# Department of Defense
# Charge Card Task Force
# Final Report

## June 27, 2002

UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON DC 20301-1100

COMPTROLLER

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MESSAGE FROM THE UNDER SECRETARY OF DEFENSE (COMPTROLLER)

Government charge cards enable the Department of Defense to streamline its business processes and thereby free up resources for critical national security needs. Charge cards carry inherent risks, however. Recent audit reports point out instances involving fraud, misuse, and abuse of these cards.

Last March, I established a Government Charge Card Task Force to investigate the Department's charge card programs, and to propose recommend ways to strengthen these programs. The Task Force met over a period of 60 days. After first examining the current operations of the charge card programs, the Task Force developed 25 recommendations to strengthen the management of the programs and reduce the incidence of inappropriate use. This report details the Task Force's evaluation and recommendations.

I believe that this is an excellent first step in an on-going process to continually seek ways to improve charge card programs. We must continue to identify new ways of reducing the government's cost of doing business while at the same time ensuring that we operate in a manner that preserves the public's trust in our ability to provide proper stewardship of public funds.

Dov S. Zakheim

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# Executive Summary

The implementation of charge card programs in the Department of Defense (DoD) is a cost-saving business initiative that reforms processes and improves mission effectiveness. For example, use of purchase cards resulted in an estimated savings of over $900 million over the past 8 years. And implementation of the travel charge card significantly reduced the number of cash travel advances required. Charge cards carry with them an inherent risk of abuse or misuse, however, and recent audit reports provide evidence of failures of the internal control systems designed to mitigate this risk. These failures foster the misperception that the Department cannot effectively manage the public resources entrusted to it.

Following reports of charge card misuse within the DoD, the Secretary of Defense directed a review of the charge card programs. On March 19, 2002, the Under Secretary of Defense (Comptroller) established a DoD Charge Card Task Force (herein referred to as the Task Force) to evaluate the Department's purchase and travel charge card programs and to develop recommendations for improvements. Members of the Task Force included representatives from major Defense organizations that manage, set policy for, or review charge card programs. Where necessary, the Department also consulted with other governmental organizations, to include the Office of Management and Budget, Office of Personnel Management, General Services Administration, and Department of Justice.

After reviewing recent audits and investigations, the Task Force focused on three key areas of investigation:

- Management Emphasis and Organizational Culture
- Compliance
- Process and Workforce Development

The overall goal of the Task Force was to develop recommendations that improve and strengthen the Department's charge card programs without adversely affecting the effectiveness of the programs.

**Summary of Results**:

The Task Force concluded that the Department's purchase and travel charge card programs represent sound cost-saving business practices and that the vast majority of our military and civilian personnel use government charge cards appropriately and exercise proper fiscal stewardship of taxpayer resources. Problems, however, were identified. For example:

- Purchase card audits and investigations reveal incidents of misuse, abuse, and fraud. Causes include inadequate command emphasis and poorly enforced internal controls.
- Travel charge card delinquent payment rates are unacceptably high. While the Department has reduced delinquencies, its rate of delinquent payments is significantly above the average rate of federal civilian agencies. Inadequate command emphasis and lack of compliance with existing policies are factors contributing to delinquencies.

The Task Force developed 25 recommendations that will significantly improve the Department's charge card programs.[1] Examples include:

- Increasing management emphasis and implementing improved management metrics;
- Strengthening internals controls and increasing the tools available to managers for enforcing those controls. These include strengthening compliance language in existing regulations and employing data mining technologies to detect fraudulent or abusive charge card transactions.
- Enhancing the capability of the workforce to accomplish assigned charge card responsibilities, to include training and recommending the minimum skills required to perform essential charge card management tasks.

Most of the Task Force's recommendations can be implemented within the Department's existing authorities. Where additional authority is required, the Department will work with the Office of Management and Budget to seek the necessary authority.

## Conclusion

The Task Force believes that implementation of the recommendations contained in the Final Report will strengthen the Department's charge card programs. Due to the limited duration of the review, the Task Force did not fully evaluate every aspect of the programs. The Task Force recommends that the Department continue to work to identify weaknesses and develop additional improvements.

[1] The Task Force Report contains recommendations for changes in Department of Defense policies and procedures. The recommendations do not represent the official policy of the Department of Defense until implemented in appropriate regulations or directives. The recommendations have not been approved by agencies or organizations outside the Department of Defense.

# Chapter 1

# Introduction

On March 19, 2002, the Under Secretary of Defense (Comptroller) established a Department of Defense (DoD) Task Force to examine the DoD's management of its charge card programs. The Task Force was directed to examine current charge card operations, identify major deficiencies, and develop recommendations for modifying the management of the charge card programs in order to resolve the deficiencies identified. The Task Force was to include members of all organizations that manage, set policy for, or review charge card programs.

## Background

The Department operates four types of charge card programs: purchase cards, travel charge cards, fleet cards, and aviation into-plane reimbursement (AIR) cards. The first three charge card programs operate under the Government-wide SmartPay Program, managed by the General Services Administration (GSA). The AIR card operates under a contract awarded by the Defense Energy Support Center, an element of the Defense Logistics Agency. The Task Force's efforts concentrated on purchase and travel charge cards; fleet cards are of relatively low density and the AIR card program is the subject of an on-going audit by the Office of the Inspector General of the Department of Defense.

**Accounts and Dollars Expended (FY 2001)**

| | Accounts | Charges ($) |
|---|---:|---:|
| Purchase Cards | 207,025 | 6.1 billion |
| Travel Charge Cards: | | |
| Individually Billed Accounts | 1,415,638 | 2.1 billion |
| Centrally Billed Accounts | 5,107 | 1.3 billion |
| Fleet Cards | 51,626 | 32.7 million |
| Air Cards | 19,787 | 221.4 million |

The implementation of purchase and travel charge card programs enabled the Department to institute cost-saving business process reforms

while, at the same time, improving mission effectiveness. For example, distributing purchasing authority for small purchases to individual organizations through the use of purchase cards dramatically improved their ability to procure relatively inexpensive, mission critical items. Similarly, implementation of the travel charge card program enabled the Department to all but eliminate the costly system of issuing and reconciling travel advances. With both the purchase and travel charge cards, the Department is able to earn rebates based upon the dollar volume of transactions and certain performance criteria. These rebates amounted to $29.5 million in FY 2001 ($28 million for purchase cards and $1.5 million for travel charge cards).

Although both are issued under the GSA SmartPay contract, purchase and travel charge cards differ significantly in structure, and thus present different problems and possible solutions. Some of the initiatives investigated by the Task Force affect purchase cards, some affect travel charge cards, and some affect both, although often in varying degrees.

## Task Force Operations

The Charge Card Task Force began meeting on March 20, 2002. Over the following eight weeks, members agreed to a series of recommendations and time-phased implementation plans.

The Task Force included a broad membership to ensure that all points of view were considered. Organizations represented on the Task Force, or contributing to its efforts, included:

Office of the Under Secretary of Defense (Comptroller)
Office of the Under Secretary of Defense (Acquisition, Technology and Logistics)
Office of the Under Secretary of Defense (Personnel and Readiness)
Office of the General Counsel, DoD
Office of the Assistant Secretary of Defense (Command, Control, Communications & Intelligence)
Office of the Assistant Secretary of Defense (Public Affairs)
Office of the Inspector General of the Department of Defense
Army
Navy
Air Force

Defense Finance and Accounting Service

The Task Force also had observers from the following non-DoD organizations:

Department of Justice
General Services Administration
Office of Management and Budget
Office of Personnel Management

## Report Structure

This report is organized into separate chapters covering purchase cards and travel charge cards. Details of individual recommendations are contained in the appendices to the report. Appendix A contains recommendations common to both purchase and travel charge cards; Appendix B contains recommendations for purchase cards, and Appendix C contains recommendations for the travel charge card program. Each recommendation includes implementation timelines, an estimate of any additional resources required to complete implementation, and any requirement for changes in regulations or additional legislation.[1]

[1] The Task Force Report contains recommendations for changes in Department of Defense policies and procedures. The recommendations do not represent the official policy of the Department of Defense until implemented in appropriate regulations or directives. The recommendations have not been approved by agencies or organizations outside the Department of Defense.

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# Chapter 2

# Purchase Cards

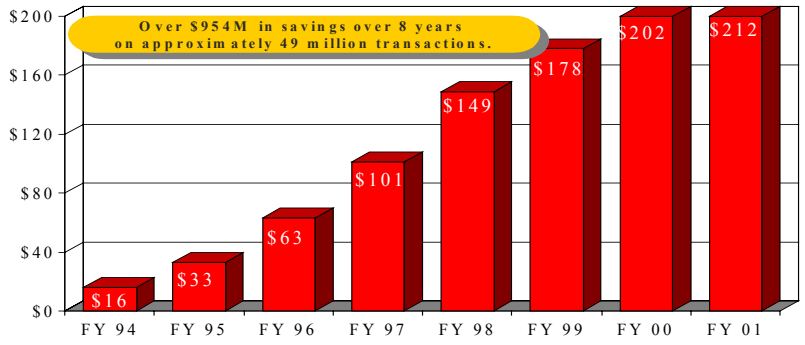
## Background

The Governmentwide Commercial Purchase Card Program was created to provide an efficient means for federal agencies to purchase goods and services directly from vendors. Agencies acquire purchase cards and related services from banks that have been awarded contracts under the General Services Administration (GSA) SmartPay Program. The Army, Air Force and Defense Agencies obtain their purchase cards and services through a task order with US Bank, while the Navy and Marine Corps obtain cards and services from Citibank.

Implementation of the purchase card allowed DoD to replace the paper-based, time-consuming purchase order process, thereby reducing procurement lead time, providing transaction cost savings, reducing procurement office workload, and facilitating a less costly payment process for the Department. Studies of purchase card operations conclude that savings of $20 are achieved for each transaction

**Decreased administrative burden associated with processing micro-purchase transactions through increased purchase card transactions.**

*Figure 2-1 Annual Savings Associated with Purchase Card Transactions*




Notes:
1) Purchase Card administrative savings based upon lowest published estimate of $20 saved per transaction over traditional processing means.

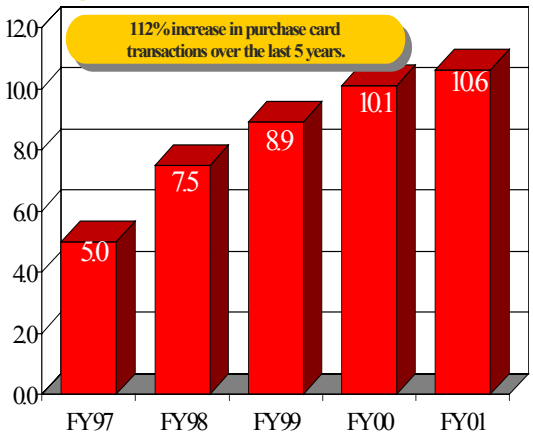
*DRO 2000 CD: Chapter 1.04*

when the purchase card is used in lieu of the purchase order process. In addition to the productivity savings gained through the use of the purchase card, the DoD also

is eligible to earn rebates from the card issuing banks. These rebates are based

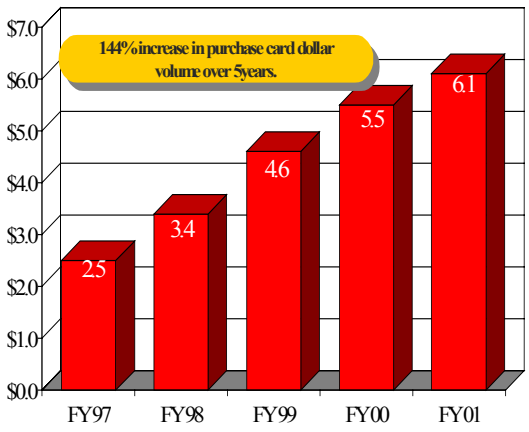
**Annual Purchase Card Transactions**

*Figure 2-2 Purchase Card Transactions ( Millions)*




**Annual Purchase Card Transaction Volume**

*Figure 2-3 Purchase Card Transaction Volume ($ Billions)*




upon the dollar volume of transactions on the purchase card and payment timeliness.[1]

In Fiscal Year 2001, the Department earned $28 million in rebates. Purchase card use, in terms of both dollar volume and number of transactions, continues to grow (see Figures 2-2 and 2-3). The Department now uses purchase cards for over 95% of eligible transactions.

The regulatory authorities governing the use of purchase cards are the Federal Acquisition Regulation (FAR), Part 13, and the Defense Federal Acquisition Regulation Supplement (DFARS), Part 213. Purchase card program policies are issued by the Director, Defense Procurement. The DoD Financial Management Regulation ("DoDFMR") establishes the command, supervisory, and personal responsibilities for financial management of the purchase card program.

The DoD Purchase Card Joint Program Management Office (PMO) was established within the Army as the executive agent for DoD purchase cards and as such, reports directly to the Director, Defense Procurement. It developed and

[1] The Government gets a productivity rebate based on how quickly monthly bills are paid. For example, if an activity using the U.S. Bank card pays within thirty days of the billing date, it will earn a refund of .5864% times its purchase volume. If that same activity pays within 15 days of the billing data, it will earn .822% times its purchase volume. With annual purchases of over $6 billion, that difference would amount to an additional $14 million to the Department.

deployed a standard DoD-wide card management and reconciliation system. The PMO's on-going responsibilities include promoting purchase card use, coordinating contract requirements with the GSA, managing delinquencies, developing and recommending policy changes resulting from internal control weaknesses identified by audit communities, and developing DoD-wide training programs. DoD Components issue supplementary regulations and procedures. Local commanders or supervisors are responsible for the delegation and use of the purchase card programs at their activities.

Purchase cards are issued to DoD employees specifically designated by their organizations to exercise purchasing authority through the use of the card. The purchase card bears the employee's name and is to be used only by that employee and only for official purchases, in compliance with agency regulations and procedures and the GSA government Commercial Credit Card Services contract. Each cardholder falls under the authority of an "approving official" who is appointed to monitor the activities of the cardholder and who is required to review and approve each transaction on the cardholder's monthly billing statement. Misuse of the purchase card is subject to a range of administrative and disciplinary actions, as well as criminal prosecution, depending upon the nature of the infraction.

The purchase cards are established with a single purchase limit and a monthly spending limit. The single purchase limit restricts the dollar amount that can be charged on the card for any one purchase. The monthly limit restricts the cumulative amount that can be charged on the card during a billing cycle. The single purchase limit is usually set at or below $2,500, which is the amount that can be purchased without the need for contract clauses, provisions and representations. The $2,500 figure represents the "micro-purchase" threshold.[2] The card can also be restricted from use at specific merchant types by blocking merchant category codes. Purchases that would cause the cardholder single purchase or monthly limit to be exceeded, or occur at a merchant identified by a blocked merchant category code, will be declined by the bank when the card is swiped by the merchant. Local agency program coordinators are responsible for establishing reasonable single purchase and monthly limits for cardholders and are also responsible for blocking merchant types that would not be needed by the cardholder.

[2] The FAR also authorizes the purchase card to be used as a payment vehicle for other procurements, for example an order placed against a pre-priced requirements contract or federal supply schedule. These procurements must be made in accordance with appropriate FAR provisions. Cardholders who are authorized to use cards as payment vehicles have individual purchase limits of $100,000 or higher.

When a charge within established limits is made by an authorized cardholder, that charge authorizes the card-issuing bank to make immediate payment to the vendor or contractor. The bank then presents the government (through the approving official) with a monthly bill for all cardholders' transactions during that billing period. The card-issuing banks may claim interest on purchase card balances if they are not paid in accordance with the OMB implementing guidance (5 CFR 1315.2) for the Prompt Payment Act, in this case, within 30 days of receipt of a proper invoice.

The DoD purchase card process presents an inherent element of risk to the Department because in some Components, goods and services may be purchased and received by the same individual. Therefore, an effective card program is dependent upon the Component purchase card official's knowledge of applicable laws and adherence to reasonable regulations and procedures by cardholders and approving officials.

Management's enforcement of internal controls is an essential element to ensure accountability of purchase card use. Managers and commanders are responsible for program performance, productivity, controlling costs, and assuring that purchase card programs are managed with integrity and in compliance with applicable law. Among the most critical management controls[3] in the purchase card program are the monthly review and approval of the cardholder's statement by the approving official and the establishment of appropriate cardholder limits.

## Problem Areas

Although the Task Force believes that most purchase cardholders in the Department are using the card appropriately, audits and investigations reveal more problems than are acceptable in a mature program. The two major areas of concern are misuse/abuse and late payment of purchase card balances. Abuse and misuse include a range of actions such as:

[3] Management controls, as defined by OMB Circular A-123, are "the organization, policies, and procedures used by agencies to reasonably ensure that programs achieve their intended results, resources are protected, laws and regulations are followed and reliable and timely information is obtained, maintained, reported and used for decision-making." In this report, "management controls" and "internal controls" are used interchangeably.

- Splitting purchases to avoid exceeding card limits;
- Purchasing goods or services which, although for a valid governmental purpose, are prohibited on a purchase card;
- Purchasing items for which there is no government requirement;
- Purchasing items which do not represent best value to the government;
- Certifying invoices without proper review;
- Engaging in fraudulent activity;

In addition, there are documented instances of failure to account for goods acquired through a purchase card on the organization's property accountability records.

Purchases under the purchase card program represent obligations of the Federal Government, and thus the Department is liable to the vendor bank for interest, if purchase card balances are not paid in accordance with the OMB implementing guidance (5 CFR 1315.2) for the Prompt Payment Act, in this case, within 30 days of receipt of a proper invoice. In addition, late payments reduce the amount of rebate earned by the Government. Late payment of purchase card bills is largely a process control problem. Local processes should be optimized to ensure that all required reviews can be performed in sufficient time to present certified bills to the paying office before the payment due date.

## Evaluation of Problem Areas

Implementation of the purchase card program allowed for decentralized procurement authority outside of the traditional contracting organizations. Procurement authority, delegated by the Head of the Contracting Activity (HCA), is now vested in a population that may not have had procurement training and experience. This wider distribution of procurement authority and responsibilities requires that a strong management internal control program be implemented and maintained. Essential elements of a successful management control program include:

- Clear, comprehensive regulatory guidance;
- Appropriate training for all participants in the process;
- Effective supervisory control;
- Application of the appropriate resources;
- Periodic internal reviews;
- Comprehensive external audit program;

- Effective sanctions for non-compliance.

The Task Force concluded, based upon recent audits and reviews, that the root cause for card misuse and abuse is the failure of local organizations to follow established policy or to utilize available internal controls. Problems are encountered in two principal areas: control weaknesses and noncompliance with controls.

Control weaknesses include:

- Unmanageable span of control;
- Excessive number of purchase cardholders;
- Inadequate Component regulations and directives;
- Inadequate training/lack of documented training for cardholders and approving officials.

Examples of non-compliance with internal controls include:

- Cardholder misuse/abuse;
- Credit card sharing/use by unauthorized individual(s);
- Non-referral of potentially fraudulent purchases;
- Exceeding authorized funding limits;
- Inadequate/no approving official review of purchases;
- Late payment of monthly bills;
- Non-adherence to FAR/DFARS requirements for purchases over $2,500;
- Inappropriate purchase method;
- Failure to use required sources of supply;
- Unrecorded accountable property;
- Lack of documentation/inadequate documentation.

As is apparent from these lists, an organization must not only have an adequately structured internal control program, but must also have the support of management to dedicate sufficient resources to ensure compliance with that program and hold offenders accountable. Compliance with internal controls is vital as the controls are designed to limit loss exposure to no more than one billing cycle. If the internal controls are not followed, the risk of loss increases significantly.

## Actions Already Taken

Over the past year, the Department took a number of actions to strengthen the purchase card program. The impact of these actions was reviewed by the Task Force in its evaluation of the current state of the program.

The Director, Defense Procurement and Program Manager, Purchase Cards, have directed a number of actions to strengthen the purchase card program. These include:

- Establishing a limit for the span of control of approving officials of one approving official for every seven cardholders.[4]
- Instructing the Defense Components to minimize risk by establishing reasonable spending limits on card accounts.[5]
- Reiterating the requirement to tailor each card so that merchant category codes that are not needed or inappropriate are blocked.[6]
- Expanding a joint fraud detection and prevention program to cover Purchase Card transactions.[7]
- Reiterating the need to provide installation purchase card program coordinators appropriate resources to allow them to discharge their duties.[8]
- Expanding audit coverage (see Appendix D) and requesting the Inspector General of the Department of Defense (IG DoD) to become the focal point for all DoD purchase card related audits.[9]

The Components, as well, are actively strengthening their programs and addressing specific issues as they arise. The Services have taken a number of actions, for example:

- The Army has issued a policy memorandum on Internal controls in response to GAO/IG DoD queries.
- The Army is working on the Army Standard Operating Procedure (SOP) to incorporate IG DoD/GAO recommendations on strengthening the management controls, and systemic issues found.

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[4] Memo, Program Manager, Purchase Cards, “Internal Management Controls – DoD Purchase Card Program,” dated July 5, 2001; Memo, Director, Defense Procurement, “Government Purchase Card Internal Controls,” dated August 13, 2001.
[5] Memo, Director, Defense Procurement, “Government Purchase Card Internal Controls,” dated August 13, 2001.
[6] Memo, Program Manager, Purchase Cards, “Blocking of Merchant Category Codes,” October 5, 2001.
[7] Memo, Program Manager, Purchase Cards, "Operation Mongoose Fraud Detection Program," dated October 5, 2001.
[8] Memo, Program Manager Purchase Cards, “Internal Management Controls – DoD Purchase Card Program,” dated July 5, 2001
[9] Memo, Director Defense Procurement, dated August 14, 2001.

- Army Major Commands (MACOMs) and installations are aggressively reviewing policies and procedures to address account limits, blocking of cards and reviewing transaction declines. Policy has been issued directing that all accounts not active for at least 4 to 5 billing cycles must be cancelled.

- The Navy issued a message on August 31, 2001, emphasizing accountability at all levels of the program. It also directed a Purchase Card Stand-down day, during which training on policy and procedures and the potential for fraud, misuse and abuse was emphasized.

- The Navy directed the suspension of cards for any cardholder who lacks documented evidence that the training required by the August 31, 2001, message was completed.

- The Navy mandated on April 15, 2002, that every Department of the Navy activity conduct a current audit of its purchase card program to confirm the adequacy of procedures and controls and have the results reviewed/validated by higher authority.

- The Air Force has re-emphasized the need: 1) for systematic surveillance and fraud detection activities, 2) for appropriate discipline for violators of purchase card rules and regulations, and 3) for informing base leadership of the health of the purchase card program on their installations.

- The Air Force Logistics Management Agency will soon publish a reference guide for agency program coordinators

- The Air Force is in the process of revising its instructions on the purchase card to strengthen internal controls and address findings from a recent Air Force-wide audit of its purchase card program.

The Fraud Focus Group, composed of the Defense Finance and Accounting Service, the Defense Manpower Data Center, Office of the Inspector General of the Department of Defense, the DoD Purchase Card PMO, the Service Criminal Investigation Organizations, and the Service Audit Agencies, is developing methods to increase the surveillance of purchase card operations. A significant part of their effort is to develop automated data mining techniques, to include the indicators that can be used to detect misuse or potentially fraudulent transactions. After validation, these indicators can be used to identify inappropriate transactions and to aid management in reviewing questionable transactions.

## Task Force Recommendations

### Management Emphasis and Organizational Culture

The key determinants of success in the purchase card program are management emphasis and organizational culture. Service Secretaries and Agency Heads must ensure that the organizational culture supports the goals and responsibilities of the program. A culture that tolerates behavior inconsistent with the Executive Branch Standards of Ethical Conduct and the Department's core values is not a suitable base for operating an effective purchase card program.

The Service Secretaries and Agency Heads must also ensure that the purchase card programs within their organizations are properly structured, and that managers at all levels devote the necessary attention and resources to the program to ensure success. Many of the personnel involved in the purchase card program are not assigned full-time to the program, but perform their responsibilities on an "other duties as assigned" basis. Inadequate management understanding of the time required to carry out these duties fully and inadequate management oversight may result in officials being unable to fulfill their responsibilities. This is especially true for Agency Program Coordinators, who provide oversight of the organizations' purchase card programs, and approving officials, who provide direct oversight of cardholders. These officials provide the underpinnings of an effective internal control program. Yet, if the function is understaffed, all of the necessary tasks cannot be effectively carried out.

The Deputy Secretary of Defense issued a memorandum to the Service Secretaries and Agency Heads emphasizing his standards for charge card programs. *(Recommendation CO-1).* This will reinforce a positive organizational culture by providing all elements of the Department with unmistakable notice of the importance the Secretary and his senior leaders place on the proper execution of charge card programs.

In addition, we recommend that a series of metrics be developed to provide senior leaders with information to evaluate the continuing health of the purchase card program and thereby promote a continuing dialog about the program. The metrics will be derived from the results of the data mining and will focus on key indicators of card misuse or abuse. *(Recommendation CO-4)*

Supervisors must carefully evaluate the impact of allegations of purchase card abuse, not only upon the individual, but also on the workplace. If a cardholder holds a security clearance, the supervisor must determine whether the

allegations rise to the level that the security clearance should be suspended pending the outcome of the investigation. For this evaluation to occur, however, the supervisor and security manager must be made aware of the investigation. The Task Force recognizes that the nature of a particular investigation may prevent timely notification. However, we recommend that the investigative community ensure that, wherever possible, notification to supervisors and security managers be made within 72 hours of the initiation of a purchase card investigation. When the investigative agency notifies the employing activity supervisor, that information should be passed immediately to the agency security manager with a recommendation for or against suspension of the security clearance from the supervisor. The investigative agency will notify the security manager first or at least concurrent with the notice to the supervisor. Any action to suspend a security clearance may be taken only in accordance with the appropriate DoD, Military Department, or Agency regulation based on thorough consideration of all relevant factors. (Recommendation PC-9)

## Process and Workforce Development

### Publish the Concept of Operations as a Deskbook

A properly constructed purchase card program is complicated, involving a number of different functional areas such as legal, logistics, finance, acquisition, personnel, audit, and payment. Problems can occur in trying to synchronize policies and procedures across these areas. Therefore, as part of the Task Force efforts, the Director, Defense Procurement and the Program Manager, Purchase Cards, assembled a working group and charged them with preparing an end-to-end Concept of Operations for the purchase card program. The Task Force recommends that the Concept of Operations be published as a "deskbook," or program guide, for use by purchase card officials and their supervisors. *(Recommendation PC-1)*

### Accelerated Implementation of Electronic Billing

The card-issuing banks provide a suite of automated tools under their contracts with the Department. One significant available tool that has not yet been adopted across the Department allows for on-line statement review, approval and certification. The Task Force recommends the use of on-line approval and certification processes--either those provided by the banks or ones that have been developed internally that would aid in resolving problems with late payment, while reducing interest penalties and loss of rebates. *(Recommendation PC-2)* On-line approval would provide the capability to review transactions in near real-time and

permit approving officials to perform continuous reviews during the billing cycle. It would also allow visibility into cardholder accounts throughout the billing cycle.

**Establish Recommended Agency Program Coordinator (APC) Qualifications**

Currently, there is a considerable range in the grade level (GS-05 to 13) of personnel assigned to Agency Program Coordinator positions, and there is no standard set of skills identified that would contribute to success in the position. The APC occupies a key position in the purchase card program because this individual is both the primary source of support to management and cardholders and a critical element of the internal control program. The Task Force recommends that a set of skills that APCs should have be developed by the Concept of Operations Working Group, along with a recommended grade range. In addition, it recommends that these be issued as best practices, useful to organizations in reviewing and strengthening their purchase card programs. *(Recommendation PC-3)*

**Improve/Enhance Purchase Card Training**

There currently are approximately 250,000 purchase card program officials in the Department, and they are distributed across organizations and career fields. These officials include agency program coordinators, approving officials, certifying officials and cardholders. Training is a critical internal control factor, and training such a broad and diverse workforce is challenging. The Task Force recommends that mandatory standard training be developed for the purchase card program. *(Recommendation PC-4)* The training should be designed to cover the full range of topics that officials need to perform their functions, to include responsibilities and sanctions for failure to perform those responsibilities correctly.

The Program Manager, Purchase Cards is developing a purchase card training course, to be hosted on the Defense Acquisition University Continual Learning Website. This course should be available in August 2002. The Program Manager is also evaluating a GSA-developed on-line training course for APCs, which will be located on the GSA SmartPay website in September 2002, to determine if a DoD specific training module for DoD APCs is needed.

The Task Force recommends that a training compact disk be developed to apprise all purchase card program officials and supervisors of officials of the results of this Task Force. The training disk should address the full range of topics the officials need to perform their functions, to include responsibilities and sanctions for failure to perform those responsibilities correctly. It should highlight

current internal control weaknesses and the importance of strengthening them. Finally, the training disk should provide examples of prosecutions and disciplinary actions taken against purchase card officials who have abused the trust we have placed in them.

## Compliance

An effective internal control program is vital to the successful operation of the purchase card program. To strengthen these controls, the Task Force recommends a series of steps:

### Define an Appropriate Span of Control for Agency Program Coordinators

If the internal control structure is to be effective, sufficient resources must be applied to the critical positions in the program to ensure that they can reasonably fulfill the associated responsibilities. The Director, Defense Procurement and the PMO have already specified a desirable span of control of no more than seven cardholders per approving official.[10] However, there is no standard span of control for the Agency Program Coordinator (APC). The number of purchase card accounts assigned to an APC should be limited to a number that allows for proper administration of the purchase card program and execution of the internal control function. The Concept of Operations Working Group, recommends a span of control of 300 accounts per APC. The Task Force recommends that this be set as a "best practice" rather than as a standard. *(Recommendation PC-3)* This will allow sufficient flexibility for individual organizations to tailor their organizational structure to local conditions (i.e. in cases where some of the APC duties and responsibilities are being performed by other individuals, or other elements of the organization). The Director, Defense Procurement will request the IG DoD to include a review of compliance with the best practice in its reviews of Defense Component purchase card use. If the activity has exceeded the recommended span of control, the audits should examine why the activity is not complying with the recommendation and verify that the internal control program has not been compromised as a result. If the internal control program has been compromised, the PMO will require the activity to reduce the span of control to a level that promotes proper internal controls.

### Enhanced Surveillance Through Data Mining

[10] Memo, Program Manager, Purchase Cards, "Internal Management Controls – DoD Purchase Card Program," dated July 5, 2001.

The Task Force endorses the work of the Fraud Focus Group (see page 2-8) as an essential element of an enhanced surveillance program. The Task Force recommends, however, that the data mining initiative be expanded beyond purchase cards. Following verification of the indicators, the Fraud Focus Group should begin developing similar indicators for the travel charge card. *(Recommendation CO-4)* In addition, the Task Force believes that the indicators can eventually be used to develop management metrics to aid senior managers in proactively resolving weaknesses in the internal control program and to enable line managers to take timely corrective action.

## Alternative Methods of Imposing Sanctions for Non-Compliance

For an internal control system to be effective, it must contain appropriate sanctions for noncompliance. A number of sanctions are currently available. They include required additional training, cancellation of cards, disciplinary actions, reassignment, criminal action, and civil fraud recoupment. The Task Force determined that the language on sanctions for non-compliance needs to be clarified and strengthened; however, additional tools implemented to aid managers in enforcing their internal controls. Therefore, the Task Force recommends the following actions:

1. **Apply Pecuniary Liability to Cardholders and Approving Officials.** Under Title 31, United States Code (USC), section 3528, certifying officials can be held liable for payments they certify that later are found to be improper or illegal. The Task Force believes that imposing pecuniary liability is a powerful tool that should be utilized to ensure that cardholders and approving officials are performing their assigned responsibilities. At present, many purchase card approving officials are appointed as certifying officers. The Task Force found that pecuniary liability is not routinely utilized in enforcing purchase card internal controls. In fact, at present, there is no evidence that any action has been taken against an approving official under this authority. Therefore, we recommend that more detailed instructions for reviewing certifications, investigating irregularities and imposing liability be developed, and that additional training on pecuniary liability be provided to certifying officers, reviewing officials and managers. *(Recommendation PC-6)*

2. **Increase Prosecution of Cases of Fraud.** Fraudulent use of a purchase card is a serious offense, and must be considered so at all levels. The first avenue of prosecution is through the local U.S. Attorney's Office, but the workload on other cases may make it impracticable for the local U.S. Attorney to prosecute cases involving relatively small dollar values. The Task Force therefore

recommends that alternative prosecutorial avenues be considered where appropriate, such as: *(Recommendation PC-7)*

a) Refer Cases to the Public Integrity Section, Department of Justice (DoJ) – The Public Integrity Section is willing to pursue cases involving inappropriate actions by governmental officials.

b) Refer Cases to State or Local Prosecutors – In many situations, cases may be prosecuted in state or local courts. Therefore, these venues represent alternatives to federal courts for prosecution.

c) Utilize Affirmative Civil Enforcement – If cases are declined for criminal prosecution, they still may qualify for civil prosecution under the Affirmative Civil Enforcement Division (ACE) of the local U.S. Attorney's Office.

d) Prosecution Under Program Fraud Civil Remedies Act (PFCRA) – The PFCRA allows agencies to pursue civil prosecution in cases of fraud. Cases are heard by Administrative Law Judges (ALJs). Although the procedures are in place to utilize this authority, the Department has not pursued any cases to date but is prepared to do so in the future should an appropriate case arise. (See recommendation PC-7)

e) Suspension/Debarment of Vendors – The DoD Components have the authority to suspend or debar vendors engaged in fraudulent activities. The Task Force recommends that this be used to as a method of preventing further fraudulent activity.

**Strengthen Compliance Language in Existing Regulations**

The Task Force reviewed current regulations to determine if they are sufficiently inclusive and clear to form the basis of a robust internal control system. Guidance on the purchase card program is contained in the FAR and DFARS, agency supplements and regulations, in the "DoDFMR," and in various memoranda. The review determined that portions of DFARS and the "DoDFMR" should be revised to strengthen guidance on the purchase card. Therefore, the Task Force recommends that the following changes be made to these regulations: *(Recommendation PC-8)*

a) Consolidate, where possible, guidance dealing with the purchase card.

b) Incorporate guidance previously promulgated by memorandum.

c) Add a narrative on "Penalties for Unauthorized Use of the Purchase Card," to specify that misuse by military personnel is punishable

under the Uniform Code of Military Justice and misuse by civilian personnel is subject to disciplinary action up to, and including, removal from the federal service for a first offense.

During its review of existing financial management and acquisition regulations, the Task Force found that there is no single regulation or directive that establishes the roles and responsibilities for charge card programs in the Department. In order to strengthen and streamline the regulatory foundation for these programs, the Task Force recommends the development and implementation of a single directive to codify previous guidance on the programs and to establish an appropriate foundation. *(Recommendation CO-2)*

## Conclusion

The purchase card program is vital to the efficient operation of the Department of Defense. While providing efficiency and savings to the government, the purchase card program can pose a high level of risk because it promotes decentralized purchasing and may allow the same individual to order and receive goods and services. There is a potential for fraud and abusive/improper transactions. Loss of the capabilities purchase cards provide would require the reestablishment of a costly acquisition infrastructure. Therefore, it is incumbent upon managers at all levels to place greater emphasis on the proper management of the program. The Task Force believes that the recommendations contained in this report, if fully implemented, will markedly improve the strength of the purchase card program.

# Chapter 3

# Travel Charge Cards

## Background

The "Travel and Transportation Reform Act of 1998" (TTRA)[1] requires that a government-sponsored, contractor-issued travel charge card be used by all U.S. Government personnel (civilian and military) to pay for costs incident to official business travel, unless otherwise exempted. The Department of Defense (DoD) receives travel charge cards and related services from Bank of America through a task order to a master contract awarded under the General Services Administration SmartPay program.

The Department utilizes two types of travel charge card accounts: Centrally Billed Accounts (CBAs) and Individually Billed Accounts (IBAs). CBAs are used by organizations to procure travel services centrally (such as airline tickets). The bank issues CBAs to DoD organizations, and payment of billed charges is a governmental liability. The Department has approximately 5,000 CBAs, with a dollar volume of transactions of approximately $1.3 billion in FY 2001.

IBAs are charge cards issued to military members and DoD civilian employees. Approximately 1.4 million travel charge cards have been issued to such individuals, with a charge volume of $2.1 billion in FY 2001. Application for the travel charge card is made by the individual, and is submitted to the travel charge card contractor through the Agency Program Coordinator (APC). The bank may request a credit check from credit bureaus or credit rating agencies on each new applicant unless the applicant declines.[2] The individual cardholder is responsible for the prompt payment in full of the amount stated on the monthly billing statement. Travel charge cards are to be used to pay for official travel expenses only.[3] Use of the card not related to official travel is considered misuse and can subject the

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[1] Public Law 105-264.

[2] If the applicant declines a credit check and the organization requires a card be issued, a restricted travel charge card will be issued. Restricted travel charge cards are the same in appearance as standard travel charge cards; however, they are inactive at issuance and have lower credit limits than the standard travel charge card.

[3] This may include certain personal expenses directly related to official travel but which may or may not be reimbursable.

cardholder to administrative or disciplinary action. When the application for the travel charge card is executed, the applicant agrees to the terms of use for the travel charge card, to include the responsibility to pay the travel charge card vendor promptly, and to restrict use of the card to official travel expenses.

While the government is not liable for payment of an individual's travel charge card debt,[4] it is responsible, under the TTRA, to reimburse a traveler for official travel expenses within 30 days of receipt of a properly submitted travel voucher. The government also has an obligation to ensure that the use of the travel charge card is restricted to official travel because of the favorable terms of the government travel charge card contract. In contrast to regular consumer credit cards, the travel charge card contractor does not charge interest on outstanding balances, and the late fee for delinquent balances for individual government travel charge cards is assessed at a later time than regular consumer credit cards. Under the current contract terms, accounts may be suspended if payment is not received 60 days after the due date. Late fees of $29 begin to be charged at day 75 after the initial due date and monthly thereafter. The travel charge card balance is due in full on the date specified on the monthly statement, and there is no option to pay a minimum amount.

Implementation of the travel charge card has allowed the Department to generate savings by dramatically reducing the number of travel advances processed to support travelers who can now use their card at an automated teller machine (ATM) to draw cash for their trip.

In addition to the benefits derived from the flexibility of the travel charge card, federal agencies may also earn rebates from the card-issuing bank based upon the dollar volume of transactions charged each month on both the IBAs and CBAs. The rebates are reduced if certain performance criteria related to delinquency rates and write-off amounts are not met. In FY 2001, the Department received total rebates on IBAs and CBAs of approximately $1.5 million. The formula for calculating the rebates includes reductions based on delinquencies and write-off amounts. Losses above certain thresholds for IBAs and CBAs are deducted from any available

[4] Although the government is not liable for payment of an individual's travel charge card debt, the government may pay late fees if the government travel requirements prevent the individual from timely paying the travel charge card debt.

rebate. For example, in the first quarter of FY 2001, the Department's gross rebate was approximately $2.1 million; however, after reductions, the net rebate was negative $60 thousand. This negative rebate was subsequently deducted from amount of the rebate received in the second quarter of FY 2001.

## Problem Areas

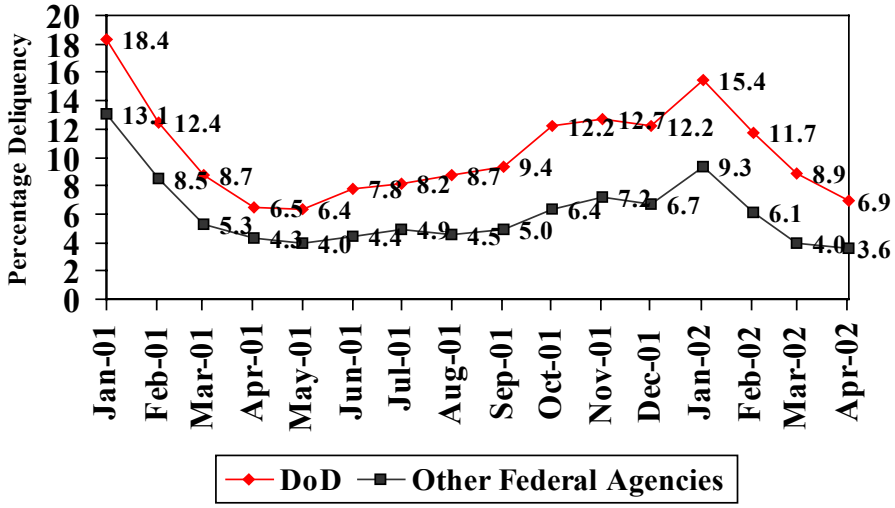
The Task Force's review of travel charge card CBAs revealed a true success story. The Department's delinquency rate for CBAs had been as high as 14.3 percent in January 2001. Increased management attention to this problem has resulted in a decrease to 0.2 percent in April 2002. This is well below the 1.4 percent delinquency rate for other Government agencies. The Task Force, however, discovered a problem area for CBAs. Payment of CBA invoices is a government liability and certification of the payment is required. The Task Force found that existing regulations do not clearly establish the responsibilities and liability of the certifying officials.

The principal problem with the DoD IBA travel charge card program is the late payment or non-payment by military members and civilian personnel of IBA travel charge card debt due to the bank. Under the contract with the Bank of America, cardholders are required to pay off the total balance on their account within 30 days of the end of the billing cycle to keep the account current. The General Services Administration (GSA) standard delinquency rate is calculated on balances unpaid after 60 days. Using this measure, the Department's performance during the first three years of the program has been poor. Monthly delinquency rates during this period have been as high as 25 percent. Performance has been progressively improving, but the rates during FY 2001 and the first two quarters of FY 2002 were 50-90 percent higher than the average of other federal agencies (see Figure 3-1).

When an account is delinquent more than 210 days, the travel charge card contractor is required by banking laws to write-off the overdue balance. Through FY 2001, the amount of write-offs for individual travel charge card debt was excessive, averaging $1.7 million per month. The cumulative charge-offs by the card-issuing bank as of October 2001 were $58.6 million while the cumulative recoveries were $20.2 million.

## Travel Charge Cards Used by DoD Personnel
## Percentage of Amounts Unpaid after 60 Days

*Figure 3-1. DoD vs Federal Travel Card Delinquency Rates*




The write-off problem has been largely corrected by the introduction of salary offset in October 2001. The average monthly write-off has been reduced to $300 thousand. Prior to this time, the bank's only recourse was to attempt recovery through private debt collection means. With salary offset, the contractor can request that the government recover the debt from the individuals' pay. As of April 2002, the cumulative charge-offs only increased approximately $2 million from the October figure to $60.7 million while the recoveries increased by $6 million to $26.5 million.

There are also documented instances of inappropriate use of travel charge cards. Travel charge cards are to be used only for expenses incurred in connection with official government travel. The phrase "For Official Use Only" is clearly indicated on each card,[5] and is also clearly stated in the

[5] Except on travel charge cards issued for Air Force and other DoD travelers who have requested "quasi-generic" or "generic" travel charge cards.

terms of the agreement that the cardholder signs when applying for the card. Unofficial use subjects the travel charge card program to greater risk of delinquencies and write-offs because the charges will not be reimbursed to the cardholder by the government. Unofficial use can be detected through review of account transactions by the agency program coordinators. Any such use of a travel charge card is considered misuse of card privileges and may subject the cardholder to punitive and/or administrative action.

High delinquency rates and excessive write-offs have two important consequences. First, they threaten the Department's contractual relationship with the travel charge card contractor. Since the contractor cannot charge interest on outstanding balances, and since the late payment fee is charged at a later point than on a consumer credit card, the contractor's cost of funds will be higher than anticipated. While this is of primary concern to the card-issuing bank, it also could be problematic to the Department in future competitive solicitations for card services resulting in increased fees to cardholders and increased costs to the Department to reimburse the fees. High delinquency rates and excess write-offs also reduce the rebates due the government.

## Evaluation of Problem Areas

DoD personnel are required to pay legitimate private debts under Executive Order 12731 (October 19, 1990). High delinquencies and write-offs associated with individual travel charge card accounts are evidence that some military members and civilian employees are not meeting this requirement. The Task Force found a number of reasons for the problem. They include:

- **Lack of Appropriate Program Oversight** – The travel charge card program, like any other administrative program, must be managed properly. Proper management requires the appropriate level of senior management attention, the installation and maintenance of appropriate control mechanisms, the application of sufficient resources, and the imposition of appropriate sanctions when users deviate from requirements. These elements are missing in those DoD organizations with high delinquency rates and write-offs, resulting in program

oversight that is not sufficiently robust to maintain acceptable performance.

- **Lack of Financial Sophistication Among Cardholders** – The highest delinquency rates occur among junior enlisted personnel. The delinquency rate for E1-E4 personnel (19.5 percent) is substantially higher than the rate for other DoD personnel and the overall DoD delinquency rate (6.9 percent). The Task Force believes that, in general, this population is less sophisticated in financial matters, and less experienced in the use of credit instruments than other DoD personnel.

- **Lack of Prompt Reimbursement for Travel Expenses** – The Task Force heard anecdotal evidence that some card holders were not reimbursed for travel expenses in time to pay their travel charge card debt by the due date. Examination of the travel voucher settlement and payment process revealed that the lack of timely reimbursement once a travel voucher has been properly submitted is not the causal problem for the high incidence of delinquency rates across the Department. But other factors involved in the travel reimbursement process, including untimely travel voucher preparation/submission, travel order/order change processes, errors in completing the travel voucher, and delays in approving and transmitting vouchers were found to be contributing to the problem.

  There are timeframes established in regulations for some of these processes, but the Task Force lacked sufficient data to determine whether these standards are being met.[6] Lack of compliance with these requirements will contribute to cardholders not receiving reimbursement in time to pay their card balances by the due date. The Task Force believes that the Defense Travel System, when implemented, will provide an effective solution for problems associated with late, incomplete or incorrect filing.[7]

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[6] Appendix O of the Joint Travel Regulation and Joint Forces Travel Regulation requires travelers to file their travel reimbursement vouchers within 5 working days after returning from a trip. Volume 9, Chapter 5 of the DoD Financial Management Regulation requires travel authorizing officials to ensure that travel claims are forwarded to the appropriate liaison office or travel computation office within two working days following the traveler's submission for approval.

[7] DTS streamlines and automates procedures used to arrange and authorize travel and to reimburse travelers. Because with DTS, the travel claim is certified for payment by the travel authorizing official and because the system computes the travel reimbursement and transmits electronic commerce/electronic data

Some travel may place the traveler at high risk for late receipt of reimbursement. In some instances, the deployment/mission may take the traveler to an area where filing of periodic travel claims is not feasible. While travelers may not be using their card during a deployment to places such as Afghanistan or various peacekeeping or humanitarian missions, or submarine duty, those travelers are required, under the mandatory use policy, to use their travel charge cards for travel to the mobilization site. This is a common occurrence for members of the Reserve Components. Although travelers in these circumstances may be placed in a "mission critical" status which prevents suspension of the travel charge card for delinquency, the Task Force believes that the card should not be used when it is known that the account cannot be settled in a timely manner and when alternatives to the use of the travel charge card are available to the traveler (such as travel advances).

- **Failure to Adhere to Prohibitions Against Unofficial Use of the Travel Charge Card** – Although the travel charge card is to be used only for expenses incurred while on official travel, DoD audit organizations have released 23 audit reports that disclose instances of cardholders inappropriately charging personal expenses unrelated to official travel on the card. When these cardholders did not have sufficient personal financial resources to pay the debt, delinquency was the result. Unauthorized use of cash withdrawals from ATMs for unofficial purposes is a significant factor in this problem, based on the cases that have been referred to investigative authorities for review and as noted in a number of the audit reports.

- **Lack of Commander and Supervisor Emphasis on Payment Because the Individual Travel Charge Card is a Personal Debt** - IBA travel charge card debt is a personal liability of the cardholder. The fact that the debt is the responsibility of the individual and not the Government has been cited in anecdotal evidence as the reason commanders and supervisors have not taken action with respect to delinquent cardholders The Task Force does not accept this reasoning. The travel charge card

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interchange (EC/EDI) transactions directly to DoD accounting and disbursement systems, the timeliness of travel reimbursements will be greatly improved. Errors on travel claims will be greatly reduced because built in edits will result in immediate correction during the process of on-line electronic filing of the travel claim.

program provides benefits both to the government and to the cardholder (some of whom would not be able to obtain a personal credit card) that are not available on a commercial charge card; therefore, it is a command responsibility to ensure the program is not abused.

## Actions to Date

Over the past year, a number of actions have been taken to resolve travel charge card delinquency and write-off issues. These include:

- An April 11, 2001, modification to the Department's task order with the card-issuing bank. This modification, among other things, authorized the bank to lower ATM cash and credit line limits from the $500 cash and $5,000 credit line limit to $250/$2,500 for a standard card, and to increase the late fee from $20 to $29 (now assessed at 75 days delinquent versus 120 days previously) and to implement salary offset within the Department.

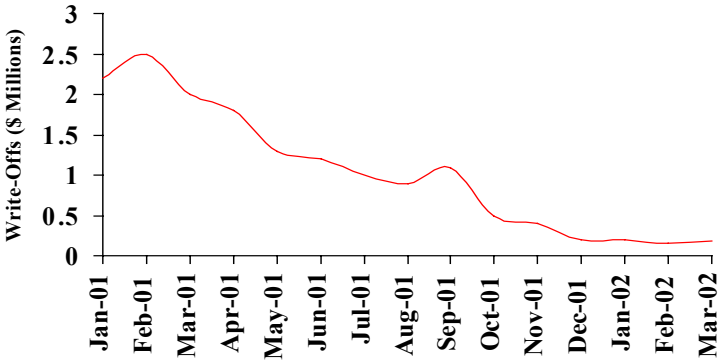
- The October 2001 implementation of salary offset, as authorized under the TTRA. Salary offset allows for payment of unpaid balances on a travel charge card to a travel charge card vendor by involuntary deduction from the cardholder's pay. Although there are restrictions (e.g., collection amount cannot exceed 15 percent of disposable pay), as Figure 3-2 shows, the use of salary offset has drastically reduced the amount the bank has been required to write off.

- A reduction in the number of travel charge cards outstanding. In the task order modification signed on April 11, 2001, the Department committed to reducing the total number of travel charge cards. Approximately 1.4 million individual cards have been issued to DoD personnel, of which about 500,000 are used in a given month. Based on internal reviews by the DoD Components of information provided by the Bank concerning cardholders that either had never used or had not used their travel charge cards in the previous twelve months, the Department cancelled approximately 115,000 cards and deactivated another 112,000 between August and November 2001. A similar review of cards not used in the last twelve months is currently underway. Eliminating unused cards reduces potential misuse and reduces the card-issuing bank's cost associated with the maintenance of accounts.

Actions taken by the DoD Components include:

**DoD Monthly Write-Offs on Individually-Billed Travel Accounts (IBAs)**

*Figure 3-2. DoD Monthly Write-Offs (IBA)*




- In May 2002, the Assistant Secretary of the Navy (Financial Management & Comptroller) sent personal letters to all cardholders with outstanding balances greater than 60 days old. The letters alerted the cardholders to the adverse implications of delinquency (card suspension, salary offset, credit bureau reporting) and urged immediate account settlement. The letter also provided points of contact if these individuals were experiencing problems with the bank or obtaining reimbursement for travel expenses.

- The Department of the Navy has also required all Navy organizations with delinquencies exceeding its four percent delinquency goal, to conduct monthly spot checks of their active accounts to ensure there is no card misuse.

- In October 2000, the Vice Chief of Staff of the Army (VCSA) sent a memorandum to the Major Command (MACOM) Commanders establishing a four percent delinquency goal.[8] A subsequent August 2001

[8] The Army's delinquency goal is based on number of accounts delinquent. The Air Force and Navy delinquency goals are based on dollars delinquent.

VCSA memorandum emphasized the need to address delinquency issues. The VCSA again addressed the issue with MACOM Commanders not meeting the four percent goal in May 2001 and April 2002.

- To stimulate discussion on the delinquency issue among senior Army leaders, the Secretary of the Army authorized the posting of MACOM delinquency statistics on the Senior Leader Page, an Army intra-net web site under the Army Knowledge On-Line (AKO) website. Statistics are updated each month. Access to the site is restricted to senior Army leaders.

- In December 2000, the Air Force established a five percent delinquency goal. As of April 2002, Air Force delinquencies had been reduced to 3.9%. The issue continues to be at the forefront of Air Force financial management meetings.

## Task Force Recommendations

The Task Force examined a number of options for effective remedies to these problems. Based upon its review, the Task Force recommends the following:

### Management Emphasis and Organizational Culture

Many Commands within the Services and Defense Agencies achieve, and maintain, delinquency/write-off rates on travel charge cards comparable to, if not better than, other government agencies, and also do not experience significant incidents of travel charge card abuse. These include large Defense Agencies such as the Defense Finance and Accounting Service, the Defense Contract Audit Agency, the Defense Information Systems Agency and the National Imagery and Mapping Agency. A key element of their success is appropriate command emphasis, dedication of sufficient resources for program management, appropriate monitoring of individual accounts, and appropriate administrative action.

The Deputy Secretary of Defense issued a memorandum to the Service Secretaries and Agency Heads emphasizing his standards for charge card programs. *(Recommendation CO-1)*. This will reinforce a positive

organizational culture by providing all elements of the Department with unmistakable notice of the importance the Secretary and his senior leaders place on the proper execution of charge card programs.

In addition, the Task Force recommends that a set of standard metrics be developed to assist the Secretary and senior leaders in monitoring the program. These metrics, presented on a monthly basis, will focus on delinquencies and write-offs, two of the critical success indicators in this program. *(Recommendation TC-1)*

Supervisors must carefully evaluate the impact of travel charge card abuse allegations have, not only upon the individual but also on the workplace. If a cardholder holds a security clearance, the supervisor must determine whether the allegations rise to the level that the security clearance should be suspended pending the outcome of the investigation. For this evaluation to occur, however, the supervisor and security manager must be made aware of the investigation. The Task Force recognizes that the nature of a particular investigation may prevent timely notification. We recommend that the investigative community ensure that, wherever possible, notification to supervisors and security managers be made within 72 hours of the initiation of a travel charge card investigation. When the investigative agency notifies the employing activity supervisor, that information should be passed immediately to the agency security manager with a recommendation for (or against) suspension of the security clearance by the supervisor. The investigative agency will notify the security manager first or at least concurrent with the notice to the supervisor. Any action to suspend a security clearance may be taken only in accordance with the appropriate DoD, Military Department, or Agency regulation based on thorough consideration of all the relevant factors. *(Recommendation TC-10)*

## Process and Workforce Development

### Expansion of the Use of Split Disbursement

Under split disbursement, the disbursing office remits funds in the amount designated by the traveler directly to the card-issuing bank for items charged on the travel charge card, and remits the remainder of the travel settlement to the traveler. The use of split disbursement reduces delinquent balances and write-off amounts because all of the charges on the travel

charge card can be remitted directly to the bank. It also provides a convenience to travelers by eliminating the need to write a check and mail it to the bank.

The Department has implemented voluntary split disbursement, but it currently cannot mandate its use because both military and civilian travel entitlement provisions require reimbursement only to the traveler. Under the current split disbursement policy, the traveler may indicate a preference for split disbursement on the travel voucher and specify the amount of the reimbursement to be remitted directly to the bank. If the traveler does not indicate split disbursement, the entire travel settlement is reimbursed directly to the traveler.

The Task Force recommends that the Department work with the OMB to develop a legislative proposal to provide the authority to mandate the use of split disbursement for all travelers. If it does not appear that authority for mandatory split disbursement is forthcoming in the near future, the Task Force recommends that default split disbursement be implemented immediately for military members, with implementation for civilians as soon as any union bargaining requirements are met. "Default" split disbursement requires the traveler to make an affirmative choice on the travel voucher to decline split disbursement. If no such choice is made, the travel settlement office will determine the portion of the reimbursement associated with transportation, lodging and rental car expenses and remit that portion directly to the card-issuing bank. The remainder of the reimbursement will be sent directly to the traveler. The Task Force believes that increased use of split disbursement will have a significant positive impact upon the Department's delinquency rates. *(Recommendation TC-2)*

**Reduction in the Number of Travel charge cards**

The Task Force believes that travel charge cards should be issued only to those who have a legitimate need for them. Excess cards in the hands of individuals without legitimate need are an unnecessary administrative burden and expose the card-issuing bank to unnecessary risk from potential abuse and misuse of the cards. As of the end of April 2002, approximately 400,000 DoD travel charge cards had not been used during the previous 12 monthly billing cycles. This is approximately one-fourth of the total number of DoD individual travel charge cards. Of the 400,000 travel charge

cards, approximately 100,000 are currently not valid because replacement cards were not issued by the bank upon expiration, since they had not been used in the previous 12 months. The accounts associated with the expired travel charge cards nevertheless remain open. The Task Force recommends that the Under Secretary of Defense (Comptroller) issue a memorandum directing that accounts for travel charge cards which have expired and have not been utilized during the previous 12 billing cycles be cancelled on a continuing basis. The Task Force also recommends that the memorandum direct agency program coordinators to obtain justification from the cardholders' supervisors for any of the remaining 300,000 travel charge card accounts that the supervisors authorize to remain open.
*(Recommendation TC-3)*

The Task Force believes it would be beneficial to withdraw travel charge cards from segments of the cardholder population who marginally meet the definition of "frequent traveler." The "DoDFMR" defines an infrequent traveler as one who travels two or fewer times per year. Those not meeting this definition are exempt from mandatory use of the travel charge card. The "DoDFMR," however, allows the DoD Components to set a higher number of trips as the limit. The Task Force encourages the DoDComponents to examine their programs to determine if a revised definition would result in better performance for their programs.
*(Recommendation TC-4)*

**Expanded Use of Salary Offset**

As noted earlier, salary offset has been implemented for all military members (to include retired pay), and approximately three-fourths of civilian employees (all non-bargaining unit employees and those bargain unit employees whose unions have completed negotiations on implementation of salary offset).

During its review, the Task Force discovered that, unlike military retirees, there is no legal authority to offset debts against the retirement annuities of federal civilian employees. Although the number of cases where retired civilian annuitants still owe debt to the card-issuing bank is small, the Task Force believes that, as a matter of equity, both military and civilian retirees should be treated in the same manner; however, this would require a change in the law.

The Task Force recommends that the Department work with the OMB to develop legislative proposals to provide the authority to apply salary offset uniformly across all DoD personnel and to allow the use of salary offset against civilian retiree annuities. *(Recommendation TC-5)*

**Evaluation of Travel Processes**

The Task Force could not determine the extent to which inefficiencies in the end-to-end travel process are causing late reimbursement for official travel expenses. As stated earlier, the settlement and payment segments of the process appear to be operating well within the required time frames. Other segments, such as delays in submitting the voucher, obtaining necessary approvals, incomplete supporting documents, or delays in transmittal, could be resulting in travelers not being reimbursed in a timely manner. Although the Task Force believes that the Defense Travel System will streamline the travel reimbursement process on an end-to-end basis, full implementation is still several years away. Therefore, the Task Force recommends that the current travel process be evaluated, on an end-to-end basis, to determine process improvements that would speed reimbursements to the traveler. *(Recommendation TC-6)*

**Program Alternatives**

Although the Task Force believes the measures outlined above will have a significant favorable impact upon the overall performance of the travel charge card program, we also believe it prudent to investigate available alternatives to the use of a charge card for at least some segments of the official travel population. Several alternatives exist under the GSA SmartPay program, to include the use of debit cards or stored value cards. The investigation should include an analysis of cost and necessary changes in business practices and associated workloads so that decisionmakers can determine if some portions of the population can be served equally well but with less financial risk by the alternative methods. *(Recommendation TC-7)*

**Additional Exemptions From Mandatory Card Use**

The Task Force believes that an additional exemption to the requirements of the TTRA should be developed to accommodate required

use of the card for en route travel expenses associated with mission deployments to areas where it is known that travelers will not be able to file travel claims. The exemption would provide the flexibility to obtain travel advances or make use of other means to finance travel.
*(Recommendation TC-8)*

**Defense Travel System**

The Defense Travel System (DTS) will offer the traveler a number of important advantages, including a paperless environment, faster processing of travel authorizations and amendments to travel authorizations, and faster reimbursement for expenses of official travel. The DTS also may be capable of offering travel program managers additional control mechanisms. Therefore, the Task Force recommends that a study be performed to determine potential travel charge card control enhancements to the DTS.
*(Recommendation TC-9)*

**Training**

The lack of training resource material was not identified as a problem by the Task Force. It is recognized, however, that in order for commanders and supervisors to provide an adequate and appropriate level of oversight, both they and the Agency Program Coordinators (APCs), on whom they depend to manage their organizations' travel charge card programs, must be adequately trained. Such training should address the policies associated with the program, the use of the Bank's on-line account and program management system (the Electronic Account Government Ledger System (EAGLS)), and their responsibilities in managing and overseeing their organization's travel charge card program.

The Bank of America makes numerous training resources available on its Government Card Service Unit web site. These include:

- A DoD Minimum Essential Task List (METL) for APCs that distills the time required to manage an organization's travel charge card program to a minimum length of time. The METL contains a listing of the minimum tasks required on a monthly basis to make the most of the limited time APCs are able to dedicate to the travel charge card program as a collateral duty.

- On-line ordering capability for the EAGLS Desktop Reference Guide, in both CD-ROM and paper formats.

- An EAGLS user's guide for APCs that can be downloaded from the web site.

- On-line capability to request onsite training for APCs. The bank will provide a professional trainer on EAGLS provided 25 or more APCs are available at one site.

- Briefing slides for use by APCs in training cardholders on their responsibilities associated with the travel charge card.

- Numerous other training resources to include frequently asked questions and an archive of information bulletins.

The General Services Administration (GSA) maintains travel charge card training resources on its web site to include an APC Survival Guide, an interactive on-line cardholder training package, and a brochure designed to be handed out to cardholders on travel charge card "do's and don'ts."

In addition, Component Program Managers conduct periodic training sessions for APCs and an annual conference is sponsored by the GSA and the SmartPay contractors to provide APCs with updates on the charge card program.

Adequate training resources for the travel charge card for commanders/supervisors and APCs are readily available and easily accessible. The Task Force, nevertheless, believes that awareness of the availability of these resources among commanders/ supervisors, APCs and cardholders can be improved. The Task Force, therefore, recommends that the Office of the Under Secretary of Defense (Comptroller) and the Travel charge card Program Manger determine if the training CD to be developed to provide the results of this Task Force to purchase card program officials and supervisors of officials can also address travel charge card training resources. The CD could then be provided to all travel charge card APCs and their commanders and supervisors. *(Recommendation TC-12)*

**Positive Card Control on Departure**

In the April 11, 2001, modification to the DoD task order with the card-issuing bank, the Department agreed that travel charge card issues would be addressed during the inprocessing and outprocessing of personnel. Specifically, the Department agreed that the requirement for DoD personnel to inprocess and outprocess through APCs would be added to the DoD Components existing personnel transfer and separation procedures. Although the APCs have been added to outprocessing checklists, there is a need for a mechanism to guarantee that travel charge cards are cancelled and that travel charge card debt is repaid before departing cardholders exit the Department's control. The Task Force recommends that the travel charge card program manager develop, where possible, additional controls to ensure travel charge card debt is liquidated prior to departure.
*(Recommendation CO-3)*

## Compliance

**Application of Appropriate Sanctions for Abuse and Misuse**

Although most users of the travel charge card are meeting program requirements, it is clear that some are not. For instance, the high write-off rate exhibited prior to October 2001 is evidence of the extent to which DoD personnel were not acting promptly to pay just debts, a violation of both the Federal Code of Ethics and the Uniform Code of Military Justice. Also, there are documented cases of travel charge card use to purchase goods or services for personal needs, a violation of DoD regulations and the cardholder agreement.

In instances of failure to pay or misuse of the travel charge card, commanders and supervisors must, at a minimum, counsel members. An administrative control system must have appropriate enforcement mechanisms in place if it is to remain effective. But, more importantly, commanders and supervisors must (1) actively intervene to investigate potential or alleged abuses promptly to ensure that cardholders understand the requirements of the program and are adhering to them and, (2) take appropriate disciplinary action when abuse/misuse is encountered. Therefore, the Task Force recommends that the "DoDFMR" be modified to

address more specifically the administrative and punitive authority as well as command responsibility for oversight of the travel charge card program.

In addition, the Task Force recommends that the "DoDFMR" be revised to clarify the responsibilities and liability of centrally billed account certifying officials. *(Recommendation TC-11)*

**Data Mining/Enhanced Surveillance**

The audit community and the Defense Finance and Accounting Service have been working on the development of data mining tools that employ advanced technology to assist in the prevention and detection of purchase card abuse. These techniques, the Task Force believes, can be applied to centrally billed travel charge cards, especially the unit card, to ensure that those cards are being properly utilized. Therefore, the Task Force recommends that, after the initial implementation of data mining for purchase cards, a similar program be developed that can be applied to the centrally billed travel charge card program.

It is less clear that data mining will be useful in the individually billed travel charge card program. The contractor's current automated system provides a high level of transaction review capability. The Task Force, therefore, recommends that an evaluation be made of the costs and benefits of data mining for individually billed travel charge cards to determine if expansion to this sector would be of value. *(Recommendation CO-04)*

## Conclusion

Implementation of the travel charge card program allowed the Department to reduce its cost of operations by reengineering its business processes. The Task Force believes the program is operating effectively in many DoD organizations, and can be effective throughout with the proper command and supervisory oversight. There are organizations, however, where the program currently falls short of expectations and requires immediate leadership attention. The Task Force believes that the recommendations included in this report, if adopted, will contribute materially to travel charge card program performance and improvement throughout the Department.

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# APPENDIX A

## Recommendations Common to Purchase and Travel Cards

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**Recommendation CO-1:** Guidance should be issued on the requirement for all military members and civilian employees to maintain appropriate stewardship of public resources and for all managers in the Department both to manage charge card programs properly, and to strictly enforce compliance with internal control procedures.

**Discussion:**

Command emphasis is the key cultural variable in a charge card program. The Task Force concluded that the overall structure of the purchase and travel card programs is sound. However, in certain instances, sufficient resources did not appear to have been applied to the management of the program. In others, the chain of command did not appear to have placed enough emphasis on the need for strict compliance with program requirements and on the taking appropriate action against of those found to have failed to carry out their duties and responsibilities properly under the charge card programs. The Task Force believes that there is a danger that an unacceptable level of abuse can occur if the chain of command does not provide proper leadership.

**Action Required:**

Completed: On June 21, 2002, the Deputy Secretary of Defense signed a memo (attached) drafted by the Task Force to the Service Secretaries and Agency Heads reiterating the need for proper management of purchase and travel card programs and stressing the importance that senior military leaders and civilian managers be directly involved. In addition, the Component Heads are required to provide a report on actions taken to resolve current cases of charge card misuse, abuse, and delinquencies and to preclude future instances.

To Be Accomplished: N/A

Resource Requirements: None

Legislation Required: None

Issues (if any): None

| Requirements: | Legislation | Regulation Change | Additional Resources |
|---|---|---|---|

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**Recommendation CO-2:** Implement an overarching regulation covering charge card responsibilities within the Department.

**Discussion:**

During its review, the Task Force determined that there is no overall regulation governing responsibilities for charge cards in the Department of Defense. The original direction on the purchase and travel charge card programs were guidance memoranda, and these have not been codified into any existing regulations. The Task Force believes that an overarching regulation establishing roles and responsibilities for charge card programs should be developed and published to provide a sound regulatory basis for the programs.

**Action Required:**

Completed:

None

To Be Accomplished:

July 15, 2002 The Under Secretary of Defense (Comptroller), in consultation with the Office of the DoD General Counsel, will prepare a directive assigning responsibilities for management of all charge card programs (to include travel charge cards, purchase cards, fleet cards, aviation into plane (AIR) cards, and telephone calling cards).

Resource requirements: None

Legislation required: None

Issues (if any): None

| Requirements: | Legislation | Regulation Change | Additional Resources |
|---|---|---|---|

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**Recommendation CO-3:** Develop methods to assure more positive control of charge cards when an individual leaves an organization.

**Discussion:**

Positive control of charge cards when an individual departs an organization is a vital step in the control process. Currently, this is done largely through departure checklists, under the control of the local personnel offices. Other methods of control assist the local program coordinators in ensuring that cards are withdrawn, cancelled or deactivated as appropriate.

The Task Force believes that there may be methods to use data in personnel or payroll systems to alert agency program coordinators when a person departs an organization. Even if this notification is after the fact, it will allow the coordinator to cross-check the records and determine if immediate follow-up is required.

**Action Required:**

Completed:

None

To Be Accomplished:

July 15, 2002 The Under Secretary of Defense (Comptroller) will direct the Components to ensure that Agency Program Coordinators (APCs) cancel purchase charge card accounts and transfer/cancel travel card accounts when cardholders leave the organization.

The Program Managers for Travel and Purchase Cards, in conjunction with the Personnel community, will develop, where possible, methods to notify APCs when a cardholder separates from an organization.

Resource requirements: None

Legislation required: None

Issues (if any): None

| Requirements: | Legislation | Regulation Change | Additional Resources |
|---|---|---|---|

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**Recommendation CO-4:** Complete development of automated data mining tools to provide improved surveillance of purchase card programs. Apply the lessons learned from this initiative to develop a parallel program for unit cards,[1] i.e. centrally billed travel cards. Explore the applicability of this methodology to individually billed travel cards.

**Discussion:**

Efforts are already underway to develop an automated oversight program using data mining technology to identify purchase card transactions having a high probability of fraud or abuse. This effort is a joint endeavor being undertaken by the Defense Finance and Accounting Service (DFAS), the Office of Inspector General of the Department of Defense (OIG DoD), the Department of Defense Purchase Card Program Management Office (PCPMO), the Service Criminal Investigation Organizations and the Service Audit Agencies. The project will ultimately provide a set of algorithms that can be run on databases containing DoD information held under contract by banks to flag potentially fraudulent and abusive/ inappropriate transactions as they are attempted or shortly after the transactions occur. The same algorithms can also be utilized by the Department's audit and investigative organizations.

The data mining initiative has the potential to provide a broad range of benefits, not just to the audit and investigative community but also to managers. It could become a vital part of the risk management program for the purchase card program. It could also have a preventive effect on fraud and abuse of the program. Those who perceive they will be caught engaging in fraud or inappropriate behavior are less likely to commit it. However, the effort needs to be coordinated broadly across all parties in the purchase card program to ensure that these potential benefits are captured, and carefully reviewed by the DoD General Counsel and DoD Privacy Officer to ensure all legal requirements are met.

**Action Required**:

Completed:

April 23, 2002 DFAS Internal Review, in coordination with OIG DoD, completed development of a set of indicators designed to identify potential abuse or misuse of Government purchase cards. DFAS coded thirty-eight of the indicators and developed a process to target payments for review by combining related indicators. The initial results identified 6.5 million transactions with at least one indicator, from a population of 12 million transactions totaling $6.5 billion. Through careful analysis, in collaboration with our review partners, we have refined our selections to 13,393 transactions totaling $38,253,105. This subset pertains to purchases made during the period of July through December 2001. The 13,393 transactions relate to 2,066 cardholders (1,604 approving officials) in 752 cities.

[1] "Unit cards" are centrally billed travel charge cards that are used to meet the travel expenses for group travel. Examples include athletic teams, bands, and funeral details.

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| May 10, 2002 | DFAS Internal Review, in coordination with OIG DoD, met with and delivered cardholder profiles to the Service audit organizations and DoD agencies for the purpose of validation through field research. |

To Be Accomplished:

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|---|---|
| August 31, 2002 | Auditors from OIG DoD, Service audit organizations, and DoD agencies will complete field research and communicate their findings to DFAS Internal Review for the purpose of validating the 38 detection indicators. The PCPMO will develop, where possible, enhanced purchase authorization controls and fraud detection techniques, and coordinate review of the methodology and use of these techniques with the DoD General Counsel and DoD Privacy Officer. |
| TBD | The PCPMO will use data obtained through data mining to develop additional purchase card management metrics. |
| TBD | The OIG DoD and DFAS, in conjunction with the OUSD(C) and the services, will complete a strategy and concept of operations for application of data mining tools to centrally-billed travel charge cards. |
| TBD | The OIG DoD and DFAS, in conjunction with the OUSD(C) and the Services, will complete an analysis of the applicability of data mining tools to individually billed travel cards. |

Resource Requirements:

Additional resources for staff and related travel may be needed by the OIG DoD, Service audit organizations, and DoD agencies to conduct on-site field research of candidate purchase card transactions.

Legislation Required: None

Issues: None

| Requirements: | Legislation | Regulation Change | Additional Resources |
|---|---|---|---|

# APPENDIX B

## Purchase Card Recommendations

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**Recommendation PC-1:** The Program Manager Purchase Cards, in coordination with Director of Defense Procurement, should develop an end-to-end Concept of Operations for the purchase card program. The Concept of Operations should include a review of all relevant regulations, policies and procedures to identify areas where the program should be strengthened. The Final Concept of Operations should be widely disseminated throughout the Department as a guide for the implementation and maintenance of purchase card programs.

**Discussion:**

The Concept of Operations will consist of a description of the process flow for the purchase card and will recommend best practices for operating the program at the base, post, camp, or station level. Regulatory guidance will continue to be in the Defense Federal Acquisition Regulation Supplement (DFARS), agency supplements, and agency instructions. Any internal control weaknesses noted in the review will, consequently, need to be addressed and resolved through regulatory changes.

**Action Required**:

Completed: The Director, Defense Procurement formed a multi-functional team that drafted a Concept of operations – a single document describing all the elements of a properly organized purchase card program.

To Be Accomplished:

July 30, 2002 The Director, Defense Procurement will issue the final Concept of Operations as a deskbook to guide all purchase card officials in the Department.

Resource Requirements: None

Legislative Requirements: None

Issues: None

| Requirements: | Legislation | Regulation Change | Additional Resources |
|---|---|---|---|

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**Recommendation PC-2:** Accelerate electronic certification and bill paying systems for purchase cards. Require the Components to use either the card-issuing bank's on-line systems or an alternative that offers equivalent capabilities.

**Discussion:**

Card-issuing banks currently provide an on-line capability for purchase card officials to review, in real time, credit card transactions. The banks also have developed an on-line statement review, approval and certification process. Certification in the banks' systems results in secure transmission of electronic invoices directly to the supporting finance and accounting systems. The process speeds payments and decreases delinquencies, prompt payment interest penalties, and problem disbursements. The banks' on-line tools also allow enhanced surveillance of purchase card transactions and add discipline to the bill reconciliation process by preventing certification prior to approval of the cardholder statement.

Currently, the Department does not mandate use of the banks' on-line certification and billing systems. The on-line tools are only partially implemented in the Department. Implementation has been hampered by the lack of sufficient training resources, the lack of interfaces to supporting accounting and payment systems, and the lack of a requirement to use the system. The card-issuing banks are limited in their ability to roll out additional activities until August 2002; at present, their capacity is filled through July 2002. The Defense Agencies currently are scheduled to commence implementation this summer.

In certain instances, a Component may have, or is developing, systems that will offer capabilities equivalent to the banks' systems. These should be considered as acceptable alternatives to the banks' systems if they perform the same functions such as electronic interchange with supporting finance and accounting systems, immediate receipt of bank statements and capability to certify and pay for the invoices on receipt.

**Action Required:**

Completed**:** None

To Be Accomplished:

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|---|---|
| June 30, 2002 | Program Manager, Purchase Cards will prepare a letter for joint signature by the Under Secretary of Defense (Acquisition, Technology and Logistics) and Under Secretary of Defense (Comptroller) directing all Components to accelerate implementation of electronic billing and certification systems for purchase cards. |
| 30 days after issuance of letter | Program Manager, Purchase Cards, in coordination with the DoD Components, will develop implementation plans for remaining activities to field an on-line statement certification process. This plan will include any additional resources required to implement an accelerated fielding schedule. |

Resource Requirements: Additional resources for travel to conduct on-site training at DoD activities may be required ($50,000).

Legislation Required: None

Issues: None

| Requirements: | Legislation | Regulation Change | Additional Resources |
|---|---|---|---|

**Recommendation PC-3:** Establish a best practice for the appropriate span of control between the purchase card agency program coordinator and cardholders.

**Discussion:**

The purchase card agency program coordinator is a demanding position, with administrative, management, and oversight responsibilities. To accomplish these various tasks successfully, a reasonable limit should be placed on the number of cardholders the APC is expected to manage. The Program Manager, Purchase Cards has set a standard for the number of cardholders an approving official can manage. No standard exists for the number of cardholders an APC can manage, however, and, in practice, the number varies widely.

The Concept of Operations working group recommended a best practice of 300 card accounts per APC. Although organizations can deviate from this best practice, they must be prepared to justify this deviation.

**Action Required**:

Completed: Developed a recommended span of control for purchase card Agency Program Coordinators as part of the Concept of Operations working group.

To Be Accomplished:

July 30, 2002 The Director, Defense Procurement will establish a "best practice" span of control of no more than 300 cardholder accounts to each purchase card APC.

Resource Requirements: None

Legislative Requirements: None

Issues: May require labor union consultation and bargaining.

| Requirements: | Legislation | Regulation Change | Additional Resources |
|---|---|---|---|

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**Recommendation PC-4:** Develop enhanced training materials for purchase cardholders, approving officials, and Agency Program Coordinators.

**Discussion:**

Appropriately trained personnel are key elements in an efficient and effective purchase card program. While purchase card training material currently exists, enhanced training materials and improved means of disseminating training material would further assist the Department in strengthening its workforce. In addition, several of the Task Force recommendations involve changes to the statutory, regulatory and policy framework of the purchase card program. These changes must be fully and rapidly communicated to cardholders and approving officials if they are to be effective.

Enhanced purchase card training will include:

1) Development of a training CD for distribution to all cardholders and approving officials and their supervisors. The CD should address the full range of topics the officials require to execute their responsibilities and address the sanctions to which they may be subjected if they fail to properly fulfill their responsibilities. Examples of cases of abuse or misuse should be included.
2) The General Services Administration (GSA) is developing an on-line training course for agency program coordinators (APCs). The Program Manager, Purchase Cards will monitor the development of this training to determine if it adequately meets the needs of the Department's APCs. If a customized version is required, GSA has agreed to fund the development of a separate DoD module.
3) The Program Manager, Purchase Cards is developing training for purchase cardholders, approving officials, and certifying officials to be made available on the Defense Acquisition University Continual Learning web site.

**Action Required**:

Completed: None

To Be Accomplished:

September 30, 2002 Program Manager, Purchase Cards will:

Complete development of a comprehensive training CD-ROM to be distributed to all purchase card officials. Narratives for the training CD will be developed by the following organizations:

1) Introduction (All)
2) Regulations (All)
3) Requirements (All)
4) Pecuniary Liability (OGC, OUSD(C))
5) Proactive Efforts for Detection (IG DoD, DFAS)
6) Actual Case Studies (IG DoD)
7) Summary (All)

Complete review of GSA-developed and hosted APC training package and, if necessary, obtain a customized version for the Department.

Implement the APC on-line tutorial.

Develop training to be hosted on the Defense Acquisition University Continual Learning web site.

Review the development of General Services Administration's (GSA's) on-line APC course and, if necessary, obtain a customized version for the Department.

Resource Requirements: $30,000 - $60,000. Initial funding of $30,000 has been identified.

Legislative Requirements: None

Issues: None

| Requirements: | Legislation | Regulation Change | Additional Resources |
|---|---|---|---|

**Recommendation PC-5:** Develop a best practice for the appropriate skill sets an Agency Program Coordinator (APC) should possess.

**Discussion:**

The Agency Program Coordinator (APC) is the key position in an effective purchase card program. APC's not only control cardholder account setup and maintenance, but also have critical program and training surveillance responsibilities. In spite the criticality of the position, however, there are no standards set for recommended skills or grade levels for successful accomplishment of the job.

The Purchase Card Concept of Operations Working Group developed a recommended skill set for successful accomplishment of the APC position and recommended grade levels for the position. These will be promulgated as "best practices" rather than as requirements. The Task Force believes that the Components should be allowed latitude in organizing and staffing their purchase card management structures, as this permits appropriate tailoring to local conditions. The Components can deviate from this best practice but must be prepared to explain how they have mitigated risk if they their practices fall significantly below the best practice recommendation.

**Action Required**:

Completed: Developed a list of recommended skills and grade levels for Agency/Organization Program Coordinators as part of the Concept of Operations.

To Be Accomplished:

July 30, 2002 The Director, Defense Procurement will establish a "best practice" for required skills and recommended grade level for a purchase card APC.

Resource Requirements: None

Legislative Requirements: None

Issues: May require labor union consultation and bargaining.

| Requirements: | Legislation | Regulation Change | Additional Resources |
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**Recommendation PC-6:** Review procedures for pursuing pecuniary liability against charge card certifying officials to ensure that appropriate procedures are in place. Provide a mechanism for disseminating guidance on the use of pecuniary liability procedures to all elements involved in charge card billing approval and certification.

**Discussion**:

Approving officials are responsible for reviewing and approving all transactions processed against a government purchase card by the purchase cardholder. All approving officials, except those in the Air Force, also are appointed as "certifying officers." The Air Force has a waiver to appoint installation Financial Services Officers as certifying officers. Certifying officers are responsible for reviewing invoices and vouchers to verify that payment is permitted by law, consistent with contract terms, computed correctly, and that the appropriation or fund is available for the purpose. They are pecuniarily liable for illegal, improper or incorrect payments made because of an inaccurate certification, for payments prohibited by law, and for payments for which the appropriation used was not available. That means that they are personally or jointly obligated to make good on any loss associated with these payments. At present, there is no evidence that any action has been taken against an approving official who is also a certifying official under this authority. The appropriate legal authorities are in place, but implementing procedures are unclear as applied to the charge card. In addition, it is not clear that all of the appropriate officials are aware that this authority is available to them to aid in managing their purchase card program.

The Department proposed a legislative provision that would give DoD authority to hold departmental accountable officials pecuniarily liable. Such a provision is included in the FY 2003 Defense Authorization bills as passed by the House of Representatives and as reported by the Senate Armed Services Committee. If passed, this legislation would allow the implementation of regulations extending pecuniary liability for errors, omissions, or untruthful statements in certifying their monthly statements to designated departmental accountable officials (which may include purchase cardholders, and other approving officials not already appointed as certifying officials).

**Action Required:**

Completed: The OUSD(C), with assistance from the Office of the General Counsel (OGC), developed proposed revisions to the DoD Financial Management Regulation ("DoDFMR") that explicitly address application of pecuniary liability in the government charge card programs. The OUSD(C) also developed a plan for ensuring that these procedures are appropriately disseminated. The respective card program management office will include this guidance into training materials.

To be accomplished:

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|---|---|
| July 15, 2002 | The OUSD(C) will prepare a revision to the "DoDFMR" to clarify the application of pecuniary liability. |
| TBD | The OGC will complete its review of the specific conditions under which cardholders and approving officials can be held pecuniarily liable. |

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| TBD | Once the OGC review is complete, the OUSD(C) will publish revisions in final form. |
| TBD | The OUSD(C), with the support of the OGC and Director, Defense Procurement, will review any enacted legislation allowing the Department to impose pecuniary liability on accountable officials to determine if additional changes are required in the "DoDFMR." This review should include an analysis of all of the reviews (such as pre- and post-payment reviews) required to be performed on the purchase card payments. This analysis should seek to determine if all of the reviews currently required by various regulations contribute to a strong control system for the purchase card program, and whether some reviews could be consolidated or streamlined. |

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| Requirements: | Legislation | Regulation Change | Additional Resources |

**Recommendation PC-7:** Investigate alternative methods of prosecuting cases of fraudulent charge card usage.

**Discussion:**

Cases of fraudulent use of government charge cards are normally prosecuted by the local U.S. Attorney's office. Due to resource constraints, not all cases can be prosecuted, however, the Task Force identified several alternatives available to the Department for pursuing cases involving abuse of charge cards.

The Department of Justice, Public Integrity Section, is interested in prosecuting crimes involving fraudulent use of Government purchase cards. It is recommended that the Defense Criminal Investigative Organizations pursue appropriate cases with the Public Integrity Section for prosecutions of these cases. Another alternative is to pursue appropriate cases in state or local, vice Federal, courts, in those cases where the jurisdiction can be established.

Finally, the Program Fraud Civil Remedies Act of 1986 provides an avenue to pursue civil, rather than criminal, penalties against a person abusing a government charge card. The Act establishes administrative procedures for use against anyone who makes a false claim or false statement to an agency that the person knows or has reason to know is false, fictitious, or fraudulent. A person found liable may be penalized up to $5,000 per claim or statement and may also be required to pay double the amount falsely claimed.

The Program Fraud Civil Remedies Act has not been used in the Department to date. The presiding official is an Administrative Law Judge (ALJ), and the Department has no ALJs. At present, a class action suit prevents Federal agencies from hiring additional ALJs. Two alternatives are suggested: 1) Obtain the services of an ALJ from another agency to handle cases, on a case-by-case basis; or 2) develop legislation that will specify another officer of the Department to preside in cases under the Act.

**Action Required:**

Completed**:** Outlined criminal, civil, and administrative remedies available to the Department such as referring cases to the Department of Justice Public Integrity Section or to state or local authorities for prosecution. Indicated that the DoD investigative agencies should pursue all possible remedies, as these cases are a Department priority.

Determined that no new legislation permitting officials other than ALJs to preside over cases under the Program Fraud Civil Remedies Act is required at present. The Department can obtain ALJ services from other agencies under the Economy Act. Also, if the need arises, DoD can seek to hire ALJs from the existing pool of serving ALJs or retired ALJs who are eligible to be appointed as reemployed annuitants.

To be Accomplished:

On Going — In an effort to increase prosecution of cases of fraud, the Department of Defense will aggressively pursue all available remedies including criminal, civil and administrative sanctions. This would also include the use of the Program Civil Fraud Remedies Act (PFCRA) when deemed appropriate. Additionally, the following outlines how matters of fraud will be handled as they are detected and investigated:

1) The Defense Criminal Investigative Service (DCIS), representing the IG DoD, in coordination with the Military Criminal Investigative Organizations, has solicited the support of numerous U.S. Attorney's Offices throughout the United States. All have been receptive to considering purchase card cases for criminal prosecution that involve the Department of Defense. In instances where the case may not get prosecuted by a local United States Attorney, the case may be referred to the Public Integrity Section, Department of Justice, as an alternative venue for criminal prosecution for purchase card cases.
2) Those cases that are declined for criminal prosecution may be pursued for civil action by the Affirmative Civil Enforcement (ACE) Division of the local U.S. Attorney's Office.
3) If the cases are criminal and/or civilly declined for prosecution, the DoD can pursue civil action under the Program Fraud Civil Remedies Act (PFCRA). This will require the use of one or more Administrative Law Judges (ALJ). The Office of the General Counsel initiated discussions with the Office of Personnel Management, which facilitates agencies seeking to obtain the services of one or more ALJs from other agencies under the Economy Act.
4) In addition to the aforementioned options, the DoD can take suspension/debarment action against vendors engaged in fraudulent activity as part of a coordination of remedies plan.
5) The remedies in items 1-4 are not mutually exclusive and may be used in combination.

Aug 15, 2002 — OGC will confirm that all necessary administrative procedures are in place to implement the Program Fraud Civil Remedies Act in the Department. If additional procedures are required, it will provide a schedule for development and implementation of those procedures.

OCG will obtain information from the Components on the number of potential cases.

Upon identification of appropriate cases, OGC will enter into an MOU with one or more other agencies for ALJs services.

The IG DoD and Defense Components will use all available means to aggressively pursue cases of fraud.

Resource Requirements: Additional resources will be required to pay for the costs of the due process hearings required by PFCRA. Preliminary estimates are that cases could cost approximately $10K each to prosecute, including ALJ and court reporter costs.

Issues (if any): May affect bargaining unit employees and may be subject to DoD labor relations' obligations.

| Requirements: | Legislation | Regulation Change | Additional Resources |
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**Recommendation PC-8:** Review current regulations to determine if the provisions on compliance are sufficient. If not, develop revised compliance guidance.

**Discussion:**

An initial review of current regulations suggests that the language of those regulations could be improved by clarifying internal review procedures and the procedures to be utilized for purchase card and travel card misuse and abuse. Revised language would not only aid end users in better understanding their responsibilities for government charge card usage, but would also assist supervisors and managers by more clearly explaining to them the tools that are available to them in managing these programs.

A list of recommended changes has been developed. The Director of Defense Procurement (DDP) and the Under Secretary of Defense (Comptroller) (USD(C)) will determine which of the changes should be inserted into the Defense FAR Supplement and which should be inserted into the Financial Management Regulation.

**Action Required**:

Completed: A list of recommended regulatory changes has been developed by DDP and USD(C).

To be accomplished:

July 15, 2002 The Director, Defense Procurement (DDP) and the USD (C) will:

Prepare a revision to the Defense Federal Acquisition Regulation Supplement and the "DoDFMR". Changes will include:

- Clarification that purchase card abuse is a crime under Article 92 of the Uniform Code of Military Justice and that civilian personnel may be subject to appropriate administrative or disciplinary action up to, and including, removal from the federal service for purchase card misuse or abuse.
- Requirement for commanders and supervisors to ensure compliance with purchase card regulations.

Resource Requirements: None

Legislation Required: None

Issues: None

| Requirements: | Legislation | Regulation Change | Additional Resources |
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**Recommendation PC-9:** Investigative agencies must ensure that supervisors and/or security managers are informed of all allegations of purchase card abuse so that an appropriate determination can be made regarding suspension of the security clearance.

**Discussion:**

Financial responsibility and trustworthiness are key components in the review of someone's background before they are eligible to have a security clearance issued or continued. If a military member or civilian employee is alleged to have intentionally abused a government purchase card, the allegation may be deemed sufficient to justify suspension of the cardholder's security clearance until such time as the allegation is resolved or adverse action to revoke the clearance initiated. Such action is provided for in the current DoD personnel security program regulations. For this to be effective, however, the individual's supervisor and/or security manager must be informed of the allegation in a timely manner. Therefore, the Task Force recommends that the investigative agencies implement procedures to ensure that such notification occurs.

**Action Required:**

Completed: None

To be accomplished:

July 15, 2002 The Inspector General of the Department of Defense, representing the DoD investigative community, will issue guidance to ensure that security managers and supervisors are appropriately notified when a cardholder comes under investigation for purchase card fraud.

Resource requirements: None

Legislation required: None

Issues: None

| Requirements: | Legislation | Regulation Change | Additional Resources |
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# APPENDIX C

## Travel Card Recommendations

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**Recommendation TC-1:** Develop standard metrics to allow senior managers to monitor the status of the travel card program.

**Discussion:**

Measures of success and appropriate metrics must be established to allow senior Department of Defense (DoD) leaders to monitor the status of the travel charge card program, and to determine if improvements in performance are occurring. A standard set of metrics will ensure that leadership attention continues to be focused on the program.

The standard metrics recommended for the travel card program are:

1) Monthly delinquency rates, as computed by GSA
2) Dollar value and number of accounts delinquent
3) Aging of accounts
4) Number of accounts going to salary offset (120 days)
5) Dollars charged off (at 210 days)

Metrics should be reported on a monthly basis and be reported at both the total Department level and by Component.

**Action Required:**

Completed:

The OUSD(C) established the monthly delinquency rate as a metric. DoD Components have established target goals for this metric. The Task Force agreed to the definition of the remaining metrics.

To Be Accomplished:

July 15, 2002 — The Program Manager, Travel Cards, and the USD(C) have developed additional management metrics, including delinquent payment amounts and aging statistics for delinquent payments and will verify the data sources for them by July 15, 2002.

Resource Requirements: None

Legislative Requirements: None

Issues: None

| Requirements: | Legislation | Regulation Change | Additional Resources |
|---|---|---|---|

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**Recommendation TC-2:** Accelerate the use of split disbursement.

**Discussion:**

Under split disbursement, the disbursing office remits funds in the amount designated by the traveler directly to the card-issuing bank for certain items charged on the travel card, and remits the remainder to the traveler. The use of split disbursement reduces delinquent balances and write-off amounts by remitting directly to the bank a significant portion of the charges on the travel card. It also provides a convenience to travelers by eliminating the need to write a check and mail it to the bank.

The Task Force believes that split disbursement will have a positive and significant impact upon the Department's travel card delinquency rates. Currently, split disbursement is implemented in the Department on a voluntary basis. Travelers choose, at the time they prepare their travel vouchers, if they want to use split disbursement. If the traveler does not make a choice, then the default is for the total reimbursement to be remitted to the traveler. The Department cannot currently mandate the use of split disbursement because military and civilian entitlement provisions require reimbursement only to the traveler. Under "default" split disbursement, if a traveler does not make an affirmative choice on the travel voucher to decline split disbursement, the travel settlement office will determine the portion of the reimbursement associated with transportation, lodging and rental car expenses and remit that portion directly to the bank. While this is less desirable than mandatory use, it would raise the percentage of travel vouchers settled in this manner, with corresponding reductions in travel charge card delinquencies..

**Action Required**:

Completed: The OUSD(C) developed a legislative proposal that would provide the authority for the Department to implement mandatory split disbursement.

To Be Accomplished:

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|---|---|
| TBD | The Task Force recommends that the Department work with the OMB to develop a legislative proposal to provide the authority to mandate the use of split disbursement. |
| TBD | If it is determined that the authority for mandatory use of split disbursement is not forthcoming, the task force recommends that OUSD(C) promulgate policy directing that default split disbursement be implemented for military personnel, and civilian employees once any required union bargaining has been completed. |

Resource Requirements: None

Legislative Requirements: Legislative proposal to provide the Department with authority to mandate the use of split disbursement.

Issues: May require labor union consultation and bargaining.

| Requirements: | Legislation | Regulation Change | Additional Resources |
|---|---|---|---|

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**Recommendation TC-3:** The list of current travel cardholders should be reviewed to determine if all cardholders have a valid need for the card.

**Discussion:**

Every outstanding travel card carries with it a risk for abuse or misuse. Therefore, to the extent feasible, the Department should strive to reduce the number of outstanding travel cards. Any reduction in the number of travel cards, however, must be balanced against the cost of manual travel advances and/or increases in the number of "expedited" card issuances.

Of the 1.4 million individually billed travel cards currently outstanding, approximately 400,000 have not been used over the past 12 billing cycles. (Of this number, approximately 100,000 cards are not valid because, since they had not been used in the previous 12 billing cycles, replacement cards were not issued by the bank upon expiration. However, the accounts associated with the expired travel charge cards remain open[1]).

**Action Required:**

Completed: Obtained a list of cards not used over the past 12 billing cycles from the Bank and distributed applicable data to each of the Services and Agencies for review.

To Be Accomplished:

June 30, 2002 The OUSD(C) will direct the card-issuing bank to cancel the accounts associated with the 100,000 expired travel charge cards and continue to cancel accounts associated with travel charge cards that have not been used in the previous 12 billing cycles as the cards reach expiration date

The OUSD(C) will direct the Components to cancel the remaining 300,000 accounts unless the Components justify, by name, the continued maintenance of the accounts.

Ongoing The OUSD(C) will direct the Components to review the requirement for all outstanding travel charge card accounts every six months.

Resource Requirements: None

Legislative Requirement: None

Issues: None

| Requirements: | Legislation | Regulation Change | Additional Resources |
|---|---|---|---|

[1] Contrary to previous practice, the Bank is no longer automatically sending a new card to the cardholder when the current card expires for accounts that have not been used in the past 12 billing cycles. According to the contract, the Bank is only to cancel accounts upon direction of the APC unless there is failure to pay or fraud. Therefore, the expired card cannot be used to incur new charges, yet the bank is still incurring charges for maintaining it.

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**Recommendation TC-4:** Heads of DoD Components review travel charge card accountholders and, if appropriate based on an anticipated improvement in delinquency rates and/or reduction in the number of cases of travel charge card misuse, request a change to the Department's infrequent traveler definition for their Component, as authorized in Volume 9, Chapter 3 of the "Department of Defense Financial Management Regulation."

**Discussion:**

Under current policy (as stated in the Financial Management Regulation, Volume 9, Chapter 3) an "infrequent traveler" is not required to use a government travel charge card. An "infrequent traveler" is defined as a military member or employee who travels two or less times per year. It has been suggested that increasing this limit would allow the Components to reduce the number of travel cards issued to high-risk groups, thus reducing the instance of travel card abuse. There is a tradeoff, however, as manual procedures must be utilized by DFAS and the other Components to issue travel advances to travelers who do not possess a travel charge card or are unable or unwilling to use personal charge or credit cards.

**Action Required**:

Completed:

All three Military Departments and 16 other Defense Components reviewed their travel charge card accountholders to determine if a change to the Department's infrequent traveler definition for would result in an improvement in delinquency rates and/or reduction in the number of cases of travel charge card misuse for their Component. . The Navy is the only Component that concluded a change to the definition would be beneficial. Volume 9, Chapter 3 of the DoD Financial Management Regulation provides for the Heads of DoD Components to exempt additional classes of personnel from the mandatory use requirements of the Travel and Transportation Act. A request for exemption shall be submitted to the USD(C) for approval prior to implementation.

To Be Accomplished:

Ongoing The Components will request a change to the infrequent traveler definition if it is determined that the change would contribute to reduced travel charge delinquency rates for their Component.

Resource Requirements: Resource implications at DFAS are anticipated to be minimal.

Issues: None

| Requirements: | Legislation | Regulation Change | Additional Resources |
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**Recommendation TC-5:** Expand the application of salary offset.

**Discussion:**

Salary offset is a process, authorized by the Travel and Transportation Reform Act of 1998, that allows the payment of unpaid balances on a travel charge card to a travel card issuing bank by involuntary deduction from the cardholder's pay. Currently the Department can employ salary offset against the active or retired pay of military personnel. Travel card debt can also be offset against civilian salaries, but only to the extent that negotiations with the civilian employees' local bargaining units have been completed. At the current time, negotiations with approximately two-thirds of local bargaining units have been completed. Although the Task Force believes that salary offset should be applied uniformly to all travel cardholders, the Department does not have the authority to immediately implement salary offset for employees in the remaining bargaining units.

During its review, the Task Force discovered that the Department does not have the statutory authority to offset private debt against civilian retiree annuities. Therefore, if a travel cardholder has an unpaid balance to the travel charge card bank at retirement, there is no mechanism for the bank to collect this balance. Although the number of cases where retired civilian annuitants have outstanding debt to the travel charge card bank is small, the Task Force believes that, as a matter of equity, all retirees should be subject to the same treatment.

**Action Required:**

To Be Accomplished: The Task Force recommends that the Department work with the OMB to develop legislative proposals to provide the authority to apply salary offset uniformly across all DoD personnel and to allow the use of salary offset against civilian retiree annuities.

Issues: None

| Requirements: | Legislation | Regulation Change | Additional Resources |
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**Recommendation TC-6:** Investigate travel processes at selected locations to determine the extent to which inefficient travel authorization and travel voucher submission processes contribute to delays in the receipt of reimbursement for official travel expenses.

**Discussion:**

The Task Force found that the amount of time currently required to settle properly prepared travel vouchers is within the 30-day standard required by the "Travel and Transportation Reform Act of 1998. " Nevertheless, there are other factors involved in the travel reimbursement process that may affect the ability of the traveler to receive payment before the monthly bill is due and payable. These include: delays in the submission of travel vouchers; delays in preparing required amendments to travel orders; delays in approving travel vouchers for submission; and delays in the physical transmission of vouchers to settlement offices. The Task Force recognizes that these factors exist, but was not able, in the time available, to obtain data to evaluate their effect fully.

In pilot implementations, the Defense Travel System has been able to achieve significant improvement in the timeliness of the entire travel reimbursement process. The rules embedded in the system prevent the types of errors that typically occur on travel authorizations and travel vouchers and result in delays in reimbursement. The system will not be fully implemented for several years, however. Therefore, the Task Force believes that a follow-on data collection effort, possibly to include data sampling, should be performed to determine the extent of which delays in the submission of travel vouchers, delays in preparing required amendments to travel orders, delays in approving travel vouchers for submission and delays in the physical transmission of vouchers to settlement offices contribute to travel card delinquency rates.

**Action Required**:

To Be Accomplished:

September 1, 2002 USD(C) and PM Travel Card, in conjunction with the Services and Defense Agencies and other OSD functionals, as appropriate, will identify improvements in the travel process that would reduce the total time required to obtain travel reimbursements.

Resource Requirements: Resource requirements will be identified in study plan

Legislative Requirements: None

Issues: None

| Requirements: | Legislation | Regulation Change | Additional Resources |
|---|---|---|---|

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**Recommendation TC-7:** Evaluate alternatives to travel cards to determine benefits, costs, and operational impacts.

**Discussion:**

The Department currently uses the travel charge card to support its travel operations. However, alternative means of supporting travel operations exist, such as debit cards, stored value cards, and government liability charge cards. The Task Force does not recommend moving all or part of the user base to an alternative system at this time, but does recommend that an in-depth evaluation of alternatives be prepared. This will ensure that the Department's leadership has the appropriate information upon which to base a future decision, if this step is deemed necessary.

The required evaluation must accurately reflect both the total costs of alternatives and resulting benefits. The costs must include changes to administrative overhead, internal controls, and payment offices. The evaluation should also look at the costs and benefits of mixed alternatives, i.e. portions of the population using the current travel card while other portions utilize an alternative. The study should identify any legislative, regulatory, and/or contract changes that would be required for each alternative.

**Action Required:**

Completed**:** None

To Be Accomplished:

September 1, 2002 The USD (C) will evaluate alternatives to the current travel charge card, such as debit cards, stored value cards, and newer technologies which may be available, and will also review the results of on-going pilot efforts, such as the Army debit card pilot.

Resource Requirements: TBD

Legislation Required: None

Regulation Changes Required: None

Issues: None

| Requirements: | Legislation | Regulation Change | Additional Resources |
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**Recommendation TC-8:** Create an exemption to mandatory travel card use for en route official travel associated with certain mission deployments.

**Discussion:**

The Travel and Transportation Reform Act of 1998 requires use of the government travel card for expenses associated with official travel unless the individual or type of expense is otherwise exempted. A number of exemptions to mandatory use exist and are specified in Volume 9, Chapter 3 of the "DoD Financial Management Regulation."

DoD travelers, predominantly military members, sometimes incur official travel expenses en route to deployment to a remote area or operational environment. The traveler may not otherwise be exempted from mandatory card use, and the official travel expenses they incur while en route to the point of debarkation for the deployment will be placed on their government travel card as required by law and regulation. However, due to the nature of the deployment, the traveler may not be able to file travel claims and effect timely payment of their travel card bill. Although the traveler may be placed in a "mission critical" status, which will prevent suspension of the travel charge card by the bank, the task force believes that the travel charge card should not be used when it is known in advance that the travel card account will not be settled in a timely manner.

To rectify this situation, the Task Force recommends that a new exemption to mandatory use be created, or that an existing exemption be modified to cover these situations.

**Action Required:**

Completed**:** None

To Be Accomplished:

June 30, 2002 The OUSD(C) with support from the Components, will prepare a revision to the "DoDFMR" to provide an exemption to mandatory use of the travel charge card for travel incident to certain deployments/missions.

Resource Requirements: TBD

Legislation Required: None

Regulation Changes Required: Change to "DoDFMR" Volume 9 Chapter 3.

Issues: None

| Requirements: | Legislation | Regulation Change | Additional Resources |
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**Recommendation TC-9:** Evaluate whether additional travel card control mechanisms can be incorporated into the Defense Travel System**.**

**Discussion:**

The Defense Travel System (DTS) is a paperless system which provides complete support to the traveler, to include preparation and authorization of the travel order, on-line reservation processing, and preparation and submission of the travel reimbursement voucher. DTS is currently fielded at pilot sites and will begin fielding at operational sites in FY 2003.

DTS will significantly improve the entire travel process and has the potential to offer significant benefits to the travel card program. For example, based upon experience at pilot locations, the reimbursement time on submitted travel vouchers has been cut nearly in half (11.3 days to 5.8 days). The business rules embedded within DTS should virtually eliminate rejected travel vouchers.

There may be other capabilities that can be incorporated into the DTS system that would improve control over travel cards. For example, it may be feasible to interface DTS with the travel card vendor in order to automatically activate the travel card when a travel order is approved and deactivate it when the travel voucher is submitted. This would reduce the risk of travel charge card abuse by limiting the availability of the card only to those days the cardholder is on official travel.

Therefore, it is recommended that a review of DTS functionality be conducted to identify opportunities for insertion of additional travel card control functionality. The PM DTS can then prepare an analysis of the impact of the incorporation of these changes on system cost, effectiveness, and schedule.

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**Action Required:**

Completed: None

To Be Accomplished:

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|---|---|
| August 15, 2002 | The Program Manager, Defense Travel System will:<br>Review the Defense Travel System to determine options for providing additional functionality to enhance travel charge card management and internal controls. |

Resource Requirements: TBD

Issues: None

| Requirements: | Legislation | Regulation Change | Additional Resources |
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**Recommendation TC-10:** Investigative agencies must ensure that supervisors and/or security managers are informed of allegations of travel card misuse and abuse so that an appropriate determination can be made regarding suspension of the security clearance.

**Discussion:**

Financial responsibility and trustworthiness are key components in the review of someone's background before they are eligible to have a security clearance issued or continued. If a military member or civilian employee is alleged to have intentionally misused or abused a government travel charge card, the allegation may be deemed sufficient to justify suspension of the cardholder's security clearance until such time as the allegation is resolved or adverse action to revoke the clearance initiated. Such action is provided for in the current DoD personnel security program regulations. For this action to be effective, however, the individual's supervisor and/or security manager must be informed of the allegation in a timely manner. Therefore, the Task Force recommends that the investigative agencies implement procedures to ensure that such notification occurs.

**Action Required:**

Completed: None

To be accomplished:

July 15, 2002 The Inspector General of the Department of Defense, representing the DoD investigative community, will issue guidance to ensure that security managers and supervisors are appropriately notified when a cardholder comes under investigation for travel card misuse or abuse.

Resource requirements: None

Legislation required: None

Issues: None

| Requirements: | Legislation | Regulation Change | Additional Resources |
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**Recommendation TC-11:** Review current regulations to determine if the provisions on compliance are sufficient. If not, develop revised compliance guidance.

**Discussion:**

An initial review of current financial management regulations suggests that their language could be improved by clarifying internal review procedures and the procedures to be utilized for purchase card and travel card misuse and abuse. Revised language would not only aid end users in better understanding their responsibilities for government credit card usage, but would also assist supervisors and managers by more clearly explaining to them the tools that are available to them in managing these programs.

**Action Required**:

Completed:

OUSD(C) reviewed the DoD Financial Management Regulation ("DoDFMR") to determine areas where revised language is required or recommended. The Office of General Counsel, DoD and OUSD(C) developed provisions applicable to military and civilian personnel who abuse and misuse travel and purchase cards. Those provisions have been added to drafts of the Volume 9, Chapter 3 of the "DoDFMR" being circulated.

To be accomplished:

June 30, 2002 The USD(C) will prepare a revision to the "DoDFMR". Changes will include:

- Clarification that misuse is a crime punishable under Article 92 of the Uniform Code of Military Justice and that civilian personnel may be subject to appropriate administrative or disciplinary action up to, and including, removal from the federal service for travel card misuse or abuse.
- Requirement for commanders and supervisors to ensure compliance with travel charge card regulations.
- Clarification of the specific conditions under which certifying officials for centrally billed accounts (may be held pecuniarily liable).

| Requirements: | Legislation | Regulation Change | Additional Resources |
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**Recommendation TC-12:** Increase awareness of travel card training materials.

**Discussion:**

A significant amount of training material currently exists for Agency Program Coordinators (APCs) and their supervisors/commanders. For example, the following training material is available on the Bank of America Government Card Service Unit web site):

- A DoD Minimum Essential Task List (METL) for APCs that distills the time required to manage an organization's travel charge card program to a minimum length of time. The METL contains a listing of the minimum tasks required on a monthly basis to make the most of the limited time APCs are able to dedicate to the travel charge card program as a collateral duty.
- On-line ordering capability for the EAGLS Desktop Reference Guide, in both CD-ROM and paper formats.
- An EAGLS user's guide for APCs can be downloaded from the web site.
- On-line capability to request onsite training for APCs. The bank will provide a professional trainer on EAGLS provided 25 or more APCs are available at one site.
- Briefing slides for use by APCs in training cardholders on their responsibilities associated with the travel charge card.
- Numerous other training resources to include frequently asked questions and an archive of information bulletins.

The General Services Administration (GSA) maintains travel charge card training resources on its web site to include an APC Survival Guide, an interactive on-line cardholder training package, and a brochure designed to be handed out to cardholders on travel charge card "do's and don'ts.

In addition, Component Program Managers conduct periodic training sessions for APCs and an annual conference is sponsored by the General Services Administration and the SmartPay contractors to provide APCs with updates on the charge card program.

Although these resources are available, it is unclear whether all travel card officials are aware of the training, and are making best use of these resources.

**Action Required:**

Completed: None

To Be Accomplished:

July 15, 2002 OUSD(C), with cooperation from the Program Manager, Travel Cards, will evaluate the feasibility of: 1) addressing travel charge card training resources on the training CD to be developed to provide the results of the Task Force to purchase card program officials and supervisors of program officials, and 2) providing the CD to travel charge card APCs and their commanders and supervisors.

Resource Requirements: TBD

Issues: None

| Requirements: | Legislation | Regulation Change | Additional Resources |
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# APPENDIX D

# IG DoD Purchase Card Audits

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# IG DoD Purchase Card Audits That Have Either Been Recently Completed or Are On-Going

**Report No. D-2002-075, "Controls Over the DoD Purchase Card Program," March 29, 2002.** The objective was to evaluate the issuance and use of purchase cards and the controls over the processing of purchase card payments. We also reviewed the overall management control program as it related to the purchase card program. We examined the controls for issuing and using 231,856 purchase cards. We also selectively reviewed the controls over the processing of more than 10.6 million purchases amounting to $6.1 billion in FY 2001. In addition, we reviewed over 12,000 convenience checks totaling in excess of $27 million. The audit determined Purchase Card Joint Program Management Office needed to improve oversight and management controls over the DoD purchase card program. Improved controls were needed over:

--selecting cardholders (29,120 purchase cards were unused for 6 months),

--assigning approving officials (3,463 approving officials oversaw more than 7 cardholder accounts each and 31 of these approving officials oversaw more than 100 cardholder accounts),

--setting of spending limits (6,533 cardholder accounts had a monthly spending limit of over $100,000),

--transactions at blocked businesses (over $4 million in transactions appeared to have been made at businesses that should have been blocked by the bank as inappropriate),

--purchases declined by banks (687 cardholder accounts had 10 or more declined purchases in a month),

--purchases made after card accounts were closed (transactions occurred on 390 closed accounts in a month), and

--management of convenience checks (248 of 12,008 checks written in a 20-month period exceeded the $2,500 authorized limit).

Some conditions could be data entry errors, but the absence of internal controls increases the risk for fraud, waste, or mismanagement. Although identified misuse was small in comparison to the volume of annual purchases, controls were not robust and only through more proactive oversight can the DoD ensure the integrity of the program. The audit recommended that:

-- The Under Secretary of Defense for Acquisition, Technology, and Logistics coordinate with the Under Secretary of Defense (Comptroller) to develop standardized training and

update the program policies and procedures with internal controls addressed in this report.
--The Director, Defense Procurement, issue guidance on limiting the amounts for single purchases and modify the purchase card contract to block inappropriate businesses from use by cardholders.

--The Director, DoD Purchase Card Joint Program Management Office, review controls over issuing, using, and closing purchase card accounts, and the Director design and test controls over the use of convenience checks and to verify the accuracy of data in bank computer systems.

Management generally agreed with the recommendations.

**Report No. D-2002-065, "Summary of DoD Travel Card Program Audit Coverage," March 18, 2002.** The objective was to summarize audit coverage of the DoD travel card program. From FY 1999 through FY 2001, DoD audit organizations issued 31 reports on the DoD travel card program. The Air Force Audit Agency issued 27 reports, the Assistant Secretary of the Army (Financial Management and Comptroller) Internal Review Office issued 2 reports, and the Defense Intelligence Agency Office of Inspector General issued 2 reports. All 31 reports addressed one or more of the following systemic issues:

--Management Oversight (27 reports)
--Card Use (23 reports)
--Account Reconciliation (16 reports)
--Training (16 reports)

Because of its dollar magnitude and mandated use, the DoD travel card program requires continued management emphasis, oversight, and improvement by the DoD. Independent internal audits should continue to be an integral component of management controls.

**Report No. D-2002-029, "Summary of DoD Purchase Card Program Audit Coverage," December 27, 2001.** The objective was to summarize audit coverage of the DoD purchase card program. From FY 1996 through FY 2001, 382 reports were issued on the DoD Purchase Card Program. The General Accounting Office issued 3 reports; the Inspector General, DoD issued 3 reports; the Army Audit Agency issued 32 reports; the Naval Audit Service issued 1 report; the Air Force Audit Agency issued 255 reports; the Defense Agencies Inspector General and Internal Review Offices issued 27 reports; and the Army Internal Review Office issued 61 reports. The reports address the following systemic issues:

--Account Reconciliation and Certification (88 reports) ·
--Administrative Controls (70 reports) ·
--Management Oversight (115 reports) ·

--Property Accountability (79 reports) ·
--Purchase Card Use (50 reports) ·
--Purchases (222 reports) ·
--Separation of Duties (22 reports) ·
--Training (52 reports)

Because of its dollar magnitude, the purchase card program is an area requiring continued management emphasis, oversight, and improvement by DoD. Independent internal audits should continue to be an integral component of management controls.

**Project No. D2002LG.006, "Audit of Controls Over the DoD Aviation Contract Fuel Program."** The objective of this on-going audit is to evaluate the use of the AIR Card and the controls over the processing of AIR Card payments. We are also reviewing the management control program as it relates to the overall objective. The audit has identified problems related to the matching of receipts for fuel and ground services to monthly bills, some duplicate payments, and recoupment of fuel and ground services taxes that DoD is exempt. Also, standard training for the Aviation Into-Plane Reimbursement Card Program was never provided to card users.