



OFFICE OF THE UNDER SECRETARY OF DEFENSE
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ACQUISITION,
TECHNOLOGY
AND LOGISTICS

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
ATTN: ACQUISITION EXECUTIVES
DIRECTORS OF THE DEFENSE AGENCIES

SUBJECT: Internal Controls for the Purchase Card Program

Over the past eighteen months, a working group consisting of representatives from the Comptroller, Acquisition, Inspector General, and Military Department audit communities developed a portfolio of internal controls which are appropriate to safeguard Government resources and manage risk associated with the use of the Government Purchase Card within the Department. The General Accountability Office, the Inspector General, and General Counsel (both Acquisition and Logistics and Fiscal) have concurred on the attached controls.

Please ensure that your purchase card guidance and instructions are consistent with these controls. These controls must be resident in any electronic capability used within the Department to reconcile, certify, and pay purchase card invoices. Further, these controls clarify the joint Under Secretary of Defense for Acquisition, Technology & Logistics/Comptroller policy memorandum of November 27, 2002, by establishing both the criteria and process for DoD Components who wish to use an application other than the proprietary bank systems to settle purchase card invoices.

Components who wish to nominate electronic solutions other than use of the existing banks systems must work with the Purchase Card Program Office, the Office of the DoD Comptroller, and the appropriate Component-level audit community to validate that all of the required internal controls in the proposed alternate capability are resident and operate properly in a limited production environment before a full implementation is approved. If investments are required that necessitate approval by an investment review board, then that process must be fulfilled concurrent with this policy.

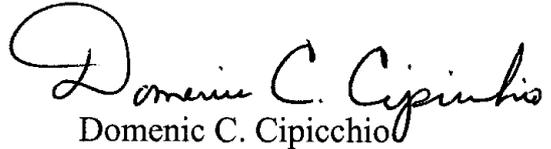
Systems that satisfy this validation process, will be authorized by the Director of Defense Procurement and Acquisition Policy to settle purchase card invoices. However, organizations who are not now on-line and do not nominate electronic solutions (and successfully conclude the validation process) will be required to use the bank electronic certification/payment tool.



Organizations that decide to pursue an alternate electronic solution should follow the procedural guidance detailed in the Charge Card Guidebook posted at the Purchase Card Program Office web site: <http://www.purchasecard.saalt.army.mil>. The point of contact on this matter is Mr. Dennis Hudner. He can be reached at 703-681-3315.



Teresa McKay
Deputy Chief Financial Officer



Domenic C. Cipicchio
Acting Director, Defense Procurement
and Acquisition Policy

Attachment:
As stated

This document identifies the minimum risk management and internal controls required in a GPC program.

Training – All participants in the GPC program are required to receive appropriate training.

Source: Treasury Financial Manual, Sect. 4535.20; DOD Government Charge Card Guidebook

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

Source: Treasury Financial Manual, Sect. 4525; 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: DoD FMR Volume 5, Chapter 1, Sect. 010505; 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 (EAS).

Source: GAO Standards for Internal Control in the Federal Government, Nov 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: FMR Volume 5, Chapter 33

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

Source: Treasury Financial Manual, Sect. 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 insure the approving official will have sufficient time to complete their review. Additionally, Organization/Agency Program Coordinators have a limit on the number of total accounts under their purview.

Source: GAO Standards for Internal Control in the Federal Government, Nov 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 (A/OPC and Property Book Officers) will be assigned to different individuals within the GPC 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 Resource or Financial 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, Ch. 1; GAO Standards for Internal Control in the Federal Government, Nov 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 EDI 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. Additionally, the Cardholder must approve the statement in its entirety once all individual transactions have been reviewed in the manner described above.

Source: Treasury Financial Manual, Sect. 4535; GAO Standards for Internal Control in the Federal Government, Nov 1999; DOD Government Charge Card Guidebook

Review by Approving Official – The Approving Official will review each transaction made by cardholders under that managing account to insure all supporting documentation is obtained and correct, cardholder reviews have been completed properly, insure 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 GPC program.

Source: Treasury Financial Manual, Sect. 4535; GAO Standards for Internal Control in the Federal Government, Nov 1999; DOD Government Charge Card Guidebook

Review by Certifying Officer – 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, Nov 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, Sect. 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 (SOA) unless their Approving Official returns the SOA 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, Nov 1999;

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

Source: FAR 4.502 (c); DITSCAP; GAO Standards for Internal Control in the Federal Government, Nov 1999

Invoice Integrity – An electronic certification process will ensure that the official (i.e., original unaltered) electronic invoice, IAW Volume 5, Chapter 24, Section 240401, 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 will affix his electronic signature with the standard certification statement in accordance with chapter 33, volume 5 of the DoD FMR. Where appropriate, he will also ensure that changes to the original invoice, i.e., re-allocations to different funding lines are proper and that 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 signature (including the standard certification statement) in accordance with the governing provisions of the FMR. If appropriate, the certifying officer will make any required "pen and ink" changes on the original invoice to re-allocate the payment to different funding lines from those reflected on the original invoice. He will determine whether these changes are proper and affix his signature with the standard certification language on the original paper invoice.

Source: FMR, Volume 5, Chapters 5 and Volume 10, Chapter 10