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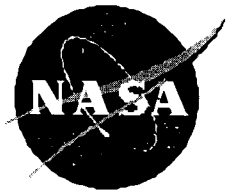
AUDIT REPORT

OFFICE OF AUDITS

INTERNAL CONTROLS TO DETECT AND PREVENT UNAUTHORIZED AND POTENTIALLY FRAUDULENT PURCHASE CARD TRANSACTIONS AT FOUR NASA CENTERS NEEDED IMPROVEMENT

OFFICE OF INSPECTOR GENERAL



National Aeronautics and
Space Administration

REPORT NO. IG-07-012 (ASSIGNMENT NO. A-06-009-00)

Final report released by:

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Acronyms

APC	Agency Program Coordinator
CAPC	Center Agency/Organization Program Coordinator
CY	Calendar Year
FAR	Federal Acquisition Regulation
GAO	Government Accountability Office
GSA	General Services Administration
NFS	NASA FAR Supplement
OIG	Office of Inspector General
PIC	Procurement Information Circular

OVERVIEW

INTERNAL CONTROLS TO DETECT AND PREVENT UNAUTHORIZED AND POTENTIALLY FRAUDULENT PURCHASE CARD TRANSACTIONS AT FOUR NASA CENTERS NEEDED IMPROVEMENT

The Issue

NASA has issued approximately 3,100 purchase cards to authorized Agency personnel. In 2005, NASA cardholders made approximately 266,600 purchase card transactions totaling approximately $69 million. Effective internal controls for NASA's purchase card program are important to protecting the interests of the Agency. Therefore, we evaluated internal controls used to detect and prevent unauthorized and potentially fraudulent NASA purchase card transactions. We also followed up on recommendations made in our prior audit report, "NASA's Purchase Card Program Was Effective; Additional Controls Will Further Reduce Risk" (IG-03-025, August 25, 2003).

Audit work was performed at Ames Research Center, Glenn Research Center, Johnson Space Center, and Kennedy Space Center. We compared and verified computer-generated purchase card data to source documents, which included purchase card order logs, receipts, and invoices. We met with approving officials and cardholders to discuss their rationale for selected purchases and reviewed supporting documentation, when available, for the 1,749 transactions that we reviewed. Details of the audit's scope and methodology are in Appendix A.

Results

Internal controls designed to detect and prevent unauthorized and potentially fraudulent transactions were not always followed. We reviewed 1,749 transactions identified through data mining techniques and judgmental sampling that totaled approximately $2.1 million. We identified 875 transactions (50 percent), totaling $831,953.82, that did not comply with regulatory and program guidance. We questioned 186 transactions as being a potential misuse of Government funds and referred those transactions to our Office of Investigations. The 186 questioned transactions totaled approximately $118,300 and included instances of cardholders not maintaining receipts or supporting documentation, cardholders not disputing unauthorized charges, and cardholders purchasing prohibited items. For example, one cardholder at Kennedy had 58 transactions that totaled approximately $33,300, but she was unable to provide

appropriate receipts for 95 percent of the items purchased. In addition, there was no record that any of the items she had purchased were delivered to the Center. The employee involved has resigned from NASA and may be subject to criminal sanction.

We questioned the other 689 of the 875 transactions because cardholders either did not comply with the Federal Acquisition Regulation (FAR) or did not follow established NASA policies and procedures. Those 689 questioned transactions totaled approximately $713,700 and included purchases that were made using multiple transactions in order to avoid exceeding the cardholder's single purchase limit, purchases of restricted items without the required special approvals, and purchases by cardholders who were also contracting officers that did not comply with the FAR. For example, the 577 transactions shown in the following table as "Exceeding limits" include 393 separate transactions with one vendor that totaled $235,411, which we referred to the Office of Investigations as a potential violation of the Competition in Contracting Act of 1984.

Questioned Transactions

	No. of Transactions	Amount
Potential Misuse of Government Funds		
Missing documentation	115	$ 81,218.92
Undisputed charges	44	24,395.74
Prohibited items	27	12,664.00
Subtotal	**186**	**$118,278.66**
Did Not Follow Established NASA Policies and Procedures		
Exceeding limits	577	473,484.55
Restricted items	66	26,936.93
FAR noncompliance	46	213,253.68
Subtotal	**689**	**$713,675.16**
Total	**875**	**$831,953.82**

Corrective actions implemented by management to address the recommendations in our prior report were effective in managing inactive accounts, delegation letters, and cardholder and approving official training. However, corrective actions did not resolve the internal control weaknesses identified in our prior report regarding prohibited or restricted purchases. See Appendix B for a discussion of those corrective actions.

NASA management needs to take additional actions at the four Centers we visited to ensure that program controls provide reasonable assurance that significant fraudulent, improper, and abusive purchases are prevented or promptly detected.

Management Action

In a draft of this report, we recommended that the Procurement Officers at Ames, Glenn, Johnson, and Kennedy establish policies and procedures for holding purchase card program participants accountable for not complying with regulatory and program guidance. We also recommended that the Center Procurement Officers develop procedures to reinforce restrictions on the purchase of prohibited items and to reinforce the requirement for cardholders to follow required competitive procedures in issuing purchase orders as appropriate. Procedures should include a schedule of administrative and disciplinary actions for noncompliance.

The Center Procurement Officers concurred with our recommendations, or the intent of our recommendations, and described responsive corrective actions taken or planned. The Procurement Officers stated that they were providing refresher training, to include sessions on cardholder and approving official responsibilities, program policies, and guidance concerning restricted and prohibited items. They also stated that they were developing or providing for stricter enforcement of policies and procedures to hold purchase card program participants accountable for not complying with regulatory and program guidance.

NASA management also provided general comments on the draft report. For example, comments from the Assistant Administrator for Procurement stated that the term "program officials," used in the draft report, was too vague. In response, we replaced the term with position titles for the individuals responsible for the actions cited. The Kennedy Procurement Officer objected to the presentation of our findings at Kennedy, stating that, based on the use of a single cardholder's actions, we cast broad judgments over Kennedy's purchase card program. As discussed throughout this report and in Appendix D, our findings at Kennedy were not based solely on the actions of one cardholder. However, the potential misuse of Government funds by that one cardholder at Kennedy was egregious and illustrated the effect of weaknesses in the Center's internal controls over the purchase card program. See Appendix D for our evaluation and disposition of management's comments on the draft report and Appendix E for the full text of management's comments.

The corrective actions described by management are responsive to the report's recommendations and no additional comments are required. We consider the recommendations to be resolved and will close them upon verification that the actions have been completed.

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INTRODUCTION

Background

On November 30, 1998, NASA awarded a task order for stand-alone purchase card services based on the General Services Administration (GSA) SmartPay Charge Card Program. The task order was awarded to the Bank of America Corporation. The Bank of America MasterCard is the only card used by NASA for its purchase card program. NASA has issued approximately 3,100 purchase cards to authorized Agency personnel. In calendar year 2005, NASA cardholders made approximately 266,600 purchase card transactions totaling approximately $69 million.

The goals of NASA's purchase card program are to

- improve mission support,
- streamline and standardize operations,
- increase card use by maximizing card acceptance for all types of transactions, and
- reduce administrative costs.

NASA's Agency Program Coordinator (APC) is responsible for the overall management of NASA's purchase card program. The APC administers the task order placed against the GSA SmartPay contract and serves as the Agency liaison with the GSA contracting officer, the purchase card contractor, and NASA Headquarters procurement and financial management organizations. On March 1, 2006, the APC responsibility was reassigned from the Langley Research Center's Procurement Office to the NASA Shared Services Center's Procurement Division.

Designated Center Agency/Organization Program Coordinators (CAPCs) support the APC. CAPCs are appointed by their Center's Procurement Officer and are responsible for the overall management of the Center's purchase card program. The CAPC is the liaison between the NASA Center, Bank of America, and the APC. The CAPC is responsible for

- developing Center purchase card policy,
- training cardholders and approving officials,
- issuing and canceling/destroying cards,

- assisting in resolution of any problems,
- overseeing proper processing of transaction disputes,
- conducting reviews/audits of cardholder activity,
- importing bankcard transactions monthly from the bank,
- extracting transactions monthly to NASA's accounting system (SAP),
- validating the monthly bankcard transactions,
- approving and suspending access to the P-Card Web Solution System (P-Card System),
- executing P-Card System reports,
- establishing and maintaining cardholder information in the P-Card System,
- assisting cardholders in reconciling monthly transactions in the P-Card System,
- assisting approving officials with the approval process, and
- providing guidance on the use of the P-Card System.

Cardholder responsibilities are described in NASA's "Purchase Card Internal Control and Audit Plan," Fall 2004 (NASA's P-Card Plan), and include guidance for prudent use of the purchase card. Cardholders are required to obtain funding sources from their respective budget analysts. After obtaining funding, cardholders create a record in the P-Card System using an order log before making a purchase. Once an order log is saved in the P-Card System, the system generates a unique order log number and commits funds in NASA's accounting system. Cardholders reconcile the order log amounts with transaction amounts from Bank of America. Payments cannot be made until all the transactions are reconciled. See Appendix C for a flowchart of the reconciliation process.

Approving officials are responsible for reviewing the cardholders' reconciled transactions and ensuring that purchases are appropriate, authorized, for Government use, and within threshold limitations. The Center Procurement Officer designates approving officials, unless Center procedures otherwise provide for their designation. The Center Procurement Officer may also designate alternates. Alternate approving officials serve in the absence of approving officials to avoid processing delays and late payments.

Objectives and Scope

Our overall audit objective was to determine whether NASA had effective internal controls in place to detect and prevent unauthorized and potentially fraudulent purchase card transactions. In addition, we followed up on recommendations made in our prior audit report, "NASA's Purchase Card Program Was Effective; Additional Controls Will Further Reduce Risk" (IG-03-025, August 25, 2003), to determine whether corrective actions implemented by NASA management were effective in reducing the risks identified in that report. We reviewed purchase card transactions at four NASA Centers. Table 1 shows, by Center, the number and amount of transactions that we reviewed and the number of cardholders who made those transactions.

Table 1. Purchase Card Review at Four NASA Centers

Center	Number	Amount	Cardholders
Ames Research Center	731	$703,613.10	28
Glenn Research Center	351	539,521.07	41
Johnson Space Center	539	582,936.16	44
Kennedy Space Center	128	264,613.33	28
Total	**1,749**	**$2,090,683.66**	**141**

See Appendix A for additional details of the audit's scope and methodology, our review of internal controls, and a list of prior coverage. See Appendix B for a discussion of corrective actions taken in response to our prior report.

INTERNAL CONTROLS WERE NOT ALWAYS FOLLOWED AT FOUR CENTERS

Internal controls designed to detect and prevent unauthorized and potentially fraudulent transactions were not always followed. Our review of 1,749 transactions identified 875 transactions (50 percent), totaling approximately $832,000, that did not comply with regulatory and program guidance. We questioned 186 transactions, totaling approximately $118,300, as being a potential misuse of Government funds and referred those transactions to our Office of Investigations for review. We questioned the other 689 transactions, totaling approximately $713,700, because cardholders did not follow established NASA policies and procedures. The control weaknesses and noncompliance issues that we found occurred because the control environment allowed 50 percent of cardholders interviewed to ignore applicable regulations and established internal control policies and procedures without consequences.

Data Mining to Detect Instances of Potential Misuse

The Government Accountability Office (GAO) Audit Guide, "Auditing and Investigating the Internal Control of Government Purchase Card Programs," November 2003, provides practical guidance in assessing the adequacy and performance of internal control activities designed primarily to prevent or detect improper, abusive, and potentially fraudulent purchases in Government purchase card programs. The GAO definitions of these purchases are as follows:

- Improper. Purchases of items intended for Government use but that are not permitted by law, regulation, or organization policy.
- Abusive. Purchases of authorized goods or services at terms (e.g., price, quantity) that are excessive or are for a questionable Government need.
- Potentially fraudulent. Use of the Government purchase card to acquire goods or services that are not authorized and are intended for personal use or gain.

GAO further states that improper, abusive, and potentially fraudulent transactions often result directly from a lack of adherence to policies, procedures, and control activities and that this lack of adherence can result in misuse of the purchase card. Therefore, we considered improper, abusive, and potentially fraudulent purchases as defined by GAO a potential misuse of Government funds.

When selecting transactions for review, the audit team used data mining techniques in response to the objective of the audit, which was to determine whether NASA had effective internal controls in place to detect and prevent unauthorized and potentially fraudulent purchase card transactions. Specifically, we first developed indicators that we used to search, or "mine," purchase card transaction data for suspicious vendors, transactions, or patterns of activity. Cardholders were then identified and considered for review based on the number of times their transactions were flagged by our indicators, the type of transactions flagged, and transaction characteristics (e.g., whether vendors appeared to be inappropriate or the product was outside the employee's area of responsibility). We also selected additional transactions by these cardholders that appeared not to comply with program or regulatory guidance. Because we did not use statistical sampling to select the transactions that we reviewed, our results cannot be used to project the number of inappropriate transactions that occurred in total during calendar year (CY) 2005 at the four Centers or throughout NASA. See Appendix A for additional details of the audit's methodology.

Questioned Transactions

We reviewed 1,749 transactions totaling $2,090,683.66 at Ames Research Center, Glenn Research Center, Johnson Space Center, and Kennedy Space Center. Table 2 shows, by Center, the number and amount of transactions that we reviewed and questioned.

Table 2. Transactions by Center

	Reviewed		Questioned	
Center	Number	Amount	Number	Amount
Ames Research Center	731	$703,613.10	546	$437,807.62
Glenn Research Center	351	539,521.07	96	199,784.42
Johnson Space Center	539	582,936.16	163	155,524.89
Kennedy Space Center	128	264,613.33	70	38,836.89
Total	**1,749**	**$2,090,683.66**	**875**	**$831,953.82**

Potential Misuse of Government Funds

Of the 1,749 transactions that we reviewed, 186 may have been a potential misuse of Government funds. The 186 questioned transactions totaled approximately $118,300 and included instances where cardholders did not maintain receipts or supporting documentation, did not dispute unauthorized charges, and purchased prohibited items. These types of transactions signify a weakness in the controls established to protect the

purchase card program from improper, abusive, and fraudulent purchases and could result in a potential misuse of the purchase card. Failure to maintain receipts and dispute unauthorized charges increases the potential for the misuse of Government funds. Table 3 shows the number and amount of the transactions that we questioned as being a potential misuse of Government funds at each of the four Centers.

Table 3. Potential Misuse of Government Funds

Center	No. of Transactions	Amount
Ames Research Center	50	$ 36,247.72
Glenn Research Center	50	43,336.96
Johnson Space Center	23	4,830.19
Kennedy Space Center	63	33,863.79
Total	**186**	**$118,278.66**

Criteria. The Office of Management and Budget Circular No. A-123, Appendix B, "Improving the Management of Government Charge Card Programs," August 5, 2005, requires Federal agencies to establish a charge card management plan. These plans are supposed to ensure that agencies are proactively attempting to prevent the misuse of a Federal charge card. We reviewed purchase card transactions from 2005, and Appendix B was in effect for the final 2 months of our review period (November and December 2005).

NASA's P-Card Plan addresses control activities related to purchase documentation that the cardholder is required to maintain. The plan also discusses procedures for disputing the receipt of unsatisfactory goods and services. Specifically, the plan states that

- cardholders must retain receipts for 3 years and turn over receipts and supporting documentation to the approving official when leaving a Center or organization,
- cardholders must dispute transactions for which a resolution cannot be reached with the vendor, and
- cardholders must notify the NASA Office of Inspector General (OIG) of suspected fraudulent transactions.

In addition, NASA's P-Card Plan states that each Center established its own set of prohibited, restricted, or sensitive items. Restricted and sensitive items may require approval prior to purchase. Each Center also established its own procedures for delivery and acceptance of items.

NASA Procurement Information Circular (PIC) 03-20, "Purchase Card Account Management," October 31, 2003, also addresses restrictions on the purchase of clothing, food, and gifts. PIC 03-20 states that cardholders should seek legal authority whenever purchasing clothing, food, and gifts because the use of appropriated funds for these items is generally prohibited. An exception for clothing exists for safety attire if the purchase meets a three-step determination process. The purchase of food may also be appropriate under specific situations, such as modest refreshments at awards ceremonies; however, documentation must clearly demonstrate that the food purchases meet an exception to the general rule.

We questioned transactions because cardholders were unable to provide receipts confirming the items purchased, cardholders neglected to take action on unauthorized charges, or cardholders made purchases that could be for personal use or were specifically prohibited by Agency or Center guidance. We referred each transaction that we identified as being a potential misuse of Government funds to the OIG Office of Investigations for review.

Receipts and Supporting Documentation Not Maintained. We identified 16 cardholders, out of 141 cardholders interviewed at the four Centers, who did not have receipts for their transactions—115 transactions totaling approximately $81,200. Without receipts to validate the transactions, we were unable to determine if purchases were appropriate or if purchases were for the items the cardholder described in the P-Card System. Table 4 shows, by Center, the number and amount of transactions with missing or inadequate documentation and the number of cardholders who made the transactions.

Table 4. Receipts and Supporting Documentation Not Maintained

Center	Number of Transactions	Amount	Number of Cardholders
Ames Research Center	22	$22,397.15	4
Glenn Research Center	28	25,377.70	6
Johnson Space Center	10	3,752.59	5
Kennedy Space Center	55	29,691.48	1
Total	**115**	**$81,218.92**	**16**

For example, one cardholder at Kennedy had 58 transactions associated with the refurbishment of a training facility known as "the Beach House" that totaled approximately $33,300. We identified 55 of those transactions, totaling approximately $29,700 (95 percent), as being a potential misuse of Government funds. Specifically, the cardholder was unable to provide receipts for 40 transactions. Without receipts, we were unable to determine what was purchased and whether the purchase was appropriate. In addition, we questioned transactions to purchase furnishings from Pier 1 and other

furniture galleries, totaling approximately $10,300, that were made without the special approval required before deviating from using established priority-purchasing sources, which could provide the Government substantial discounts. We also questioned the purchase of items we were unable to locate that could be for personal use, such as towels, candles, and wall hangings. Finally, the cardholder did not route any of the furniture purchases through the central receiving point for property tagging as required at Kennedy; therefore, there was no record that the items were delivered to the Center.

In November 2005, the Kennedy Procurement Office canceled the cardholder's card after the Kennedy CAPC noticed some improper and abusive purchases while attending a training session at the refurbished facility. Although the Kennedy Procurement Office indicated it would request a complete inventory of the Beach House, an inventory was not conducted by the Office of Procurement or the Center Operations Directorate. We inventoried the contents of the Beach House in March 2006 and, based on the results, we referred the cardholder's transactions to the OIG Office of Investigations.

The Office of Investigations determined that some receipts provided by the cardholder appeared to be forged and that some items that had been purchased for the Beach House were located at the cardholder's residence. Neither the approving official nor the cardholder's immediate supervisor had reviewed or questioned any of the purchases. The cardholder's approving official stated that she relied on the cardholder to make purchases in accordance with Center and Agency policy. Both officials stated they were unaware that items were unaccounted for and missing until they were so informed during our audit. The cardholder is no longer employed by NASA; criminal actions are pending against her for the purchase card misuse.

Unauthorized Charges Not Disputed. We identified 44 transactions totaling approximately $24,400 of unauthorized charges that cardholders should have disputed at three of the four Centers visited. Kennedy was the only Center where cardholders properly resolved all unauthorized charges. Unauthorized charges are those charges that cardholders do not recognize when they receive their monthly statement from Bank of America. For each of the 44 transactions, cardholders indicated in the P-Card System when they received their statement that the charges were either incorrect or they did not know what the charges were for. However, the cardholders failed to dispute the charges within 30 days of the statement date as required. Consequently, NASA did not receive a credit for any of the unauthorized charges. Table 5 shows, by Center, the number of transactions, the amount of charges that should have been disputed but were not, and the number of cardholders involved.

Table 5. Unauthorized Charges Not Disputed

Center	Number of Transactions	Amount	Number of Cardholders
Ames Research Center	20	$ 8,876.88	18
Glenn Research Center	19	14,831.67	3
Johnson Space Center	5	687.19	2
Kennedy Space Center	0	0	0
Total	**44**	**$24,395.74**	**23**

For example, at Glenn, a travel agency made an unauthorized charge to an employee's purchase card for approximately $1,700 in December 2005. The cardholder retired in January 2006 without disputing the charge. The approving official was unable to provide us any additional information about the charge and was unaware that it had not been disputed. We found that there were a total of 11 unauthorized transactions totaling approximately $9,800 in a 10-month period on this same employee's purchase card, but the cardholder never formally disputed any of the transactions or reported her purchase card as compromised. Unauthorized charges not disputed by Ames cardholders included approximately $1,300 from a photography studio, $200 from a utility company, and $100 from a doctor. Johnson's unauthorized charges included approximately $300 from hotels. During our audit, one cardholder at Ames reimbursed the Government for approximately $100 because a purchase at Home Depot was for personal use even though he indicated the charge was "erroneous" in the P-Card System.

In each case, the cardholder did not receive a credit from the vendor for the unauthorized charge or file a formal dispute with Bank of America. Cardholders and approving officials were unable to provide documentation showing that the charges were appropriate. They also could not adequately explain why they did not dispute the charges with Bank of America. Therefore, each instance of a paid unauthorized charge was a potential loss for NASA. In addition, cardholders did not notify the NASA OIG that their purchase cards may have been compromised, as required by NASA's PIC 03-20.

Purchase of Prohibited Items. We identified 27 transactions for prohibited items totaling approximately $12,700. The transactions were either for items that the Center or Agency specifically prohibited using the purchase card for (such as conference room rentals by Ames, monitors and televisions by Glenn, plants and greeting cards by Kennedy, and gasoline by NASA) or for items that could be used for personal convenience. In the purchase card training module required for all NASA cardholders and approving officials, NASA defines personal convenience items as those items that are not essential to mission performance and states that employees should provide these items

at their own expense. Table 6 shows, by Center, the number and amount of transactions that we determined were for prohibited items and the number of cardholders involved.

Table 6. Prohibited Items Purchased

Center	Number of Transactions	Amount	Number of Cardholders
Ames Research Center	8	$ 4,973.69	6
Glenn Research Center	3	3,127.59	3
Johnson Space Center	8	390.41	3
Kennedy Space Center	8	4,172.31	4
Total	**27**	**$12,664.00**	**16**

Examples of prohibited purchases included raincoats for $130 at Ames, gasoline for $225 at Johnson, and a Christmas tree for approximately $240 at Kennedy. These items either are specifically prohibited or could be considered personal convenience items. The Comptroller General has long stated[1] that items classified as personal convenience cannot be purchased with appropriated funds without specific statutory authority. Cardholders were unable to provide a legal authority authorizing the use of appropriated funds for any of the purchases. In each case, neither the cardholder nor the approving official was able to explain why prohibited items were purchased using appropriated funds.

We also identified instances where cardholders purchased prohibited items but categorized them as something else within the P-Card System. The receipts provided by the cardholders clearly indicated the purchase of a prohibited item. Therefore, approving officials could have easily identified the items as prohibited if the approving officials had reviewed cardholder receipts to ensure the appropriateness of the purchases. For example, T-shirts and hats purchased from the NASA gift shop at Ames for approximately $270 were categorized in the P-Card System by the cardholder as "safety attire." A cardholder at Johnson, whom the Johnson Procurement Office had authorized to purchase gasoline, purchased snacks and water costing approximately $40 but categorized the purchase as gas. A Kennedy cardholder included a $20 DVD in the price of a television designated for the Launch Control Center lobby and included women's clothing in a $140 purchase for refurbishment of the Beach House. Such examples further emphasize the need for approving officials to perform a physical review of receipts and illustrate that corrective actions implemented by management in response to

[1] In 3. Comp. Gen. 433 (1924), the Comptroller General ruled that personal furnishings are not authorized to be purchased under appropriations in the absence of specific provision. This foundational principle, that items purchased primarily for the benefit of an individual employee cannot be purchased with appropriated funds unless there is a specified statutory exception, has been applied to and cited in later cases (including B-286137, February 21, 2001).

our previous report were not completely effective in preventing the purchase of prohibited items (see Appendix B for a discussion of corrective actions).

Failure to Follow Established Procedures

While we questioned 186 of the 1,749 transactions that we reviewed as being a potential misuse of Government funds, we also found that cardholders did not follow established procedures for 689 of the 1,749 transactions. Those 689 questioned transactions totaled approximately $713,700 and included purchases that were made using multiple transactions in order to avoid exceeding the cardholder's single purchase limit, purchases of restricted items without the required special approvals, and purchases by cardholders who were also contracting officers that did not comply with the Federal Acquisition Regulation (FAR). These transactions went unquestioned until our review because approving officials did not properly review cardholder transactions and CAPCs did not comply with established policies and procedures. Table 7 shows, by Center, the number and amount of transactions that were not made in accordance with established policies and procedures.

Table 7. Failure to Follow Established Procedures

Center	No. of Transactions	Amount
Ames Research Center	496	$401,559.90
Glenn Research Center	46	156,447.46
Johnson Space Center	140	150,694.70
Kennedy Space Center	7	4,973.10
Total	**689**	**$713,675.16**

Criteria. FAR Part 13, "Simplified Acquisition Procedures," prohibits breaking down into several transactions a purchase that exceeds the micro-purchase threshold of $2,500 in order to avoid applicable requirements.

NASA FAR Supplement (NFS) 1813.301, "Governmentwide commercial purchase card," requires maximum practicable competition for acquisitions above the micro-purchase threshold. In addition, the Competition in Contracting Act of 1984 (Title 41, United States Code [U.S.C.], Section 253) requires full and open competition for all procurements. FAR Part 6, "Competition Requirements," states that, for all acquisitions except contracts awarded using the simplified acquisition procedures ($100,000 threshold) of FAR Part 13, contracting officers must promote and provide for full and open competition in soliciting offers and awarding Government contracts, unless an exception applies. Exceptions did not apply to the transactions we questioned.

FAR Part 22.403-1, "Davis-Bacon Act," cites the Davis-Bacon Act (40 U.S.C. 3141 *et seq.*) provision that contracts in excess of $2,000 for construction, alteration, or repair (including painting and decorating) of public buildings or public works contain a clause that no laborer or mechanic employed directly upon the site of the work shall receive less than the prevailing wage rates as determined by the Secretary of Labor. FAR Part 22.406, "Administration and enforcement," states that contracting agencies must maintain an effective program that includes adequate payroll reviews, on-site inspections, employee interviews to determine compliance by the contractor and subcontractors, and prompt initiation of corrective action when required.

NASA's P-Card Plan allows each Center to establish its own set of restricted items. These items may require pre-approval and be subject to property tagging requirements. Such restrictions are identified in purchase card training. In addition, written procedures are posted on each Center's Web site, including a list of restricted items.

Exceeding Purchase Limits. We identified 577 transactions totaling approximately $473,500 that were the result of cardholders breaking down a purchase into multiple transactions to avoid exceeding their single purchase limit. Based on discussions with cardholders, we determined that purchases were split to avoid the $2,500 micro-purchase threshold. Table 8 shows, by Center, the number and amount of transactions that would have exceeded the cardholder's purchase limit had the purchase been made by a single transaction and the number of cardholders involved.

Table 8. Exceeding Purchase Limits

Center	Number of Transactions	Amount	Number of Cardholders
Ames Research Center*	421	$291,547.11	7
Glenn Research Center	32	57,527.97	10
Johnson Space Center	124	124,409.47	13
Kennedy Space Center	0	0	0
Total	**577**	**$473,484.55**	**30**

* The questioned transactions for Ames include 393 separate transactions with one vendor, totaling $235,411, made by 35 cardholders; the table data includes only 1 of the 35 cardholders involved because only 1 cardholder cumulatively exceeded the threshold.

For example, a cardholder at Johnson had 16 transactions totaling approximately $20,200 for home and office furnishings for the new Astronaut Quarantine Facility in 4 nonconsecutive months. Astronauts are housed at the Astronaut Quarantine Facility prior to traveling to Kennedy for a Shuttle launch. The purchases were for a known requirement that could have been competed among multiple vendors and may have resulted in lower costs for the furnishings. In addition, the cardholder did not use

priority-purchasing sources. According to Johnson procurement officials, they told the requesting official to submit a purchase request for the furniture requirement and that the request would be subject to competition. However, a purchase request was never submitted. According to the cardholder, the approving official (her supervisor) and requesting official instructed her to make the purchases with the purchase card. The cardholder also stated that the requesting official identified the furnishings and selected the vendors that were used by the cardholder. Of the 16 transactions, 7 transactions totaling approximately $12,500 were with one vendor.

In another example, officials at Ames approved 393 transactions totaling $235,411[2] for graphic support services with one vendor without a sole-source justification. Based on the number of transactions, these purchases should have been competed as required by FAR Part 6 and NFS 1806.3, "Other Than Full and Open Competition." The cardholder and the approving official stated that the vendor was an on-site contractor who provided graphic support services as part of a Center-wide contract. However, we determined that the vendor did not have a contract with NASA during 2005. In addition, information provided by Bank of America showed that cardholders at Ames had used their purchase cards to pay the vendor over $1 million from 1999 through March 2006. There was no record that the vendor had a contract with NASA at any time during that period. Therefore, the purchases appeared to have circumvented and violated requirements for competition in the Competition in Contracting Act of 1984 (41 U.S.C. 253). We referred these transactions to the OIG Office of Investigations.

Purchase of Restricted Items. We identified 66 transactions for restricted items, totaling approximately $27,000, that were purchased without the required pre-approval. During interviews, some cardholders stated that they were unaware the items they had purchased were restricted. However, a list of restricted items was included in training sessions and on each Center's purchase card Web site. Table 9 shows, by Center, the number and amount of transactions that were for restricted items and the number of cardholders who made those transactions.

[2] FAR Part 13, "Simplified Acquisition Procedures," prohibits breaking down requirements aggregating more than the simplified acquisitions threshold ($100,000) or the micro-purchase threshold ($2,500) into several purchases to avoid any requirement that applies to purchases exceeding the thresholds.

Table 9. Purchasing Restricted Items without Special Approval			
Center	Number of Transactions	Amount	Number of Cardholders
Ames Research Center	44	$16,675.04	8
Glenn Research Center	0	0	0
Johnson Space Center	15	5,288.79	5
Kennedy Space Center	7	4,973.10	3
Total	**66**	**$26,936.93**	**16**

For example, we identified 45 transactions at Ames totaling approximately $18,500 that included items requiring special approval such as books, subscriptions, memberships, and cell phone service. Cardholders had neglected to obtain special approval for 44 of the transactions totaling approximately $16,700. Neither the approving official nor the purchase card program office questioned the transactions or took corrective actions such as counseling or disciplining the cardholders for neglecting to follow Center policy.

FAR Requirements Not Always Followed. We identified 46 transactions made by cardholders who were also contracting officers that did not follow FAR procedures, as shown in Table 10.

Table 10. Not Following Requirements for the Micro-Purchase Threshold			
Center	Number of Cardholders	Amount	Number of Transactions
Ames Research Center	3	93,337.75	31
Glenn Research Center	7	98,919.49	14
Johnson Space Center	1	20,996.44	1
Kennedy Space Center	0	0	0
Total	**11**	**$213,253.68**	**46**

The 31 Ames transactions, totaling approximately $93,300, were for construction services. Three contracting officers with a single purchase limit over $2,500 completed the transactions with their purchase cards. However, we determined that the cardholders did not negotiate and incorporate specific Davis-Bacon Act labor categories in the purchase orders as required by FAR Part 22. In addition, the cardholders did not review contractor-certified payrolls to ensure that wage rates complied with the prescribed Davis-Bacon Act wage rates.

The 14 transactions at Glenn totaled $98,919.49. The transactions were purchase orders for supplies and services that either were awarded on a sole-source basis without adequate justification as required by FAR Part 6 and NFS 1806 or did not have documentation indicating the rationale for selecting other than the lowest priced offer as required by NFS 1813. Although cardholders were also contracting officers, the cardholders did not perform a price analysis to justify purchase prices and were unable to provide adequate sole-source justifications.

At Johnson, a contracting officer used her purchase card to purchase emergency equipment repair services for approximately $21,000 without first identifying the availability of funds or conducting a cost or price analysis, as required by the FAR. NASA's P-Card Plan requires all cardholders to obtain funding sources from their respective budget analysts. After obtaining funding, cardholders are supposed to create a record in the P-Card System using an order log before making a purchase. Once an order log is saved in the P-Card System, the system generates a unique order log number and commits funds in NASA's accounting system.

The contracting officer at Johnson used her purchase card to place an emergency order for equipment repairs on October 14, 2005, and the contractor completed the repairs and submitted an invoice on October 19, 2005. On October 21, 2005, the contractor charged the cardholder's purchase card for the repairs. However, the cardholder did not create an order log and commit funds in NASA's accounting system until October 24, 2005, 10 days after placing the order with the contractor. As a result, this transaction constituted an unauthorized commitment and should have been reported to the contracting officer's supervisor for appropriate action. NFS 1801.602-3, "Ratification of unauthorized commitments," requires the employee who made the unauthorized commitment to initiate a procurement request and provide documentation explaining why normal acquisition procedures were not followed. The director at the contracting activity or comparable official (e.g., the Center Procurement Officer) is responsible for taking corrective actions as appropriate and establishing procedures to prevent a recurrence of unauthorized commitments.

Control Environment Needed Improvement

Cardholders were able to misuse their purchase cards because the control environment did not always ensure approving officials were reviewing cardholder transactions for compliance with policies and procedures or questioning inappropriate purchases as required. Specifically, the control environment allowed the purchase card program office to approve cardholder transactions without review. Although CAPCs are not required to maintain records identifying transactions that they approve, the CAPC at Ames kept a record and the CAPC at Glenn provided an estimate of transactions that she approved during CY 2005 (combined, approximately 22,700 transactions). However, we were unable to determine how many transactions CAPCs at Johnson and Kennedy approved

because they did not maintain records. Transactions approved by CAPCs and their staffs without an approving official's review increase the Agency's risk of fraud, waste, or mismanagement and provide reduced assurance that purchases were appropriate. In addition, CAPCs were not always enforcing disciplinary actions outlined in NASA's P-Card Plan for card misuse, delinquent reconciliations, and tardy approvals. As a result, program participants repeatedly ignored established internal control policies.

Criteria. NFS 1813.301 identifies the approving official as the individual who reviews and approves a cardholder's monthly transactions. It also requires the approving official to be the cardholder's immediate or higher level supervisor. In addition, it requires the Centers to establish and maintain administrative procedures and management controls required by GSA. "GSA Blueprint for Success: A Guide for Purchase Card Oversight," Fall 2004, states that the approving official should have direct knowledge of the cardholder's role in the agency and the ability to verify receipt of a cardholder's purchase. NASA's P-Card Plan specifically requires the cardholder's designated approving official to review and ensure transactions are authorized, appropriate, and for Government use. The P-Card Plan also requires timely reconciliations, stating that approving officials going on temporary duty or leave should ensure an alternate approving official will be available.

Approving Official's Review. Approving officials are required to approve reconciled transactions within a specified timeframe each month. Usually, approving officials have about 5 days near the end of the month to approve cardholder transactions. Guidance published by the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency[3] indicates that the most important control activity in the purchase card program is the approving official's review of cardholder transactions. However, we noted cardholder transactions were routinely being approved by CAPCs instead of the designated approving official. We were unable to determine the exact number of transactions approved by CAPCs at the four Centers. CAPCs stated that they were approving transactions to ensure timely payments to Bank of America because approving officials did not always approve transactions within the specified timeframe.

For example, at Glenn, the CAPC stated that she and her staff approved cardholder transactions for approximately 50 percent of the designated approving officials. Based on the transaction data that we reviewed, we estimate that the CAPC and her staff approved approximately 20,900 transactions totaling approximately $3.5 million during 2005. Of the 104 approving officials who had approval authority over cardholder transactions at Glenn, at least 34 had formally delegated their approval authority to the program office. Although NASA's purchase card program did not specifically prohibit this action, those approving officials had removed themselves from the transaction review process.

[3] "A Practical Guide for Reviewing Government Purchase Card Programs," June 2002.

We also noted that 11 of the 12 approving officials interviewed at Glenn were designated as approving officials for cardholders who were no longer assigned to them. In several cases, it had been more than a year since the cardholder had been reassigned. In addition, some of the reassigned cardholders' new supervisors were not aware that their new employee was a cardholder, much less that the employee was still using the purchase card issued by the employee's previous office. For example, after being reassigned, one cardholder made 20 transactions totaling approximately $8,900 over an 18-month period using the purchase card that had been issued to him by his old office. The supervisor in his new office did not know he was a cardholder. In addition, the approving official at his old office was unaware that he was still using the purchase card because the approving official had delegated her approval authority to the program office, which did not know that the cardholder had been reassigned. Therefore, transactions were approved without being reviewed by either supervisor. The cardholder's purchases included software and other computer accessories that could be for personal use. For this reason and the fact that neither supervisor was aware the cardholder made purchases, we referred those transactions to the OIG Office of Investigations.

The CAPC at Ames provided us information showing that he and his staff had reconciled and approved 1,851 transactions totaling approximately $1 million during 2005. The CAPC and his staff did not review receipts or compare receipts with information recorded in the P-Card System. A review of cardholder receipts is essential to determine whether purchases are authorized, appropriate, and for a legitimate Government need. The CAPC stated that they approved the transactions because either cardholders were late reconciling their transactions or approving officials had not approved cardholders' transactions within the specified timeframe. Currently, the P-Card System allows the CAPC and his staff to log in using administrative authority and approve transactions as the cardholder's approving official.

We were unable to determine how many transactions CAPCs at Johnson and Kennedy approved because purchase card program guidance does not require CAPCs to track or identify cardholder transactions they approved and CAPCs did not always maintain a record of cardholder transactions they approved.

In addition, Johnson has owed Bank of America $72,000 for purchase card transactions since 2003. There was no record of the transactions having been reviewed and approved by an approving official, and we could not determine whether the purchases had been appropriate or authorized. Further, the outstanding balance violates the Prompt Payment Act, which states that contractors should be paid within 30 days of the date on the invoice and that outstanding balances may accrue interest and penalties for up to 1 year. This issue was still unresolved as of October 2006.

Disciplinary Actions. GAO's "Standards for Internal Control in the Federal Government" (GAO/AIMD-00-21.3.1, November 1999) identifies the discipline of personnel as an element that can significantly affect the control environment surrounding

a purchase card program. Although NFS 1813.301 and PIC 03-20 do not address administrative or disciplinary actions for program participants who repeatedly violate regulatory and program guidance, program guidance included in NASA's P-Card Plan outlines specific actions that can be used to encourage cardholders who are habitually late reconciling transactions to do so timely. Suggested disciplinary actions range from written warnings to temporarily deactivating cardholders' purchase cards for up to 60 days. However, we found no evidence of a cardholder at any of the four Centers having had their purchase card suspended or canceled for late reconciliations, even though at least 10 cardholders at one Center were repeat offenders.

In addition, there was no record of an approving official being counseled or disciplined for not reviewing and approving transactions within the specified timeframe. Some CAPCs stated that they believed suspending a cardholder's privileges created additional workload issues because the organization would still need its purchase requirements processed even though the cardholder's privilege was suspended. Therefore, CAPCs were hesitant to cancel or suspend a cardholder's purchase card.

Conclusion

At four Centers, controls designed to detect and prevent fraud, waste, or mismanagement, to include unauthorized or potentially fraudulent transactions, were not always followed. Specifically, cardholders and approving officials who we identified as habitually late in reconciling and approving transactions were not held accountable. In addition, in order to ensure timely payments to Bank of America, CAPCs at the four Centers stated that they approved transactions for delinquent approving officials, which circumvents internal controls that require the approving officials to review receipts and invoices. These actions contributed to the noncompliance issues discussed in this report. CAPCs and their staffs play a key leadership role and must maintain a positive control environment, complying with standards for purchase card use and taking disciplinary actions when appropriate.

Management's Comments on the Finding

The Office of the Assistant Administrator for Procurement (Headquarters Office of Procurement), the Johnson Procurement Officer, and the Kennedy Procurement Officer commented specifically on our finding and conclusions. See Appendix D for a discussion of the comments and our response. See Appendix E for the complete text of management's comments.

Recommendations, Management's Response, and Evaluation of Management's Response

Recommendation 1. The Procurement Officers at Ames, Glenn, Johnson, and Kennedy should develop procedures to reinforce restrictions on the purchase of prohibited items. Procedures should include a schedule of administrative and disciplinary actions for cardholders who repeatedly purchase prohibited items.

Recommendation 2. The Procurement Officers at Ames, Glenn, Johnson, and Kennedy should establish procedures for suspending or revoking purchasing authority of cardholders who repeatedly make purchases determined to be noncompliant with program policies and procedures or who are habitually late reconciling their monthly transactions.

Management's Response. The Procurement Officers at Ames, Glenn, and Johnson concurred with both Recommendation 1 and Recommendation 2. The Kennedy Procurement Officer concurred with the intent of the recommendations.

The Ames Procurement Officer stated that her office was developing both a schedule of administrative and disciplinary actions for cardholders who repeatedly purchase prohibited items and procedures for suspending or revoking the purchasing authority of cardholders who do not comply with program policies and procedures, to include the timely reconciliation of monthly transactions. The procedures will address administrative and disciplinary actions for noncompliance, and all cardholders will be reminded of their responsibilities to comply with the program policies.

The Glenn Procurement Officer stated that his office has reviewed program procedures with cardholders, including the existing procedures in Glenn's Bankcard Audit Plan, and planned to send cardholders a comprehensive notice of procedures and disciplinary actions for noncompliance. He stated that Glenn "is strictly enforcing the penalties cited in our audit plan," adding that cardholders who purchase noncompliant items or services will receive a written notice with a copy to their supervisors for appropriate action (to include reprimand, suspension, or removal), and suspected fraudulent purchases will be referred to the OIG for appropriate action. In addition, he stated that cardholders were reminded in monthly reconciliation e-mails that their bankcard accounts would be suspended following the second instance of a late reconciliation; the first occurrence results in a warning.

The Johnson Procurement Officer stated that her office had developed a special informational training package for all cardholders and approving officials. The "2006 Refresher Training" reminded personnel of purchase card program requirements, including items considered prohibited and items that require special approvals before purchasing. The training was transmitted electronically to all cardholders and approving officials on November 24, 2006, and recipients were requested to respond to the Alternate Agency Program Coordinator that the training package was received and reviewed.

Prohibited items and disciplinary actions were discussed in the training package, and the training package was posted on the office's Web site. In addition, the Johnson Procurement Officer stated that her office has procedures in place to revoke the purchasing authority of cardholders if it determines that a cardholder has continued to make purchases that are noncompliant with program policies or procedures. To ensure timely reconciliations, the Johnson Procurement Officer stated: "A spreadsheet has also been developed to track the trend of delinquent cardholders and appropriate measures will be put in place should we see a continued negative trend in this regard."

The Kennedy Procurement Officer, who concurred with the intent of the recommendations, stated that he generally believes that adequate procedures and schedules already exist at Kennedy and across the Agency. He added, "What the OIG is really advocating is stricter enforcement of the Center's procedures, which the Center will do." The Kennedy Procurement Officer reiterated that he thought the Center's existing procedures worked well, with the exception of the one cardholder who "accounted for the great majority of the issues at the Center" (see Appendix D of this report for additional comments). Nonetheless, the Procurement Officer stated that Kennedy required all cardholders, approving officials, and alternates to attend 3 hours of mandatory purchase card training in November 2006. The training covered prohibited and restricted items in addition to special approval requirements, property tagging requirements, OIG audit findings, ethics, penalties for misuse of purchase cards, potential disciplinary actions, and other topics. The Kennedy Procurement Officer also stated that the establishment of alternates for Center cardholders and approving officials is now a mandatory requirement, which should significantly reduce the need for CAPCs to take actions for delinquent cardholders and approving officials.

Evaluation of Management's Response. We consider management's proposed actions to be responsive. The recommendations are resolved, and we will close Recommendations 1 and 2 after we verify that the actions have been completed.

Recommendation 3.a. The Ames Procurement Officer should develop procedures to ensure cardholders follow special approval requirements for restricted items.

Recommendation 3.b. The Ames Procurement Officer should develop procedures to reinforce cardholders' responsibilities for incorporating specific Davis-Bacon wage rates as determined by the Secretary of Labor for construction contracts over $2,000.

Management's Response. The Ames Procurement Officer concurred, stating that her office was updating the restricted items list, which would include procedures for obtaining special approvals. The Procurement Office was also updating its Web site to address the applicability of the requirements of FAR Part 22 to specific purchases and would inform cardholders and approvers of the changes to the restricted items list as well as advise them of their responsibilities to comply with program policies, the FAR, and NFS. In addition, Ames would conduct mandatory training for all warranted cardholders concerning orders over the micro-purchase level and those authorized to purchase

construction services. The Ames Procurement Officer also stated that "a self-assessment activity targeting these specific cardholders" would be conducted within 6 months of the training to ensure compliance with program policies, the FAR, and the NFS.

Evaluation of Management's Response. We consider management's proposed actions to be responsive. The recommendations are resolved, and we will close Recommendations 3.a and 3.b after we verify that the actions have been completed.

Recommendation 4.a. The Glenn Procurement Officer should develop procedures to reinforce the requirement for cardholders to follow required competitive procedures in soliciting offers and awarding contracts above the micro-purchase threshold.

Management's Response. The Glenn Procurement Officer concurred, stating that Glenn Work Instruction GLCI-CH-1200.3, "Post Award File Review and Self Assessment," has been revised to specifically include reviews of purchases above the micro-purchase threshold. He also stated that a review of purchases placed by contracting officers in the Procurement Division was conducted in December 2006 and no discrepancies were identified. Glenn also stated that a reminder message was sent on November 27, 2006, to all contracting officers who have purchase cards. The message reiterated that they are required to follow competitive procedures in soliciting offers and awarding contracts above the micro-purchase threshold. Glenn also stated that this topic was discussed at a simplified acquisition meeting held on January 9, 2007.

Evaluation of Management's Response. We consider management's actions to be responsive and the recommendation to be resolved. We will close the recommendation after reviewing the revised instruction.

Recommendation 4.b. The Glenn Procurement Officer should establish procedures to reinforce the requirement for each approving official to review and approve their assigned cardholders' transactions each month.

Management's Response. The Glenn Procurement Officer concurred and stated that approving officials have been contacted individually to verify the cardholders in their organization. Approving officials were also advised that they must have access to the P-Card System and approve all transactions each month. A deadline was provided for all approvers to obtain access to the P-Card System, with a notice that cardholder accounts in their organization would be suspended if the approver failed to obtain access. The comments state that all approving officials now have access to the P-Card System and approve monthly transactions of cardholders within their organizations.

Evaluation of Management's Response. We consider management's actions to be responsive and the recommendation to be resolved. We will close the recommendation after verifying that the actions have been completed.

Recommendation 5.a. The Johnson Procurement Officer should review the circumstances associated with the unauthorized commitment, determine why normal acquisition procedures were not followed, and take appropriate corrective actions to prevent a reoccurrence of unauthorized commitments.

Management's Response. The Johnson Procurement Officer concurred and stated that the Johnson Procurement and Policy Office immediately began an internal audit to review the circumstances associated with the referenced commitment. The Procurement Officer stated that the cardholder was reminded that the availability of funds should be obtained on a paper purchase request rather than in an alternate form and was also reminded of the Johnson interim process for fund availability documentation during the down time at a fiscal year's end. The Johnson Procurement Officer stated that the review determined that the purchase was by a warranted contracting officer for emergency building repairs during the year-end financial system closure. The review also determined that the interim process had not been followed because of the urgent nature of the Government's requirement.

Evaluation of Management's Response. We consider management's actions to be responsive and the recommendation to be resolved. We will close the recommendation after reviewing Johnson's report on the internal audit.

Recommendation 5.b. The Johnson Procurement Officer should reconcile all outstanding purchase card balances with Bank of America and pay the reconciled amount.

Management's Response. The Johnson Procurement Officer concurred and stated that Johnson's policy, prior to the implementation of the Integrated Enterprise Management Program, had been that disputed items were not paid until resolved. This policy left an outstanding balance owed when the program was implemented in January 2003, which her office has been working on resolving, in collaboration with Johnson's Financial Management Division, since last fiscal year. She stated that funding was received to pay the outstanding balance and an invoice was certified by the contracting officer on January 25, 2007.

Evaluation of Management's Response. We consider management's actions to be responsive and the recommendation to be resolved. We will close the recommendation after verifying that the balance has been paid.

Recommendation 5.c. The Johnson Procurement Officer should establish procedures to reinforce the cardholder's requirement to identify fund availability and create order logs in the P-Card System prior to making purchases or ordering services.

Management's Response. The Johnson Procurement Officer concurred, stating that the procedures are in the purchase card training materials and guidelines, as well as in Johnson's interim process for fund availability documentation during the down time at a fiscal year's end. The cardholder was reminded of the procedures, as discussed in

response to Recommendation 5.a. In addition, all cardholders and approving officials were reminded of these procedures in the 2006 Refresher Training discussed in response to Recommendation 1.

Evaluation of Management's Response. We consider management's actions to be responsive and the recommendation to be resolved. We will close the recommendation when we close Recommendations 1 and 5.a.

Recommendation 6. The Procurement Officers at Ames, Glenn, Johnson, and Kennedy should establish policies to hold approving officials accountable for their purchase card duties. Policies should include a schedule of administrative and disciplinary actions for approving officials who repeatedly fail to meet timeframes for reviewing and approving cardholders' purchases and approving officials who direct or approve purchase transactions that are noncompliant with policies and procedures.

Management's Response. The Procurement Officers at Ames, Glenn, and Johnson concurred with the recommendation; the Kennedy Procurement Officer concurred with the intent of the recommendation.

The Ames Procurement Officer stated that Ames was developing a schedule of administrative and disciplinary actions for approving officials who do not review and approve cardholder purchases in a timely manner and who review and approve noncompliant purchases. She also stated that all approving officials will be reminded of their responsibilities.

The Glenn Procurement Officer stated that Glenn's Bankcard Audit Plan has been modified to include consequences for approving officials who do not approve monthly transactions by the due date. As discussed in response to Recommendation 2 concerning cardholders, approving officials who approve purchases of noncompliant items or services will receive a written notice with a copy to their supervisors for appropriate action (to include reprimand, suspension, or removal). In addition, approving officials suspected of approving fraudulent items or items for personal use will be referred to the OIG for appropriate action. The Glenn Procurement Officer stated that this information was conveyed to approving officials in Glenn's monthly reconciliation notices and will be communicated in detail in a separate e-mail covering revisions to the Bankcard Audit Plan.

The Johnson Procurement Officer stated that Johnson has policies in place to hold approving officials accountable for their purchase card duties. Those policies state that purchasing privileges will be revoked for repeat offenders. Cardholder responsibilities were included in the 2006 Refresher Training discussed in response to Recommendation 1. The training included the reminder to cardholders and approving officials that those who are repetitively delinquent in reconciling monthly statements are subject to having their privileges suspended.

The Kennedy Procurement Officer concurred with the intent of the recommendation, which he interpreted to be for stricter enforcement of existing procedures and schedules. As discussed in response to Recommendation 2, the mandatory requirement for alternates should significantly reduce the need for CAPCs to take actions for delinquent cardholders and approving officials. The Kennedy Procurement Officer also stated that the Centers should not be restricted from making judgment calls regarding such matters. He also pointed out that tighter budgets and limited procurement resources make the purchase card program a "necessity" rather than a "privilege," adding that "for every cardholder whose purchase card is suspended or canceled, there is a direct and immediate impact to the workload of the Procurement Office."

Evaluation of Management's Response. Management's comments are responsive. We consider the recommendation to be resolved and will close it after we verify that the corrective actions have been completed.

We partially agree with Kennedy's comments that the Centers should have some latitude in allowing CAPCs to act for approving officials. However, CAPCs are not required to review receipts. The Centers, if they allow a CAPC to act for an approving official, need to ensure that the approving official subsequently reviews the relevant receipts. The corrective actions implemented in response to this report should both lessen the need for CAPCs to act for approving officials as well as ensure that, if they do, their actions are appropriately documented and available for review. In addition, we acknowledge that canceling cardholders' accounts increases the burden on Center Procurement Offices. However, by imposing consequences, such as a canceled card and appropriate disciplinary action, the Centers will increase the Agency's assurance that purchase cards are properly used and administered.

Recommendation 7. The Executive Director, NASA Shared Services Center, in coordination with the Chief Financial Officer and the Program Director, Integrated Enterprise Management Program, should establish system controls in the P-Card System to identify and track purchase card transactions approved by anyone other than the designated approving official or alternate approving official. Identified transactions need to be clearly documented and readily available for examination.

Management's Response. Although the Executive Director concurred, he stated that the Agency had decided not to modify the commercial off-the-shelf (COTS) software because doing so would result in technical challenges and higher operating costs for the Agency. He proposed alternative actions that would implement operational requirements and changes to policy to achieve the same results as a system modification. Those actions would include CAPCs maintaining a record outside of the P-Card System for transactions that they approve and obtaining the approving official's signature on a monthly printout of the transactions, which would be maintained with the monthly reconciliation summary data. The Executive Director also proposed that the Headquarters Office of Procurement should consider revising the "Agency Audit Control Plan" to provide an Agency-wide

approach to documenting monthly transactions that are approved by the CAPC rather than the approving official. Finally, the Executive Director stated that each Center should audit its purchase card program during its semi-annual Procurement Self-Assessment.

Evaluation of Management's Response. We consider management's proposed alternative actions responsive. Although the Executive Director, NASA Shared Services Center, and the Assistant Administrator for Procurement need to identify which of their offices will be responsible for implementing the corrective actions, we consider the recommendation to be resolved. We will close the recommendation after we verify that the corrective actions have been completed.

APPENDIX A

Scope and Methodology

We performed this audit from February through October 2006 in accordance with generally accepted government auditing standards. We performed fieldwork at Ames, Glenn, Johnson, and Kennedy. We reviewed purchase card order and transaction data for January 1, 2005, through December 31, 2005. Officials at the Integrated Enterprise Management Program Competency Center provided purchase card order and transaction data. We identified and selected transaction tables used in the P-Card System with the assistance of officials at the Competency Center. Competency Center personnel extracted and provided us with a transaction file of order information that had been entered by NASA cardholders and with transaction data from Bank of America. The CAPC at Kennedy also provided purchase card order and transaction data for Kennedy cardholders. Using the data provided, we developed a database of purchase card transactions for calendar year 2005 that contained a universe of 266,626 transactions totaling approximately $69 million. Of that universe, we selected 1,749 transactions for review using data mining techniques and judgmental selection (see "Selecting Transactions for Review" on page 28).

At each of the four Centers, we met with officials in the Procurement Office, Accounts Payable Office, and the Purchase Card Program Office. We interviewed a total of 141 cardholders (28 at Ames, 41 at Glenn, 44 at Johnson, 28 at Kennedy) and 43 approving officials (23 at Ames, 12 at Glenn, 4 at Johnson, 4 at Kennedy).

The documents that we reviewed included policies and procedures issued by the Centers we visited and the following regulations, policies, and procedures:

- Department of the Treasury Financial Manual, Vol. I, Part 4, Chapter 4500, "Government Purchase Cards," May 2000
- Competition in Contracting Act of 1984 (41 U.S.C. 253)
- GAO's "Standards for Internal Control in the Federal Government" (GAO/AIMD-00-21.3.1, November 1999)
- Federal Acquisition Regulation (FAR)
- NASA FAR Supplement (NFS)
- NASA PIC 03-20, "Purchase Card Account Management," October 21, 2003

- NASA "Purchase Card Internal Control and Audit Plan," Fall 2004 (NASA's P-Card Plan)

Selecting Transactions for Review. We selected for review 1,749 transactions totaling $2,090,683.66. To select the transactions, we first developed indicators that we used to search, or "mine," purchase card transaction data for suspicious vendors, transactions, or patterns of activity. Our initial analysis identified 18,694 transactions, for approximately $12.4 million, that matched criteria contained in our indicators. Of those transactions, 9,755 (52 percent), totaling $6,247,500 (50 percent), had been made using purchase cards issued by Ames, Glenn, Johnson, or Kennedy.

We further refined our analysis by dividing the 18,694 transactions into separate sampling frames. Each sampling frame identified the number of occurrences and the amount of the transactions included in each indicator. Cardholders were then identified and considered for review based on the number of times their transactions were flagged by our indicators, the type of transactions flagged, and transaction characteristics (e.g., whether vendors appeared to be inappropriate or the product was outside the employee's area of responsibility). We also selected additional transactions by these cardholders that appeared not to comply with program or regulatory guidance.

Use of Computer-Processed Data. We assessed the reliability of computer-generated data by comparing selected data in the Bank of America transaction file with purchase card order logs, cardholder receipts, and invoices for the transactions that we reviewed. We also verified that CAPCs and cardholders had reconciled the transaction data we used to develop our database with account information from Bank of America. We found some duplicate data, which we excluded from our review. The duplicate data was the result of CAPCs and their staffs mistakenly importing transactions into the P-Card System twice during monthly reconciliations. Officials at the Competency Center took corrective actions to restrict access and the ability of CAPCs to import previously reconciled transactions, which corrected the problem. Duplicate transactions were not included in any of our audit results.

Review of Internal Controls

To assess whether internal controls were adequate to detect and prevent unauthorized and potentially fraudulent transactions, we reviewed controls over the use of purchase cards at four Centers. Specifically, we reviewed internal controls associated with the approval of cardholder transactions, the review and maintenance of receipts and supporting documentation, the reconciliation process, prohibited and restricted purchases, spending authorizations, and adherence to FAR requirements. As stated in the report, we identified internal control weaknesses in each of these areas and referred several transactions to the OIG Office of Investigations.

Prior Coverage

During the last 7 years, GAO, the Department of Defense (DoD) OIG, and the NASA OIG have issued five reports of particular relevance to the subject of this report. Unrestricted reports can be accessed over the Internet at http://www.gao.gov (GAO), http://www.dodig.osd.mil (DoD), and http://www.hq.nasa.gov/office/oig/hq/audits/reports/FY07/index.html (NASA).

Government Accountability Office

"Purchase Cards: Control Weakness Leave DHS [Department of Homeland Security] Highly Vulnerable to Fraudulent, Improper, and Abusive Activity" (GAO-06-957T, July 19, 2006)

"Audit Guide: Auditing and Investigating the Internal Control of Government Purchase Card Programs" (GAO-04-87G, November 2003)

Department of Defense

"Summary Report on the Joint Review of Selected DoD Purchase Card Transactions" (D-2003-109, June 27, 2003)

"Controls Over the DoD Purchase Card Program" (D-2002-075, March 29, 2002)

National Aeronautics and Space Administration

"NASA's Purchase Card Program Was Effective; Additional Controls Will Further Reduce Risk" (IG-03-025, August 25, 2003)

"NASA's Use of SmartPay Purchase Cards" (IG-00-050, September 25, 2000)

CORRECTIVE ACTIONS IMPLEMENTED

In our previous report, "NASA's Purchase Card Program Was Effective; Additional Controls Will Further Reduce Risk" (IG-03-025, August 25, 2003), we recommended that the Assistant Administrator for Procurement require approving officials or Center management to

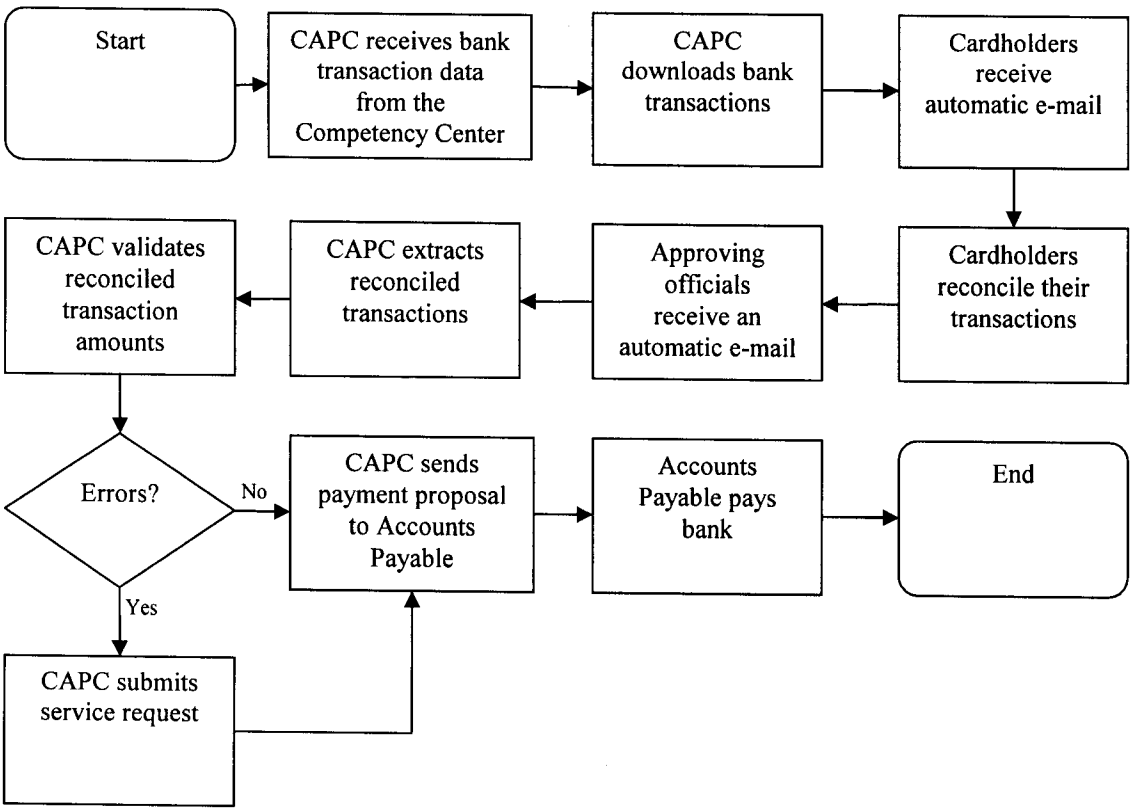
- conduct reviews of inactive accounts and determine whether they should be closed;
- establish procedures for periodic account reviews to identify inactive accounts;
- periodically review accounts and adjust transaction limits to match amounts authorized;
- establish procedures to maintain documentation of transaction limits and subsequent modifications;
- ensure that written delegation of authority to use a purchase card (delegation letter) includes a monthly limit;
- conduct periodic refresher training for all cardholders and approving officials that cover prohibited items and NFS limitations; and
- issue Agency-wide guidance pertaining to regulations and restrictions on the purchase of clothing and food.

Corrective actions implemented by management in response to the recommendations in our previous report effectively addressed the issues associated with the timely reviews of inactive accounts, documenting monthly limits in delegation letters, training, and Agency-wide guidance. However, corrective actions were not effective in preventing prohibited and restricted purchases of clothing and food. PIC 03-20 provides guidance for purchase card account reviews and restrictions on the purchase of clothing, food, and gifts. It establishes the responsibility for each CAPC to update cardholder accounts and requires CAPCs to maintain a record of each cardholder's training and limit changes. Our follow-up audit work showed that CAPCs and their staffs were reviewing inactive accounts, closing accounts in a timely manner, and maintaining delegation letters that included monthly limits. Cardholder purchase limits were within guidelines and individuals with limits higher than the $2,500 micro-purchase limit had the appropriate contracting officer warrants and had received the appropriate training. However, as discussed in this report, the purchase of prohibited and restricted items remains a problem.

THE RECONCILIATION PROCESS

The P-Card System provides an automated means to record, track, and reconcile purchase card transactions with bank statements. During the process, the P-Card System generates automatic e-mails to notify program participants of specific events requiring action. The following flowchart outlines the reconciliation process.

Reconciliation Process



MANAGEMENT'S COMMENTS ON THE FINDING AND EVALUATION OF THE COMMENTS

Headquarters Office of Procurement

Management's Comments. Comments from the Assistant Administrator for Procurement (Headquarters Office of Procurement) stated that the term "program officials" used in our draft report was too vague and that we should clarify our statement that the "control weaknesses and noncompliance issues that we found occurred because the control environment allowed 50 percent of purchase card participants interviewed to ignore applicable regulations and established internal control policies and procedures without consequences." The Headquarters Office of Procurement also stated: "We believe the conclusion on page [18], that 'program officials' stated they were 'primarily' concerned with ensuring timely payments, is a generalization that does not appear to be supported in the body of the report."

Evaluation of Management's Comments. We replaced the term "program officials" throughout the report with position titles for the individuals responsible for the actions cited. We also rephrased the conclusion statement on page 18 in response to management's comments. The revised statement concludes that the statements by the CAPCs at the four Centers that they were approving transactions in order to ensure timely payments to Bank of America circumvents internal control requirements for reviewing receipts and invoices.

Johnson Procurement Office

Management's Comments. The Johnson Procurement Officer stated that much of the documentation requested by the OIG during the site visit to Johnson, which was not provided during the visit, was actually on file with either the credit card coordinator or the cardholder. In addition, the Johnson purchase card program office was not told that documentation was missing during the exit debrief. Johnson also stated that after receiving the discussion draft of this report, dated November 20, 2006, the missing documentation was provided to the OIG.

Evaluation of Management's Comments. During our exit debrief, we provided statistics regarding the findings at Johnson. We regret the misunderstanding that occurred during the debrief. The supporting documentation provided by the Johnson CAPC in response to the discussion draft was one receipt and a cardholder's bank statements. The receipt did not match purchase information in the P-Card System, and bank statements

cannot be used to determine whether purchases were appropriate, because the statements do not show what was purchased.

Kennedy Procurement Office

Management's Comments. Kennedy objected to the presentation of our findings at Kennedy, specifically, to our "use of a single cardholder's actions to cast broad judgment over the overall [Kennedy] purchase card program" and to "the segmentation of the fraudulent incident into multiple incidents of non-compliance throughout the report."

The Kennedy Procurement Officer stated that during the period covered by the audit, 139 Kennedy cardholders placed 6,282 transactions totaling $4,331,823.34 and that the 72 transactions questioned in the draft report do not correlate to the overall findings and conclusions of the draft audit report. Specifically, the Kennedy Procurement Officer's comments included the following statements:

- The OIG auditors focused almost exclusively on the past bankcard activity of a canceled account, in effect performing a preliminary investigation rather than an audit of the overall Kennedy purchase card program.

- The Beach House charges were under investigation prior to the OIG Office of Audits referral to the OIG Office of Investigations.

- The Kennedy cardholders responsible for the purchase of plants, greeting cards, and the Christmas tree were required to reimburse the Government, and the Kennedy purchase card program office permanently terminated the cardholders' accounts.

- Kennedy takes exception to the audit report citing one cardholder in various sections of the report, stating that the cardholder is guilty of grand theft—not making inappropriate purchases on behalf of the Government.

- Kennedy is effective at enforcing the requirement for obtaining special approvals because the audit report identified only a small number of transactions out of the total number of annual transactions.

- The CAPC does maintain a record of cardholder transactions approved by the purchase card program office.

- Kennedy counsels delinquent cardholders and approving officials monthly.

Finally, the Kennedy comments requested that we not include in this final report the two transactions for the purchase of lapel pins using appropriated funds that we questioned. Kennedy disagreed with the OIG's interpretation of the legal decision by NASA's Acting

Associate General Counsel dated December 22, 2003, stating that, based on a legal review by the Kennedy Office of Chief Counsel, the purchase of lapel pins is an allowed use of appropriated funds. Kennedy's comments cited the 2003 decision's paragraph that "[t]he Comptroller General has held that the necessary expense doctrine may justify distribution of informational items to employees as well" (see Appendix E in this report for the full citation). The comments also cited Kennedy's policy, which states: "[M]ission stickers, photographs, pins, and occasionally patches [are] reasonable methods to disseminate information to employees. This is a narrow exception to the basic prohibition." The Kennedy Office of Chief Counsel reviewed the current Center policy regarding such purchases and issued a legal opinion supporting Kennedy's policy.

Evaluation of Management's Comments. The OIG auditors did not arbitrarily select accounts for review, and the auditors did not focus "almost exclusively on the past bankcard activity of a canceled account." We selected transactions based on a set of criteria we used to search purchase card transaction data for suspicious transactions or suspicious patterns of activity. Our analysis of Kennedy transactions identified 128 transactions that matched criteria contained in nine of the first indicators we developed. Of those transactions, 72 were considered questionable and had been made by seven different cardholders at Kennedy.[4] Cardholders were identified and considered for review based on the number of times their transactions were flagged by our indicators, the type of transactions flagged, and transaction characteristics. We also selected additional transactions by these cardholders that appeared not to comply with program or regulatory guidance. The cardholder in question had about 84 percent of the 70 questionable transactions identified by our indicators. See Appendix A for more details on the audit's methodology.

Although management's comments state that the Beach House charges were under investigation prior to our audit, Kennedy could provide no documentation to support that statement. In addition, we confirmed with the OIG Office of Investigations that at the time of our audit, announced in February 2006, the Kennedy Procurement Office had not referred the purchases made for the Beach House, or any other purchases made by this cardholder. NASA's P-Card Plan requires that suspected fraudulent transactions be reported to the OIG. More broadly, NASA Policy Directive 9800.1A, "NASA Office of Inspector General Programs," April 7, 2004, requires that "[a]ny NASA employee who observes crime, fraud, waste, abuse, or mismanagement . . . shall report such observation or allegation to the OIG." Considering that the Kennedy Procurement Office canceled the cardholder's card in November 2005, a referral should have been made to the Office of Investigations at that time but was not. The Kennedy Procurement Office, in documentation provided to the Center Operations Directorate when the account was canceled, stated that it would request a complete inventory of the Beach House, but neither the Kennedy Procurement Office nor the Center Operations Directorate had done

[4] In response to Kennedy's comments on another issue in the draft report, we removed two questioned transactions, by one cardholder, totaling approximately $5,000. As a result, the final report shows 70 questioned Kennedy transactions. Those transactions were made by six different Kennedy cardholders.

so as of March 2006. Therefore, we inventoried the contents of the Beach House during this audit and, based on our results, referred the cardholder's transactions to the OIG Office of Investigations. The Office of Investigations subsequently determined that some receipts provided by the cardholder appeared to have been forged and that some items purchased for the Beach House were located at the cardholder's residence.

In regard to the inappropriate purchases of plants, greeting cards, and the Christmas tree, which involved two cardholders, the CAPC terminated the account for the cardholder responsible for purchasing greeting cards and the Christmas tree. However, the CAPC did not terminate the account for the cardholder responsible for purchasing plants; as of March 2007, that account remained active. In addition, neither cardholder reimbursed the Government for the inappropriate purchases. The reimbursement for the greeting cards and Christmas tree was actually a transfer of funds from the Kennedy NASA Exchange Council. Further, this reimbursement did not occur until March 7, 2007, which was the day after we requested supporting documentation for the reimbursement and more than 2 weeks after the Kennedy Procurement Officer had stated, in comments on the draft report, that the cardholder had reimbursed the Government. Reimbursement was not made, nor was it required, for the plants purchased by the other cardholder.

As discussed throughout the report, our findings at Kennedy were not based solely on the actions of one cardholder. However, the potential misuse of Government funds by that one cardholder at Kennedy was egregious and illustrated the effect of weaknesses in the Center's internal controls over the purchase card program. The OIG Office of Investigations identified 426 potentially fraudulent transactions totaling approximately $157,000 made by this cardholder from CY 2001 through CY 2005. The Kennedy CAPC stated that the cardholder's account was canceled only after the CAPC noticed some improper and abusive purchases while attending a training session at the Beach House. In addition, neither the approving official nor the cardholder's immediate supervisor had reviewed or questioned any of the CY 2005 purchases by this cardholder. Both officials stated they were unaware that items were unaccounted for and missing until they were so informed during our audit. They were also not aware that the card had been canceled in November 2005. As cited in this report, the most important control activity in the purchase card program is the approving official's review of cardholder transactions. The fact that the approving official was unaware of the problems with this cardholder, including that the card was canceled, strongly indicates that Kennedy's internal controls were not effective.

Regarding internal controls over special approvals, Kennedy stated that the fact the audit identified only a small number of transactions for which a special approval was required but not obtained showed that Kennedy was effective at enforcing the requirement. Although the audit identified only 7 transactions at Kennedy that lacked a required special approval, those 7 transactions should be compared with the number of transactions in our sample that were for items requiring special approval, not the total number of all transactions that Kennedy made in CY 2005. Our sample included

14 transactions for items that required special approval, and we found that 7 (50 percent) did not have the required approval.

During the audit, the CAPC at Kennedy provided an e-mail statement to the audit team that she did not maintain records of transactions that the purchase card program office had reconciled or approved. Further, she stated that she could not determine whether the cardholder, approving official, alternate approving official, or she had approved or reconciled the transactions. However, she did acknowledge during discussions with the audit team that she routinely approved transactions for cardholders and approving officials who were delinquent in reconciling and approving cardholder transactions to ensure that payments to Bank of America were made in a timely manner.

Although Kennedy may send e-mail notification to delinquent cardholders and approving officials, e-mail notification does not equate to counseling. Further, Kennedy policy states that cardholders or approving officials delinquent two or more times in a 12-month period will have their purchase cards suspended for up to 60 days. However, the Kennedy CAPC had not suspended the purchase cards of the two cardholders and two approving officials who we identified as having been delinquent two or more times during CY 2005.

Finally, after reviewing Kennedy's response on the purchase of lapel pins, we agree that the purchases were authorized and removed that discussion from this report.

MANAGEMENT COMMENTS

National Aeronautics and
Space Administration
Headquarters
Washington, DC 20546-0001

February 16, 2007

Reply to Attn of: Analysis Division

TO: Assistant Inspector General for Auditing

FROM: Assistant Administrator for Procurement

SUBJECT: Draft Audit Report, "Internal Controls to Detect and Prevent Unauthorized and Potentially Fraudulent Purchase Card Transactions at Four NASA Centers Were Not Always Followed" (Assignment No. A-06-009-00)

Title revised

Enclosed is the consolidated response to the subject draft audit report dated January 16, 2007.

Please contact Joe Le Cren at 358-0431 if you have any questions or need further coordination on this matter.

Deborah O'Neill for
Tom Luedtke

Enclosure

Enclosure

Recommendation 1:
The Procurement Officers at Ames, Glenn, Johnson, and Kennedy should develop procedures to reinforce restrictions on the purchase of prohibited items. Procedures should include a schedule of administrative and disciplinary actions for cardholders who repeatedly purchase prohibited items.

Response:

Ames Research Center

Concur. Ames is developing a schedule of administrative and disciplinary actions for cardholders who repeatedly purchase prohibited items. All cardholders will be reminded of their responsibilities as a cardholder to comply with the program policies to not purchase prohibited items. In addition, Ames is updating its prohibited items list.

Glenn Research Center

Concur. Existing procedures contained in our Bankcard Audit Plan have been reviewed with bankcard users via e-mail. We will send the cardholders a more comprehensive notice that will include excerpts from the plan citing the ramifications if procedures are not followed. This action will be completed by the end of February 2007. We also have reminded cardholders in our monthly reconciliation e-mails, and will continue to remind them, that their bankcard accounts will be suspended following the second instance of a late reconciliation; the first occurrence will result in a warning. We are strictly enforcing the penalties cited in our audit plan. Cardholders found to have made purchases of noncompliant items or services shall receive a written notice with a copy to their supervisors for appropriate corrective action (including reprimand, suspension and removal). In addition, cardholders suspected of purchasing items for fraudulent or personal use will be referred to the Office of Inspector General for appropriate action.

Johnson Space Center

Concur. While the purchase card program requirements and administrative practices are kept available electronically on the Procurement Policy and Systems Office home page, we also developed a special informational training package immediately upon receipt of this draft audit, highlighting the areas of focus of this audit, and supplied it to all cardholders and approving officials. This training reminded personnel of the procedural and documentation requirements of the purchase card program including items that are considered either prohibited or items that require special approvals before purchasing. The refresher training was transmitted electronically to all cardholders and approving officials on November 24, 2006, and recipients were requested to review the materials and respond individually to the Alternate Agency Program Coordinator that the training package had been received and reviewed. The JSC training package includes a section on Purchase of Prohibited Items, and includes a website available on the Procurement homepage for future ready access. The prohibited items and disciplinary actions are discussed in this training package entitled "2006 Refresher Training" found at http://officeofprocurement/jsc.nasa.gov/cc.index.html. A copy of this training package

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was provided to the Office of the Inspector General. We consider this recommendation closed for JSC based on these actions.

Kennedy Space Center

Concur with the Intent. Kennedy believes that generally adequate procedures and schedules already exist at the Center and across the Agency. What the OIG is really advocating is stricter enforcement of the Center's procedures, which the Center will do. With the exception of the one bankcard holder that accounted for the great majority of the issues at the Center (see item 1. of the Additional Comments section), Kennedy believes the existing procedures worked well. Notwithstanding this, the Center, among other actions, required in November 2006 that all cardholders and approving officials, as well as their alternates, to attend 3 hours of mandatory purchase card training prior to the reopening the financial systems for new FY 2007 business. This training covered prohibited and restricted items in addition to special approval requirements , property tagging requirements, 508 compliance, ODIN due diligence, OIG audit findings, ethics, penalties for misuse of purchase cards, potential disciplinary actions, and other topics.

Recommendation 2:

The Procurement Officers at Ames, Glenn, Johnson, and Kennedy should establish procedures for suspending or revoking purchasing authority of cardholders who repeatedly make purchases determined to be noncompliant with program policies and procedures or who are habitually late reconciling their monthly transactions.

Response:

Ames Research Center

Concur. Ames is developing procedures for suspending and revoking purchasing authority of cardholders who do not comply with the policies and procedures including late reconciliation of their monthly transaction. In addition, the procedures will address administrative and disciplinary actions for cardholders that do not comply with program policies and procedures. All cardholders will be reminded of their responsibilities to comply with the program policies.

Glenn Research Center

Concur. Existing procedures contained in our Bankcard Audit Plan have been reviewed with bankcard users via e-mail. We will send the cardholders a more comprehensive notice that will include excerpts from the plan citing the ramifications if procedures are not followed. This action will be completed by the end of February 2007. We also have reminded cardholders in our monthly reconciliation e-mails, and will continue to remind them, that their bankcard accounts will be suspended following the second instance of a late reconciliation; the first occurrence will result in a warning. We are strictly enforcing the penalties cited in our audit plan. Cardholders found to have made purchases of

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noncompliant items or services shall receive a written notice with a copy to their supervisors for appropriate corrective action (including reprimand, suspension and removal). In addition, cardholders suspected of purchasing items for fraudulent or personal use, will be referred to the Office of Inspector General for appropriate action.

Johnson Space Center

Concur. JSC has procedures in place to revoke purchasing authority of cardholders, and indeed has done so in the past when it has been determined the card holder has continued to make purchases which are noncompliant with program policies or procedures. The refresher training discussed under Recommendation 1 included a reminder to all cardholders of the purchase card program requirements, and the fact that the JSC Office of Procurement would revoke the card if so warranted. A spreadsheet has also been developed to track the trend of delinquent cardholders and appropriate measures will be put in place should we see a continued negative trend in this regard. We consider this recommendation closed for JSC action.

Kennedy Space Center

Concur with the intent. While KSC agrees with the intent of the OIG recommendation, the Center submits that such procedures and schedules already exist at the Centers. What the OIG is really advocating is stricter enforcement. Due to tighter budgets and limited procurement resources, KSC no longer considers the purchase card program a "privilege," but rather a "necessity." In fact, given the option, many KSC organizations would gladly turn-in their purchase cards in favor of the Procurement Office handling all of their purchases, including those under the micro-purchase threshold. This is simply not a luxury that we have today. Therefore, for every cardholder whose purchase card is suspended or canceled, there is a direct and immediate impact to the workload of the Procurement Office.

Notwithstanding, it is now a mandatory requirement for the establishment of "alternates" for Center cardholders and approving officials, no exceptions. This requirement is expected to significantly reduce the number of incidents where the KSC program officials are required to reconcile or approve for delinquent cardholders and approving officials, respectively. However, the Centers should not be restricted from making judgment calls regarding such matters. As stated above in response to recommendation 1, all Center cardholders and approving officials, as well as their alternates were required in November 2006 to attend mandatory purchase card training that covered, among other topics, penalties for misuse of purchase cards and the potential disciplinary actions.

Recommendation 3:
The Ames Procurement Officer should develop procedures

a. to ensure cardholders follow special approval requirements for restricted items and

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b. to reinforce cardholders' responsibilities for incorporating specific Davis-Bacon wage rates as determined by the Secretary of Labor for construction contracts over $2,000.

Response:

a. Concur. Ames is updating the restricted items list and including procedures for obtaining special approvals. Cardholders and approvers will be informed of the changes and advised of their responsibilities to comply with program policies.

b. Concur. Ames is updating the website to address the applicability of the requirements of FAR Part 22 to specific purchases. In addition, cardholders will be informed of changes and advised of their responsibilities to comply with program policies, the FAR and NFS.

In addition, there will be mandatory training for all warranted cardholders on orders over the micropurchase level and those authorized to buy construction. Within six (6) months after the training, a self-assessment activity targeting these specific cardholders will be conducted to ensure compliance with program policies, the Federal Acquisition Regulation (FAR) and the NASA FAR Supplement.

Recommendation 4:
The Glenn Procurement Officer should

a. develop procedures to reinforce the requirement for cardholders to follow required competitive procedures in soliciting offers and awarding contracts above the micro-purchase threshold and

b. establish procedures to reinforce the requirement for each approving official to review and approve their assigned cardholder's transactions each month.

Response:

a. Concur. Glenn Work Instruction GLCI-CH-1200.3, "Post Award File Review and Self Assessment," has been revised to specifically include reviews of bankcard purchases above the micropurchase threshold. A review of bankcard orders placed by contracting officers in the Procurement Division was conducted in December 2006. Two orders above the micropurchase threshold were reviewed. Both files contained evidence of competition and price reasonableness determinations. No discrepancies were identified on either order.

In addition to the above, a reminder message reiterating the requirement for cardholders to follow required competitive procedures in soliciting offers and awarding contracts above the micropurchase threshold was sent on November 27, 2006, to all contracting officers who have purchase cards. This topic also was discussed at a simplified acquisition meeting held on January 9, 2007.

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b. Concur. Approving officials have been contacted individually to verify the cardholders in their organization. Approving officials also were advised that they must have access to P-Card and approve all transactions each month. A deadline was provided for all approvers to obtain access to P-Card, with a notice that cardholder accounts in their organization will be suspended if the approver failed to obtain access. All approving officials now have access to P-Card and approve monthly transactions of cardholders within their organizations. We consider the corrective actions for recommendations 4.a and 4.b to be complete, and request closure of these recommendations with the issuance of the final report.

Recommendation 5:
The Johnson Procurement Officer should:

a. review the circumstances associated with the unauthorized commitment, determine why normal acquisition procedures were not followed, and take appropriate corrective actions to prevent a reoccurrence of unauthorized commitments;

b. reconcile all outstanding purchase card balances with Bank of America and pay the reconciled amount; and

c. establish procedures to reinforce the cardholder's requirement to identify fund availability and create order logs in the P-Card System prior to making purchases or ordering services.

Response:

a. Concur. The JSC Procurement and Policy Office immediately began an internal audit of the issues raised by the OIG. The circumstances associated with the referenced commitment were reviewed, and the cardholder was reminded of the JSC interim process for funds availability documentation during the FY-end down times. The report detailed one instance of a purchase in the amount of $20,996.44 made without following FAR requirements for certifying availability of funds and performing a cost/price analysis. Our review determined this purchase, made by a warranted contracting officer, was for emergency building repairs, and was executed during the end-of-fiscal year financial system closure. During the annual system closure, JSC uses an interim process which calls for the generation of paper purchase requests (which certify availability of funds) and associated documentation. Due to the urgent nature of the Government's requirement, this interim process was not followed, with the purchaser instead relying on the written assurance of funds availability from the cognizant resource analyst, who provided that assurance in writing. Our review indicates that the funds availability documentation is in the file. The cardholder has been reminded that interim funds availability should be obtained on a paper purchase request rather than in an alternate form. Based on this isolated instance and the action taken, we consider the recommendation closed.

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b. Concur. As stated in our response to the discussion draft report, with respect to the allegation that Johnson has owed Bank of America $72,000 for purchase card transactions since 2003; the financial system was converted under Integrated Enterprise Management Program (IEMP) at JSC in January 2003; and a NASA decision was made to use the "Pay and Chase" philosophy across the agency, which means we pay the bill and resolve issues later via credits. Prior to the IEMP implementation, JSC did not use "Pay and Chase," which means disputed items were not paid until resolved. Ultimately, this left an outstanding balance owed at the time of IEMP go-live. We began collaborating with JSC's Financial Management Division last fiscal year to work the issue in parallel ways – to both pursue and resolve disputed items and to secure funding in the proper fund codes to pay the outstanding balance. Funding was received, and on January 25, 2007, the invoice was certified by the contracting officer to pay the outstanding Purchase Card balance. This recommendation should be considered closed.

c. Concur. The procedures are established in the purchase card training materials and guidelines, and in the Fiscal Year-end interim procedures. Cardholders and approving officials were reminded of these procedures in the special refresher training package discussed above. The cardholder has been reminded that interim funds availability should be obtained on a paper purchase request rather than in an alternate form. Based on the above, we consider this recommendation closed.

Recommendation 6:
The Procurement Officers at Ames, Glenn, Johnson, and Kennedy should establish policies to hold approving officials accountable for their purchase card duties. Policies should include a schedule of administrative and disciplinary actions for approving officials who repeatedly fail to meet timeframes for reviewing and approving cardholder's purchases and approving officials who direct or approve purchase transactions that are noncompliant with policies and procedures.

Response:

Ames Research Center

Concur. Ames is developing a schedule of administrative and disciplinary actions for approving officials who: (1) do not review and approve cardholder purchases timely, and (2) who review and approve noncompliant purchases. All approving officials will be reminded of their responsibilities as an approving official to comply with the program policies.

Glenn Research Center

Concur. Glenn's Bankcard Audit Plan has been modified to include consequences for approving officials who do not approve monthly transactions by the due date. The first occurrence will result in a warning to the approving official. The second instance will result in their cardholders' accounts being suspended for a period of 60 days. Approving officials found to have approved purchases of noncompliant items or services shall

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receive a notice with a copy to their supervisors for appropriate corrective action (including reprimand, suspension and removal). In addition, approving officials suspected of approving items for fraudulent or personal use will be referred to the Office of Inspector General for appropriate action. This information has been conveyed to approvers in our monthly reconciliation notices and will also be communicated in detail in a separate e-mail in mid-February, covering the updated information contained in the Bankcard Audit Plan. Language has also been added instructing approvers of the proper procedures to apply if/when a purchase is identified that is not in compliance with bankcard policies and procedures. We consider the corrective actions for recommendation 6 to be complete, and request closure of this recommendation with the issuance of the final report.

Johnson Space Center

Concur. JSC has policies in place to hold approving officials accountable for their purchase card duties. Those policies also state that purchasing privileges will be revoked for repeat offenders. In the training package described in the response to recommendation 1, one chart entitled "It is your responsibility" states:

"A (Card Holder) CH who is repetitively delinquent in reconciling a monthly statement is subject to having his/her card holder privileges suspended.

An (Approving Official) AO who is consistently late approving his/her CH's statements is subject to having their privileges suspended."

This procedure was provided as a reminder in the recent training package provided to all card holders. A spreadsheet has also been developed to track the trend of delinquent approvers. With policies in place, we request closure of this recommendation for JSC.

Kennedy Space Center

Concur with the intent of the OIG recommendation. The Center submits that such procedures and schedules already exist at the Centers. What the OIG is really advocating is stricter enforcement. Due to tighter budgets and limited procurement resources, KSC no longer considers the purchase card program a "privilege", but rather a "necessity." In fact, given the option, many KSC organizations would gladly turn-in their purchase cards in favor of the Procurement Office handling all of their purchases, including those under the micro-purchase threshold. This is simply not a luxury that we have today. Therefore, for every cardholder whose purchase card is suspended or canceled, there is a direct and immediate impact to the workload of the Procurement Office.

Notwithstanding, it is now a mandatory requirement for the establishment of "alternates" for Center cardholders and approving officials, no exceptions. This requirement is expected to significantly reduce the number of incidents where the KSC program officials are required to reconcile or approve for delinquent cardholders and approving officials, respectively. However, the Centers should not be restricted from making judgment calls regarding such matters.

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Recommendation 7:
The Executive Director, NASA Shared Services Center, in coordination with the Chief Financial Officer and the Program Director, Integrated Enterprise Management Program, should establish system controls in the P-Card System to identify and track purchase card transactions approved by anyone other than the designated approving official or alternate approving official. Identified transactions need to be clearly documented and readily available for examination.

Response:

Concur. Although these offices agree with the recommendation, the Agency has made a conscientious decision not to modify the commercial off-the-shelf (COTS) software to meet the Agency's requirements. The modifications of COTS software in essence would make it non-COTS, which in turn would result in technical challenges and higher operating costs for the Agency.

As an alternative, we propose that NASA look at implementing the following operational requirements and changes to policy that we believe would yield the same results as a system modification:

1. For transactions approved by the Center Agency/Organization Program Coordinators (CAPCs) in lieu of the normal approving official, the CAPC should maintain a record outside of the P-Card system (e.g., spreadsheet) which includes:

    a. Month/Year of the approved transaction
    b. Name of the Cardholder
    c. Name of the Approving Official

2. For transactions noted in 1 above, CAPCs should print a transaction report highlighting the month, transaction number, amount, and transaction details for signature by the Approving Official. This document should be maintained with the monthly reconciliation summary data.

3. The Headquarters Office of Procurement should consider revising the Agency Audit Control Plan to provide an Agency-wide approach to document monthly transactions approved by the CAPC in lieu of the Approving Official.

4. Each Center should audit its P-Card program during its semi-annual Procurement Self-Assessment.

Additional Comments:

In addition to responding to the report recommendations addressed above, additional comments are provided concerning the report's findings. Those comments are as follows:

Final Report Reference

Enclosure

Headquarters Office of Procurement

Revised "program officials" throughout report

1. The term "program officials" is used throughout the report; however, the use of this term should be clarified because we cannot determine whether it designates the CAPC, APC, and/or line management of the cardholder, including approving officials. It is also unclear whether the reference changes from one section of the report to another. In order to take corrective action, it is critical we understand exactly where in the management structure the specific deficiency(ies) lies. For example, on page 6 the draft report says, "Specifically, the [audit] plan states that

- "[...]

Revised

- "cardholders and program officials must notify the NASA Office of Inspector General (OIG) of suspected fraudulent transactions."

The audit plan does not make any such vague references to "program officials." It says, "Questionable transactions detected via P-Card or the [Bank of America's] EAGLS reporting system are researched and relevant findings and resolutions are documented. In addition to notifying the Bank of America of suspected fraudulent transactions, cardholders are required to notify the NASA OIG in accordance with NPD 9800.1, "NASA Office of Inspector General Programs." Other vague references to "program officials" in the draft audit report that need clarification to be useful are found on pages 8, 11, 16 (4 times), 17 (4 times), 18 (7 times), 19 (4 times), 22 (3 times).

Revised "program officials"

2. The following statement appearing in the last sentence of the first paragraph (Internal Controls Were Not Always Followed at Four Centers) should be clarified: "The control weaknesses and noncompliance issues that we found occurred because the control environment allowed 50 percent of purchase card program participants interviewed to ignore applicable regulations and established internal control policies and procedures without consequences." Does this mean some number of interviewees said that they "ignored" applicable regulations and control policies and procedures and this was consciously permitted by the Agency, or does the auditor infer they "ignored" the procedures because a supposed violation was observed? Also, it would be better to state the number of cardholders (of the total number interviewed) and the number of approving officials (of the total number interviewed) who reportedly violated procedures, because corrective actions will differ in each case.

Page 18 Revised

Page 16 Revised "program officials"

3. We believe the conclusion on page 19, that "program officials" stated they were "primarily" concerned with ensuring timely payments, is a generalization that does not appear to be supported in the body of the report. Page 17, last sentence of the first paragraph, states that purchase card "program officials" approved transactions to ensure timely payments to the Bank of America. However, there is nothing that states this was the primary concern.

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Johnson Space Center

Page ii, last paragraph, states "Corrective actions implemented by management to address the recommendations in our prior report were effective in managing inactive accounts, delegation letters, and cardholder and approving official training. However, corrective actions did not resolve the internal controls weaknesses identified in our prior report regarding prohibited or restricted purchases....NASA management needs to take additional actions at the four Centers we visited to ensure that program controls provide reasonable assurance that significant fraudulent, improper, and abusive purchases are prevented or promptly detected."

General Comment:

The purchase card program is taken very seriously by the Johnson Space Center, and is carefully monitored by the Policy and Systems Office of the Office of Procurement with regularly scheduled audits done by the Procurement Policy and Systems Office. Following receipt of the discussion draft report dated November 20, Procurement personnel met with the Office of Inspector General audit staff for the purpose of clarifying the report findings and conclusions. We were told that many of the findings were because the purchase card holders did not provide adequate documentation during the review of JSC's Purchase Card Program. A number of purchases (23, with a mean value of $210.01) were identified as representing potential misuse of Government funds, because cardholders were unable to present actual receipts, because unauthorized charges were apparently not disputed, or because no documentation was provided to the OIG during the review for items requiring special approval for purchase. However, much of this documentation was on file with either the credit card coordinator or the cardholder for these transactions. In one instance, receipts were made available by the cardholder too late in the two-week audit period for presentation to the auditors, because of the cardholder was on travel. We were not told of this lack of requested documentation during the exit de-brief. After reviewing the draft report, we did furnish this missing documentation to the OIG.

Kennedy Space Center

1. Page 5, Data Mining to Detect Instances of Potential Misuse, first paragraph – The report states:

"Because we [OIG] did not use statistical sampling to select the transactions that we reviewed, our results cannot be used to project the number of inappropriate transactions that occurred in total during calendar year (CY) 2005 at the four Centers or throughout NASA."

Based on the OIG's own disclaimer, KSC submits that the audit findings, conclusions, and recommendations are essentially based on a single cardholder, the one identified with the alleged fraudulent purchases for the KSC training facility, commonly referred to as the Beach House. For example, the audit report states that the auditors reviewed a total

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70 questioned transactions

of 128 KSC bankcard transactions and ultimately questioned 72 of these transactions. Of the 72 transactions questioned, 80.6% (or 58 transactions) were attributable to this one errant cardholder. At the beginning of the purchase card audit, the KSC CAPC apprised the OIG Project Manager of the cardholder's questionable charges relating to the Beach House and of the KSC Procurement Officer's memorandum that was sent to the cardholder's management expressing concerns over these purchases. Hence, from the initial meeting up until their departure, the OIG field auditors focused almost exclusively on the past bankcard activity of this individual cardholder. Accordingly, KSC contends that the OIG performed a preliminary investigation of the single cardholder rather than an audit of the overall KSC purchase card program.

Overview

Moreover, KSC is concerned with the coverage and discussion of the fraudulent incident throughout every section of the audit report as if it were separate incidents of non-compliance and/or fraud. For example, the report summarizes the fraudulent incident in the introduction (In Brief), but then goes on to dissect the fraudulent activity into multiple incidents of non-compliance without any association to the errant cardholder. The secondary incidents are distributed throughout the audit report; thereby, unfairly implying rampant abuse and a total lack of internal controls at the Center. Once the cardholder was suspected of fraud and grand theft, it seems irrelevant to also report that the same cardholder failed to retain her receipts for the stolen items, failed to send the stolen items through KSC central receiving, failed to get the stolen items tagged, and failed to obtain special approvals prior to purchasing the stolen items.

Noteworthy is that for the 12-month period covered by the audit, 139 KSC cardholders placed a total of 6,282 transactions totaling $4,331,823.34. Considering only 58 questionable charges were identified in the draft report and 55 of these transactions were attributable to a single cardholder, KSC contends that the small number of non-compliances does not correlate to the overall findings and conclusions set forth in the draft audit report.

In summary, KSC objects to the OIG's use of a single cardholder's actions to cast broad judgment over the overall KSC purchase card program and the effectiveness of the program's internal controls. KSC also objects to the segmentation of the fraudulent incident into multiple incidents of non-compliance throughout the report without any association to the one errant cardholder. This presentation of the fraudulent incident in the report gives the false impression of multiple, egregious cardholder infractions at the Center. KSC further contends that, because of the audit's single cardholder focus and the small sample size used for the audit, it was not possible for the auditors to fairly determine the effectiveness of the Center's overall purchase card program.

2. Page 8, Receipts and Supporting Documentation Not Maintained, second paragraph, first and second sentences – The report states:

Revised "program officials"

"In November 2005, purchase card program officials canceled the cardholder's Beach House card after the Kennedy CAPC noticed some improper and abusive purchases while attending a training session at the refurbished facility. Although the Kennedy Procurement Office indicated it would request a complete inventory of the Beach House,

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an inventory was not conducted by the Office of Procurement or the Center Operations Directorate."

Regarding the errant cardholder for the Beach House, the OIG draft report could lead a reasonable person to conclude that the KSC Office of Procurement turned their backs to the fraudulent bankcard activity; this implication is incorrect. For example, the record is clear that the KSC CAPC questioned the cardholder's Beach House purchases as early as August 23, 2005, nearly six months prior to the start of the subject OIG audit. After finding the questionable charges through routine, monthly P-Card audit activities, the CAPC properly notified her supervisor and senior procurement management of her discovery and concerns. Subsequently, the Procurement Officer formally communicated the questionable purchases to the cardholder's management. In November 2005, the CAPC terminated the cardholder's account for non-compliance with bankcard policies and procedures. At this point in time, the Beach House charges were under investigation, but had not been determined to be fraudulent. Since the cardholder's account had been closed and the questionable purchases had been formally communicated to the appropriate Center management, it remains the Center's position that the KSC CAPC acted appropriately and exercised proper due diligence in this matter. We believe the draft audit report is misleading and unfairly casts unsubstantiated claims of malfeasance against the Office of Procurement and the Center Operations Directorate; KSC objects to these claims.

3. Page 8, Receipts and Supporting Documentation Not Maintained, second paragraph, third sentence – The report states:

"We [OIG] inventoried the content of the Beach House and, based on the results, we referred the cardholder's transactions to the OIG Office of Investigations."

KSC takes exception to this statement because it implies that the OIG uncovered the Beach House incident during the subject audit and only then was an investigation started. The fact is the KSC CAPC discovered the incident a full six months before the start of the OIG audit and had already raised the issue to the attention of senior Center management. Again, KSC disagrees with the implication that it was only due to the subject OIG audit that this fraudulent incident was uncovered and objects to the final report making any such claim – either explicitly or implicitly.

4. Page 8, Unauthorized Charges Not Disputed, first and second sentences – The report states:

"We [OIG] identified 44 transactions totaling approximately $24,400 of unauthorized charges that cardholders should have disputed at three of the four Centers visited. Kennedy was the only Center where cardholders properly resolved all unauthorized charges."

KSC acknowledges and concurs with the OIG finding that there were no instances of unresolved cardholder disputes at the Center. Moreover, KSC's history reflects that cardholder disputes are identified and resolved in a timely manner.

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5. Page 9, Purchase of Prohibited Items, first and second sentences – The report states:

Revised

"We identified 29 transactions for prohibited items totaling approximately $17,700. The transactions were either for items that the Center or Agency specifically prohibited using the purchase card for (such as conference room rentals at Ames, monitors or televisions at Glenn, plants and greeting cards at Kennedy, and gasoline by Johnson) or for items that could be used for personal convenience."

For the official audit record, the KSC cardholder that purchased the "plants" and "greeting cards" was required to reimburse the Government for the full cost of the inappropriate items and the cardholder's account was permanently terminated.

6. Page 10, Purchase of Prohibited Items, first full paragraph, first and second sentences - The report states:

Deleted

"For example, in April 2005, a cardholder at Kennedy improperly made two purchases totaling approximately $5,000 for return-to-flight souvenir lapel pins that were distributed to NASA employees. A legal decision by NASA's Acting Associate General Counsel dated December 22, 2003, stated that lapel pins would be considered appropriate for distribution to non-NASA employees only for outreach Programs and should not be for distribution to NASA employees."

KSC submits that this practice has been a long standing tradition across the entire Agency; purchases that are typically made via purchase orders rather than purchase card. Moreover, the current KSC policy, issued by the KSC Chief Financial Office on July 12, 1994, states,

"Items reasonably provided in accordance with section 203(a)(3) of the Space Act to disseminate information about NASA activities are not prohibited gifts. NASA has historically considered items such as mission stickers, photographs, pins, and occasionally patches to be reasonable methods to disseminate information to employees. This is a narrow exception to the basic prohibition."

The KSC policy goes on to indicate that these items must be of "reasonable value." In the case of the questioned Return-to-Flight (RTF) lapel pins, the unit cost was $0.94. Therefore, KSC respectively disagrees with the OIG's interpretation of NASA's Acting Associate General Counsel's decision. In support of the Center's position, we refer to page 2 of the decision, last paragraph, which states,

"The Comptroller General has held that the necessary expense doctrine may justify distribution of informational items to employees as well. In approving the Food and Drug Administration's procurement and distribution of buttons (they cost $150 each) to its employees with the message, "No Red Tape," the Comptroller General stated that the message was informational, promoted an internal management objective, and reminded agency employees of institutional objectives and goals. B-257488 (Nov. 6, 1995). The buttons serves much the same purpose as other internal agency informational media such as posters, memos, etc., and had no intrinsic value to its recipients."

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The two purchases were separate purchases for two distinct lapel pins, each imprinted with a different message and targeted for different events. Both purchases were approved by the Center's Deputy Chief Financial Officer and the KSC CAPC and were compliant with existing Center policy; therefore, KSC disagrees that these purchases were "inappropriate." As a result of the OIG discussion draft audit report, the KSC Office of Chief Counsel (OCC) was asked to review the current Center policy regarding such purchases. Based on this review, the OCC continues to support the Center policy when the items are for purposes of disseminating information to NASA employees regarding upcoming missions. The OCC legal opinion is attached. Accordingly, based on legal confirmation of KSC's existing policy, KSC objects to the inclusion of this issue in the final audit report.

Attachment omitted (Attorney–Client Privilege)

7. Page 10, Purchase of Prohibited Items, first full paragraph, third sentence - The report states:

"Additional examples of prohibited purchases included raincoats for $130 at AMES; gasoline for $225 at Johnson; and a Christmas tree for approximately $240 at Kennedy."

Revised

For the record, the KSC cardholder that purchased the Christmas tree was required to reimburse the Government for the full cost of the inappropriate item and the cardholder's account was permanently terminated.

8. Page 10, Purchase of Prohibited Items, first paragraph, third full sentence - The report states:

"A Kennedy cardholder included a $20 DVD in the price of a television designated for the Launch Control Center lobby and included women's clothing in a $140 purchase for the refurbishment of the Beach House."

For the record, this incident involves the same cardholder mentioned in the introduction of the audit report, the same cardholder that allegedly committed the previously mentioned 55 fraudulent bankcard purchases related to the KSC training facility (Beach House). Again, KSC objects to the segmentation of the fraudulent incident into the various sections of the report, thus giving the false impression of multiple, egregious cardholder infractions at the Center. This specific cardholder is guilty of grand theft, not for making inappropriate purchases on behalf of the Government. By the inclusion of the above statement in the report, KSC contends that the audit report is misleading and gives the appearance of an attempt to sensationalize the single fraudulent incident. Accordingly, KSC objects to the inclusion of the above statement in the final audit report.

9. Page 13, Table 8 - Exceeding Purchasing Limits –

Page 12

KSC acknowledges and concurs with the OIG finding that there were no instances of cardholder's exceeding their single transaction limits. Moreover, KSC's history reflects that cardholders do not exceed their single or monthly transactional limits. KSC believes that this positive point deserves mention in the final audit report.

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10. Page 14, Table 9 - Purchasing Restricted Items without Special Approvals, first paragraph – The report states:

Page 13

"We [OIG] identified 66 transactions for restricted items, totaling $27,000, which were purchased without the required pre-approval."

At KSC, the audit report identified 7 transactions, involving 3 cardholders, where the special approvals were purportedly not obtained. For the 12-month period covered by the audit, KSC had 139 active cardholders that placed 6,282 transactions totaling $4,331,823.34. The audit report identified 7 purchases, which equates to 0.015% of the total KSC bankcard transactions for calendar year (CY) 2005, in which 3 cardholders were found to be non-compliant. Due to the shear volume of cardholder transactions, the KSC CAPC must rely on statistical sampling methods to perform monthly and quarterly audits. While the KSC Purchase Card Program Office always strives for perfection and zero instances of non-compliances, we have yet to achieve it. With 200+ purchase card participants at KSC, one is compelled to ask the question - What is an acceptable level of non-compliances before a Center is determined to have inadequate internal control? Based on the very small number of infractions relative to the total number of annual transactions, it is KSC's position that the Center is effective at enforcing the requirement for obtaining special approvals. Accordingly, KSC disagrees with the representation of a single cardholder's actions to cast broad judgment of the Center's overall purchase card program.

Page 15

11. Page 16, Control Environment Needed Improvement, first paragraph – second, third, and fourth sentences – The report states:

"Specifically, the control environment allowed the purchase card program office to approve cardholder transactions without review. Although CAPCs are not required to maintain records identifying transactions that they approve, Ames purchase card program officials kept a record and Glenn purchase card program officials provided an estimate of transactions that they approved during CY 2005. However, we were unable to determine how many transactions purchase card program officials at Johnson and Kennedy approved because they did not maintain records."

Revised "program officials"

The CAPC exigency approval procedure is authorized by the Agency's Purchase Card Program; it exists because of P-Card system limitations and is necessary to ensure timely payments to the Bank of America. KSC's position is that, just because the KSC CAPC must occasionally step in to perform these duties in a cardholder's or approving official's absence, these exigency approvals do not directly or indirectly contribute to unauthorized and/or potentially fraudulent purchase card transactions at the Center. One Center CAPC maintained records despite no requirement to do so and another Center CAPC provided an estimate of their approvals. These responses are at opposite ends of the spectrum; it is unclear why the remaining two Centers weren't at least asked to provide estimates.

Notwithstanding the fact that there is no requirement to keep such records, the KSC CAPC runs the standard P-Card report entitled, "Who Hasn't Reconciled" at the stated deadline for cardholder reconciliation. This report represents that particular month's

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cardholders and/or approving officials that the program office had to perform reconciliations and/or approvals for; the KSC program office maintains copies of this monthly report for the purpose of tracking and administering disciplinary action against repeat offenders. Additionally, the delinquent cardholders and their approving officials are notified by e-mail that the program office was required to reconcile and/or approve for them. The e-mail notice also includes the potential administrative and/or disciplinary actions that can be levied against them for repeat offenses. Secondly, for every transaction that the program office reconciles or approves, the CAPC annotates the action in the "Comments" field of the applicable order log.

12. Page 19, Disciplinary Actions, second paragraph, fourth sentence - The draft report states: Page 18

"In addition, there was no record of an approving official being counseled or disciplined for not reviewing and approving transactions within the specified timeframe."

Based on the practice described in Item 11, KSC submits that, on a monthly basis, the program office notifies, "counsels", and threatens delinquent cardholders and approving officials with administrative and/or disciplinary action based on repeat offenses. Thus far for FY 2007, the KSC Purchase Card Program officials have temporarily suspended a total of 36 KSC cardholders for various incidents of non-compliance.

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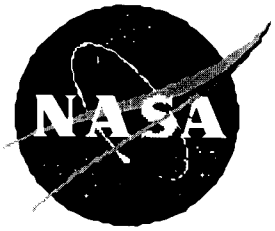

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