

Naval Audit Service



Audit Report



Government Commercial Purchase Card Transactions at Naval District Washington

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N2011-0015
14 January 2011

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DEPARTMENT OF THE NAVY
NAVAL AUDIT SERVICE
1006 BEATTY PLACE SE
WASHINGTON NAVY YARD, DC 20374-5005

7540
N2009-NMC000-0086
14 Jan 11

MEMORANDUM FOR COMMANDER, NAVAL DISTRICT WASHINGTON

Subj: **GOVERNMENT COMMERCIAL PURCHASE CARD TRANSACTIONS AT
NAVAL DISTRICT WASHINGTON (AUDIT REPORT N2011-0015)**

Ref: (a) NAVAUDSVC Memo 7510 N2009-NMC000-0086.000, dated 2 April 2009
(b) SECNAVINST 7510.7F, "Department of the Navy Internal Audit"

Appendix: (A) Management Response from Commander, Naval District Washington

1. Introduction

a. We have completed the subject audit, announced by reference (a), and are providing the results in accordance with reference (b). Section 9 provides a summary of audit results, and Section 10 provides our recommendations to the Commandant, Naval District Washington (NDW). The Office of the Commandant, Naval District Washington, provided management responses to the recommendations. Summaries of the responses, with our comments, are in Paragraph 10. The full text of the responses is in the Appendix.

b. The command concurred with Recommendation 1, to retain and maintain supporting documentation for Government Commercial Purchase Card transactions as required by Naval Supply (NAVSUP) Instruction 4200.99. Corrective actions taken meet the intent of the recommendation, which is closed.

c. The command concurred with Recommendation 2, to provide refresher training for approving officials and cardholders in accordance with NAVSUP Instruction 4200.99 so they may become more familiar with the purchase log requirements. Refresher training was conducted on 6-8 December 2010. Corrective actions taken meet the intent of the recommendation, which is closed.

2. Reason for Audit and Objective. The Government Commercial Purchase Card (GCPC) was submitted to the Fiscal Year (FY) 2009 Department of the Navy Risk and Opportunity Assessment Report by multiple commands. The objective was to verify that selected Government Commercial Purchase Card transactions were valid and compliant with applicable guidance and criteria.

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3. **Communication with Management.** Throughout the audit, we kept management informed of the conditions noted. We provided a status update on 24 April 2009, via e-mail, to the audit liaison. On 11 June 2009, we met with the Commanding Officer, Naval Support Activity (NSA) Patuxent River, MD and informed him of the audit's current status and internal control weaknesses we had noted to date. We informed NDW Inspector General (IG) personnel about potential findings on 20 August 2009.

4. **Background**

a. Federal Government purchase card programs have been in existence Government-wide since 1989 and were established to streamline Federal agency acquisition processes by providing a low-cost, efficient vehicle for obtaining goods and services directly from vendors. With the establishment in 1998 of the General Services Administration's SmartPay program, Federal agencies had a new way to pay for commercial goods and services. The Department of the Navy uses CitiBank for its purchase card program.

b. The potential for fraudulent, improper, and abusive purchases in a purchase card program should be viewed by management as a risk of significant financial loss, possibly resulting in operational inefficiency and impairment of mission readiness. Fraudulent, improper, and abusive purchases often result directly from a lack of adherence to policies, procedures, and control activities. This lack of adherence can result in misuse of the card.

c. In the event this program is not properly monitored, there is the potential for billions of dollars in Government funds to be fraudulently expended. GCPCs are negotiable instruments and therefore require regular testing to verify that necessary controls are in place and functioning to prevent and/or detect abusive or fraudulent transactions.

d. The Agency Program Coordinator (APC) is responsible for the day-to-day oversight and management of the program. The Approving Official (AO) is responsible for ensuring proper use of the purchase card and is considered to be the program's first line of defense against misuse, abuse, and fraud. Purchase cardholders must ensure that proper and adequate funding is available, screen mandatory Government sources of supply, and only make purchases of items at a fair and reasonable value when Government sources are not available.

e. Red flags that arise when detecting potential issues with GCPC include purchases from vendors that are assigned to a suspicious or blocked Merchant Category Code and weekend purchases. Such transactions can occur for many valid reasons; however, during an audit of GCPC, they warrant further review.

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5. **Pertinent Guidance.** NAVSUP Instruction 4200.99, dated 13 October 2006, provides that:

a. Purchase cards may be used for micro-purchases up to \$3,000 for goods; \$2,500 for services; and \$2,000 for construction. Additionally, they may be used as a method-of-payment in conjunction with other contracting methods above the micro-purchase threshold.

b. A cardholder must ensure a proper separation of duties is occurring for each purchase card transaction. At a minimum, a two-way separation of function for all purchase card transactions must occur to protect the integrity of the procurement process. The individual responsible for the award of a contract or placement of an order shall not perform the receipt, inspection, and acceptance function.

c. The AO is the program's first line of defense against misuse, abuse and fraud. The AO is responsible for ensuring proper use of the purchase card through approval of purchases and certification of monthly invoices for payment.

d. Cardholders must provide a requisition form and proof of receipt that has been signed legibly in support of each transaction. Additionally, cardholders must maintain a purchase log. Financial documents to support transactions must be maintained for 6 years and 3 months. Non-financial documents shall be retained for a period of 3 years.

6. **Scope and Methodology**

a. Our audit was conducted from 17 April 2009 through 14 October 2010. Our audit focused on a review of purchase card transactions conducted in FY 2008 at NDW. The cardholders whose transactions we reviewed were cardholders while they were physically located at NSA Patuxent River, MD. We reviewed NAVSUP Instruction 4200.99 for the policies governing purchase card usage. Naval Audit Service's Data Analysis Team provided purchase card transaction records from the CitiBank Custom Reporting System (CCRS) and separated the information by Unit Identification Code (UIC), allowing for analysis to be done on a regional basis. We then used the UIC for NSA Patuxent River (0428A) to extract 1,036 transactions, valued at \$623,574.17, from the data provided by the Data Analysis Team.

b. We selected 519 transactions, valued at \$432,435.42, for audit. These 519 transactions involved 13 cardholders. We met with the cardholders and/or their AOs to obtain an understanding of their purchase card procedures and acquire copies of the documentation supporting their transactions.

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c. After obtaining all available documentation, we analyzed it to determine whether required internal controls regarding documentation retention, maintaining a purchase log, and separation of duties were being followed according to NAVSUP Instruction 4200.99. We analyzed the documents to ensure documentation was available to support each transaction. We compared information on the available documentation to determine whether there was an appropriate separation of duties. We also reviewed cardholders' purchase logs.

d. We conducted physical observations of selected items to ensure that they were being used for a legitimate Government purpose. We also performed vendor verifications, contacting vendors via the telephone to confirm that they were legitimate businesses and had records of purchases made by the cardholder.

e. We obtained information from CCRS, which contains information on appropriated fund GCPC transactions for DON. Due to the scope of this report, we did not test the reliability of CCRS. The data was sufficiently reliable to use for the purposes of this audit.

f. 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 objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

g. There have been no previous audits of the GCPC at NDW, so no followup is required.

7. Federal Managers' Financial Integrity Act. The Federal Managers' Financial Integrity Act (FMFIA), 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.

8. Noteworthy Accomplishments. NDW has taken action to strengthen the GCPC program. They established an Internal Operating Procedure and implemented the Request, Acquisition, Procurement, Information, and Data System. Additionally, the results of our physical verification testing indicated that NDW maintained good accountability over items purchased with the GCPC. Further, the results of our vendor verification testing indicated that NDW GCPC cardholders conducted business with legitimate vendors.

9. Summary of Audit Results. NDW did not have sufficient internal controls in place over its GCPC program as required by NAVSUP Instruction 4200.99 during the period of our audit. Specifically, request and receiving documentation was not being retained in support

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of some of the individual transactions. Additionally, cardholders were not properly maintaining their purchase logs. Responsible personnel attributed these conditions to excessive workload, limited personnel, approving officials and cardholders not being in the same location, and time constraints. As a result, appropriate separation of duties cannot be substantiated, and there was an increased risk of fraud, waste, and abuse within the GCPC program.

a. **Document Retention.** NAVSUP Instruction 4200.99 requires that GCPC cardholders retain request documentation and proof of receipt for each transaction. We requested these documents for each of the 519 transactions we sampled. Our results are shown in Table 1.

Table 1. Documentation retention for 519 sampled transactions.

Was required documentation available?	Request Documentation	Percentage	Proof of Receipt	Percentage ¹
Yes	327	63.0	290	55.9
No	146	28.1	182	35.1
N/A	46	8.9	47 ²	9.1
Total Transactions	519	100.0	519	100.0

i. Responsible personnel attributed this lack of documentation to excessive workload, limited personnel, approving officials and cardholders not being in the same location, and time constraints.

b. **Purchase Logs.** NAVSUP Instruction 4200.99 requires that cardholders maintain either a manual or automated purchase log that documents individual transactions. Additionally, it specifies the minimum information that must be included in the purchase log for each transaction. We audited purchase logs for the 13 cardholders whose transactions we audited and determined that none maintained their purchase log in full compliance with the requirements in NAVSUP Instruction 4200.99. Details on the requirements for the purchase logs and the number of cardholders whose purchase logs did not meet each requirement are shown in Table 2.

¹ Percentage does not add exactly to 100% due to rounding.

² 46 transactions did not require request documentation because they were credits, additional shipping costs, or disputed charges refunded back to the purchase card. 47 transactions did not require receiving documentation because they were credits, cancelled orders, additional shipping costs, or disputed charges refunded back to the purchase card.

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Table 2. Purchase logs compliance with requirements.

Purchase Log Requirement (per NAVSUP Instruction 4200.99)	Number of cardholders whose purchase log did not contain this information/meet this requirement	Percentage of cardholders whose purchase log did not contain this information/meet this requirement
Date item/service was ordered	4	30.8
Merchant Name	0	0.0
Dollar Amount	0	0.0
Description of item/service	0	0.0
Date of Receipt	2	15.4
Name of Individual receiving item/service	10	76.9
Whether it was paid for but not received (pay and confirm)	11	84.6
Whether the transaction represented a credit received	2	15.4
Whether the transaction was disputed	1	7.7
Whether mandatory sources were screened	9	69.2
Whether mandatory sources were used or not (and if not, why)	13	100.0
Purchase log maintained by cycle for reconciliation purposes	5	38.5

i. Cardholders stated that they were unfamiliar with the purchase log requirements listed in NAVSUP Instruction 4200.99.

ii. Additionally, of the 519 transactions we sampled, 428 (82.5 percent) were listed with accurate information in the cardholders’ purchase logs, while the remaining 91 transactions (17.5 percent) were listed with inaccurate information or were not listed at all. Responsible personnel attributed this to excessive workload, limited personnel, approving officials and cardholders not being in the same location, and time constraints.

10. Recommendations and Corrective Actions.

a. The Office of the Commandant, Naval District Washington, provided management responses to the recommendations. Summaries of the responses, with our comments, follow. The full text of the responses is in the Appendix.

b. We recommend that Commandant, Naval District Washington:

Recommendation 1. Retain and maintain supporting documentation for Government Commercial Purchase Card transactions as required by Naval Supply Instruction 4200.99.

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Management response to Recommendation 1. Concur. Immediately after receiving the results of the audit, the Agency Program Office has taken measures to assure that the supporting documentation for purchase card purchases are being met. We are ensuring that invoices, receipts, and purchase logs are maintained properly and accurately. By conducting random spot checks, sending emails, and conducting one-on-one training, we are able to monitor our internal controls more closely. Our last semi-annual review, 14 October, revealed that our Government purchase card participants are working harder and focusing more on what is expected of them and that they are following the rules of our Internal Operating Procedures (IOP) set forth by the region as well as the NAVSUP Instruction 4200.99.

Naval Audit Service comment on response to Recommendation 1. The corrective actions that were taken by the command on 14 October 2010 meet the intent of the recommendation, which is considered closed as of 9 November 2010, the date of the semi-annual report.

Recommendation 2. Provide refresher training for approving officials and cardholders in accordance with Naval Supply Instruction 4200.99 so they may become more familiar with the purchase log requirements.

Management response to Recommendation 2. Concur. We have scheduled refresher training for December 6-8, 2010, for the Cardholders and Approving Officials to ensure they comply with government purchase card rules and regulations, and to include the Cardholders responsibility of creating a purchase log every month. (We) have sent out information to the cardholders, expressing the need to be accurate and the need for the purchase log information. In our next progress report, we can provide a list of attendees who've attended training, no later than 10 December.

Naval Audit Service comment on response to Recommendation 2. On 14 December 2010, NDW provided us with a copy of the sign-in sheet of the attendees to the refresher training held 6-8 December 2010. The corrective action taken meets the intent of the recommendation, which is considered closed as of 14 December 2010.

11. 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 followup in accordance with reference (b). Please submit any further correspondence in electronic format (Microsoft Word or Adobe Acrobat file), and ensure that it is on letterhead and includes a scanned signature.

Subj: **GOVERNMENT COMMERCIAL PURCHASE CARD TRANSACTIONS AT
NAVAL DISTRICT WASHINGTON (AUDIT REPORT N2011-0015)**

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



XXXXXXXXXXXX

Assistant Auditor General
Internal Controls, Contracting,
and Investigative Support Audits

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Section A:**Status of Recommendations**

Rec. No.	Page No.	Subject	Status ³	Action Command	Target or Actual Completion Date	Interim Completion Date
1	6	Retain and maintain supporting documentation for Government Commercial Purchase Card transactions as required by Naval Supply Instruction 4200.99.	C	Commandant, Naval District Washington	11/9/2010	
2	7	Provide refresher training for approving officials and cardholders in accordance with Naval Supply Instruction 4200.99 so they may become more familiar with the purchase log requirements.	C	Commandant, Naval District Washington	12/14/2010	

³ / 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

Appendix:

Management Response from Commander, Naval District Washington



DEPARTMENT OF THE NAVY
NAVAL DISTRICT WASHINGTON
1343 DAHLGREN AVE SE
WASHINGTON NAVY YARD, DC 20374-5161

November 19, 2010

MEMORANDUM RESPONSE TO NAVAL AUDIT SERVICE

Subj: GOVERNMENT COMMERCIAL PURCHASE CARD TRANSACTIONS AT NAVAL DISTRICT WASHINGTON (DRAFT AUDIT REPORT N2009-NMC000-0086)

Ref: (a) NAVAUDSVC Memo 7510 N2009-NMC000-0086, dated April 2009
(b) SECNAVINST 7510.7F, "Department of the Navy Internal Audit"

Response to Recommendations,

CONCUR

1) Immediately after receiving the results of the audit, the Agency Program Office has taken measures to assure that the supporting documentation for purchase card purchases are being met. We are ensuring that invoices, receipt and purchase logs are maintained properly and accurately. By conducting random spot checks, sending emails and conducting one on one training we are able to monitor our internal controls more closely. Our last semi-annual review, OCT 14th, revealed that our government purchase card participants are working harder and focusing more on what is expected of them and that they are following the rules of our IOP set forth by the region as well as the NAVSUPINST 4200.99.

CONCUR

2) We have scheduled refresher training for Dec 6,7 and 8, 2010. For the Cardholders and Approving Officials to ensure they comply with government purchase card rules and regulations, to also include the Cardholders responsibility of creating a purchase log every month. I have sent out information to the cardholders, expressing the need to be accurate and the need for the purchase logs information. We are making great progress in maintaining our documentation for NDW purchase card program. In our next progress report, we can provide a list of attendees who've attended training, no later then December 10th.

██████████
NDW AGENCY PROGRAM COORDINATOR

Copy to:
Executive Director, ██████████
Comptroller, ██████████
Deputy Comptroller, ██████████

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