role-based approvals between procurement functions and the monthly process for reimbursement payments to the vendor bank. Since the system is role-based, each individual has specific duties and functions based on their position. By using their CAC card, ERP verifies who performs/approves the duties and/or functions. We also followed up with the cardholders and approving officials to verify that the supporting hard copy documentation agreed with what we found in the electronic records.

Exhibit C:

Activities Visited and/or Contacted

- Department of the Navy Office of Financial Operations, Washington DC
- Program Executive Office for Enterprise Resource Systems, Arlington, VA
- Navy Enterprise Resource Planning Program Office, Annapolis, MD
- Navy Consolidated Card Program Management Division, Mechanicsburg, PA
- Naval Air Systems Command, Headquarters, Patuxent River, MD
- Naval Supply Systems Command, Headquarters, Mechanicsburg, PA
- Navy Supply Information Systems Activity, Philadelphia, PA
- Navy Inventory Control Point, Philadelphia, PA

Exhibit D:**Acronyms**

<u>Acronym</u>	<u>Definition</u>
AO	Approving Official
APC	Agency Program Coordinator
ASN (FM&C)	Assistant Secretary of the Navy (Financial Management and Comptroller)
ASN (FM&C) (FMB)	Assistant Secretary of the Navy (Financial Management and Comptroller) The Office of Budget
ASN (FM&C) (FMO)	Assistant Secretary of the Navy (Financial Management and Comptroller) Office of Financial Operations
ASN (M&RA)	Assistant Secretary of the Navy (Manpower and Reserve Affairs)
ASN (RD&A)	Assistant Secretary of the Navy (Research, Development and Acquisition)
CAC	Common Access Card
CCPMD	Consolidated Card Program Management Division
CH	Cardholder
CO	Certifying Official
DAAS	Defense Automated Addressing System
DAO	Departmental Accountable Official
DASN	Deputy Assistant Secretary of the Navy
DCFO	Deputy Chief Financial Officer
DoD	Department of Defense
DoD FMR	Department of Defense Financial Management Regulations
DoDIG	Department of Defense Inspector General
DoD PC PMO	Department of Defense Purchase Card Program Management Office
DON	Department of the Navy
DONIG	Department of the Navy Inspector General
DPAP	Defense Procurement Acquisition Policy
EAS	Electronic Access System
ECP	Engineering Change Proposal
EDI	Electronic Data Interchange
ERP	Enterprise Research Management
FISCAM	Federal Information System Controls Audit Manual
FISMA	Federal Information Security Management Act of 2002

FMO	The Office of Financial Operations (Financial Management Operations)
FOUO	For Official Use Only
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office
GISRA	Government Information Security Reform Act
GCPC	Government-Wide Commercial Purchase Card Program
GPC	Government Purchase Card
GSA	Government Services Administration
INST	Instruction
IOP	Internal Operating Procedures
IT	Information Technology
LOA	Line of Accounting
MOU	Memorandum of Understanding
MCC	Merchant Category Code
NAVAIR	Naval Air Systems Command
NAVAUDSVC	Naval Audit Service
NAVICP	Naval Inventory Control Point
NAVSEA	Naval Sea Systems Command
NAVSISA	Navy Supply Information Systems Activity
NAVSUP	Naval Supply Systems Command
NMCI	Navy Marine Corps Intranet
OSD	Office of the Secretary of Defense
OSD (AT&L)	Office of Secretary of Defense (Acquisition, Technology and Logistics)
OSD (C)	Office of Secretary of Defense (Comptroller)
OSD (P&R)	Office of Secretary of Defense (Personnel & Readiness)
OUSD	Office of the Under Secretary of Defense
OUSD (AT&L)	Office of Under Secretary of Defense (Acquisition, Technology and Logistics)
OUSD (C)	Office of Under Secretary of Defense (Comptroller)
OUSD (P&R)	Office of Under Secretary of Defense (Personnel & Readiness)
PCOLS	Purchase Card Online System
PCPN	Purchase Card Policy Notices
PEO-EIS	Program Executive Officer Enterprise Information System
PM	Project Manager
PM/BP	Program Management/Business Process
POC	Point of Contact
POAM	Plan of Action and Milestones

SECNAV	Secretary of the Navy
SOA	Statement of Accounts
SPAWAR	Space and Warfare Systems Command
TC	Transaction Codes
UNSECNAV	Under Secretary of the Navy

Exhibit E:

Internal Controls Per Directives

Review of DoD Internal Controls for the Purchase Card Program and Navy ERP Purchase Card System										
#	Control	Internal Controls Required Per ...		NAVAUDSVC Results		OSD Memo Dec 2009	Responsible System			Details
		OSD Memo Dec 2005	Navy ERP PC MOU	IC Found in Navy ERP PC	IC Not Working Effectively In Navy ERP PC		OSD PCOLS	Navy ERP PC (systematic)	Citibank Direct	
		-		-		-				
1	Training	X				X	X			
2	Delegation of Authority	X				X	X		X	Citibank manages spending authorities when the card is being used (with exceptions)
3	Functional Responsibility Controls	X	X	X	X	X	X			
4	Systems Access Security	X				X	X			
5	Cardholder Account Initiation	X				X	X			
6	Authorization Controls	X				X	X			
7	Positive Fund Control	X		X		X	X			
8	Span of Control	X				X	X			
9	Separation of Duties	X	X	X		X	X	X		PCOLS does not independently verify receipt of accountable property. (Navy ERP can use role-based approvals)

#	Control	Internal Controls Required Per ...		NAVAUDSVC Results		OSD Memo Dec 2009	Responsible System			Details
		OSD Memo Dec 2005	Navy ERP PC MOU	IC Found in Navy ERP PC	IC Not Working Effectively In Navy ERP PC		OSD PCOLS	Navy ERP PC (systematic)	Citibank Direct	
10	Purchase Log	X	X		X	X		X		Navy ERP PC cannot record receipts when partial shipments occur
11	Management Controls	X	X		X	X	X	X	X	Direction indicates that all three share this responsibility
12	Transaction Review by Cardholder	X	X	X		X		X		
13	Transaction Review by Approving Official	X	X	X		X		X		
14	Transaction Review by Certifying Official	X	X	X		X		X		
15	Available Funds Integrity	X	X	X		X		X		
16	Dispute Authority	X	X			X			X	
17	Systems Administration Integrity	X				X	X	X		Applies to systems that are internal to DOD and owned and operated by DoD and Navy per DIACAP regulations
18	Transaction Data Integrity	X	X	X		X		X	X	Data cannot be changed
19	Data Exchange Security	X	X	X		X	X	X	X	Data cannot be compromised.
20	Invoice Integrity	X	X	X		X		X	X	
	TOTALS	20	12	10	3	20	12	11	6	

Appendix 1:

Management Response from the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller)



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
1000 NAVY PENTAGON
WASHINGTON, DC 20350-1000

SEP 1 2010

MEMORANDUM FOR AUDITOR GENERAL OF THE NAVY

Subj: NAVY ENTERPRISE RESOURCE PROGRAM - PURCHASE CARD CAPABILITIES (DRAFT AUDIT REPORT N2009-NFA000-0099)

Ref: (a) NAVAUDSVC memo 7510 N2009-NFA000-0099 of 2 Aug 10

Encl: (1) ASN(FM&CYFMO) Response Regarding Recommendations Identified in "Navy Enterprise Resource Program - Purchase Card Capabilities" (N2009-NFA000-0099 dated 2 Aug 10)

By reference (a), a written response on the recommendations was requested within 30 calendar days. The Navy's response to Recommendations 1-4 are attached at enclosure (1).

My points of contact for this issue are [REDACTED] and [REDACTED]

FOIA (b)(6)

With the exception of the point of contact information listed above, this response contains no information that is deemed "For Official Use Only".

[REDACTED]

FOIA (b)(6)

Deputy Assistant Secretary of the Navy
(Financial Operations)

Copy to:
Navy ERP Program Office
NAVSUP03 (Consolidated Card Program Management Division)
ASN (RD&A) (DASN (ACQ))

ASSISTANT SECRETARY OF THE NAVY
(FINANCIAL MANAGEMENT & COMPTROLLER)
OFFICE OF FINANCIAL OPERATIONS
RESPONSE REGARDING RECOMMENDATIONS IDENTIFIED IN
"NAVY ENTERPRISE RESOURCE PROGRAM - PURCHASE CARD CAPABILITIES"
(N2009-NFA000-0099 DATED 2 Aug 10)

Finding: Internal Controls for Navy Enterprise Resource Planning Purchase Card System

Naval Audit Service (NAVAUDSVC) Recommendation 1:

Integrate the remaining 10 DoD Internal Controls for Purchase Card Program in the Navy Enterprise Resource Planning (ERP), or obtain a waiver to the DoD memorandum of 19 December 2005.

Target Completion Date: 16 December 2010

ASN(FM&C)/FMO Response:

Partially concur. We agree that not all 20 internal controls are included in the Navy ERP Purchase Card capabilities as 10 controls are handled using processes outside of the system. However, controls from the original purchase card program are still in place and are not adversely affected by the implementation of Navy ERP. The reliance on controls present elsewhere in the purchase card program is consistent with Office of the Secretary of Defense's (OSD's) vision and is illustrated in their 10 December 2009 memorandum.

FMO and Navy ERP Program Management Office (PMO) do not consider it a requirement that all 20 Internal Controls identified in the OSD memo "Internal Controls for Purchase Card Program" of 19 December 2005 be resident within the purchase card capabilities of the Navy ERP. Our understanding that it is not DoD's intent that all 20 internal controls be resident in the Navy ERP is supported by their signature on the original Naval Air Systems Command (NAVAIR) Memorandum of Understanding (MOU) and implied by their 10 December 2009 Space and Naval Warfare Systems Command (SPAWAR) implementation memo. Both the NAVAIR MOU and the SPAWAR memo specifically identified internal controls expected to reside outside of the Navy ERP purchase card capabilities.

FMO maintains that all required internal controls are present and operating effectively through a combination of Program Management, Navy ERP, Citibank's Purchase Card System (CitiDirect), and the Program Audit Tool. To address NAVAUDSVC's concern, and as directed by OSD's 10 December 2009 memo, FMO will discuss with OSD and reach agreement on where the controls should reside. FMO will provide the results to NAVAUDSVC and address any discrepancies in current system operations and/or standard operating procedures as appropriate.

NAVAUDSVC Recommendation 2:

Update Navy ERP Purchase Card system to include the capability for an electronic purchase log report. When considering alternatives for an electronic purchase log, include the business case for the capability that already resides in the system.

Target Completion Date: 30 December 2011

Enclosure (1)

**ASSISTANT SECRETARY OF THE NAVY
(FINANCIAL MANAGEMENT & COMPTROLLER)
OFFICE OF FINANCIAL OPERATIONS
RESPONSE REGARDING RECOMMENDATIONS IDENTIFIED IN
“NAVY ENTERPRISE RESOURCE PROGRAM - PURCHASE CARD CAPABILITIES”
(N2009-NFA000-0099 DATED 2 Aug 10)**

ASN(FM&C)/FMO Response:

Concur. FMO and Navy ERP PMO agree that all cardholders are required to document purchase information for each transaction made using the card in an electronic log (or a manual log if not electronic data interchange enabled).

Per the 28 August 2007 NAVAIR MOU, the Navy ERP purchase card capabilities support the purchase log requirement by capturing and maintaining an electronic audit trail of all procurement transactions. This includes the purchase requisition, the purchase order, maintenance of the purchase order, goods receipt posting for materials and services, and all related financial account postings. However, there is no single report or screen shot that provides all of this information in one place. FMO and Navy ERP PMO will present to OSD the business case for accepting as a purchase log the report already in place with the understanding that we are working to add receipt date and receiver name--information which is already captured by Navy ERP.

NAVAUDSVC Recommendation 3:

Assess the feasibility of requiring scanning of supporting documentation (such as purchase request and receipt documentation) associated with each purchase transaction to promote a paperless process. If this option is determined to be feasible, incorporate this recommendation into the standard Navy ERP purchase card business process.

Target Completion Date: 28 February 2011

ASN(FM&C)/FMO Response:

Concur. The Navy has added the requirement to scan and attach to the Navy ERP Purchase Request / Purchase Order all relevant documentation. An icon will identify on transaction reports the presence of such documentation. Selecting the icon will access the documentation.

Navy ERP currently has the capability to scan and attach supporting documentation, however, its use to support purchase card transactions was not required. FMO will require, through the issuance of a Navy ERP business process standardization memo, that Navy ERP sites utilize the scanning capability available within Navy ERP and scan and attach all supporting documentation, such as Purchase Request/Purchase Order documentation, to purchase card Purchase Requests.

(2)

Enclosure (1)

**ASSISTANT SECRETARY OF THE NAVY
(FINANCIAL MANAGEMENT & COMPTROLLER)
OFFICE OF FINANCIAL OPERATIONS
RESPONSE REGARDING RECOMMENDATIONS IDENTIFIED IN
“NAVY ENTERPRISE RESOURCE PROGRAM - PURCHASE CARD CAPABILITIES”
(N2009-NFA000-0099 DATED 2 Aug 10)**

NAVAUDSVC Recommendation 4:

In conjunction with CCPMD, require that the electronic Navy ERP purchase card system’s role-based authorization capabilities comply with separation of functions policy, and incorporate a consistent methodology for handling separation of functions into the standard Navy ERP purchase card business process.

Target Completion Date: 28 February 2011

ASN(FM&C)/FMO Response:

Concur. The Navy has developed and is implementing across all Navy ERP sites a standardized Navy ERP purchase card business process which will prevent an overlap in duties performed and guarantee compliance with the separation of functions control. FMO has documented and analyzed current business processes and is in the process of drafting the Navy ERP purchase card capability standard business process. To ensure compliance at all Navy ERP sites (current and future), a Navy ERP business process standardization memo will be issued mandating use of the standard process, which accounts for the separation of functions control. The Access Enforcer tool will be used to enforce this particular control.

(3)

Enclosure (1)

Appendix 2:

**Management Response from Program Manager,
Navy Enterprise Resource Planning Program**



DEPARTMENT OF THE NAVY
NAVY ENTERPRISE RESOURCE PLANNING PROGRAM
2551 RIVA ROAD
ANNAPOLIS, MD 21401

5000
Ser Navy ERP 10/60
08 Sep 2010

IN REPLY REFER TO

From: Program Manager, Navy Enterprise Resource Planning Program
To: Auditor General of the Navy
Via: Program Executive Officer, Program Executive Office
Enterprise Information Systems

Subj: NAVY ENTERPRISE RESOURCE PROGRAM - PURCHASE CARD
CAPABILITIES (DRAFT AUDIT REPORT N2009-NFA000-0099)

Ref: (a) NAVAUDSVC memo 7510 N2009-NFA000-0099 of 2 Aug 10

Encl: (1) Navy ERP Response Regarding Recommendations Identified
in "Navy Enterprise Resource Program - Purchase Card
Capabilities" (N2009NFA000-0099 dated 2 Aug 10)

1. Per reference (a), a written response on the recommendations was requested. The Navy ERP Program Office response to Recommendation 5 is attached within enclosure (1).
2. My points of contact for this issue are [REDACTED] phone number [REDACTED] or email [REDACTED] or [REDACTED] at phone number [REDACTED] email [REDACTED]
3. With the exception of the point of contact information listed above, this response contains no information that is deemed "For Official Use Only".

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**NAVY ERP
RESPONSE REGARDING RECOMMENDATIONS IDENTIFIED IN
"NAVY ENTERPRISE RESOURCE PROGRAM - PURCHASE CARD
CAPABILITIES"
(N2009-NFA000-0099 DATED 2 Aug 10)**

Naval Audit Service (NAVAUDSVC) Recommendation 5:

Complete the process of the Engineering Change Proposals to eliminate the manual process for partial contract payments using the purchase card. In addition, assess the feasibility of a tool that maintains a trail of the transaction details of the partial payments

Target Completion Date: 17 Oct 2010 when the Engineering Change Proposal will be transported to Navy ERP's production system.

Navy ERP Response:

Concur. The Engineering Change Proposal (ECP) NBO_0050_PCard Split Reconciliation Enhancements (RFC2586) has been approved and the Navy ERP purchase card software enhanced to provide partial contract payments capability. Specifically, functionality is now provided for bank invoice transactions to be systemically reconciled as partial contract payments using the purchase card. Included are debit and credit invoices posting against single and multi-item purchase orders. The new functionality eliminates the manual "Exception Condition" process used previously and provides a complete electronic audit trail of all user actions accomplished.

Enclosure (1)

Appendix 3:

Management Response from Naval Supply Systems Command



DEPARTMENT OF THE NAVY
NAVAL SUPPLY SYSTEMS COMMAND
3450 CARLISLE PIKE
PO BOX 2050
MECHANICSBURG PA 17088-0751

TELEPHONE NUMBER
COMMERCIAL
AUTOVON
IN REPLY REFER TO:
N2009-0099
SUP 91A
30 Aug 2010

From: Commander, Naval Supply Systems Command
To: Assistant Auditor General for Financial Management and
Comptroller Audits
Subj: NAVAL AUDIT SERVICE DRAFT AUDIT REPORT ON NAVY ENTERPRISE
RESOURCE PROGRAM - PURCHASE CARD CAPABILITIES
(N2009-NFA000-0099)

Ref: (a) NAVAUDSVC memo 7510/N2009-NFA000-0099 of 2 Aug 10

Encl: (1) NAVSUP comments to subject draft audit report

1. Enclosure (1) provides our comments to Finding 1 and
Recommendation 6.

2. Our point of contact for this audit is [REDACTED]
[REDACTED] email: [REDACTED] Please call or
e-mail [REDACTED] if you have questions. Thank you for your
support.

[REDACTED]
[REDACTED]

By direction

Copy to:
NAVINGEN

FOIA (b)(6)

FOIA (b)(6)

Visit the NAVSUP Home Page at www.navsap.navy.mil

NAVAL SUPPLY SYSTEMS COMMAND COMMENTS ON
NAVAL AUDIT SERVICE DRAFT AUDIT REPORT
N2009-NFA000-0099 OF 2 AUGUST 2010 ON
NAVY ENTERPRISE RESOURCE PROGRAM -
PURCHASE CARD CAPABILITIES

**Audit Finding 1: Internal Controls for Navy Enterprise Planning
Purchase Card System**

The Navy Enterprise Resource Planning (ERP) purchase card electronic system compiled with 10 of 20 required Department of Defense (DoD) internal controls. However, one control was not used properly. The remaining 10 controls with which ERP did not comply were handled using processes outside of the Navy ERP electronic purchase card capabilities. Office of the Under Secretary of Defense policy requires that all 20 DoD internal controls for a purchase card program be resident in an electronic purchase card system and operate properly before full implementation of the system is approved. The Assistant Secretary of the Navy (Financial Management and Comptroller (FM&C) Office of Financial Operations (FMO) and the Navy ERP Program Office representatives did not consider it a requirement that all 20 DoD Internal Controls be resident within the capabilities of the Navy ERP Purchase Card system. In a December 2009 memo, DoD acknowledged that some internal controls may not be resident in the system and planned to set up a discussion with Navy Program Office, FMO, and Consolidated Card Management Division (CCPMD) on where controls should reside (Purchase Card Online System (PCOLS), ERP, or Bank system) after completion of the Naval Audit System audit. As a result, without the Navy ERP Purchase Card system demonstrating all 20 DoD internal controls, DON cannot be assured that the electronic capability enhances the degree of integrity and accuracy of purchase card transactions.

NAVSUP comment: Concur.

Recommendation 6: We recommend that the Consolidated Card Program Management Division (CCPMD) incorporate the processes related to the use of electronic systems to reconcile, approve, certify and pay purchase card invoices in the NAVSUPINST 4200.99.

NAVSUP Comment: Concur. We plan to incorporate the processes related to the use of electronic systems to reconcile, approve, certify and pay purchase card invoices in NAVSUPINST 4200.99

ENCLOSURE(1)

after the Office of the Secretary of Defense approves Navy Enterprise Resource Planning (ERP) for certifying Purchase Card Invoices. Estimated target completion date is 31 October 2010.

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