OFFICE OF THE UNDER SECRETARY OF DEFENSE

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ACQUISITION,
TECHNOLOGY
AND LOGISTICS

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MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY
(ACQUISITION, LOGISTICS & TECHNOLOGY)
ASSISTANT SECRETARY OF THE ARMY
(FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE NAVY
(RESEARCH, DEVELOPMENT & ACQUISITION)
ASSISTANT SECRETARY OF THE NAVY
(FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE AIR FORCE
(ACQUISITION)
ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT)
DIRECTORS OF DEFENSE AGENCIES

SUBJECT: Revised Purchase Card Internal Controls

On December 19, 2005, the Defense Procurement and Acquisition Policy Office and the Office of the Under Secretary of Defense (Comptroller) issued a joint memorandum entitled "Internal Controls for the Purchase Card Program." The attached document revises the certification process to comply with the requirements in the Department of Defense Financial Management Regulation, Volume 5, "Disbursing Policy and Procedures."

The revised document states that "known or suspected fraudulent transaction(s) not initiated by an authorized cardholder shall not be certified for payment and the electronic invoice shall be short paid by the amount in question." The action officer for this action is Greg Plasters, 703-325-9518, gregory.plasters@us.army.mil.

Shay D. Assad
Director, Defense Procurement &
Acquisition Policy

James E. Short
Deputy Chief Financial
Officer

Attachment:
Internal Controls for the Government Purchase Card

Internal Controls for the Government Purchase Card Program

This document identifies the risk management and internal controls required in a Government Purchase Card program *(Changes in italic).*

Training: All participants in the Government Purchase Card program are required to receive appropriate training.

> Source: Treasury Financial Manual, section 4535.20; DoD Government Charge Card Guidebook

Delegation of Authority: Each cardholder will receive a formal delegation of contracting authority that established specific spending and usage limitations.

> Source: Treasury Financial Manual, section 4535; DoD Government Charge Card Guidebook

Functional Responsibility Controls: The system will be able to segregate role-based capabilities and limit access to these functions to individuals with appropriate authority. The system will be able to identify who made any file content changes in the end-to-end purchase card process.

> Source: "DoDFMR," Volume 5, Chapter 1, section 0105; DoD Government Charge Card Guidebook

Systems Access Security: Appropriate safeguards must be in place to control issuance and safeguarding of access credentials to the Banks electronic access system.

> Source: GAO Standards for Internal Controls in the Federal Government, November 1999

Cardholder Account Initiation: Only the supervisor of an individual can request the opening of a new cardholder account. This request must identify appropriate card parameters.

> Source: DoD Government Charge Card Guidebook

Authorization Controls: Appropriate spending limits, budget (i.e. credit) limits, and merchant category code access are established and tailored to each cardholder account. Spending limits and merchant category code access should reflect historical buying patterns/trends.

Source: Treasury Financial Manual, section 4535.20; GAO Policy and Procedures Manual for Guidance of Federal Agencies, Title 7, Fiscal Guidance; GSA Master Contract; DoD Government Charge Card Guidebook

Positive Fund Control: Spending limits (i.e. monthly, quarterly, and office limits) are tied directly to funding allocated for each managing and card account. These spending limits should be established by the responsible fund certifying official and should be consistent with historical spending patterns to ensure adequate funds availability and minimize government liability.

Source: GAO Policy and Procedures Manual for Guidance of Federal Agencies, Title 7 Fiscal Guidance

Span of Control: DoD has established a policy that limits the number of cardholders assigned to an approving official to ensure the approving official will have sufficient time to complete the review. Additionally, organization/agency program coordinators have a limit on the number of total accounts under their purview.

Source: GAO Standards for Internal Controls in the Federal Government, November 1999; DoD Government Charge Card Guidebook

Separation of Duties: Key duties such as making purchases (cardholders), certifying invoices for payment (billing/financial service officer), certifying availability of funds (financial and resource managers), and policy, reviewing and auditing functions (organization/agency program coordinators and property book officers) will be assigned to different individuals within the government purchase card hierarchal structure to minimize the risk of misuse to the greatest extent possible. For example, billing officials will not be cardholders within the same managing account; property book officers or equivalents will not be cardholders with authority to purchase accountable items; and financial or resource managers will not be cardholders or billing officials with responsibility for executing their own funds. The program must also ensure independent verification of receipt of property.

Source: "DoDFMR," Volume 5, Chapter 1; GAO Standards for Internal Controls in the Federal Government, November 1999; DoD Government Charge Card Guidebook

Purchase Log: All cardholders are required to document purchase information for each transaction made using the card in an electronic log (a manual log if not electronic data interchange enabled). As a minimum, entries to this log will include an item description or general commodity code (e.g. office supplies), the merchant, the date purchased, the

name of the recipient of the item, and the total purchase amount for each transaction, as well as any additional data required by component-specific instructions. Purchases valued at less than $75.00 may be entered in the purchase log at the summary level.

Source: DoD Government Charge Card Guidebook

Management Controls: Considering the expected benefits and related costs of internal control activities, management officials are responsible for establishing a process of internal controls that is designed to provide reasonable assurance (a) that the purchase card program is used efficiently, economically, effectively and legally to achieve the purposes for which the program was established, and (b) of compliance with applicable laws and regulations.

Source: General Accounting Office Auditing Standards (Yellow Book)

Transaction Review by Cardholder: During each billing cycle, cardholders are required to review the Statement of Account they receive from the issuing bank against the purchase card log and other supporting documentation they are required to maintain for each card purchase. This electronic review requires the cardholder to reconcile, reallocate to an alternate line of accounting, approve, or dispute as appropriate, each card transaction that is posted to their Statement of Account. *In all instances, the cardholder shall attempt to address/reconcile all transactions during the billing cycle within which they occur so that fraudulent transactions are never included in the corresponding billing statement. The cardholder should follow procedures for statement certification similar to those in "Invoice Integrity" on page 5.*

Source: Treasury Financial Manual, section 4535; GAO Standards for Internal Control in the Federal Government, November 1999; DoD Government Charge Card Guidebook

Review by Approving Official – The approving official will review each transaction made by cardholders under their managing account to ensure all supporting documentation is obtained and correct, ensure cardholder reviews have been completed properly, ensure receipt of all accountable property has been properly documented, verify all transactions were necessary government purchases, and perform any other administrative functions required by the Government Purchase Card program.

Source: Treasury Financial Manual, section 4535; GAO Standards for Internal Control in the Federal Government, November 1999; DoD Government Charge Card Guidebook

Review by Certifying Official: The individual formally appointed as certifying officer will certify that the items listed are correct and proper for payment from the funds designated and the proposed payment is legal, proper and correct.

> Source: GAO Standards for Internal Control in the Federal Government, November 1999; DoD Government Charge Card Guidebook

Available Funding Integrity: Certified lines of accounting will be traceable through disbursement. All changes to original (account defaults) lines of accounting will be documented and appropriately certified.

Dispute Authority: The cardholder will have 60 days from the date of the billing statement to formally dispute transactions with the Card Associations (i.e. Master Card, Visa).

> Source: Treasury Financial Manual, section 4535; Credit Card Association Business Rules; DoD Government Charge Card Guidebook

System Administration Integrity: Changes to the operating system environment must be documented.

Transaction Data Integrity: Cardholders will not be able to alter transaction reviews after they approve their Statement of Account unless the approving official returns the Statement of Account to them for corrections. Certifying officers will not be able to alter invoice data after electronic certification.

> Source: GAO Standards for Internal Control in the Federal Government, November 1999

Data Exchange Security: Transmission of all electronic account data will be process through secure lines of communication.

> Source: Federal Acquisition Regulation 4.502(c); DoD Information Technology Security Certification and Accreditation Process; GAO Standards for Internal Control in the Federal Government, November 1999

Invoice Integrity: An electronic certification process will ensure that the official (i.e., original unaltered) electronic invoice, is traceable from the vendor (e.g. bank) through the certification and entitlement processes and retained in a government record. Once the certifying officer has determined that the information on the original electronic invoice is proper for payment, he *or she* will affix his *or her* electronic signature with the standard certification statement. Where appropriate, he *or she* will also ensure that *corrections or additions* to the original invoice, (i.e., reallocations to different funding lines) are proper and that, *except in the case of fraudulent/unauthorized transactions (described below)*, the payment totals have not changed. Should the original invoice submitted by the contractor be in paper form, as with an electronic process, the certifying officer shall determine if the invoice is proper for payment and affix his *or her* signature (including the standard certification statement). If appropriate, the certifying officer will be make any required "pen and ink" *corrections or enclose additional information* on the original invoice to reallocate the payment to different funding lines from those reflected on the original invoice. He *or she* will determine whether these *corrections* are proper and affix his or her signature with the standard certification language on the original paper invoice.

It is possible for the electronic or paper invoice to contain fraudulent (i.e., use of a lost or stolen card) transaction(s) not authorized by the cardholder. Known or suspected fraudulent transaction(s) not initiated by the authorized cardholder shall not be certified for payment and the electronic invoice shall be "short paid" by the amount of the transaction(s) in question and electronically certified for payment. The bank and approving official /agency program coordinator must be notified immediately and the cardholder shall comply with the bank's fraud reporting procedures. Prior to allowing certification of a short paid invoice, the system shall require cardholders to identify the reason the transaction(s) is/are deemed fraudulent and the date the fraudulent transaction(s) was/were reported to the bank. In all instances, the cardholder shall attempt to address/reconcile all transactions during the billing cycle within which they occur so that these fraudulent transactions are never included in the corresponding billing statement.

Supporting documentation regarding improper transactions shall be retained for 6 years and 3 months.

Source: "DoDFMR," Volume 5," Chapters *2 and 33* and Volume 10, Chapter 10