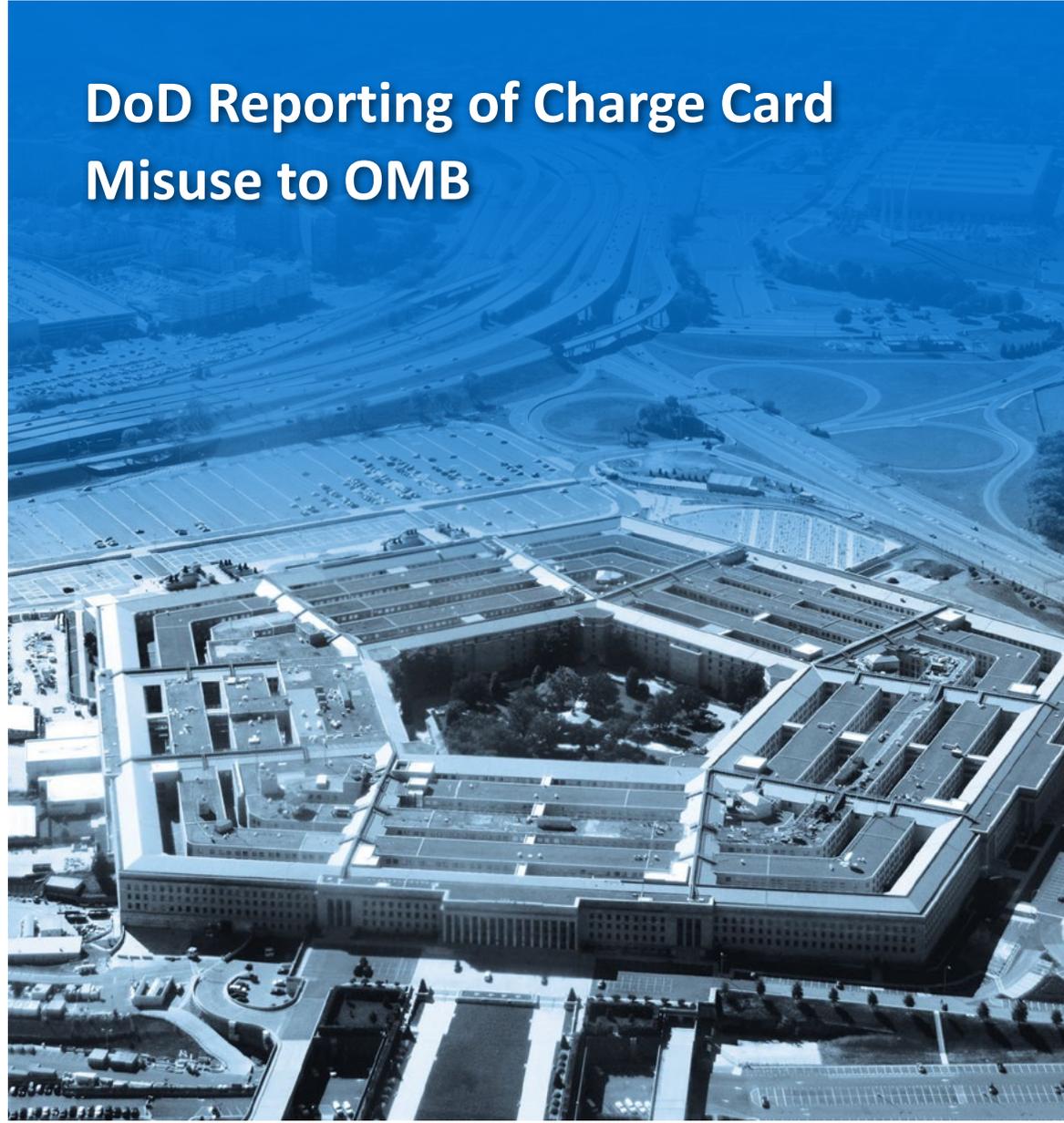




# INSPECTOR GENERAL

*U.S. Department of Defense*

APRIL 3, 2018



## DoD Reporting of Charge Card Misuse to OMB

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

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# Results in Brief

## *DoD Reporting of Charge Card Misuse to OMB*

April 3, 2018

### Objective

Our objective was to determine whether the DoD's purchase card and travel card reporting on fraud, waste, abuse, and misuse was complete and accurate. Specifically, we reviewed the DoD's FYs 2015 and 2016 quarterly statistical travel card reports, quarterly statistical purchase card reports, and semiannual violation purchase card reports that the DoD submitted to the Office of Management and Budget (OMB). Additionally, Title 10 United States Code § 2784 requires the DoD Office of Inspector General (OIG) to conduct periodic audits and review of the purchase card program.

During the audit, OMB guidance changed on June 15, 2017, to no longer require that agencies submit quarterly reports on travel and purchase card misuse or delinquencies. OMB still required the department to continue to maintain statistical, narrative, and violation information for DoD use. Even though reporting to OMB is no longer required, collecting and maintaining accurate information on misuse and delinquencies is valuable data for DoD decision makers to use to effectively manage the travel and purchase card programs.

During the audit the previous Director, DPAP, was nominated to a new post. The current Director performs two roles and is now Director, Defense Pricing (DP)/Defense Procurement and Acquisition Policy (DPAP). This report discussed both the previous Director, DPAP, for meetings and actions taken during the audit and the Director, DP/DPAP for recommendations, responses, and planned actions.

### Background

OMB reporting requirements use the word misuse as a broad term that includes various categories of improper transactions such as fraud, waste, abuse, personal use, other loss, and misappropriation of funds or assets. As a result, we use the word misuse throughout this report as a general term when referring to improper charge card transactions.

This audit is the third report the DoD OIG has produced regarding travel card misuse. The first report focused on identification of improper travel card use and the second focused on the DoD's response to the improper use identified in the first report. This audit focuses on purchase card and travel card reports that the DoD was required to submit to OMB.

### Findings

We determined that the DoD provided incomplete and inaccurate charge card information to OMB during FYs 2015 and 2016. Specifically, we found that DPAP officials reported inaccurate, incomplete, and unsupported quarterly and semiannual purchase card information to OMB. For example, on the semiannual violations report to OMB, for the second half of FY 2015, the Military Services sent 1,043 misuse transactions to DPAP to be reported; however, DPAP only reported 47 to OMB. In addition, during FYs 2015 and 2016, quarterly statistical reports provided to OMB were incomplete because they did not include over 51,000 delinquencies in purchase card payments, as required by OMB. This occurred because DPAP personnel did not provide sufficient oversight of the purchase card program or its supporting functions. Specifically, DPAP did not:

- implement the processes or procedures necessary to compile accurate, complete, or supported reports to OMB;
- provide effective oversight of the subordinate purchase card program managers for the Army, Air Force, and Defense agencies; or



# Results in Brief

## *DoD Reporting of Charge Card Misuse to OMB*

### **Findings (cont'd)**

- evaluate whether the Purchase Card On-Line System (PCOLS) was suitable to oversee the purchase card program.

As a result, DPAP and purchase card officials within the DoD purchase card program, which spent \$10 billion during the two years we reviewed, will be unable to identify patterns of improper transactions, opportunities to improve the program's efficiencies, or areas where program reviewers should focus their emphasis until DPAP corrects these problems.

In addition, we found that Defense Travel Management Office (DTMO) officials significantly underreported to OMB the number of administrative or disciplinary actions taken for travel card misuse, including delinquencies. Specifically, for FYs 2015 and 2016, DTMO reported only 139 cases of "administrative and/or disciplinary actions." However, we determined that DTMO should have reported at least 263,160 actions for the 2-year period. This significant underreporting occurred because the DTMO used only one incomplete source, the Defense Civilian Personnel Data System, to report on travel card misuse, did not implement a tool that tracks misuse, and did not report delinquency data. Because of the underreporting, DTMO officials and Component program managers (CPMs) were unable to establish a reliable baseline of misuse, implement sufficient management controls to prevent misuse, or increase reviewer emphasis on key areas of misuse and delinquencies in the travel card program.

### **Corrective Actions Taken**

During this audit, DoD officials took actions to correct and improve their reporting to OMB. Specifically, the previous Director, DPAP, issued guidance on the reporting process and clarified definitions. Based on OMB guidance, DPAP revised its policy to state that the purchase card program will continue to maintain statistical, narrative, and violation information for DoD use, but will no longer submit the information to OMB.

In addition, DTMO officials took actions to correct and improve their reporting to OMB. Specifically, starting with second quarter FY 2017 reporting, DTMO included delinquencies and misuse identified using Visa IntelliLink; it also updated guidance to require reporting of all misuse to DTMO. In addition, DTMO is working with travel card management personnel to develop a process for receiving the results of each agency program coordinator review.

### **Recommendations**

We recommend that the Director, DP/DPAP:

- obtain, review, and oversee transaction level details for misuse to improve reporting; and
- complete an evaluation of the costs and benefit of PCOLS.

We recommend that the Director, DTMO, revise the Government Travel Charge Card Regulations to require CPMs and designated agency program coordinators to use available contractual tools, to include the Visa IntelliLink rules, queries, and case disposition modules.

### **Management Comments and Our Response**

The Director, DP/DPAP, did not meet the intent of Recommendation A.1.c to conduct monthly statistically valid samples of reviewed transactions to determine whether accurate conclusions were made on the validity of the transactions and its compliance with applicable criteria. Therefore, this recommendation remains unresolved. The recommendation was designed to provide assurance that transaction reviewers made accurate conclusions on the validity of the transactions flagged in PCOLS and the transaction compliance with applicable criteria. However, the DPAP response focuses on the effectiveness of the data mining system's business rules in producing the desired result, rather than on the



# Results in Brief

## *DoD Reporting of Charge Card Misuse to OMB*

accuracy of conclusions made by lower level reviewers on flagged transactions. Therefore, we request that the Director, DP/DPAP, provide the detailed corrective actions that will be taken to conduct statistically valid samples of reviewed transactions to determine whether accurate conclusions were made on the validity of the transaction and its compliance with applicable criteria.

The Director, DP/DPAP, agreed with all other recommendations which we consider resolved but remain open. We will close these recommendations once we verify that the agreed upon corrective actions were completed.

The Director, DTMO, agreed with our recommendation to revise the Government Travel Charge Card Regulations to require Component program managers

and designated agency program coordinators to use all available contractual tools to assist in the reviews of monthly travel card activity for misuse. Therefore, the recommendation is resolved but remains open. We will close the recommendation upon receipt of the updated regulations, memorandum, and verification of the implementation of the IntelliLink Analytics Module.

The Director, DTMO, stated that a tool was available to track delinquent accounts and acknowledged that not reporting on those delinquencies was a result of misinterpreting the reporting requirements. As a result, we have clarified in the final report that DTMO did not develop or implement a tool that tracks misuse, and that delinquencies were not reported to clarify the condition.

Please see the Recommendations Table on the next page.

## Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Director, Defense Pricing/Defense Procurement and Acquisition Policy	A.1.c	A.1.a, A.1.b, A.1.d, A.1.e, A.1.f, A.1.g, and A.1.h	
Director, Defense Travel Management Office		B.1	

Please provide Management Comments by May 7, 2018.

Note: The DoD OIG uses the following categories to describe agency management’s comments to individual recommendations.

- **Unresolved** – Management has not agreed to implement the recommendation or has not proposed actions that will address the recommendation.
- **Resolved** – Management agreed to implement the recommendation or has proposed actions that will address the underlying finding that generated the recommendation.
- **Closed** – The DoD OIG verified that the agreed upon corrective actions were implemented.



**INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
4800 MARK CENTER DRIVE  
ALEXANDRIA, VIRGINIA 22350-1500**

April 3, 2018

MEMORANDUM FOR DIRECTOR, DEFENSE PRICING/DEFENSE PROCUREMENT AND,  
ACQUISITION POLICY  
DIRECTOR, DEFENSE TRAVEL MANAGEMENT OFFICE

SUBJECT: DoD Reporting of Charge Card Misuse to OMB  
(Report No. DODIG-2018-101)

We are providing this report for your review and comment. We conducted this audit in accordance with generally accepted auditing standards.

We considered comments from the Director, Defense Pricing (DP)/Defense Procurement and Acquisition Policy (DPAP), and the Director, Defense Travel Management Office (DTMO), in the draft of this report when preparing the final report.

DoD Instruction 7650.03 requires that all recommendations be resolved promptly. Comments from the Director, DP/DPAP, agreed with the recommendations, but did not address the specifics of Recommendation A.1.c. We request that the Director, DP/DPAP, provide additional comments to the final report on Recommendation A.1.c by May 7, 2018. Comments provided to the final report must be marked and portion-marked, as appropriate, in accordance with DoD Manual 5200.01.

Comments from the Director, DTMO, addressed all specifics of Recommendation B.1 and conformed to the requirements of DoD Instruction 7650.03; therefore, we do not require additional comments.

Please send a PDF file containing your comments to [aud-colu@dodig.mil](mailto:aud-colu@dodig.mil). Copies of your comments must have the actual signature of the authorizing official for your organization. We cannot accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the cooperation and assistance received during the audit. Please direct questions to me at (703) 604-9187 (DSN 664-9187).

A handwritten signature in black ink, reading "Michael J. Roark".

Michael J. Roark  
Assistant Inspector General  
Readiness and Global Operations

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# Introduction

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## Objective

We determined whether the DoD's Government purchase card and travel card reporting on fraud, waste, abuse, and misuse was complete and accurate. See Appendix A for the audit scope and methodology related to the audit objectives. Additionally, Title 10 United States Code (U.S.C.) § 2784 requires the DoD Office of Inspector General (OIG) to conduct periodic audits and review of the purchase card program.

Office of Management and Budget (OMB) reporting requirements use the word misuse as a broad term that includes various categories of improper transactions such as fraud, waste, abuse, personal use, other loss, and misappropriation of funds or assets. As a result, we use the word misuse as a general term throughout this report when referring to improper charge card transactions.

During the audit, OMB guidance changed on June 15, 2017, to no longer require that agencies submit quarterly reports on travel and purchase card misuse or delinquencies. OMB still required the department to continue to maintain statistical, narrative, and violation information for DoD use. Even though reporting to OMB is no longer required, collecting and maintaining accurate information on misuse and delinquencies is valuable data for DoD decision makers to use to effectively manage the travel and purchase card programs.

## Background

This audit is our third on travel card misuse. The first audit focused on identification of improper use, the second on management's response to improper use, and this audit reviewed the required reporting for both the purchase and travel card programs.

*Identification.* DODIG-2015-125, "DoD Cardholders Used Their Government Travel Cards for Personal Use at Casinos and Adult Entertainment Establishments," May 19, 2015, found that travel card officials failed to identify egregious travel card misuse by cardholders at locations that were not for official Government purposes.

*Management Response.* DODIG-2016-127, "DoD Officials Did Not Take Appropriate Action When Notified of Potential Travel Card Misuse at Casinos and Adult Entertainment Establishments," August 30, 2016, found that even after we notified DoD travel card officials of high-risk transactions they did not fully review the transactions for misuse, review cardholder attempts to obtain reimbursement for the misuse, administer appropriate administrative or disciplinary actions, or consider the national security implications of Government charge card misuse.

*Reporting.* This audit focuses on the DoD’s reporting on Government charge card misuse to OMB. We expanded our scope to include both travel cards and purchase cards because OMB requirements for quarterly statistical reports were the same. In addition, the purchase card program also voluntarily completed a semiannual violations report under a public law requirement, despite being exempt.

### ***Reporting Requirements for the Charge Card Programs***

OMB issued requirements to report quarterly on misuse of travel and purchase cards.<sup>1</sup> Additionally, OMB issued semiannual purchase card reporting requirements as a result of Public Law 112-194 “Government Charge Card Abuse Prevention Act of 2012,” October 5, 2012. The following sections outline the details of those reporting requirements from OMB.

#### *Quarterly Reporting Requirement in OMB Circular A-123, Appendix B*

OMB Circular A-123, Appendix B “Improving the Management of Government Charge Card Programs,” January 15, 2009, required the DoD to report on a quarterly basis the administrative and disciplinary actions taken for card misuse or delinquency to OMB, Office of Federal Financial Management. The reports were due at the end of the month following the reporting quarter.

The Circular stated:

Data reporting is a critical tool for improving charge card management. Charge card managers and other stakeholders need timely and accurate data to assess:

- compliance with legislative and administrative requirements;
- the effectiveness of efforts to mitigate risks of fraud, waste, and abuse; and
- performance trends in managing costs and other relevant indicators of program success.

#### *Quarterly Reporting Change in OMB Memorandum M-17-26*

OMB Memorandum M-17-26 “Reducing Burden for Federal Agencies by Rescinding and Modifying OMB Memoranda,” June 15, 2017, modified the requirements of OMB Circular A-123, Appendix B, to no longer require submission of the quarterly statistical and narrative reports to OMB. However, agencies were still required to maintain statistical and narrative information for their own use and management of the charge card programs.

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<sup>1</sup> OMB Circular A-123, Appendix B “Improving the Management of Government Charge Card Programs,” January 15, 2009.

Defense Procurement and Acquisition Policy (DPAP) officials issued “DoD Guidance for Office of Management and Budget, Office of Federal Financial Management Quarterly Statistical Reporting,” July 6, 2017, which stated that the DoD will continue to submit the quarterly statistical purchase card report to OMB. However, on October 20, 2017, Deputy Director, Program Development and Implementation, (PDI) issued “Department of Defense Office of Management and Budget Reporting,” and revised the policy to state that the purchase card program will continue to maintain statistical, narrative, and violation information for DoD use, but will no longer submit the information to OMB.

### *Semiannual Reporting Requirement in OMB Memorandum M-13-21*

OMB Memorandum M-13-21, “Implementation of the Government Charge Card Abuse Prevention Act of 2012,” September 6, 2013, requires each agency with more than \$10 million in annual purchase card spending to submit to OMB semiannual reports of employee purchase card violations involving misuse. The memorandum also requires the semiannual reports to include the disciplinary actions taken against employees. Reports are due 120 days after the end of the reportable period.

Public Law 112-194, “Government Charge Card Abuse Prevention Act of 2012,” October 5, 2012, the law on which OMB Memorandum M-13-21 was based, exempted the DoD from semiannual reporting; however, DPAP voluntarily produced and provided the semiannual purchase card violations report to OMB in accordance with DPAP’s Government Purchase Card Management Plan. Public Law 112-194 also amended Title 10 U.S.C. § 2784 and requires the DoD OIG to conduct periodic audits and review of the purchase card program.

### ***Charge Card Background, Organization Roles and Responsibilities***

The General Services Administration (GSA) established the SmartPay program in 1998 as the world’s largest Government charge card and commercial payment solutions program. The GSA SmartPay program provides agencies with a comprehensive portfolio of purchase, travel, fleet, and integrated payment solutions. Through a master contract with multiple banks, the GSA SmartPay program enables organizations across the Government to obtain payment solutions to support mission needs. This audit reviewed OMB reporting requirements for purchase and travel cards.

During FYs 2015 and 2016, the DoD's quarterly statistical reports showed that cardholders spent:

- \$10.0 billion using purchase cards and
- \$9.1 billion using travel cards.

### ***Purchase Card Program and Management***

The GSA SmartPay purchase card program provides solutions to Federal organizations to make official Government purchases for supplies, goods, and services under the micro-purchase threshold, which was \$3,500 for general purchases during FYs 2015 and 2016 but changed to \$5,000 during FY 2017.<sup>2</sup> In some authorized accounts, a purchase card account may be used to place orders and make payments under existing contracts or purchases above the micro-purchase threshold. All purchase cards are centrally billed accounts (CBAs) and the Government is liable for transactions made by authorized cardholders. The GSA SmartPay 2 contract states that the Government is not liable for transactions when card use is not authorized.

### ***Defense Procurement and Acquisition Policy***

DPAP is the purchase card program manager for all DoD Components. DPAP was required to develop program requirements, review performance metrics to identify deficiencies, and develop a data mining capability. DPAP produced the purchase card quarterly statistical and semiannual reports and submitted the reports to OMB.

During the audit the previous Director, DPAP, was nominated to a new post. The current Director performs two roles and is now Director, Defense Pricing (DP)/ Defense Procurement and Acquisition Policy (DPAP). This report discussed both the previous Director, DPAP, for meetings and actions taken during the audit and the Director, DP/DPAP for recommendations, responses, and planned actions.

### ***Component Program Managers***

The purchase card Component program manager (CPM) for each Military Service or Defense agency serves as the functional representative with DPAP. CPMs develop and maintain account structures and ensure agency/organization program coordinators (A/OPCs) perform their functions. The CPMs provided information to DPAP for OMB reporting purposes.

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<sup>2</sup> A micro-purchase is an acquisition of supplies or services using simplified acquisition procedures. A purchase card is the preferred method to purchase and to pay for micro-purchases.

### *Agency/Organization Program Coordinators*

Purchase card A/OPCs manage and ensure the integrity of the card program. Specifically, the A/OPCs ensure that management controls are in place, ensure cardholders complete mandatory training, provide policy advice to cardholders, and conduct compliance reviews.

### ***Travel Card Program and Management***

The GSA SmartPay travel card program provides accounts to military members and DoD civilians for official travel and travel-related expenses. Travel cards can be either CBAs, where the Government is liable for approved transactions made by authorized cardholders, or individually billed accounts (IBAs), where the cardholder is liable for all transactions made on the travel card. Travel card use is mandatory for all DoD personnel who have been issued a travel card, and is intended for official travel-related use only. Government Travel Charge Card Regulations define official travel as travel under certified orders while performing duties pertaining to official Government assignments, such as temporary duty and permanent change of station.

### *Defense Travel Management Office*

The Defense Travel Management Office (DTMO) is the travel card program manager for all DoD Components. DTMO provides guidance, policy, and training materials related to the DoD travel card program. DTMO is also the liaison to the GSA, Citibank, and the CPMs on all issues related to travel cards. DTMO produced the travel card quarterly statistical reports and submitted the reports to OMB.

### *Component Program Managers*

The travel card CPM for each Military Service or Defense agency establishes and manages their Component's travel card program in accordance with travel card regulations. The CPMs develop and maintain account structures and conduct periodic reviews on credit limits and card use. The CPMs also advise DTMO of administrative or disciplinary actions taken against cardholders for misuse.

### *Agency Program Coordinators*

Travel card agency program coordinators (APCs) manage the daily operations of the travel card program. The APCs are required to perform regular reviews of transaction activity to identify travel card misuse and are required to immediately report those issues to the cardholder's commander or supervisor.

## Review of Internal Controls

DoD Instruction 5010.40 requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls.<sup>3</sup> We identified internal control weaknesses where DPAP and DTMO did not have specific controls in place to ensure that reporting of charge card misuse to OMB was complete and accurate.

- For purchase card reporting, DPAP did not:
  - implement processes or procedures to compile and provide accurate, complete, and supported reports to OMB; or
  - evaluate whether the Purchase Card On-Line System (PCOLS) was suitable to oversee the purchase card program; and
- For travel card reporting, DTMO did not:
  - implement a tool to track travel card misuse, report delinquency data; or
  - identify all available sources of misuse data, but instead only used one incomplete source to report on travel card misuse.

DPAP has begun taking corrective actions to improve the overall reporting process; however, they have yet to fully implement the actions. DTMO implemented corrective actions addressing both of these control weaknesses. We will provide a copy of the report to the senior official responsible for internal controls at DPAP and DTMO.

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<sup>3</sup> DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

## Finding A

### **DPAP's Management of the Purchase Card Program Was Insufficient to Identify or Report on Misuse**

DPAP officials reported inaccurate, incomplete, and unsupported quarterly and semiannual purchase card information to OMB. For example, on the semiannual violations report to OMB, for the second half of FY 2015, the Military Services sent 1,043 misuse transactions to DPAP to be reported, but DPAP only reported 47 to OMB. In addition, during FYs 2015 and 2016, quarterly statistical reports provided to OMB were incomplete because they did not include over 51,000 delinquencies, as required by OMB. This occurred because DPAP personnel did not provide sufficient oversight of the purchase card program or its supporting functions. Specifically, DPAP did not:

- implement the processes or procedures necessary to compile accurate, complete, or supported reports to OMB;
- provide effective oversight of the subordinate purchase card program managers for the Army, Air Force, and Defense agencies;<sup>4</sup> or
- evaluate whether the PCOLS was suitable to oversee the purchase card program.

As a result, DPAP and purchase card officials within the DoD purchase card program, which spent \$10 billion during the two years we reviewed, will be unable to identify patterns of improper transactions, opportunities to improve the program's efficiencies, or areas where program reviewers should focus their emphasis until DPAP corrects these problems. Even though reporting to OMB is no longer required, collecting and maintaining accurate information on misuse and delinquencies is valuable data for all DoD officials responsible for effectively managing the purchase card program.

### **DPAP Reported Inaccurate, Incomplete, and Unsupported Quarterly and Semiannual Purchase Card Information to OMB**

DPAP officials did not report to OMB a complete or accurate assessment of the misuse in the DoD purchase card program. During FYs 2015 and 2016, DPAP reported 2,665 instances of confirmed purchase card misuse on the semiannual

<sup>4</sup> The Department of the Navy operates the purchase card program independently from DPAP by having a staffed program management office and by using an alternative card management system. The Navy has implemented sufficient controls over the identification and reporting of purchase card misuse. However, the Navy is required to submit its data to DPAP for consolidation.

purchase card reports to OMB. DPAP had serious reporting problems affecting the reliability of its reporting to OMB. For example, in the semiannual violations report, for the second half of FY 2015, the Military Services sent 1,043 misuse transactions to DPAP; however, DPAP only reported 47 to OMB. This resulted in an understatement of 996 misuse transactions. See Appendix B for the FY 2015 and 2016 semiannual purchase card submissions to OMB.

DPAP also reported 3,298 instances of administrative actions, disciplinary actions, or both taken for card misuse, to include delinquency, on the quarterly purchase card submissions to OMB during FYs 2015 and 2016. However, the FY 2015 and 2016 quarterly statistical reports were incomplete because they did not include delinquencies, as required by OMB Circular A-123, Appendix B. Information from the banks showed over 51,000 delinquencies on purchase cards that DPAP should have reported. See Appendix C for a summary of the FY 2015 and 2016 quarterly purchase card submissions to OMB.

In addition to reporting errors, the Military Services and Defense agencies did not provide DPAP with the detailed transactions used to calculate the summary figures nor did the Army, Air Force, or Defense agencies maintain the detailed supporting transactions. The Navy did maintain detailed transactions supporting the accuracy of the summary figures it provided to DPAP.

### **DPAP Did Not Implement the Processes or Procedures Necessary to Compile Accurate, Complete, or Supported Reports to OMB**

DPAP personnel did not provide sufficient oversight, implement processes, or write procedures to compile accurate, complete, or supported reports of the purchase card program. Specifically, DPAP did not:

- define key reporting terms including categories of misuse or personnel actions;
- provide guidance to card officials who submit data to DPAP for report compilation;
- review the information reported by the Military Services and Defense agencies or compare those summaries to prior OMB submissions; or
- request, review, or maintain detailed information required to confirm the accuracy of the reporting.

Accurate reporting is critical to provide information to decision makers and oversight officials. During the audit, we coordinated with OMB to determine how the quarterly and semiannual reports were used and an OMB Associate General Counsel provided the following statement:

OMB's core mission is to serve the President in implementing his vision across the Executive Branch and this includes overseeing agency performance, Federal procurement, financial management, and information technology. OMB performs this function through several offices, including the Office of Federal Financial Management (OFFM). To conduct this oversight, assess the efficacy of programs, and set policy, OMB often relies on data from agencies. Accordingly, OMB requires that every effort be taken by the agencies to provide accurate and reliable data. Additionally, we would note that any inaccurate or unreliable information will adversely affect the individual agency's management practices and policy-setting process as well.

We identified serious problems with DPAP's reporting to OMB that resulted in the reports being inaccurate. Therefore, the reports should not have been relied upon as the basis to make program evaluations or decisions. As stated by OMB personnel, the inaccurate reporting would adversely affect the agency's management and policy decisions.

### ***DPAP Did Not Define Key Reporting Terms***

Despite reporting purchase card transaction violation categories to OMB since January 2014, DPAP did not define or disseminate definitions to each of the subordinate purchase card program managers to ensure that reporting was standardized across the DoD. DPAP officials were required to report on a quarterly basis the administrative or disciplinary actions that were taken in response to identified misuse and delinquencies. DPAP officials reported violations involving misuse on a semiannual basis. Additionally, the semiannual report includes the various categories of administrative or disciplinary actions taken in response to reported misuse.

The Military Services did not always agree on the definitions, which resulted in inconsistent reporting across the DoD. For example, some program oversight personnel considered fraud as card misuse by the authorized cardholder for personal gain. Other program personnel considered fraud only as an external compromise of the card; for example, the card number was stolen and used by someone other than the authorized cardholder. The difference in definitions of what fraud includes will lead to reporting inconsistencies and ultimately impacted the usefulness and reliability of purchase card reporting.

### *Management Actions Taken*

In January 2017, we notified DPAP program officials of the differences in definitions. As a result, DPAP officials held a meeting with CPMs to begin resolving inconsistency in program definitions. On April 13, 2017, the previous Director, DPAP, issued a management representation letter regarding corrective actions that would be taken. The Director stated in the letter that existing definitions would be clarified as it relates to reporting. Additionally, the Director stated that implementation would require all data sources be modified to the new definitions during FY 2018.

On July 3, 2017, the Director issued a memorandum to the Military Services and Defense agencies titled “Interim Guidance on Government Purchase Card Disciplinary Category Definitions used in Office of Management and Budget Violations Reporting.” The memorandum stated, “Existing guidance on Government Purchase Card (GPC) disciplinary category definitions is not consistent across the Department of Defense (DoD).” The memorandum provided interim definitions for the following terms and indicated whether each category should be reported to OMB.

- Misuse
- Abuse
- Internal fraud
- External fraud
- Administrative discrepancy
- Delinquency

On July 10, 2017, DPAP presented the DoD interim guidance to OMB personnel, GSA personnel, and members of OMB’s working group responsible for updating OMB Circular A-123, Appendix B, for possible standardization across all Federal organizations.

### ***DPAP Did Not Provide Guidance to Card Officials Who Provided Data to DPAP for Report Compilation***

DPAP officials did not develop or provide guidance to the CPMs defining what information to include in the misuse reports to OMB, the documentation that should be maintained to support the CPM report input, or how to compile the program data into a service level summary for OMB reports. DPAP has produced the semiannual violations reports since January 2014 and the quarterly statistical report since January 2010. However, CPMs from each Military Service never received guidance on what steps they should take to compile the data, which

sources they should use to populate the reports, or whether they should maintain supporting documentation for their report input.

To produce the reports, DPAP e-mailed a spreadsheet template, without instructions or definitions for key terms, to CPMs and A/OPCs, and requested they manually populate the template with summary numbers and return it to DPAP. Once the information was received, DPAP personnel transferred the input from the Military Services and Defense agencies to a report template and calculated DoD-wide totals. DPAP personnel then submitted the consolidated report to an OMB website to complete the reporting process.

Without clear guidance, the purchase card program officials did not provide complete information. For example, OMB guidance states that quarterly statistical reports should include known delinquencies. During FYs 2015 and 2016, the Services and Defense agencies had over 51,000 delinquencies. However, these delinquencies were not reported to OMB.

During FYs 2015 and 2016, the Services and Defense Agencies had over 51,000 delinquencies. However, these delinquencies were not reported to DPAP or OMB.

### *Management Actions Taken*

In March 2017, we briefed DPAP program officials on the lack of reporting guidance. DPAP issued “Department of Defense Guidance For Office of Management and Budget, Office of Federal Financial Management Quarterly Statistical Reporting,” revised July 6, 2017, with its request for third quarter FY 2017 data from the Military Services and Defense agencies. The guidance was an improvement for the quarterly statistical reports and should allow program officials to better understand how to complete their submissions and provide detailed transactions supporting the summary figures.

### ***DPAP Did Not Review the Information Reported by the Military Services and Defense Agencies or Compare Those Summaries to Prior OMB Submissions***

DPAP officials did not perform trend analysis that would have identified omissions or large variations from the reported totals of previous purchase card misuse. For example, in the semiannual violations report, DPAP officials omitted 996 misuse transactions for the second half FY 2015. Specifically, DPAP reported:

- no misuse transactions for the Air Force, despite Air Force personnel providing 247 in their report input; and

DPAP officials omitted 996 misuse transactions for the second half FY 2015.

- 6 misuse transactions for the Navy, despite Navy personnel providing 755 in their report input.

For the first half of FY 2015, DPAP reported 421 misuse transactions for the Air Force and 722 for the Navy. This significant change in the number of reported misuse transactions should have been identified during report compilation or prior to publishing. If DPAP would have performed a basic trend analysis that identified the omissions or large variations, they could have researched the cause, corrected the error, and provided OMB with more accurate and reliable information. DPAP should develop quality assurance procedures to evaluate whether purchase card information it receives from the Military Services and Defense agencies is accurate and complete.

### *Management Actions Taken*

The previous Director, DPAP, recognized the reporting of inaccurate and incomplete information as identified by the audit. On September 27, 2017, DPAP personnel restated and submitted FYs 2015 and 2016 semiannual violations and quarterly reports to OMB. The reports corrected numerous reporting errors including those we identified during the audit.

### ***DPAP Did Not Request, Review, or Maintain Detailed Information Supporting the Accuracy of the Reports Provided to OMB***

The CPMs for the Army, Air Force, and Defense agencies did not maintain transaction level details supporting the summary totals for OMB reports. In addition, DPAP officials did not request, review, or maintain detailed transactions that would have shown inaccuracies with the reported summary totals. The Navy was the only purchase card program that maintained transaction level details to support the amount of misuse that occurred in its purchase card program.

Maintaining transaction level details on the misuse and administrative and disciplinary actions taken would allow DPAP and auditors to verify the completeness and accuracy of the reports to OMB, as well as provide information to allow DPAP and the CPMs to identify areas of risk associated with the purchase card program. DPAP should use such information to identify patterns of improper transactions, opportunities to improve the program's efficiencies, and areas where program reviewers should focus their emphasis. DPAP should provide us supporting documentation and detailed transactions for the third quarter FY 2018 statistical report and the second half FY 2018 semiannual report.

### *Management Actions Taken*

The previous Director, DPAP, recognized that there was a need to evaluate trends in purchase card misuse and maintain an audit trail to detailed transactions. On April 13, 2017, the Director provided a list of planned corrective actions to improve trend analysis and auditability, which included:

- archiving all transaction-level detail to a central repository maintained by DPAP; and
- automating data collection for reporting by the end of the first quarter FY 2018.

## **DPAP Did Not Provide Effective Oversight of the Army, Air Force, and Defense Agencies Purchase Card Program Management**

DPAP officials did not effectively oversee the DoD purchase card program or fully comply with its own guidance on how the program should be managed. The “Department of Defense Government Charge Card Guidebook for Establishing and Managing Purchase, Travel, and Fuel Card Programs,” May 30, 2014, (Charge Card Guidebook) states that the responsibilities of DPAP for purchase card management include:

- managing, overseeing, and supporting the card program;
- developing and maintaining functional requirements for the card program;
- reviewing performance metrics to identify systematic deficiencies that require corrective actions; and
- developing and implementing a data mining (DM) capability that will enable services and agencies to identify and investigate high-risk card transactions.

We identified problems with the management and oversight of the purchase card program. We discovered that DPAP officials did not:

- ensure all program officials were appointed;
- oversee transaction reviews conducted by CPMs and A/OPCs to determine whether accurate conclusions on the validity of the transactions and their compliance with applicable criteria were reached; or
- develop a DM capability that was able to effectively identify high-risk transactions for review.

### ***DPAP Did Not Ensure That all Program Officials Were Appointed***

DPAP did not ensure the agency program manager for the overall purchase card program or the CPMs for each of the Military Services and for the Defense agencies were appointed. Without an appointment letter, DPAP officials and oversight personnel were unsure of the specific roles and responsibilities for these individuals.

The lack of appointment letters caused confusion with the agency program manager, the official with ultimate responsibility for the DoD purchase card program. Specifically, the DoD Purchase Card Management Plan, January 29, 2016, lists the key management officials and their responsibilities. The plan shows that the Deputy Director, Program Development and Implementation (PDI), was the agency program manager and was responsible for overseeing the DoD Purchase Card Program Management Office. However, during our March 2017 meeting with the previous Director, DPAP, and the Deputy Director, PDI, the Deputy Director was unaware of her own responsibilities and stated that the agency program manager was actually one of her subordinates. The Deputy Director's statement did not comply with the management plan that DPAP provided to OMB, nor was there any documentation supporting this assignment.

If personnel performing purchase card program management duties are not appointed in writing, the roles and responsibilities may not be clearly defined or communicated to the individuals appointed.

#### ***Management Actions Taken***

On July 13, 2017, the previous Director, DPAP, appointed the Deputy Director, PDI, as the Agency Program Manager for the purchase card program. The appointment letter stated the Deputy Director was responsible for oversight of the DoD purchase card program. During July 2017, the Deputy Director, appointed alternate agency program managers, as well as, a primary and alternate CPMs for the purchase card program for the Defense agencies. In May 2017, the Navy appointed a CPM, while the Army and Air Force completed their CPM appointments in October 2017.

### ***DPAP Did Not Oversee Transaction Reviews to Determine Whether Accurate Conclusions Were Reached***

DPAP officials could not provide assurance that CPMs and A/OPCs made accurate conclusions on the validity of the transactions and their compliance with applicable criteria during the reviews of purchase card transactions. We asked DPAP personnel if they performed reviews of purchase card transactions or conducted oversight of the reviews conducted by A/OPCs in PCOLS. The Deputy

Director, PDI, stated that her office was not responsible for second-guessing the reviews that the lower level program officials conducted. The Deputy Director also stated that senior personnel could not be required to perform data analysis when they should be working on policy.

However, the Charge Card Guidebook states that it is DPAP's responsibility to oversee the purchase card program and identify systemic deficiencies. In addition, section 16.01 of the GAO "Standards for Internal Control in the Federal Government," September 2014 (the "Green Book"), states that "management should establish and operate monitoring activities to monitor the internal control system and evaluate the results."<sup>5</sup> The Green Book further states that attributes of monitoring includes performing separate evaluations by reviewers who do not have responsibility for the activities, which ensures greater objectivity and evaluation of the results for corrective action.

DPAP officials have been concerned with the validity of the management reviews of PCOLS-flagged transactions since at least 2012. However, they have not performed a management evaluation of the accuracy and sufficiency of reviews by lower level program officials; specifically, reviews of transactions flagged by PCOLS for being at-risk for misuse. Without DPAP overseeing the purchase card program transaction reviews or implementing internal control principles included in the Charge Card Guidebook and the GAO Green Book, the purchase card program will remain at a high risk of not identifying misuse. DPAP should conduct monthly statistically valid samples of reviewed transactions to determine whether accurate conclusions were made on the validity of the transactions and its compliance with applicable criteria.

### ***DPAP Did Not Develop a DM Capability That Was Able to Effectively Identify High-Risk Transactions for Review***

The Charge Card Guidebook states that DPAP is required to "Develop and implement a data mining capability (along with the associated rules) that will enable [Military] Services and [Defense] Agencies to identify and investigate, as necessary, high-risk card transactions." In 2007, DPAP began acquisition of PCOLS, which included a DM module. However, we determined that the PCOLS DM module had significant deficiencies.

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<sup>5</sup> The Green Book sets the standards for an effective internal control system for federal agencies and provides the overall framework for designing, implementing, and operating an effective internal control system.

## **DPAP Did Not Evaluate Whether PCOLS Was Suitable to Oversee the Purchase Card Program**

DPAP officials did not properly evaluate the costs, effectiveness, or benefits during the acquisition, implementation, or operation of PCOLS. PCOLS is a suite of electronic systems that includes five applications:

- Enterprise Monitoring and Management of Accounts;
- Authorization, Issuance, and Maintenance;
- Reporting;
- DM; and
- Risk Assessment Dashboard.

The Charge Card Guidebook lists PCOLS as the primary management control designed to both maintain the integrity of internal controls and validate their effectiveness in safeguarding Government resources. PCOLS has several significant deficiencies and was ineffective at identifying problem transactions because DPAP did not:

- analyze PCOLS's effectiveness at identifying problematic transactions before initial or followup system acquisitions;
- review or improve the DM tests since the start of PCOLS; or
- verify that the Army, Air Force, and Defense agencies reviewed all PCOLS-flagged transactions.

### ***DPAP Did Not Analyze the Costs, Effectiveness, or Benefits of PCOLS before Initial or Followup Acquisitions***

DPAP officials did not conduct an analysis of the costs or benefits of PCOLS prior to procuring it; furthermore, they did not evaluate the costs or benefits when they began procurement of a DM module to replace the DM module in PCOLS. Despite several requests, DPAP could not provide any analysis of the costs or benefits or evaluation against alternative card management systems to justify the initial acquisition of PCOLS or the continued investment in operations, maintenance, and system enhancements to PCOLS.

DPAP officials could not provide the total cost of PCOLS, nor could they provide cost by year. During the audit, DPAP personnel could only provide two e-mails, each with a single-year dollar amount that did not state what part of PCOLS it funded. DPAP only stated the information was from a budgeting document; however, DPAP was not clear on what those budget items were or where they originated. In addition, DPAP had 51 proposed system changes; however, DPAP officials did not identify the overall costs for these changes. To perform

any analysis of whether PCOLS was cost effective, DPAP needs to research and determine the historic and future costs required to acquire, improve, and maintain PCOLS.

DPAP also did not compare the effectiveness of the DM module in PCOLS against alternate DM capabilities provided by the banks that issued purchase cards to the DoD. These alternatives are available at no additional cost because DM services are already included in the GSA’s SmartPay contract.

The only analysis completed on the effectiveness, costs, and benefits of PCOLS occurred in 2011 after DPAP attempted to require the Navy to use PCOLS. The Navy was using the Program Audit Tool (PAT) that Citibank provided at no out-of-pocket expense to the Navy. According to the Navy CPM, the Navy processed the same transactional data through the two systems, PCOLS and PAT, and its analysis determined that PCOLS was less effective at identifying problematic transactions. Based on this analysis, the Navy selected and continues to use PAT to perform the DM functions that PCOLS does for the Army, Air Force, and Defense agencies.

We compared the result of the PCOLS DM module, which reviews the Army, Air Force, and Defense agencies, and PAT, which reviews the Navy, for FYs 2015 and 2016 to determine which system identified more misuse or invalid transactions. Table 1 shows the results of our analysis on FYs 2015 and 2016 transactions. Our analysis shows that PAT identified a significantly higher percentage of invalid transactions than PCOLS, which indicates that PCOLS was still not as effective as PAT.

*Table 1. Comparison of the PCOLS and PAT Performance from FYs 2015 and 2016*

Service	Transactions Flagged <sup>1</sup>	Number of Valid Transactions	Percent Valid	Number of Invalid Transactions	Percent Invalid
PCOLS Total <sup>2</sup>	310,259	307,349	99.06	427	0.14
PAT Total <sup>3</sup>	335,626	329,372	98.14	3,852	1.15

<sup>1</sup> A portion of flagged transactions had not been reviewed by program officials to determine the validity during the period.

<sup>2</sup> PCOLS totals represent the Army, Air Force and Defense agencies.

<sup>3</sup> PAT totals represent the Navy.

Source: Program management reports from both systems.

In addition, during the fielding of PCOLS, testing documents showed that a statistically random review of purchase card transactions, using no DM tests, identified that 0.34 percent of purchase card transactions were invalid. This is the only known baseline for the total amount of invalid transactions in the purchase

card program. However, during FYs 2015 and 2016, the PCOLS DM module results identified only 0.14 percent invalid transactions, which is less than half of the baseline invalid transaction rate. This analysis indicates that PCOLS DM is less effective at identifying invalid transactions than taking a statistically random sample. Considering the cost incurred, the analysis shows that PCOLS DM provides minimal benefit. DPAP should conduct an analysis of the benefits and the costs, historic and future, for operating PCOLS, to include any necessary system changes. DPAP should also determine total system costs and evaluate the benefits for using PCOLS compared to other systems, to include those provided by purchase card issuing banks or other tools that would be more cost effective, and should provide the results of the cost benefit analysis to us.

### *Management Actions Taken*

On September 12, 2017, the Deputy Director, PDI, notified us that DPAP is conducting robust data mining capability market research and determined that it was inappropriate to expend additional resources to enhance or identify needed enhancements to PCOLS.

### ***DPAP Could Not Review or Improve the DM Tests Since the Start of PCOLS***

DPAP officials did not review, improve, or add additional tests to the DM module in PCOLS. During initial procurement of PCOLS DM capabilities, DPAP officials selected a contractor's solution with data rights that DPAP neither owned nor allowed them to review, customize, or update any DM tests. As a result, DPAP did not have effective DM capabilities to identify improper transactions, as required by PL 112-194, "Government Charge Card Abuse Prevention Act of 2012," October 5, 2012.

The Deputy Director, PDI, identified that not owning the data rights to the PCOLS tests was a significant limitation with PCOLS and on August 21, 2014, signed a Problem Statement Business Case titled, "Purchase Card Online System (PCOLS) Data Mining (DM) Application." The problem statement included the following:

Investment is required to replace the component of the licensed Data Mining application (which restricts Government rights and flexibility pertaining to configuration control) and implement an alternative fraud detection engine for the Data Mining application. This will meet the Government's changing environment in compliance with the statutory mandate—Public Law (PL) 112-194-OCT. 5, 2012 "Government Charge Card Abuse Prevention Act of 2012."

After DPAP issued the problem statement that identified shortfalls with the PCOLS DM, on September 7, 2016, DPAP obtained a proof of concept summary document for the “Purchase Card On-Line System Data Mining Application Oversight Systems” that was influencing the replacement of the PCOLS DM module. This proof of concept identified numerous flaws, cost issues, and data security concerns preventing effective data mining of DoD purchase card transactions.

The proof of concept was limited to only replicate the PCOLS DM tests used in the proprietary software and did not show what areas and tests the new contractor could improve on to increase the PCOLS DM’s performance. DPAP should conduct a review to determine which data mining tests should be included in the selected DM system to improve the identification of misuse.

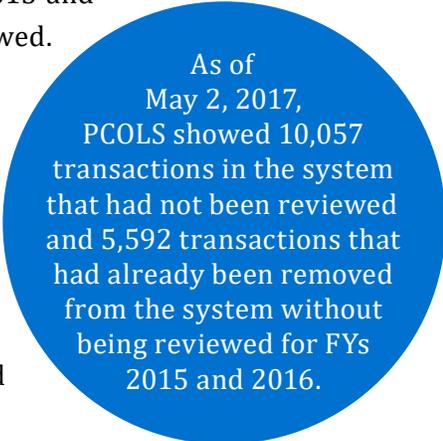
### *Management Actions Taken*

On September 12, 2017, the Deputy Director, PDI, notified us that DPAP was conducting robust data mining capability market research and determined that it was inappropriate to expend additional resources to enhance or identify needed enhancements to PCOLS.

### ***Army, Air Force, and Defense Agencies Did Not Review All Flagged Transactions***

DPAP did not ensure that personnel from the Army, Air Force, and Defense Agencies reviewed all transactions PCOLS flagged as a high-risk of illegal or improper use. As of May 2, 2017, PCOLS showed that 10,057 FYs 2015 and 2016 transactions in the system had not been reviewed.

Additionally, PCOLS purge reports showed an additional 5,592 transactions from FYs 2015 and 2016 had already been removed from the system without being reviewed. This occurred because PCOLS only maintained flagged transactions for 18 months regardless of whether program officials reviewed the transactions or not, and because transaction review officials did not respond to PCOLS automated notifications.



As of May 2, 2017, PCOLS showed 10,057 transactions in the system that had not been reviewed and 5,592 transactions that had already been removed from the system without being reviewed for FYs 2015 and 2016.

On June 25, 2015, DPAP officials implemented a system change to PCOLS so it would no longer maintain transactions older than 18 months, regardless of whether program officials had completed reviews. Furthermore, DPAP personnel stated that once the transactions were deleted, information from those transactions would not be available even if transactions were needed to confirm problems such as suspected misuse. As noted above, this decision resulted in 5,592 transactions during FYs 2015 and 2016 that were not reviewed before they were purged from the PCOLS system.

PCOLS DM effectiveness was reduced because the approving/billing officials (A/BOs) and A/OPCs did not respond to PCOLS automated notifications alerting them that transactions have still not been reviewed and, in some instances, the transactions occurred in an organization without an established reviewer. From the time a potentially invalid transaction is identified through day 51, PCOLS automatically notifies the organization's reviewers and will escalate notification to higher management levels. After 10 messages and 51 days, there are no further notifications and the transaction is purged from PCOLS after 18 months.

PCOLS used the following e-mail notification schedule to alert reviewing officials of transactions in need of review:

- two messages to the A/BO and the A/BO's supervisor within 11 days of the case being flagged;
- six messages over the next 30 days to the A/OPC and their supervisor if the A/BO does not complete the review of the transaction; and
- two messages to DPAP personnel if the A/BO and A/OPC do not complete the review.

Even with these notifications, DPAP officials allowed over 15,600 transactions flagged by PCOLS for potential misuse to go unreviewed. Unless the management and oversight of the A/BOs and A/OPCs improves, improper transactions may continue to go undetected.

### *Management Actions Taken*

We informed DPAP officials that flagged transactions were not being reviewed. After being notified of our finding, DPAP sent a request to the CPMs for the Army, Air Force, and Defense agencies to manually review the open transactions. Specifically, on May 17 and 18, 2017, DPAP requested that the CPMs review and complete an Excel spreadsheet of all open transactions flagged by PCOLS. The review determined whether the transactions were viewable in PCOLS DM and whether the transaction supports the mission. The data call included 7,567 Army; 4,303 Air Force; and 356 Defense agencies transactions that had not been reviewed by program officials. The analysis was incomplete because the Army, Air Force, and Defense agencies did not respond to, on average, 35 percent of the determinations of whether the transactions could be found in PCOLS DM and 46 percent of the determinations of whether the transactions supported the mission.

After completing the data call of unreviewed transactions, DPAP should provide us with the results of the data call, including a determination of the number of misuse transactions identified, lessons learned, and corrective actions to guidance

or system changes, as necessary. DPAP should also determine if transactions that PCOLS flagged for review, but were not reviewed, should be purged from PCOLS at 18 months.

## Conclusion

DPAP management failed to implement processes and procedures for reporting, did not adequately oversee the appointment of program officials or transaction reviews, and did not adequately manage the development, purchase, administration, and oversight of the PCOLS DM. The insufficient management resulted in inaccurate, incomplete, and unsupported quarterly and semiannual purchase card information reported to OMB.

The previous Director, DPAP, had already taken several management actions to address some of our concerns. However, until the Director fully implements corrective actions, DPAP and purchase card officials will be unable to identify patterns of improper transactions, opportunities to improve the program's efficiencies, or areas where program reviewers should focus their emphasis, and the purchase card program will be at risk of wasting Government funds.

## Recommendations, Management Comments, and Our Response

### **Recommendation A.1**

**We recommend that the Director, Defense Procurement and Acquisition Policy:**

- a. Develop quality assurance procedures to evaluate whether the purchase card information they receive from the Military Services and Defense agencies is accurate and complete.**

#### *Defense Procurement and Acquisition Policy Comments*

The Director, DP/DPAP, agreed, stating that DPAP will collect, maintain, and use statistical, narrative, and violation information to provide oversight of the DoD charge card program. Specifically, a standard set of charts that visually depict the data, so trends and variances can be readily identified, has been developed to minimize the risk of future administrative errors. In addition, DPAP is developing policy that will require each of the Defense Components to submit relevant GPC program information through their Component procurement leadership to DPAP semi-annually, which will improve the engagement of Component procurement leadership in GPC oversight. The Director, DP/DPAP, stated that this effort will be established as policy by 4th quarter FY 2018.

### *Our Response*

Comments from the Director, DP/DPAP, addressed the specifics of the recommendation; therefore, the recommendation is resolved but remains open. We will close the recommendation once we verify that DPAP has implemented the quality control procedures they identified, updated the guidance that identifies the data to be provided, and updated the method of collection, calculation, or both.

- b. Provide us supporting documentation and detailed transactions for the third quarter FY 2018 Statistical Report and the second half FY 2018 Semiannual Report.**

### *Defense Procurement and Acquisition Policy Comments*

The Director, DP/DPAP, agreed with the recommendation, stating that DPAP will provide the third quarter FY 2018 Statistical Report and the second half FY 2018 Semiannual Report by the second quarter of FY 2019.

### *Our Response*

Comments from the Director, DP/DPAP, addressed the specifics of the recommendation; therefore, the recommendation is resolved but remains open. We will close the recommendation once we receive and review the quarterly and semiannual reports, the supporting documentation, and the detailed transactions supporting the summary figures.

- c. Conduct monthly statistically valid samples of reviewed transactions to determine whether accurate conclusions were made on the validity of the transactions and its compliance with applicable criteria.**

### *Defense Procurement and Acquisition Policy Comments*

The Director, DP/DPAP, agreed with the recommendation; the Director responded that DPAP will conduct periodic reviews of transactions that have been scored using business rules to ensure those rules are producing expected results. Furthermore, DPAP will conduct quarterly scored transaction reviews of business rules results; these results will coincide with scheduled governance revalidation of business rules that should be applied in DoD's purchase card program. DPAP plans to implement this process by the third quarter FY 2019. Comments also indicated that DPAP will develop scorecards comparing the consistency of scored data mining results by first quarter FY 2020.

### *Our Response*

The Director, DP/DPAP, did not meet the intent of our recommendation to conduct monthly statistically valid samples of reviewed transactions. Therefore, this recommendation remains unresolved. The recommendation was designed to

provide assurance that transaction reviewers made accurate conclusions on the validity of the transactions flagged in PCOLS and their compliance with applicable criteria. However, the DPAP response focuses on the effectiveness of the data mining system's business rules in producing the desired result, rather than on the accuracy of conclusions made by lower level reviewers on flagged transactions. Therefore, we request that the Director, DP/DPAP, provide the detailed corrective actions that will be taken to conduct statistically valid samples of reviewed transactions to determine whether accurate conclusions were made on the validity of the transaction and its compliance with applicable criteria.

- d. Conduct an analysis of the benefits and the costs, historic and future, for operating the Purchase Card On-Line System, to include any necessary system changes.**

#### *Defense Procurement and Acquisition Policy Comments*

The Director, DP/DPAP, agreed with the recommendation and stated that they will provide the analysis of costs and benefits for operating PCOLS in the fourth quarter FY 2018.

#### *Our Response*

Comments from the Director, DP/DPAP, addressed the specifics of the recommendation; therefore, the recommendation is resolved but remains open. We will close the recommendation once we receive the analysis of costs and benefits.

- e. After obtaining total system costs, complete the full evaluation of the costs and benefits of the Purchase Card On-Line System, as compared to systems provided by the purchase card issuing banks, or other tools that would be more cost effective, and provide the results of the cost benefit analysis to us.**

#### *Defense Procurement and Acquisition Policy Comments*

The Director, DP/DPAP, agreed with the recommendation and stated that they will provide analysis of the costs and benefits of PCOLS, as compared to systems provided by the purchase card issuing banks, or other tools that would be more cost effective in the fourth quarter FY 2018.

#### *Our Response*

Comments from the Director, DP/DPAP, addressed the specifics of the recommendation; therefore, the recommendation is resolved but remains open. We will close the recommendation once we receive the analysis of costs and

benefits against other systems provided by the purchase card issuing banks or other tools that would be more cost effective.

- f. Conduct a review to determine which data mining tests should be included in the selected data mining system to improve the identification of misuse.**

#### *Defense Procurement and Acquisition Policy Comments*

The Director, DP/DPAP, agreed with the recommendation stating they will provide the analysis to determine which data mining tests should be included in the selected data mining system to improve the identification of misuse in the fourth quarter FY 2018.

#### *Our Response*

Comments from the Director, DP/DPAP, addressed the specifics of the recommendation; therefore, the recommendation is resolved but remains open. We will close the recommendation once we receive the results of the DPAP analysis of which data mining tests should be included in the selected data mining system and the query logic behind those tests.

- g. After completing the data call of unreviewed transactions, provide us with the results of the data call, including a determination of the number of misuse transactions identified, lessons learned, and corrective actions to guidance or system changes, as necessary.**

#### *Defense Procurement and Acquisition Policy Comments*

The Director, DP/DPAP, agreed with the recommendation and stated they will determine if transactions flagged for review, but not reviewed, should be purged from the PCOLS data mining module and make any appropriate system changes in the first quarter FY 2019.

#### *Our Response*

Comments from the Director, DP/DPAP, addressed the specifics of the recommendation; therefore, the recommendation is resolved but remains open. DPAP previously provided the results of the data call, including a determination of the number of misuse transactions, lessons learned, and corrective actions on October 25, 2017. We will close the recommendation once we receive the update on any system changes made that were related to the purging of PCOLS data mining cases and ensuring that all flagged transactions are viewable to reviewers.

- h. Determine if transactions that were flagged for review by the Purchase Card On-Line System, but were not reviewed, should be purged from the Purchase Card On-Line System at 18 months.**

*Defense Procurement and Acquisition Policy Comments*

The Director, DP/DPAP, agreed with the recommendation, stating they will provide an update on any system changes made related to the purging of PCOLS data mining cases in the first quarter FY 2019.

*Our Response*

Comments from the Director, DP/DPAP, addressed the specifics of the recommendation; therefore, the recommendation is resolved but remains open. We will close the recommendation once we receive the update on any system changes made related to the purging of PCOLS data mining cases.

## Finding B

### **DTMO's FY 2015 and 2016 Reporting of Actions Taken for Travel Card Misuse Was Incomplete and Inaccurate**

DTMO officials significantly underreported to OMB the number of administrative or disciplinary actions taken for travel card misuse, including delinquencies. Specifically, for FYs 2015 and 2016, DTMO reported only 139 cases of “administrative and/or disciplinary actions.” However, we determined that the DTMO should have reported at least 263,160 actions for the 2-year period. This significant underreporting occurred because DTMO used only one incomplete source, the Defense Civilian Personnel Data System (DCPDS), to report on travel card misuse; because DTMO did not develop or implement a tool that tracks misuse; and because DTMO did not report delinquency data. As a result of the underreporting, DTMO officials and CPMs were unable to establish a reliable baseline of misuse, implement necessary management controls to prevent misuse, or increase reviewer emphasis on key areas of misuse and delinquencies in the travel card program.

During this audit, DTMO officials took actions to correct and improve their reporting to OMB. Specifically, starting with second quarter FY 2017 reporting, DTMO improved reporting by including delinquencies and Visa IntelliLink-identified misuse, and it also updated guidance to require reporting of all misuse to DTMO. DTMO is also working with card management personnel to develop a process for receiving the results of each APC review.<sup>6</sup> Even though reporting to OMB is no longer required, collecting and maintaining accurate information on misuse and delinquencies is valuable data for all DoD officials responsible for managing the travel card program.

### **DTMO Underreported Administrative or Disciplinary Actions Taken for Travel Card Misuse to OMB**

DTMO officials significantly underreported to OMB the number of administrative or disciplinary actions taken for travel card misuse and delinquencies. Specifically, for FYs 2015 and 2016, DTMO reported only 139 cases of administrative actions, disciplinary actions, or both. However, DTMO should have reported at least 263,160 actions for the 2-year period. The reported 139 management actions were not complete because it did not include at least:

<sup>6</sup> IntelliLink is an online card management system provided by Visa that allows for DM; transaction flagging and review, and reporting.

- 26 individuals with travel card misuse identified in a previous DoD OIG audit;
- 1 publically available investigative report on travel card misuse;
- 255,827 delinquencies for IBA and CBA travel cards;
- 636 misuse transactions identified through Visa IntelliLink; and
- 6,670 misuse transactions identified by APCs.

See Appendix D for the quarterly travel card submissions to OMB that includes the number of administrative and disciplinary actions taken for card misuse including overall delinquency numbers.

### **DTMO Used an Incomplete Source to Produce Reports it Provided to OMB**

During FYs 2015 and 2016, DTMO officials used an incomplete source to produce quarterly statistical reports they provided to OMB. Specifically, DTMO obtained summary data from the Defense Civilian Personnel Advisory Service, which queried the DCPDS. DTMO used summary level data to produce the quarterly statistical report's information on administrative or disciplinary actions. The DCPDS, a civilian personnel system, did not contain information on DoD military members, intelligence personnel, or nonappropriated fund employees. In addition, even for the employees covered under the DCPDS, the manual query included only cases in which the disciplinary action was a 1-day or more suspension from duty and had an optional disciplinary reason code filled in. The DCPDS also does not track travel card transactions that led to disciplinary action. As a result, the DoD was not aware of the types of misuse occurring in the program or the effectiveness of efforts to identify and eliminate misuse. Finally, DTMO did not have a tool to track travel card misuse or the administrative or disciplinary actions taken for those transactions.

Implementation of a tracking tool that maintains transaction level detail and corresponding administrative or disciplinary action would enable DoD compliance with reporting requirements and would also allow the DoD to monitor the level and trends of misuse within the travel card program. Use of a tracking tool would allow DTMO to:

- identify trends in the program and in specific organizations;
- identify high-risk merchants or categories; and
- identify high-risk cardholders who repeatedly misuse their travel cards.

To populate the tracking tool, DTMO and the CPMs should use all available sources that identify travel card misuse and delinquencies. DTMO's current reporting process excluded a significant number of available sources including:

- audit reports on travel card misuse;
- investigative results on travel card misuse;
- Citibank card management and custom reporting system results on travel card misuse and delinquencies;
- Visa IntelliLink misuse findings; and
- travel card misuse findings, as identified by APCs.

The implementation of a tool to track misuse could better enable DTMO to accurately report on the overall status of its travel card program and would foster improved program management.

### ***DTMO Did Not Include Audit Results on Travel Card Misuse***

DTMO officials did not include all administrative or disciplinary actions taken against cardholders who were the subject of audits during FYs 2015 and 2016. Public Law 112-194 requires the inspector general of each executive agency, with more than \$10 million in travel card spending, to periodically audit or review travel card programs to analyze the risks of illegal, improper, or erroneous purchases and payments.<sup>7</sup> DoD Military Service auditors and investigators also perform reviews of the travel card, independent of those conducted by the DoD OIG.

To determine whether prior audit coverage has identified cardholders with misuse, we reviewed our prior travel card coverage. We also coordinated with auditors from the Army Audit Agency, the Naval Audit Service, and the Air Force Audit Agency to identify any cardholders who were identified during audit work in FYs 2015 and 2016 as receiving administrative or disciplinary actions.

### ***DTMO Did Not Report 26 of 30 Cardholders With Misuse at Casino and Adult Entertainment***

On August 30, 2016, the DoD OIG issued DODIG-2016-127, "DoD Officials Did Not Take Appropriate Action When Notified of Potential Travel Card Misuse at Casinos and Adult Entertainment Establishments." In DODIG-2016-127, the audit team selected 30 cardholders for detailed review. We previously identified these cardholders and referred them to travel card officials who confirmed that the transactions were misuse.

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<sup>7</sup> Public Law 112-194, "Government Charge Card Abuse Prevention Act of 2012," October 5, 2012.

Out of the 30 cardholders, we identified each individual who was included in the summarized quarterly statistical reports to OMB. We found that DTMO only reported to OMB 4 of the 30 cardholders identified in that audit. The 30 travel cardholders had 1,574 misuse transactions totaling \$269,046. In addition, these 30 cardholders had administrative and disciplinary actions ranging from verbal counseling to a criminal conviction. DTMO personnel responsible for producing the quarterly reports for submission to OMB were aware of the audit and should have included the other 26 cardholders identified in the audit for travel card misuse.

We found that DTMO only reported to OMB 4 of the 30 cardholders identified in that audit.

### ***DTMO Did Not Include Investigative Results on Travel Card Misuse***

DTMO officials did not include all administrative or disciplinary actions taken against cardholders who were the subject of investigations during FYs 2015 and 2016. We identified cardholders with administrative or disciplinary actions by reviewing investigative reports conducted by the DoD OIG, the Defense Criminal Investigative Service, the Army Criminal Investigative Command, the Naval Criminal Investigative Service, and the Air Force Office of Special Investigations. During that period, investigative agencies conducted six investigations related to travel card misuse. DTMO should review the results from investigations of travel card misuse to determine whether quarterly statistical reporting provided to OMB should include the travel card misuse identified during investigations.

#### ***Major General Downgraded to Brigadier General***

The DoD OIG issued DODIG-2017-001, "Report of Investigation: Ronald F. Lewis, Major General, U.S. Army," October 4, 2016. The DoD OIG found that Ronald Lewis misused his travel card during two overseas trips while performing his official duties and traveling with the Secretary of Defense's official delegation in both South Korea and Italy. His misuse on these trips totaled \$2,877.23. Army officials determined that Major General Lewis would retire at the reduced rank of brigadier general in May 2017 because he "misused his government travel charge card, made false official statements regarding his charge card misuse, and engaged in conduct unbecoming an officer and a gentleman." However, Lewis was not included in the DTMO reports to OMB when his misuse was identified.

### ***DTMO Did Not Include Citibank Custom Reporting System Results on Travel Card Misuse and Delinquencies***

DTMO officials did not use the available mandatory reports, currently used by DTMO to oversee the travel card program, to report travel card misuse and delinquencies to OMB. Public Law 112-194 requires each executive agency to use

“effective systems, techniques, and technologies to prevent or identify improper purchases.” The Citibank Custom Reporting System provides standard reports and customized queries.

DoD “Government Travel Charge Card Regulations: Authorized by DoDI 5154.31, Volume 4,” March 2016 (DoD Travel Card Regulations), states that all APCs are expected to obtain mandatory reports for the IBAs and CBAs at a minimum of once per cycle and take corrective action, as necessary, to maintain proper program management. The reports noted below are titled based on the report name in the travel card vendor’s card management system; however, CPMs and APCs have the option of utilizing the Visa IntelliLink tool to obtain similar reports. Components may also require additional mandatory reports. There are seven reports required for the IBA:

- **Account Activity Text Report** displays all transaction activity.
- **Account Listing Report** identifies cardholders assigned to the APC.
- **Declined Authorizations Report** lists all declined transactions and the reasons for declining those transactions.
- **Delinquency Report-Hierarchy** identifies and ages the delinquencies.
- **DoD Travel IBA Aging Analysis** or IBA Aging Analysis Summary identifies detailed account delinquencies and summary level information.
- **Non-Travel Activity Report** identifies cardholders who incur transactions without other associated travel activity.
- **Weekend/Holiday Activity Report** identifies cardholders who incur transaction activity on a Sunday, Monday, or a Federal Holiday.

APCs are also required to generate two monthly reports pertaining to the CBAs:

- **Delinquency Report** identifies delinquent accounts.
- **DoD Travel CBA Aging Analysis** identifies summary level delinquency information.

#### *Citibank Custom Reporting System Example of Delinquent Accounts*

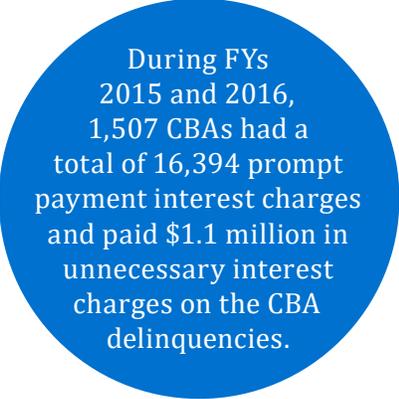
DTMO officials did not include delinquent accounts in its reporting of administrative or disciplinary actions during FYs 2015 and 2016.

OMB Circular A-123, Appendix B, stated that agencies are required to report the number of administrative actions, disciplinary actions, or both actions taken for card misuse, including known delinquencies.

IBA travel cards become past due at 30 days and become delinquent if left unpaid at 61 days after the charges post to the cardholder’s statement. The bank charges a late fee to the cardholder if the delinquency reaches 75 days past the cardholder statement date. Additional late fees apply at day 91 and every 30 days thereafter

until the delinquent balance is paid. We obtained Citibank Custom Reporting System reports of late payment charges for IBAs that should have been reported to OMB. We identified that during FYs 2015 and 2016, 101,079 IBA cardholders had a total of 239,433 late fees.

Similarly, CBA travel cards become delinquent if left unpaid 61 days after the charges post to the organization's statement. Based on the Prompt Payment Act, the bank charged interest to the DoD for the CBAs; the interest is charged on any amounts outstanding from initial delinquency until that amount is paid in full.<sup>8</sup> We also obtained bank reporting of Prompt Payment Act interest to estimate the total number of CBA delinquencies. We identified that during FYs 2015 and 2016, 1,507 CBAs had a total of 16,394 prompt payment interest charges. In addition, the DoD paid \$1.1 million in unnecessary interest charges on the CBA delinquencies.



During FYs 2015 and 2016, 1,507 CBAs had a total of 16,394 prompt payment interest charges and paid \$1.1 million in unnecessary interest charges on the CBA delinquencies.

In total, DTMO should have reported at least 255,827 delinquencies in the quarterly statistical reports for FYs 2015 and 2016.

### ***DTMO Did Not Include Visa IntelliLink Misuse Findings***

Visa IntelliLink is an online banking system that provides information services including:

- analytics and investigative reporting,
- misuse detection,
- program compliance, and
- regulatory compliance.

Visa IntelliLink, like the Citibank Custom Reporting System, allows the user access to standard and custom queries. In addition, Visa IntelliLink allows users to create or use existing "rules" to actively monitor all transactions against specified criteria and automatically creates a case when a noncompliant transaction is identified. Within Visa IntelliLink case management, the APCs and other reviewing personnel may review the transaction, determine whether the transaction was valid or misuse, and document the results of the case review.

In addition to the case management system, Visa IntelliLink has standard queries and rules available to all card management personnel. Those queries and rules

<sup>8</sup> PL 97-177 "Prompt Payment Act," May 21, 1982, as amended is codified in 31 United States Code, Chapter 39 "Prompt Payment."

include the key words used in a prior DoD OIG audit report that identified significant risks for travel card transactions at casinos and adult entertainment establishments.<sup>9</sup> The queries and rules can be run manually or set up for automatic reoccurring testing. Use of the queries and rules in Visa IntelliLink can provide APCs with significant program risk assessments and can identify transactions considered a high risk for misuse.

Use of Visa IntelliLink remains optional for APCs; however, 16 DoD card officials who used Visa IntelliLink during FYs 2015 and 2016 were

During FYs 2015 and 2016, Visa IntelliLink users identified 637 cases, totaling \$126,325.57 in misuse.

able to identify more misuse than the DoD reported in its quarterly statistical reports to OMB. Specifically, during FYs 2015 and 2016, Visa IntelliLink users identified 637 cases, totaling \$126,325.57 in misuse; only one of the cases identified in IntelliLink was included in the 139 reported to OMB.

DTMO should revise the Government Travel Charge Card Regulations to require Agency Program Coordinators and Component program managers to use available contractual tools, to include the Visa IntelliLink rules, queries, and case disposition modules to assist in the reviews of monthly travel card activity for misuse.

### *Army CPM Allowed Misuse to Remain Undiscovered by Choosing to Not Use Visa IntelliLink*

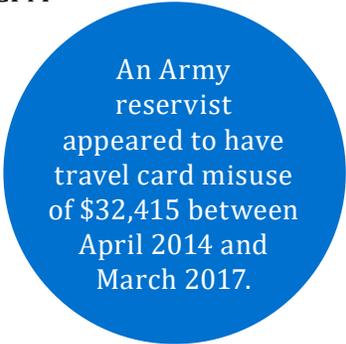
In FY 2015, we provided to the travel card program officials the queries we used during previous audits to identify high-risk casino and adult entertainment transactions. The queries are available on Visa IntelliLink for program officials to generate. We queried Visa IntelliLink during this audit and identified many new high-risk transactions that have occurred at casinos since the end of those previous audits.

For example, we identified an Army Reserve cardholder who had the highest dollar amount of high-risk casino ATM transactions. In the initial results alone, this Army reservist showed 40 casino transactions amounting to \$5,982.50. The Army did not identify this high-risk cardholder because the Army CPM did not generate the available query or provide access to APCs who could use the system to identify potential high-risk card users.

Based on the FY 2016 query results, we reviewed the Army reservist's travel card history in detail and found that from April 2014 through March 2017, the reservist had \$32,415 of transactions that appeared to be misuse. We also identified that

<sup>9</sup> DODIG-2015-125 "DoD Cardholders Used Their Government Travel Cards for personal Use at Casinos and Adult Entertainment Establishments," May 19, 2015

the DoD OIG referred this specific cardholder to the Army CPM for a high-risk casino transaction in December 2014. However, the Army CPM determined that the casino use we previously referred was for official purposes even though the use was at a casino near the reservist's house and occurred while the reservist was not on official travel status. Our detailed review of the reservist's travel card history showed that even a cursory review of the transaction activity at that time would have identified extensive misuse, including other casino use and significant card use unrelated to official Government business.



An Army reservist appeared to have travel card misuse of \$32,415 between April 2014 and March 2017.

The Army CPM allowed this misuse to occur for over two years after the DoD OIG's notification. This occurred because the CPM did not implement available resources, or make those resources available to lower-level card management personnel to identify misuse in the program. It was not until we contacted the cardholder's local APC that management took action to address the misuse. The reservist's commander immediately had the card deactivated, which stopped future misuse; the commander then administered several disciplinary and administrative actions against the reservist.

### ***DTMO Did Not Include Agency Program Coordinator's Travel Card Misuse Findings***

DTMO officials did not have a process to include misuse identified by APCs in OMB reporting during FYs 2015 and 2016. DoD Travel Card Regulations state that an APC plays an important role in the proper management of the travel card program. The APCs are responsible for program execution and daily operations of the DoD travel card program. Their duties include monitoring delinquencies, as well as transactional activity, to ensure there is no misuse.

We coordinated with the CPMs and APCs from the Army, Navy, Air Force, and Marine Corps to determine the number of misuse transactions the APCs identified from January 1, 2016, through September 30, 2016 (FY 2016 quarters 2-4). During that period, the APCs identified 6,670 travel card misuse transactions that were not reported to DTMO.

Table 2. Misuse Transactions Identified by APCs

Military Services	Number of Misuse Transactions From January 1, 2016 - September 30, 2016
Army	4,733
Navy	1,598
Air Force	19
Marines	320
<b>Total</b>	<b>6,670</b>

DTMO did not collect or report the misuse identified by the APCs because it previously only used the DCPDS information in prior reports to OMB. With proper program oversight, the APC reports have the potential to be an extremely good source for identifying misuse in the travel card program. Proper oversight of APC reviews is a critical internal control to ensure that misuse reviews are conducted and that the APCs properly report on the misuse identified so that it can be included in reports to OMB.

*Army CPM Did Not Provide Oversight of APC Reporting*

The Army CPM did not perform sufficient oversight of the APC misuse reports we reviewed. Specifically, the reports were in various non-standard formats, were incomplete, and did not always specify whether the transactions were misuse.

For example, we requested a report of identified misuse. The Army Operating Agency 22 (OA-22) provided a report to the Army CPM in response to our request. We reviewed the report and determined that it contained approximately 65,000 transactions, none of which indicating misuse. The Army CPM should have reviewed the report and identified the concern with OA-22. We notified the CPM who coordinated with OA-22 and initially responded that all 65 thousand transactions were misuse. When we asked for confirmation, the CPM then reported to us that there was no misuse for the requested period of January 1, 2016, through March 30, 2017.

The CPM should have recognized that an organization that reports no travel card misuse for 15 months would be highly unusual. We notified the Army CPM and his management chain of these concerns, and we noted that a cursory review would show several widespread misuse cases in OA-22. We provided several examples of likely misuse that we identified in the data provided by OA-22. The OA-22 APCs confirmed that the transactions we provided were indeed misuse and that

The CPM should have recognized that an organization that reports no travel card misuse for 15 months would be highly unusual.

the APCs had failed to perform their duties. If the CPM does not track misuse or address the suspicious or irregular charges, the travel card program cannot be adequately managed. As a result, the Army program remains at high risk for continued misuse.

## Management Actions Taken

We briefed DTMO personnel on the additional sources, noted in this report, which they could have used to produce more complete quarterly reports to OMB. DTMO personnel took immediate action and, beginning with second quarter FY 2017 reports, included delinquencies and Visa IntelliLink cases. A DTMO senior official stated that they will include audit and investigative findings when results or reports from those findings are available. DTMO personnel are working with the CPMs to include the results of APC and CPM transaction reviews that occurred during the quarter, including reviews of the mandatory Citibank reports. DTMO also updated travel card guidance to require reporting of all misuse to DTMO.

## Conclusion

DTMO officials and CPMs were unable to establish a reliable baseline of misuse, implement necessary management controls, or increase reviewer emphasis on key areas of misuse and delinquencies in the travel card program. The audit did not make any formal recommendations to improve the reporting because DTMO personnel took immediate actions to address the issues identified. However, DTMO should use all available tools to identify travel card misuse, including Visa IntelliLink. Fully identifying misuse and disciplinary actions will allow DTMO to ensure resources and efforts are focused on questionable transaction types and problematic commands.

## Recommendation, Management Comments, and Our Response

### ***Recommendation B.1***

**We recommend that the Director, Defense Travel Management Office, revise the Government Travel Charge Card Regulations to require component program managers and designated agency program coordinators to use all available contractual tools, to include the Visa IntelliLink rules, queries, and the case disposition modules to assist in the reviews of monthly travel card activity for misuse.**

### *Defense Travel Management Office Comments*

The Director, DTMO, agreed with the recommendation. In response to Recommendation B.1, the Director, DTMO, stated that DTMO is currently revising the Government Travel Charge Card Regulations to be published by April 1, 2018. DTMO is also drafting a memorandum that instructs Component program managers on their reporting requirements to be published by May 1, 2018.

In addition, the Director, DTMO, reported that a DoD-wide template is being developed for use in the new Analytics Module within IntelliLink, which will allow users to more efficiently identify potential travel card misuse; however, the current transition to SmartPay 3 does not allow for DTMO to provide an implementation date for these changes.

The Director, DTMO, also noted that while the draft report stated that DTMO did not develop or implement a tool that tracks misuse and delinquency reporting, the DoD does use Citibank reports on delinquent accounts as a tracking tool. The Director, DTMO, acknowledged that not reporting on those delinquencies was a result of misinterpreting the reporting requirements.

### *Our Response*

Comments from the Director, Defense Travel Management Office, addressed the specifics of the recommendation; therefore, the recommendation is considered resolved but remains open. We will close the recommendation upon receipt of the updated regulations, memorandum, and verification of the implementation of the IntelliLink Analytics Module. As a result of management comments on the tracking tool for delinquent accounts, we have clarified in the final report that DTMO did not develop or implement a tool that tracks misuse, and that delinquencies were not reported to clarify the condition.

## Appendix A

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### Scope and Methodology

We conducted this performance audit from December 2016 through January 2018, in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We reviewed the DoD's FYs 2015 and 2016 quarterly statistical travel card reports, quarterly statistical purchase card reports, and semiannual violation purchase card reports that the DoD is required to submit to OMB.

We interviewed personnel from the following agencies to understand the processes that the DoD uses to identify, compile, and report on purchase card and travel card misuse and delinquencies:

- OMB;
- Military Services;
- DPAP;
- Defense Civilian Personnel Advisory Service;
- DTMO; and
- other Defense agencies.

### ***Purchase Card***

DPAP and program officials for the Army, Air Force, and Defense agencies could not provide documentation that they used to compile the required quarterly statistical purchase card reports or the semiannual violations reports they provided to OMB. Navy officials provided supporting documentation with transaction-level detail from the PAT. We identified the internal control and guidance weaknesses that have allowed the underreporting of purchase card misuse to be unreported.

### ***Travel Card***

To validate the accuracy and completeness of the reports for FYs 2015 and 2016, we obtained available supporting documentation used to compile the required quarterly statistical travel card report provided to OMB. We determined that the reported totals did not include all misuse and delinquencies in the travel card program. We obtained and reviewed other available sources that identified misuse and delinquencies that were not reported to OMB, including:

- Visa IntelliLink;
- Citibank Custom Reporting System;
- prior audit and investigative reports that identified misuse; and
- APC and CPM reviews of travel card transactions.

We nonstatistically selected one example for each of the above categories of travel card misuse that were not included in reports to OMB. Specifically, we selected the examples to highlight the additional sources that DTMO should be using to compile the required reporting. We identified internal control and guidance weaknesses that have allowed the underreporting of misuse and delinquencies.

## Use of Computer-Processed Data

### ***Visa IntelliLink Compliance Management***

We used Visa’s IntelliLink Compliance Management System to identify potential travel card misuse that was not included in the required reports to OMB. Visa security standards require all entities that store, process, or transmit Visa cardholder data—including financial institutions and merchants—to comply with an industry standard known as the Payment Card Industry (PCI) Data Security Standard. The PCI Security Standards Council oversees the security standards that include a compliance program for:

- assessing controls;
- reporting or validating controls; and
- monitoring or alerting.

The PCI Data Security Standard certification for Visa IntelliLink Compliance Management was valid through June 30, 2018; therefore, we determined the Visa data were sufficiently reliable.

### ***Citibank Electronic Access Systems***

From the Citibank Electronic Access Systems, we obtained reports required by the DoD Government Travel Card Regulations for IBA travel cards to identify potential misuse and delinquencies. We obtained reasonable assurance through an independent audit review of Citibank’s technology infrastructure in service organization control reports. The reports asserted the reasonable controls were suitably designed to operate effectively and provided reasonable assurance that the control objectives were achieved and operated effectively; therefore, we concluded that data were sufficiently reliable.

### ***Purchase Card On-Line System***

We obtained and reviewed transactions and reports from PCOLS in an attempt to identify a potential source for purchase card reporting. We determined that purchase card officials could not view or review all flagged transactions in PCOLS. Specifically, when an A/BO separated, the cardholder's flagged transactions were no longer visible to purchase card officials nor were they included in reports showing transactions that required a review. DPAP refers to this situation as an "orphaned" transaction. In addition, we found that the system purges all transactions after 18 months, regardless of review status. We determined that the data from PCOLS was not sufficiently reliable because of the lack of transaction visibility and retention.

### ***Defense Civilian Personnel Data System***

DTMO and the Defense Civilian Personnel Advisory Service used the DCPDS to compile the Quarterly Travel Card Statistical Reports. We obtained reasonable assurance through an independent service auditor's review of the Defense Manpower Data Center. The independent service auditor's report asserted that the reasonable controls were suitably designed to operate effectively and provided reasonable assurance that the control objectives were achieved and operated effectively; therefore, we concluded that the data were sufficiently reliable.

### **Prior Coverage**

During the last 5 years, the DoD OIG issued five reports discussing misuse of Government charge cards. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/reports.html/>.

### ***The DoD OIG***

DODIG-2017-001, "Report of Investigation: Ronald F. Lewis Major General, U.S. Army," October 4, 2016

The DoD OIG substantiated allegations that Major General (MG) Ronald F. Lewis misused his travel card for personal expenses; made false official statements regarding his travel card misuse; and engaged in conduct unbecoming an officer and a gentleman on multiple occasions, which included patronizing an establishment off-limits to U.S. military personnel. The DoD OIG recommended that the Secretary of the Army take appropriate action regarding MG Lewis.

DODIG-2016-127, "DoD Officials Did Not Take Appropriate Action When Notified of Potential Travel Card Misuse at Casinos and Adult Entertainment Establishments," August 30, 2016

The DoD OIG determined that DoD management (cardholder's commander or supervisor) and travel card officials did not take appropriate action when notified by the DoD OIG that cardholders had potentially misused their travel cards.

DODIG-2015-125, "DoD Cardholders Used Their Government Travel Cards for Personal Use at Casinos and Adult Entertainment Establishments," May 19, 2015

The DoD OIG determined that DoD cardholders improperly used their GTCCs [Government travel charge cards] for personal use at casinos and adult entertainment establishments. From July 1, 2013, through June 30, 2014, DoD cardholders had 4,437 transactions totaling \$952,258, where they likely used their travel cards at casinos for personal use and had 900 additional transactions for \$96,576 at adult entertainment establishments.

DODIG-2015-060, "U.S. Southern Command Government Purchase Card Controls Need Improvement to Prevent Improper Purchases," December 19, 2014

The DoD OIG determined that U.S. Southern Command purchase cardholders did not complete purchases in accordance with Program guidance because the Agency/Organization Program Coordinator in place at the time the transactions were made did not effectively oversee purchase card use.

DODIG-2013-061, "Improvements Needed to the Purchase Card On-Line System," March 27, 2013

The DoD OIG and DPAP were unable to use PCOLS to assess or determine whether DoD Approving/Billing Officials adequately reviewed 32,690 transactions that the system referred as being at-risk of misuse. This occurred because PCOLS did not contain sufficient capability to automatically retrieve and match the case disposition reviews with the universe of at-risk purchase card transactions and PCOLS was unable to archive case history file data.

## Appendix B

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### DPAP Semiannual Report Submissions to OMB for Purchase Cards

During the audit, we identified inaccuracies within these reports and the previous Director, DPAP, stated that submissions to OMB were not complete or accurate. For example, in the report for the first half of FY 2015, DPAP reported 421 misuse transactions for the Air Force, which was 57 more than the 364 submitted by the Air Force CPM. In the report for the second half of FY 2015, DPAP reported 6 misuse transactions for the Navy and Air Force combined, even though the Navy CPM submitted 755 and the Air Force CPM submitted 247 to DPAP for OMB reporting. As a result, these reports are included for information purposes only and should be considered unreliable.

## Semiannual Purchase Card Report for the First Half of Fiscal Year 2015, as submitted to OMB

### Department of Defense Purchase Card Program

SEMI - ANNUAL REPORT on PURCHASE CHARGE CARD VIOLATIONS      July      2015  
 COMPONENT: U.S. Department of Defense

PURCHASE CARD VIOLATION DATA	ALL DOD	Navy	Army	Air Force	DoD Agencies
I. Summary description of confirmed violations involving misuse of a purchase card or integrated card.	01 OCT - 31 MAR				
	FY 2015				
a. Abuse*	33	6	1	22	4
b. Fraud*	24	8	15	0	1
c. Other loss, waste, or misuse	1181	708	64	399	10
II. Summary description of all adverse personnel actions, punishment, or other actions taken in response to each reportable violation involving misuse of a purchase or integrated card.**	01 OCT - 31 MAR				
	FY 2015				
a. Documentation of Counseling	547	276	24	217	30
b. Demotion	0	0	0	0	0
c. Reprimand	19	12	2	5	0
d. Suspension	41	3	4	32	2
e. Removal	7	3	0	3	1
f. Other	148	9	20	117	2
III. Status of all pending violations.	01 OCT - 31 MAR				
	FY 2015				
a. Number of violations pending investigation	5	2	1	2	0
b. Number of violations pending hearing	0	0	0	0	0
c. Number of violations pending final agency action	1	0	0	0	1
d. Number of violations pending decision on appeal	1	0	0	0	1

\*Terms used are defined in the Government Auditing Standards see: <http://www.gao.gov/yellowbook>

\*\* This summary is for adverse personnel actions, not for administrative errors.

## Semiannual Purchase Card Report for the Second Half of Fiscal Year 2015, as submitted to OMB

### Department of Defense Purchase Card Program

SEMI+F4+A1:G27+A1:G30+F4+A1:G27

January 2016

COMPONENT: U.S. Department of Defense

PURCHASE CARD VIOLATION DATA	DoD Components	ARMY	AIR FORCE	DEFENSE AGENCIES	NAVY
<b>I. Summary description of confirmed violations involving misuse of a purchase card or integrated card.</b>	<b>01 APR- 30 SEP</b>				
	<b>FY 2015</b>				
a. Abuse*	4	3	0	3	0
b. Fraud*	3	3	0	0	0
c. Other loss, waste, or misuse	49	35	0	8	6
<b>II. Summary description of all adverse personnel actions, punishment, or other actions taken in response to each reportable violation involving misuse of a purchase or integrated card.**</b>	<b>01 APR - 30 SEP</b>				
	<b>FY 2015</b>				
a. Documentation of Counseling	12	8	0	1	3
b. Demotion	0	0	0	0	0
c. Reprimand	2	0	0	2	0
d. Suspension	3	2	0	1	0
e. Removal	5	0	0	2	3
f. Other	17	12	0	5	0
<b>III. Status of all pending violations.</b>	<b>01 APR - 30 SEP</b>				
	<b>FY 2015</b>				
a. Number of violations pending investigation	2	2	0	0	0
b. Number of violations pending hearing	0	0	0	0	0
c. Number of violations pending final agency action	0	0	0	0	0
d. Number of violations pending decision on appeal	0	0	0	0	0

\*Terms used are defined in the Government Auditing Standards see: <http://www.gao.gov/yellowbook>

\*\* This summary is for adverse personnel actions, not for administrative errors.

## Semiannual Purchase Card Report for the First Half of Fiscal Year 2016, as submitted to OMB

### Department of Defense Purchase Card Program

SEMI+F4+A1:G27+A1:G30+F4+A1:G27

July 2016

COMPONENT: U.S. Department of Defense

PURCHASE CARD VIOLATION DATA	DoD Agencies	ARMY	AIR FORCE	DEFENSE AGENCIES	NAVY
<b>I. Summary description of confirmed violations involving misuse of a purchase card or integrated card.</b>	<b>01 OCT- 30 MAR</b>				
	<b>FY 2016</b>				
a. Abuse*	9	0	5	1	3
b. Fraud*	21	11	3	0	7
c. Other loss, waste, or misuse	584	4	178	4	398
<b>II. Summary description of all adverse personnel actions, punishment, or other actions taken in response to each reportable violation involving misuse of a purchase or integrated card.**</b>	<b>01 OCT - 30 MAR</b>				
	<b>FY 2016</b>				
a. Documentation of Counseling	184	2	7	4	171
b. Demotion	0	0	0	0	0
c. Reprimand	6	0	0	0	6
d. Suspension	14	0	10	0	4
e. Removal	4	0	1	0	3
f. Other	246	0	22	0	224
<b>III. Status of all pending violations.</b>	<b>01 OCT- 30 MAR</b>				
	<b>FY 2016</b>				
a. Number of violations pending investigation	10	0	0	10	0
b. Number of violations pending hearing	0	0	0	0	0
c. Number of violations pending final agency action	0	0	0	0	0
d. Number of violations pending decision on appeal	0	0	0	0	0

\*Terms used are defined in the Government Auditing Standards see: <http://www.gao.gov/yellowbook>

\*\* This summary is for adverse personnel actions, not for administrative errors.

## Semiannual Purchase Card Report for the Second Half of Fiscal Year 2016, as submitted to OMB

Department of Defense

OMB Semi-Annual Violations Report  
FY 2016 01 Apr 16 - 30 Sep 16

Attachment A

PURCHASE CARD VIOLATIONS	NAVY & USMC	AIR FORCE	ARMY	DEFENSE AGENCIES	DoD TOTALS
I. The summary description on the total number of <u>confirmed</u> violations involving misuse of purchase or integrated card, following the completion of agency or IG review.					
Fraud	0	0	6	0	6
Loss	0	0	30	0	30
Misappropriation of funds or assets	558	158	2	1	719
II. The summary description on the total number of all adverse personnel actions, punishment, or other actions taken in response to each reportable violations involving misuse of purchase or integrated card.					
Fraud	0	0	1	0	1
Loss	0	0	30	0	30
Misappropriation of funds or assets	0	150	2	0	152

## Appendix C

### DPAP Quarterly Statistical Report Submissions to OMB for the Purchase Card

During the audit, we identified inaccuracies within these reports and the previous Director, DPAP, stated that submissions to OMB were not complete or accurate. For example, on the report for the third quarter FY 2016, DPAP reported 0 actions taken for the Army, even though the Army CPM submitted 157 actions for reporting. As a result, these summary figures are included for information purposes only and should be considered unreliable.

Due to the audit's objective we reviewed only the actions taken for misuse or delinquency rather than all statistical information included on the reports. The reported number of actions taken is summarized in the following table.

*Table 3. Number of "Administrative and/or Disciplinary Actions Taken for Card Misuse (Including Delinquency)" Reported by DPAP to OMB in the quarterly statistical report (October 2014 – September 2016)*

Period	Army	Navy	Air Force	Defense Agencies	DoD
1st Qtr FY 2015	175	112	92	33	412
2nd Qtr FY 2015	223	71	127	46	467
3rd Qtr FY 2015	236	79	180	34	529
4th Qtr FY 2015	228	81	183	40	532
1st Qtr FY 2016	300	78	88	6	472
2nd Qtr FY 2016	217	66	73	40	396
3rd Qtr FY 2016	0	67	32	19	118
4th Qtr FY 2016	131	95	81	65	372
<b>Total</b>	<b>1,510</b>	<b>649</b>	<b>856</b>	<b>283</b>	<b>3,298</b>

Source: DPAP quarterly reports to OMB for FYs 2015 and 2016

## Appendix D

### DTMO Quarterly Statistical Report Submissions to OMB for the Travel Card

During the audit, we identified that these reports were incomplete. For example, DTMO used only one incomplete source for reporting. If DTMO used all available sources, it should have reported a total of at least 263,160 actions taken for misuse and delinquencies. As a result, these summary figures are included for information purposes only and should be considered unreliable.

Due to the audit's objective, we reviewed only the actions taken for misuse or delinquency rather than all statistical information included on the reports. The reported number of actions taken is summarized in the following table.

*Table 4. Number of "Administrative and/or Disciplinary Actions Taken for Card Misuse (Including Delinquency)" Reported by DTMO to OMB in the quarterly statistical report (October 2014 – September 2016)*

Period	Number of Actions
1st Qtr FY 2015	23
2nd Qtr FY 2015	28
3rd Qtr FY 2015	Not Reported*
4th Qtr FY 2015	Not Reported*
1st Qtr FY 2016	22
2nd Qtr FY 2016	30
3rd Qtr FY 2016	16
4th Qtr FY 2016	20
<b>Total</b>	<b>139</b>

\* DTMO did not include the number of actions in its reports to OMB for the third and fourth quarters of FY 2015 because "Reporting detailing administrative and disciplinary actions for this quarter were not provided to the DTMO in time for posting of report." We obtained supporting documentation showing that, using DTMO's reporting methodology, DTMO would have reported 29 and 21 management actions, for third and fourth quarter FY 2015 respectively.

Source: DTMO quarterly reports to OMB for FYs 2015 and 2016.

# Management Comments

## Defense Pricing/Defense Procurement and Acquisition Policy



OFFICE OF THE UNDER SECRETARY OF DEFENSE  
3000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3000

MAR 06 2018

MEMORANDUM FOR PROGRAM DIRECTOR, ACQUISITION, CONTRACTING, AND SUSTAINMENT, OFFICE OF THE INSPECTOR GENERAL

THROUGH: DIRECTOR, ACQUISITION RESOURCES AND ANALYSIS

SUBJECT: Response to DoDIG Draft Report on DoD DoD Reporting of Charge Card Misuse to OMB (Project No. D2017-D000CL-0045.000)

As requested, I am providing responses to the recommendations contained in the subject report.

Recommendation A.1: We recommend that the Director, Defense Procurement and Acquisition Policy:

- a. Develop quality assurance procedures to evaluate whether the purchase card information they receive from the Military Services and Defense agencies is accurate and complete.

**DPAP Response:** Concur. DPAP will collect, maintain and use statistical, narrative, and violation information to provide oversight of the DoD charge card program. DPAP will review the reported actions and, where leadership action is necessary, assist the components to resolve any material weaknesses. Note: In accordance OMB Memos M-13-21 dated 9/6/13 and M-17-26 dated 6/15/17, the reports in which the administrative errors addressed in this section were made will no longer be submitted to OMB.

To minimize the risk that these types of administrative errors will occur in the future, a standard set of charts that visually depict the data so trends and variances can be readily identified has been developed. DPAP will review this information quarterly.

To improve component procurement leadership's engagement in GPC oversight, DPAP is developing policy that will require each Defense Components to submit relevant GPC program information through their Component procurement leadership to DPAP semi-annually. To maximize consistency in the submissions, draft guidance that identifies the data to be provided and the method of collection/calculation will be established as policy by 4<sup>th</sup> Qtr FY18.

- b. Provide us supporting documentation and detailed transactions for the third quarter FY 2018 Statistical Report and the second half FY 2018 Semiannual Report.

**DPAP Response:** Concur. DPAP will provide the third quarter FY 2018 Statistical Report and the second half FY 2018 Semiannual Report by 2<sup>nd</sup> Qtr FY19.

- c. Conduct monthly statistically valid samples of reviewed transactions to determine whether accurate conclusions were made on the validity of the transactions and its compliance with applicable criteria.

**DPAP Response:** Concur with recommendation to conduct periodic reviews of transactions that have been scored using business rules to ensure those rules are producing expected results. DPAP will conduct quarterly scored transaction reviews of business rules results that will coincide with scheduled governance revalidation of business rules that should be applied in DoD's purchase card program. DPAP plans to implement this process by 3<sup>rd</sup> Qtr FY19. DPAP will also develop scorecards comparing consistency of scored data mining results by 1<sup>st</sup> Qtr FY20.

- d. Conduct an analysis of the benefits and the costs, historic and future, for operating the Purchase Card On-Line System, to include any necessary system changes.

**DPAP Response:** Concur. DPAP will provide this analysis in the 4<sup>th</sup> Qtr FY18.

- e. After obtaining total system costs, complete the full evaluation of the costs and benefits of the Purchase Card On-Line System as compared to systems provided by the purchase card issuing banks, or other tools that would be more cost effective, and provide the results of the cost benefit analysis to us.

**DPAP Response:** Concur. DPAP will provide this analysis in the 4<sup>th</sup> Qtr FY18.

- f. Conduct a review to determine which data mining tests should be included in the selected data mining system to improve the identification of misuse.

**DPAP Response:** Concur. DPAP will provide this analysis in the 4<sup>th</sup> Qtr FY18.

- g. After completing the data call of unreviewed transactions, provide us with the results of the data call, including a determination of the number of misuse transactions identified, lessons learned, and corrective actions to guidance or system changes, as necessary.

**DPAP Response:** Concur. DPAP will determine if transactions that PCOLS flagged for review, but were not reviewed, should be purged from the PCOLS DM (i.e., made unavailable for case closure) at 18 months and make any system changes deemed appropriate. DPAP will provide DoDIG with an update on any system changes made related to the purging of PCOLS DM cases in 1<sup>st</sup> Qtr FY19.

- h. Determine if transactions that were flagged for review by the Purchase Card On-Line System, but were not reviewed, should be purged from the Purchase Card On-Line System at 18 months.

**DPAP Response:** Concur. DPAP will provide an update on any system changes made related to the purging of PCOLS DM cases in 1<sup>st</sup> Qtr FY19.

Please contact [redacted] at [redacted] or [redacted] if additional information is required.



Shay D. Assad  
Director, Defense Pricing/Defense Procurement  
and Acquisition Policy

## Defense Travel Management Office



DEFENSE HUMAN RESOURCES ACTIVITY  
 Defense Travel Management Office  
 4800 MARK CENTER DRIVE, SUITE 04J25-01  
 ALEXANDRIA, VA 22350-4000

FEB 28 2018

██████████  
 Program Director  
 Contract Management and Payments  
 Office of the Inspector General  
 Department of Defense  
 4800 Mark Center Drive  
 Alexandria, VA 22350

Dear ██████████:

This letter responds to your request for DoD comments on the Office of the Inspector General draft report, "DoD Reporting of Charge Card Misuse to OMB," dated January 30, 2018 (Project No. D2017-D000CL-0045.000).

The Department concurs with recommendation B1, that the Director, Defense Travel Management Office (DTMO), revise the Government Travel Charge Card Regulations to require component program managers and designated agency program coordinators to use all available contractual tools, to include the Visa IntelliLink rules, queries, and the case disposition modules to assist in the reviews of monthly travel card activity for misuse.

The Government Travel Charge Card Regulations are currently in the process of being revised and a memorandum to the component program managers to provide additional instruction on their reporting requirements to the DTMO is being drafted and coordinated and will be published soon. Additionally, a DoD-wide 'template' for use of the new Analytics Module within IntelliLink is being developed and will allow users to more efficiently identify potential travel card misuse.

I would like to clarify one item in the report. The report states, on page 23, that DTMO did not develop or implement a tool that tracks misuse and delinquency reporting. While this is true for misuse, it is not true for delinquency reporting. Citibank does provide, and the DoD does utilize, reports identifying delinquent cardholders. As the report notes, DTMO failed to include delinquencies in their quarterly reporting; this was due to a misinterpretation of the OMB Circular reporting requirements, and represents a significant portion, 255,827 of the total 263,160 cited in the report, of the underreported instances of misuse.

I appreciate the opportunity to comment on this report. My point of contact is ██████████ who can be reached at ██████████ or ██████████.

Sincerely,

William R. Mansell, Jr.  
 Director

## Acronyms and Abbreviations

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<b>A/BO</b>	Approving/billing official
<b>A/OPC</b>	Agency/Organization Program Coordinator
<b>APC</b>	Agency Program Coordinator
<b>CBA</b>	Centrally billed accounts
<b>CPM</b>	Component Program Manager
<b>DCPDS</b>	Defense Civilian Personnel Data System
<b>DM</b>	Data mining
<b>DPAP</b>	Defense Procurement and Acquisition Policy
<b>DTMO</b>	Defense Travel Management Office
<b>GPC</b>	Government purchase card
<b>GSA</b>	General Services Administration
<b>GTCC</b>	Government travel charge/credit card
<b>IBA</b>	Individually billed accounts
<b>MG</b>	Major general (Army)
<b>OA-22</b>	Army Operating Agency 22
<b>OFFM</b>	Office of Federal Financial Management
<b>OMB</b>	Office of Management and Budget
<b>PAT</b>	Program Audit Tool
<b>PCI</b>	Payment Card Industry
<b>PCOLS</b>	Purchase Card On-Line System
<b>PDI</b>	Program Development and Implementation
<b>PL</b>	Public Law
<b>SIPRNet</b>	Secret Internet Protocol Router Network



# **Whistleblower Protection**

## **U.S. DEPARTMENT OF DEFENSE**

*The Whistleblower Protection Ombudsman's role is to educate agency employees about prohibitions on retaliation and employees' rights and remedies available for reprisal. The DoD Hotline Director is the designated ombudsman. For more information, please visit the Whistleblower webpage at [www.dodig.mil/Components/Administrative-Investigations/DoD-Hotline/](http://www.dodig.mil/Components/Administrative-Investigations/DoD-Hotline/).*

### **For more information about DoD OIG reports or activities, please contact us:**

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