

Report Recipient:
H/Assistant Administrator
for Procurement

**NASA'S PURCHASE CARD PROGRAM WAS
EFFECTIVE; ADDITIONAL CONTROLS
WILL FURTHER REDUCE RISK**

August 25, 2003

cc:
JM/Team Lead (Audit)



National Aeronautics and
Space Administration

OFFICE OF INSPECTOR GENERAL

Released by: [original signed by]

David M. Cushing, Assistant Inspector General for Auditing

NASA's Purchase Card Program Was Effective; Additional Controls Will Further Reduce Risk

We found that the NASA purchase card program was managed effectively. For example, the majority (97 percent) of sampled transactions were appropriate. Also, management had established reasonable controls over the program. The controls included (1) cardholder monthly bank statement reviews, which had identified fraudulent purchases (Appendix C); (2) approving officials' reviews of the cardholders' monthly bank statements; and (3) periodic (e.g., weekly, monthly) transaction reviews by Centers. Further, between June 1, 2001 and May 31, 2002, NASA received rebates totaling \$578,000 from Bank of America for timely payments. Finally, based on the General Service Administration's estimated savings per purchase card transaction, the purchases saved NASA more than \$7 million.

While the program was effective, we also found that NASA management can further reduce potential risks of monetary loss and embarrassment by increasing controls over purchase card accounts and by better enforcing the existing controls over the purchasing process. NASA needs to increase controls to reduce inactive accounts (Finding A) and verify account limits (Finding B). NASA also needs to improve enforcement of controls to minimize inappropriate purchases (Finding C) and other procedural weaknesses (Finding D).

At the Assistant Administrator for Procurement's request, we reviewed the NASA purchase card program. He requested that we validate whether the cardholders were using their cards appropriately and whether NASA was providing adequate oversight and training. In fiscal year 2002, NASA made about 189,000 purchases, valued at \$91.5 million, through the use of purchase cards. Further, NASA expects its use of purchase cards to grow in the future. Recent public disclosures of inappropriate uses of purchase cards in other Federal agencies prompted the Office of Management and Budget to require all agencies to submit quarterly reports on credit card programs as part of increased management oversight. We reviewed all 3,933 purchase accounts and sampled 660 purchase card transactions NASA-wide to evaluate the appropriateness of purchases and the adequacy of purchase card program controls and training. Details on our audit objectives, scope, and methodology are in Appendix B.

We made nine recommendations to help NASA management reduce potential risks by increasing the monitoring of accounts, conducting refresher training, and providing additional guidance.

Management concurred with all of the recommendations. The complete text of management's response is in Appendix H. We consider management's proposed or completed corrective actions responsive.

Inactive Accounts

We found that 813 (20 percent) of 3,933 purchase accounts, as of June 14, 2002, had been inactive for our 12-month review period. Based on random testing of 40 inactive accounts, 16 (40 percent) had been inactive for more than 4 years. Further, 60 of the inactive accounts belonged to cardholders who no longer work for NASA. See Appendix D for information on the type and location of the inactive accounts. The inactive accounts occurred because NASA did not have procedures that required approving officials to periodically review account usage to determine whether inactive accounts should be closed. Excessive inactive accounts increase the potential for improper use if the accounts are compromised. The 813 inactive accounts had a cumulative monthly credit limit total of \$45.3 million. Further, the individual cards had monthly credit limits ranging from \$1,000 to \$1 million.

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

The Assistant Administrator for Procurement should require approving officials to:

- 1. Conduct reviews of the 813 inactive accounts to determine whether they should be closed.**

Management's Response. Concur. The Assistant Administrator for Procurement issued a letter in September 25, 2002 that required all procurement officers to identify cards that are infrequently used and confirm the continued need for the identified cards. In the letter, he also requested all procurement officers to examine the total number of cards within the same organization to ensure the appropriate number of cardholders and cancel/deactivate cards no longer required.

NASA cancelled 209 purchase cards (accounts) during the first quarter of fiscal year 2003. Center program coordinators will review the accounts identified as inactive by the OIG to determine how many have already been cancelled and whether the remaining accounts should be closed.

Evaluation of Management's Response. Management's corrective actions were responsive to the recommendation. The recommendation is resolved and dispositioned, and will be closed for reporting purposes.

- 2. Establish procedures for periodic account reviews to identify inactive accounts and to take appropriate action.**

Management's Response. Concur with intent. NASA considered the center program coordinators as being the appropriate individuals responsible for establishing center procedures for periodic account reviews. Several centers have established procedures for the periodic review of accounts. A Procurement Information Circular (PIC) will be issued by October 31, 2003, to provide guidance for periodic account review.

Evaluation of Management's Response. Management's proposed and completed actions were responsive to the intent of the recommendation. The recommendation is resolved but will remain undispositioned and open until the proposed PIC is issued.

Purchase Account Limits Exceeded Guidelines or Authorization

We found 85 purchase accounts that had transaction limits that exceeded the NASA Federal Acquisition Regulation (FAR) Supplement guidelines and 30 purchase accounts for which the cardholders' monthly credit limits exceeded procurement officers' authorizations. See Appendix E for the location of accounts with incorrect transaction and credit limits. The NASA FAR Supplement limited noncontracting officers' purchase card limits to no more than \$2,500 per transaction. The 85 accounts had transaction limits that ranged from \$5,000 to \$100,000. The 30 accounts had monthly credit limits that ranged from \$40,000 to \$4.7 million. The excessive limits occurred because NASA lacked procedures for periodic account limit reviews and did not maintain documentation of initial account transaction and credit limits authorized by procurement officers or subsequent modifications of the limits. In addition, the procurement officers did not always include credit limits in their written delegations to the cardholders. Excessive limits increase the risk of inappropriate use and financial loss.

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

The Assistant Administrator for Procurement should require:

- 3. Approving officials to periodically review accounts and to adjust transaction limits and credit limits to match the amounts authorized.**

Management's Response. Concur. The need for periodic account reviews that address transaction limits will be included in the PIC referenced in the response to Recommendation 2. The PIC will be issued by October 31, 2003.

Evaluation of Management's Response. Management's proposed action was responsive to the recommendation. The recommendation is resolved but will remain undispositioned and open until the proposed PIC is issued.

- 4. Center management to establish procedures to maintain documentation of initial account transaction and authorized credit limits and subsequent modifications.**

Management's Response. Concur. The PIC referenced above will provide guidance on the requirement to maintain documentation of account transaction and credit limits and any amendments to the amounts authorized. The PIC will be issued by October 31, 2003.

Evaluation of Management's Response. Management's proposed action was responsive to the recommendation. The recommendation is resolved but will remain undispositioned and open until the proposed PIC is issued.

5. Procurement officers' written delegations to include monthly limits for future verification and validation purposes.

Management's Response. Concur. The PIC referenced above will provide guidance on the requirement of procurement officers written delegations to include monthly limits for future verification and validation purposes. The PIC will be issued by October 31, 2003.

Evaluation of Management's Response. Management's proposed action was responsive to the recommendation. The recommendation is resolved but will remain undispositioned and open until the proposed PIC is issued.

Inappropriate Purchases

Nineteen (about 3 percent) of the 660 sampled transactions involved inappropriate purchases. The inappropriate purchases involved (a) items prohibited by Center policies, statutes, regulations, U.S. General Accounting Office (GAO) decisions, or the NASA FAR Supplement; (b) transactions reported by NASA to the Bank of America as "fraudulent;" or (c) transactions being investigated by the NASA Office of Inspector General (OIG) Office of Investigations. See Appendix F for a discussion of each of the 19 transactions. The fiscal impact associated with these 19 inappropriate purchases was not material; however, the cardholders and approving officials were not fully aware of their respective Center's policies on prohibited purchases, the GAO decisions restricting the purchases of clothing and food, or the NASA FAR Supplement limits on nonprocurement personnel placing orders. Further, Center personnel were not aware of the requirement to notify the NASA OIG of suspected fraudulent transactions. Without clarification and training, additional inappropriate purchases may occur.

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

The Assistant Administrator for Procurement should:

6. Require all Centers to conduct periodic refresher training for all cardholders and approving officials that covers Center-prohibited items and NASA FAR Supplement limitations.

Management's Response. Concur. The Assistant Administrator for Procurement issued a letter dated September 25, 2002, to procurement officers requiring that they provide refresher training every 3 years for cardholders, approving officials, and alternate approving officials. Currently, the NASA FAR Supplement requires that training address the responsibilities of the cardholder and approving official, prohibited purchases,

purchase limitations, and sources of supply. Additionally, the September 25, 2002, letter also required that center program coordinators maintain records adequate to demonstrate that all cardholders, approving officials, and alternate approving officials have completed the required training.

Evaluation of Management's Response. Management's corrective actions were responsive to the recommendation. The recommendation is resolved and dispositioned, and will be closed for reporting purposes.

7. Issue Agencywide guidance pertaining to statutes, regulations, and GAO decisions restricting the purchases of clothing and food, and include the restrictions in refresher training.

Management's Response. Concur. A PIC will be issued by October 31, 2003, to provide guidance on restrictions on the purchase of clothing and food as a result of statutes, regulations, and GAO decisions. Procurement officers will be required to include this guidance in training.

Evaluation of Management's Response. Management's proposed action was responsive to the recommendation. The recommendation is resolved but will remain undispositioned and open until the proposed PIC is issued.

8. Require Centers to include in refresher training, the requirement to notify the NASA OIG of suspected fraudulent transactions referred to the Bank of America.

Management's Response. Concur. A PIC will be issued by October 31, 2003, to provide guidance/advise cardholders to notify the NASA OIG of suspected fraudulent transactions.

Evaluation of Management's Response. Management's proposed action was responsive to the recommendation. The recommendation is resolved but will remain undispositioned and open until the proposed PIC is issued.

Other Procedural Weaknesses

We found 94 purchase transactions for which 1 or more of 9 existing procedural controls had not been followed. Although the purchases were for appropriate items, we found 37 transactions involving approving officials who had not been trained. For 13 other transactions, cardholders that had been trained split the purchases to avoid dollar limits set by the FAR and NASA FAR Supplement. Further, we found two cardholders that approved their own transactions (4 purchases) and two cardholders that allowed other individuals to use their cards (2 purchases). See Appendix G for information on the procedural weaknesses and the locations for all 94 transactions. Without the proper training, approving officials may approve inappropriate items in future transactions.

Further, cardholders bypassing controls undermine the effectiveness of the control system and make preventing and detecting inappropriate purchases more difficult.

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

- 9. The Assistant Administrator for Procurement should direct Centers to verify that all approving officials have been trained and that cardholders have been advised of the importance of the procedural controls over purchases.**

Management's Response. Concur. The Assistant Administrator for Procurement initiated action that addresses this recommendation in his September 25, 2002, letter to procurement officers requiring that they provide refresher training for cardholders, approving officials, and alternate approving officials as part of IFM implementation. This requirement ensures that all approving officials, including those who were not trained previously, will get trained in order to successfully implement the IFM. The September 25, 2002, letter also emphasized that Center program coordinator have critical program and training surveillance responsibilities, and should maintain records adequate to demonstrate that all cardholders, approving officials, and alternate approving officials have completed the required training. In addition to the NASA FAR Supplement 1813.301-71 training requirements, the Centers' refresher training will reiterate the importance of complying with Center procedures to ensure that the controls can function as intended.

Evaluation of Management's Response. Management's corrective actions were responsive to the recommendation. The recommendation is resolved and dispositioned, and will be closed for reporting purposes.

List of Appendixes

Appendix A – Status of Recommendations

Appendix B – Objectives, Scope, and Methodology

Appendix C – Transactions Reported as Fraudulent

Appendix D – Inactive Purchase Accounts

Appendix E – Purchase Account Limits Exceeded Guidelines or
Authorization Limits

Appendix F – Inappropriate Transactions

Appendix G – Other Procedural Weaknesses

Appendix H – Management's Response

Appendix I – Report Distribution

Acronyms Used in the Report

FAR	Federal Acquisition Regulation
FY	Fiscal Year
GAO	U.S. General Accounting Office
OIG	Office of Inspector General

Appendix A. Status of Recommendations

Recommendation Number	Resolved	Unresolved	Open/ECD*	Closed
1.	X			X
2.	X		10/31/03	
3.	X		10/31/03	
4.	X		10/31/03	
5.	X		10/31/03	
6.	X			X
7.	X		10/31/03	
8.	X		10/31/03	
9.	X			X

* ECD - Estimated Completion Date

Appendix B. Objectives, Scope, and Methodology

Objectives

The overall objective was to evaluate the effectiveness of NASA's purchase card program. Specifically, we determined whether:

- NASA had implemented appropriate internal controls over the use of SmartPay Purchase Cards and
- SmartPay Purchase Cards were being used efficiently and cost-effectively.

Scope and Methodology

We reviewed applicable regulations, policies, and documentation from NASA and other Government agencies. During the review, we:

- Reviewed applicable sections of the Federal Acquisition Regulation (FAR), NASA FAR Supplement, Treasury Financial Manual, and other NASA guidance relevant to Government purchase cards.
- Conducted field work at 11 locations:
 - NASA Headquarters (HQ)
 - Ames Research Center (Ames)
 - Dryden Space Flight Center (Dryden)
 - Glenn Research Center (Glenn)
 - Goddard Space Flight Center (Goddard)
 - Johnson Space Center (Johnson)
 - Kennedy Space Center (Kennedy)
 - Langley Research Center (Langley)
 - Marshall Space Flight Center (Marshall)
 - Stennis Space Center (Stennis)
 - Wallops Flight Facility (Wallops)

We did not conduct work at the Jet Propulsion Laboratory (JPL), because effective October 1, 2001, JPL stopped participating in NASA's purchase card program.

- Selected and reviewed a sample of 660 purchase transactions at 11 NASA locations to determine whether those purchases were made in accordance with existing guidelines. The sample consisted of 283 judgmentally sampled transactions and 377 randomly sampled transactions.
- Interviewed cardholders and approving officials regarding sampled transactions and NASA's training and guidance for purchase card use.

- Evaluated the sampled transactions to identify any inappropriate purchases, assess the level of procedural compliance, and determine overall system effectiveness.
- Determined whether NASA had received its rebate from Bank of America for timely payments.
- Assessed the cost savings derived from the program.

Use of Computer-Processed Data

We used Bank of America (B of A) computer-generated NASA purchase card transaction data and an account listing to generate our sample universe. We verified that the selected purchase card transactions were accurately recorded by comparing the data to documents at the NASA locations. We did not perform additional testing of the accuracy and validity of the entire B of A purchase card transaction system. We relied on B of A auditors' reviews of the system controls.

Management Controls Reviewed

We reviewed management controls over the use of purchase cards, including:

- FAR Subparts 13.2, "Actions At or Below the Micro-Purchase Threshold"; and 13.301, "Governmentwide commercial purchase card."
- NASA FAR Supplement Part 1813, "Simplified Acquisition Procedures."
- Treasury Financial Manual Part 4, Chapter 4500, which was incorporated by reference in FAR 13.301(b).
- NASA Policy Directive 9800.1, "NASA Office of Inspector General Program."
- Purchase card policies and procedures established for the 11 locations selected for review.

Review Field Work

We conducted review field work from July 2002 to January 2003 at the 11 locations listed earlier. We performed the review in accordance with generally accepted government auditing standards.

Appendix B

Prior Audit Coverage

The NASA Office of Inspector General has previously issued reports related to the use of purchase cards. The reports are summarized below. Copies of NASA reports are available at <http://www.hq.nasa.gov/office/oig/hq/audits.html>.

"NASA's Use of SmartPay Purchase Cards," Report Number IG-00-050, September 25, 2000. We reported that the program was effective overall, but that NASA managers needed to remain vigilant over purchases because we found some sampled purchases that did not meet the intent of the FAR and other Federal guidance.

"NASA's International Merchant Purchase Authorization Card Program," Report Number IG-98-011, May 4, 1998. Overall, the NASA purchase card program was generally effective, and controls over the use of credit cards were in place. The program had provided a quick and cost-effective way of making small purchases. However, in view of the increasing number of cardholders and dollar amounts of purchases, NASA needed to make improvements in the overall management of the program.

Appendix C. Transactions Reported as Fraudulent

NASA locations reported to the Bank of America 79 transactions that allegedly involved fraudulent purchases. The locations had not notified the NASA OIG about these purchases, as required by NASA Policy Directive 9800.1, “NASA Office of Inspector General Program.” Without notification, the NASA OIG Office of Investigations is unaware of information that may indicate a pattern of fraudulent use that requires investigation. During the review, we referred the purchases to the NASA OIG Office of Investigations for further action.

Appendix D. Inactive Purchase Accounts

<u>Purchase Accounts</u>	<u>Ames</u>	<u>Dryden</u>	<u>Glenn</u>	<u>Goddard</u>	<u>HQ</u>	<u>Johnson</u>	<u>Kennedy</u>	<u>Langley</u>	<u>Marshall</u>	<u>Stennis</u>	<u>Wallops</u>	<u>Total</u>
Inactive Due to:												
Death	2							1				3
Retirement	5	6		1		1		10	10		1	34
Resignation	1	2				2		2				7
Termination	2	1										3
Current Contractor									1*			1
Unidentifiable Individuals	—	—	—	—	—	—	—	—	<u>12**</u>	—	—	<u>12</u>
14 Subtotal	<u>10</u>	<u>9</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>3</u>	<u>0</u>	<u>13</u>	<u>23</u>	<u>0</u>	<u>1</u>	<u>60</u>
Other Inactive Accounts ***	<u>68</u>	<u>17</u>	<u>169</u>	<u>67</u>	<u>23</u>	<u>63</u>	<u>39</u>	<u>132</u>	<u>150</u>	<u>14</u>	<u>11</u>	<u>753</u>
Total Inactive Accounts	<u>78</u>	<u>26</u>	<u>169</u>	<u>68</u>	<u>23</u>	<u>66</u>	<u>39</u>	<u>145</u>	<u>173</u>	<u>14</u>	<u>12</u>	<u>813</u>

* The Marshall purchase card coordinator closed the account during the review after we brought the account to her attention.

** Neither we nor NASA personnel at Marshall could identify these individuals.

*** We could not determine why these accounts were inactive.

Appendix E. Purchase Account Limits Exceeded Guidelines or Authorization Limits

<u>Limits</u>	<u>Ames</u>	<u>Dryden</u>	<u>Glenn</u>	<u>Goddard</u>	<u>HQ</u>	<u>Kennedy</u>	<u>Langley</u>	<u>Marshall</u>	<u>Wallops</u>	<u>Total</u>
Transaction Limits Exceeded NASA FAR Supplement Guidelines	5	11	5	15	1	7	10	28	3	85
Monthly Credit Limits Exceeded Authorization Limits	0	8	1	3	0	0	1	17	0	30

Appendix F. Inappropriate Transactions

<u>Category</u>	<u>Ames</u>	<u>Glenn</u>	<u>Goddard</u>	<u>Johnson</u>	<u>Kennedy</u>	<u>Langley</u>	<u>Other*</u>	<u>Total</u>
Purchases Prohibited by Center Policies			3	4		2		9
Purchases Prohibited by Statutes, Regulations, and GAO Decisions		1	1		1			3
Purchases Prohibited by NASA FAR Supplement	1							1
Purchases Being Investigated by OIG Office of Investigations							3	3
Purchases Reported by Cardholders as Fraudulent	<u>2</u>	-	<u>1</u>	-	-	-	-	<u>3</u>
Center Total	<u>3</u>	<u>1</u>	<u>5</u>	<u>4</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>19</u>

* We cannot disclose the location of the 3 sampled transactions due to an ongoing NASA OIG investigation.

Purchases Prohibited by Center Policies

Nine purchases with a total value of \$12,675 were prohibited by the applicable Center's policies. In certain cases, items on a Center's prohibited item lists may be purchased if cardholders obtained advance approval. The cardholders either were not fully aware of the prohibited item lists or had not sought advance approval for the following Center-prohibited purchases.

Goddard:

1. Six trophies for peer awards (\$1,395).
2. Copying and binding services from Staples (\$456).
3. One-year hardware maintenance agreement (\$1,750).

Langley:

1. College textbook purchased by a secretary (not training office personnel) for Center-funded training (\$136).
2. Construction contract to repair and enhance an existing electrical system (\$2,490).

Johnson:

1. Three separate purchases of information technology equipment; each piece of equipment exceeded \$500. The purchases included printers, scanners, disk drives, and miscellaneous items. These purchases were individually valued at \$2,076, \$1,861, and \$2,152.
2. 12 V Gel Cell (considered hazardous material) for Advance Space Suit Testing (\$359).

Purchases Prohibited by Statutes, Regulations, or General Accounting Office (GAO) Decisions

Three purchases totaling \$9,440 included inappropriate purchases for food and clothing. The following are descriptions of the items purchased and the pertinent GAO decisions.

Food

One purchase at Goddard included a purchase of food for a 2-day Project Management Development Emprise retreat held locally. Goddard paid \$7,884 for the conference facility, equipment, and meals for 50 attendees.

The Comptroller General has stated that in general, absent statutory authority, appropriated funds are not available to feed Government employees at their duty station. One statutory authority, the Government Employees Training Act, 5 U.S.C. 4101, provides for an agency to pay for employees' food if the agency determines such a cost is a necessary training expense. The NASA Federal Travel Regulation Supplement addresses this authority in § 301-11.1, which states, "An exception is allowed for training purposes ... when it has been determined that overnight stays and attendance at meals are necessary in order to achieve the objectives of the training. ..." No documented justification or determination existed to demonstrate how providing meals was necessary to achieve the objective of the retreat.

Appendix F

Clothing

Two purchases of clothing, one each at Glenn and Kennedy, totaled \$1,556.

1. At Glenn's NASA Exchange store, a NASA employee purchased 10 winter jackets, totaling \$1,264, for Glenn's first response team. The jackets included embroidery of both inner and outer jacket shells with first responder logos.
2. A NASA employee at Kennedy purchased 12 personalized golf shirts, totaling \$292, for a contractor-operated investigations unit. According to the purchase card record, the shirts were necessary to properly identify the investigators as law enforcement personnel when responding to a crime scene. According to the cardholder, the shirts were issued when the investigators were attending a counter intelligence/terrorist program.

Generally, absent statutory authorization, GAO considers clothing to be the employee's personal expense and has stated, "every employee of the government is required to present himself for duty properly attired according to the requirements of his position."¹ GAO further stated that under 5 U.S.C. § 7903, an agency may procure special clothing "for the protection of personnel in the performance of their assigned tasks. In order for an item to be authorized by 5 U.S.C. 7903, it must satisfy three tests."² The tests are: (1) the item must be "special" and not part of the ordinary and usual furnishings an employee may reasonably be expected to provide for himself, (2) the item is for the benefit of the Government,³ and (3) the employee must be engaged in hazardous duty.

The justifications for Glenn's purchase of winter jackets and Kennedy's purchase of golf shirts did not fully satisfy the three GAO tests to qualify as allowable purchases.

- Winter Jackets - Regarding the first test ("special item"), we did not consider the winter jackets at Glenn special because the jackets were (a) part of the ordinary and usual furnishings an employee may reasonably be expected to provide for himself, (b) not designed for more extreme weather condition than that experienced locally, and (c) available for any employee at the exchange store. Regarding the second test ("benefit of the Government"), we did not consider the winter jackets for the Government's benefit since no justification existed to indicate how the jackets were essential for the employees to

¹ 63 Comptroller General 245 (1984).

² Comptroller General decision B-289683, October 7, 2002.

³ The decision further defines benefit of the government as essential to the safe and successful accomplishment of the work, and not solely for the protection of the employee.

Appendix F

accomplish their work. While we recognize that the winter jackets were used to protect the employees from the weather, a Comptroller General decision (see footnote 2) stated, in part, “Without specific statutory authority, cold weather clothing is an employee’s personal responsibility, not the government’s ...” Finally, regarding the third test (“hazardous duty”), the justification did not address any relevant occupational safety and health issues related to hazardous duty.

During the audit, Glenn officials concurred with our determination that the jacket purchases did not satisfy the GAO criteria.

- Golf Shirts - NASA purchased the golf shirts at Kennedy for contractor employees. Regarding the first test (“special item”), we did not consider the golf shirts special because the shirts were from a local store and, other than being personalized, were ordinary shirts available to the general public. Furthermore, we considered the golf shirts as ordinary and usual furnishings that contractor employees may reasonably be expected to provide for themselves. Regarding the second test (“benefit of the Government”), we did not consider the golf shirts for the Government’s benefit since no justification existed to indicate how the golf shirts were essential for the contractors to accomplish their work. Finally, regarding the third test (“hazardous duty”), the justification did not address occupational safety and health issues related to hazardous duty that would have reasonably necessitated the shirts.

During the audit, Kennedy officials informed us that management took action to collect the money spent on the shirts for contractor employees.

Purchases Prohibited by NASA FAR Supplement

An Ames cardholder with a contracting officer warrant, who was not classified in a procurement job series (that is, a GS-1102 or GS-1105), purchased \$7,940 of construction services through a blanket purchasing agreement (BPA). NASA FAR Supplement 1813.303-3 (a)(4) specifically states, “Non-GS-1102 or -1105 personnel shall not be authorized to place individual orders under a BPA in an amount greater than \$5,000.” Because the NASA FAR Supplement clause did not provide exceptions for non-GS-1102 or -1105 contracting officers, this purchase was inappropriate.

Purchases Reported by Cardholders as Fraudulent

Three purchases, totaling \$1,062, were disputed by two cardholders at Ames and Goddard; both cardholders indicated that the transactions were fraudulent. The following are the locations and descriptions of the three transactions.

Two purchases, totaling \$979, at Ames were from the Men's Wearhouse. The cardholder alleged that these purchases and 31 other transactions in the same billing period were fraudulent purchases. The Bank of America credited the account for all disputed transactions and was investigating the transactions.

One purchase for \$83 at Goddard was from Claire's Boutique. The cardholder claimed that he neither made the purchase nor authorized another person to use the card. The cardholder disputed the transaction and received a credit from the vendor.

Appendix G. Other Procedural Weaknesses

<u>Weakness</u>	<u>Ames</u>	<u>Glenn</u>	<u>Goddard</u>	<u>HQ</u>	<u>Johnson</u>	<u>Langley</u>	<u>Marshall</u>	<u>Stennis</u>	<u>Total</u>
Approving Official Not Trained		3	30*				4		37
Split Purchases	2	1	8			1	1		13
Cardholder Approving Own Transactions		3					1		4
Cardholder Allowed Others to Use the Card			2						2
No Written Delegation of Authority				10				1	11
No Purchase Log	4		8			2	1		15
Supporting Document Not Available				1			4		5
Purchase Return Not Tracked		1							1
NASA Property Not Tagged	—	<u>3</u>	<u>1</u>	—	<u>2</u>	—	—	—	<u>6</u>
Center Total	<u>6</u>	<u>11</u>	<u>49</u>	<u>11</u>	<u>2</u>	<u>3</u>	<u>11</u>	<u>1</u>	<u>94</u>

* Of the 30 transactions, 20 transactions at Goddard also involved split purchases.

Appendix H. Management's Response

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



July 21, 2003

Reply to Air of

HK

TO: W/Assistant Inspector General for Inspections & Assessments
FROM: HK/Director, Contract Management Division
SUBJECT: Code H Response to OIG Draft Audit Report on NASA's Purchase Card Program, Assignment No. A-02-027-00

Enclosed is our response to the subject draft report dated June 27, 2003.

Please call Celeste Dalton at (202) 358-1645 or Lou Becker at (202) 358-4593 if you have any questions or need further coordination on this matter.


James A. Balinskas
Enclosure

Response to OIG recommendations - Draft Audit Report – Assignment Number A-02-027-00

Recommendation 1. The Assistant Administrator for Procurement should require approving officials to conduct reviews of the 813 inactive accounts to determine whether such accounts should be closed.

Response: Concur. The Assistant Administrator for Procurement initiated action that addresses this recommendation in his September 25, 2002 letter to the procurement officers requiring that they identify cards that are infrequently used and to confirm the continued need for these cards. Additionally, procurement officers were requested to examine the total number of cards within the same organization to ensure the appropriate number of cardholders and to cancel/deactivate cards no longer required. During the first quarter of FY03, 209 purchase cards (accounts) were cancelled. Center program coordinator will review the accounts identified as inactive by the OIG to determine how many have already been cancelled and whether the remaining accounts should be closed. Based on actions already taken, this recommendation is considered closed.

Recommendation 2. The Assistant Administrator for Procurement should require approving officials to establish procedures for periodic account reviews to identify inactive accounts and to take appropriate action.

Response: Concur with Intent. While approving officials should be responsible for the periodic review of the accounts for which they are responsible to ensure continued need, center program coordinators are the appropriate individuals responsible for establishing center procedures for periodic account reviews. In response to the letter from the Assistant Administrator for Procurement dated September 25, 2002, several centers have established procedures for the periodic review of accounts. A Procurement Information Circular (PIC) will be prepared by October 31, 2003 to provide guidance for periodic account reviews.

Recommendation 3. The Assistant Administrator for Procurement should require approving officials to periodically review accounts and to adjust transaction limits and credit limits to match the amounts authorized.

Response: Concur. The need for periodic account reviews that address transaction limits will be included in the PIC referenced in the response to Recommendation 2. The PIC will be issued by October 31, 2003.

Recommendation 4: The Assistant Administrator for Procurement should require center management to establish procedures to maintain documentation of initial account transaction and credit limits authorized and subsequent modifications.

Response: Concur. The PIC referenced above will provide guidance on the requirement to maintain documentation of account transaction and credit limits and any amendments to the amounts authorized. The PIC will be issued by October 31, 2003.

Appendix H

Recommendation 5: The Assistant Administrator for Procurement should require procurement officers' written delegations to include monthly limits for future verification and validation purposes.

Response: Concur. The PIC referenced above will provide guidance on the requirement for procurement officers written delegations to include monthly limits for future verification and validation purposes. The PIC will be issued by October 31, 2003.

Recommendation 6: The Assistant Administrator for Procurement should require all centers to conduct periodic refresher training for all cardholders and approving officials that covers center-prohibited items and NASA FAR Supplement limits.

Response: Concur. The Assistant Administrator for Procurement initiated action that addresses this recommendation in his September 25, 2002 letter to the procurement officers. The letter required that they provide refresher training for cardholders, approving officials, and alternate approving officials as part of IFM implementation, and stated that refresher training is required every three years thereafter. Currently, the NASA FAR Supplement at 1813.301-71 requires that training address the responsibilities of the cardholder and approving official, prohibited purchases, purchase limitations, and sources of supply. Additionally, the September 25, 2002 letter required that center program coordinators maintain records adequate to demonstrate that all cardholders, approving officials, and alternate approving officials have completed the required training. Based on action already taken, this recommendation is considered closed.

Recommendation 7: The Assistant Administrator for Procurement should issue agency-wide guidance pertaining to statutes, regulations, and GAO decisions restricting the purchases of gifts, clothing, and food, and include the restrictions in refresher training.

Response: Concur. A Procurement Information Circular will be prepared by October 31, 2003 to provide guidance on restrictions on the purchase of gifts, clothing, and food as a result of statutes, regulations, and GAO decisions. Procurement officers will be required to include this guidance in training.

Recommendation 8: The Assistant Administrator for Procurement should require centers to include in refresher training, the requirement to notify the NASA OIG of suspected fraudulent transactions referred to the Bank of America.

Response: Concur: A PIC will be prepared by October 31, 2003 to provide guidance/advise cardholders to notify the NASA OIG of suspected fraudulent transactions.

Recommendation 9: The Assistant Administrator for Procurement should direct centers to verify that all cardholders and approving officials have been trained and have been advised of the importance of the procedural controls over purchases.

Response: Concur. The Assistant Administrator for Procurement initiated action that addresses this recommendation in his September 25, 2002 letter to the procurement officers requiring that they provide refresher training for cardholders, approving officials, and alternate approving officials as part of IFM implementation. This requirement ensures that all approving officials, including those who were not trained previously, will get trained in order to successfully implement the IFM. The September 25, 2002 letter also emphasized that Center program coordinators have critical program and training surveillance responsibilities, and should maintain records adequate to demonstrate that all cardholders, approving officials, and alternate approving officials have completed the required training. In addition to the NASA FAR Supplement 1813.301-71 training requirements, the Centers' refresher training will reiterate the importance of complying with Center procedures to ensure that the controls can function as intended. Based on action already taken, this recommendation is considered closed.

Appendix I. Report Distribution

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Report Title: NASA's Purchase Card Program Was Effective; Additional Controls Will Further Reduce Risk, IG-03-025, dated August XX, 2003

Circle The Appropriate Rating For The Following Statements.

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	N/A
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