GOVERNMENT PURCHASE AND TRAVEL CARD PROGRAMS AT THE DEPARTMENT OF THE ARMY

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT EFFICIENCY, FINANCIAL MANAGEMENT AND INTERGOVERNMENTAL RELATIONS

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS

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GOVERNMENT PURCHASE AND TRAVEL CARD PROGRAMS AT THE DEPARTMENT OF THE ARMY

WEDNESDAY, JULY 17, 2002

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT EFFICIENCY, FINANCIAL MANAGEMENT AND INTERGOVERNMENTAL RELATIONS,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to recess, at 10 a.m., in room 2154, Rayburn House Office Building, Hon. Stephen Horn (chairman of the subcommittee) presiding.

Present: Representatives Horn, Schakowsky, Waxman, and Ose.

Staff present: J. Russell George, staff director and chief counsel; Bonnie Heald, deputy staff director; Justin Paulhamus, clerk; Sterling Bentley, Joey DiSilvio, Freddie Ephraim, Michael Sazonov, and Yigal Kerszenbaum, interns; Phil Schiliro, minority staff director; Kate Anderson, minority counsel; Karen Lightfoot, minority senior policy advisor; David McMillen, minority professional staff member; and Jean Gosa, minority assistant clerk.

Mr. HORN. A quorum being present, this hearing of the Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations will come to order.

We are here to continue our examination of two Government credit card programs within the Department of Defense: the Department of the Army's travel card program, and its purchase card program.

We will begin with the Army travel card program. As you will soon hear, the General Accounting Office has found that these travel cards, which clearly state that they are for "Official Government Travel Only" have been used for escort services, casino and Internet gambling and at facilities called gentlemen's clubs; bearing such names as "Bottoms Up," "Cheetah's Topless Club," and "Teazers," regardless of whether the cardholder is traveling on official Government business or not.

When first conceived, the Government travel card program was envisioned as an efficient way to reduce the Government's costs of administering travel. The cardholder is reimbursed for the travel expenses by the Government, and is responsible for paying the credit card bill.

In most cases, the cardholders pay their bills on time, but in far too many other cases, they do not. These delinquencies and charge-offs are costing the Army millions of dollars in lost rebates, higher

fees, and time and effort spent attempting to collect the overdue accounts.

At a subcommittee meeting more than a year ago, a representative from the Bank of America, which issues the Defense Department's travel cards, stated that the bank was writing off more than $2 million in delinquent travel card charges each month. In addition, cash advances charged to the Defense Department travel card were twice as likely not to be paid back, when compared to other card charges, leading one to believe that misuse is routine, if not rampant.

Ms. Schakowsky and Senator Grassley, who is our first witness today, joined me in requesting the General Accounting Office to examine the extent of these problems.

This morning, we will focus on the GAO's investigation of the Department of the Army's travel card program. At 2 p.m., we will reconvene to examine the Army's purchase card program. I welcome our witnesses today, and I hope that we can provide the information we need to correct this egregious situation.

[The prepared statement of Hon. Stephen Horn follows:]

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Opening Statement
Chairman Stephen Horn
Subcommittee on Government Efficiency,
Financial Management and Intergovernmental Relations
July 17, 2002

A quorum being present, this hearing of the Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations will come to order.

We are here today to continue our examination of two government credit card programs within the Department of Defense -- the Department of the Army's travel card program and its purchase card program. We will begin with the Army travel card program.

As you will soon hear, the General Accounting Office has found that these travel cards, which clearly state that they are for "Official Government Travel Only" have been used for escort services, casino and Internet gambling, and at facilities called "gentlemen's clubs," bearing such names as "Bottoms Up," Cheetah"s Topless Club," and "Teazers," regardless of whether the cardholder is traveling on official Government business or not.

When first conceived, the Government travel card program was envisioned as an efficient way to reduce the Government's costs of administering travel. The cardholder is reimbursed for the travel expenses by the Government and is responsible for paying the credit card bill. In most cases, the cardholders pay their bills on time. But in far too many other cases, they do not. These delinquencies and charge-offs are costing the Army millions of dollars in lost rebates, higher fees, and time and effort spent attempting to collect the over-due accounts.

At a subcommittee hearing more than a year ago, a representative from the Bank of America, which issues the Defense Department's travel cards, stated that the bank was writing off more than $2 million in delinquent travel card charges each month.

In addition, cash advances charged to the Defense Department travel cards were twice as likely not to be paid back when compared to other card charges, leading one to believe that misuse is routine, if not rampant.

Ms. Schakowsky and Senator Grassley, who is our first witness today, joined me in requesting that the General Accounting Office to examine the extent of these problems. This morning, we will focus on the GAO's investigation of the Department of the Army's travel card program. At 2 p.m., we will reconvene to examine the Army's purchase card program.

I welcome our witnesses today, and I hope that they can provide the information we need to correct this egregious situation.

Mr. HORN. Now I am delighted to have with us today, Senator Grassley, who has been a very patient person, with the rest of us. We do not like what we see, and we want to solve it. So Senator, we are delighted to have you with us again.

STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM THE STATE OF IOWA

Senator GRASSLEY. Thank you, Mr. Chairman, and thank you, most importantly, for your outstanding leadership on the DOD credit card issue.

We began this oversight investigation more than 2 years ago. We jumped into this mess, not knowing what we would find. As each new layer of abuse has been peeled back, we have made new discoveries. You have encouraged us to keep digging, and we are staring, it seems like, into a bottomless pit.

With 2.3 million credit cards at 23 different agencies spawning expenditures of $20 billion a year, the pit is deep, and it is dark.

Through thick and thin, you, Mr. Chairman, stood like the Rock of Gibraltar. You have been steadfast and unwavering. You have provided the venue where we could do oversight without fear of interference. You have created an environment that, quite frankly, is getting results, and that is what our work should be doing around here.

Thanks to you, Mr. Chairman, we have the DOD credit card abuse under the microscope, and we are going to keep it under the microscope. The General Accounting Office is helping us, and is doing a great job. It has been an honor and a privilege for me to participate.

As I said, when I was before your committee in March of this year, in a place like the Pentagon, the glare of public spotlight is never welcome, but shedding light on a problem like this one is the heart and the soul of congressional oversight. Exposure makes good things happen.

Thanks to you, Mr. Chairman, the spot-light switch is set on full power. The beam is focused on the problem. Hopefully, we will soon see the bottom of the pit and know what to do.

Mr. Chairman, we have come a long way. We have seen the promised land, but we are not there, yet. We have generated pressure for change. The momentum is good, but the outcome is uncertain.

So we have more work to do, and I hope today's revelations help us maintain momentum and keep us moving down the field toward the end zone.

There has been recent progress. For starters, Secretary Rumsfeld is on our side. He is trying to solve the problem, instead of making excuses. I find that rare for Secretary's of Defense that I have served with in the past.

Secretary Rumsfeld created the Charge Card Task Force to clean up the mess, and that Task Force is moving in the right direction.

The Office of Management and Budget has just announced a crackdown on credit card abusers. Salary offsets are working. Travel card charge-offs have stopped; charge-offs are accounts that the Bank of America had to write off as bad debt, due to non-payment.

More than $6 million in outstanding debt has already been recovered, and hopefully more is on the way.

The 713 commissioned officers who had defaulted on $1.1 million in travel card charge are being dragged to the pay window. Half of those bills have been paid in full. The rest are in salary offsets or voluntary re-payment plans.

The Department of Defense Inspector General is starting to be very proactive in this area. So far, the IG has been "out to lunch" on the credit card abuse, but that seems to be changing. The IG is creating an automated "data mining" capability to police the system and provide real time oversight.

One area still needs dramatic and drastic improvement. That is the travel voucher turn-around time. It takes far too long to reimburse troops for official travel expenses. This, in turn, is pushing account delinquencies upward. With a little luck, maybe we may see reform in our lifetime.

I would like to now look at the situation with the U.S. Army: Army purchase cards and army travel cards, as you have already announced. Our first hearing in July 2001 and the second one in 2002 were Navy days. After the first two hearings, our critics complained that somehow Senator Grassley and Congressman Horn were focusing on a few isolated cases. One rotten apple, we were told, does not make the whole barrel bad.

Well, today's hearing will lay the one bad apple theory to rest for good. This time around, the General Accounting Office visited 13 installations, and tested a much bigger sample. The General Accounting Office used techniques to call several thousand suspicious transactions for hundreds of thousands of charges. All sorts of stuff fell out, including 13 purchase card fraud cases, plenty of waste and abuse, as well, plus a number of potential travel card fraud cases.

Some are now active criminal investigations. I want to look at the lack of reliable data on fraud cases. We now know that there are a lot of bad apples out there, but exactly how many, we do not know. The GAO says the number is big, like 500-plus. The DOD IG thinks it is maybe more like 72. Nobody knows for sure.

The General Accounting Office says there are no reliable data on the total number of cases under active investigation. Somebody should be able to punch a button and get the number. Lack of data on fraud cases is product of a "hear no evil-see no evil" kind of mentality that is too prevalent around here. The Department of Defense cannot manage effectively, obviously, they do not have information to make management decisions. So reliable data is a very important thing.

Now I would like to look at fraud and abuse cases. The General Accounting Office has found everything but the kitchen sink and, hopefully, that is coming to light. We have Government employees using their cards to make mortgage payments and closing costs; to buy cards; to buy engagement rings; racetrack betting; Elvis photos from Graceland; a framed John Elway jersey; a trip to the Rose Bowl game; and even Caribbean Cruises. You name it, it seems like they are being done.

The General Accounting Office found at least 200 individuals who were using Department of Defense plastic to buy cash in "gen-

tlemen's clubs" like the Bottoms up Lounge that you mentioned, Mr. Chairman. These are adult entertainment bars that are located near military bases. They are probably run by the mob. After surrendering their military IDs and credit cards, the soldiers get $500 cash.

They spent the $500 on lap dancing and other forms of entertainment. But the amount posted on their account is $550. The extra $50 covers a 10 percent fee to get the cash.

At the last hearing, I mentioned Pablo Falcon. He ran up a bill of $3,100 at one of these places. Since then, the General Accounting Office has found many others doing it, too, to the tune of $38,000.

Now I would like to look at bad checks. The General Accounting Office found 1,200 Department of Defense personnel who wrote NSF or bad checks, to pay travel card bills. Over 200 are chronic rubber check writers. Some are commissioned officers. One individual, a Staff Sergeant at Fort Jackson, South Carolina, wrote 86 bad checks in 2001 alone, totaling $270,000. That was against his unpaid balance of $36,000.

The Staff Sergeant's 86 bad checks should have come as no surprise. Before receiving his Government card, he had a criminal record for credit card fraud and bad checks. He had a $115,000 real estate loan that went bad. He had declared bankruptcy and used two Social Security numbers to perpetuate crime.

The Staff Sergeant's 86 bad checks were a boosting operation, and this is how boosting works. Under industry regulations, a payment check must be credited to an account upon receipt. Once posted, the account appears to have been paid, providing more credit for more purchases.

By writing successively larger bad checks, at the right moment, the Staff Sergeant succeeded in raising his credit limit to $35,000, and he charged right up to that limit, Mr. Chairman.

One or two bad checks obviously can happen. I understand that. But the regular abusers, especially commissioned officers, need to be held accountable.

Mr. Chairman, I asked the General Accounting Office to transmit the list of chronic bad check writers to Secretary Rumsfeld and the Department of Defense IG for further review. Writing a lot of bad checks and leaving a trail of bad debts are signs of financial irresponsibility. These people, under those circumstances, could be national security risks.

Under the existing Department of Defense rules, a person's level of financial responsibility is a key factor in determining whether that person holds a security clearance and is placed in a sensitive position.

The General Accounting Office has tested that rule. To do this, the General Accounting Office culled out the 105 worst or most abusive travel card cases, and did a match up with clearances.

Among the 105 worst cases, the GAO found 40 cardholders who hold secret, top secret, or higher clearances. Each of those 40 accounts had to be charged off by the Bank of America as bad debt. The bad debt on these accounts alone is a staggering $148,430. One of these individuals, a GS–13 in the Pentagon, wrote four bad checks worth $77,000, and had accumulated $3,257 in bad debt on her DOD travel card account. She used it to cover a personal move

of $3,600, from her apartment in Virginia to a new home in Mitchellville, Maryland.

When she applied for a Department of Defense travel card, she exercised her right. She put an "X" in the no-credit-check box, and she did this for good reason. She had a bad credit report. She had defaulted on several charge accounts.

She holds a top secret clearance, and works on a highly classified project. This case is troublesome, and ought to be for three reasons. The person's supervisor was completely unaware of the bad checks and the bad debt. Second, No discriminatory action has been taken. Third, on the day she was interviewed by the General Accounting Office, she paid off her debt to the bank.

The General Accounting Office has referred all these cases to the Army's Central Adjudication Facility for review, and the CAF is the one that grants clearances. The CAF needs to assess the level of financial irresponsibility, and determine whether any of these clearances should be pulled.

Now I would like to speak about something I call goodies for everyone, because these are some words used by people in the Defense Department.

"Let us get enough goodies for everyone," it was said. That is a lofty objective behind a command decision to buy 80 palm pilots for $30,000. The palm pilots were bought by an office over at the Pentagon, the Office of Assistant Secretary of Defense for Acquisition. That is the office run by the DOD purchase card czar, Ms. Dee Lee.

Mr. Chairman, those audacious words come right out of her internal memo. I have that memo here, and I would like to have that placed in the record, if I could.

Mr. HORN. It will be put into the record at this point.

Senator GRASSLEY. So let us get enough goodies for everyone. It is a product of a culture. It is an attitude nurtured in a place where there seems to be no restraint. It says, "We can splurge, at the taxpayers' expense and not worry about it."

It is unfortunate that such an attitude is being nurtured in the purchase card czar's front office. It sends the wrong message to the troops in the field. The message going out is clear. Abuse is OK. Everyone deserves to get some goodies.

The General Accounting Office figures Ms. Lee wasted $1,540 on the palm pilots. She paid top dollar for a rush order that ended up in the storage cabinet. Maybe the goodies were not needed, after all. Maybe, in fact, $30,000 was wasted.

Mr. Chairman, we need to answer the question, why are there so many bad apples in the barrel? The reason can be boiled down to three words, "ineffective internal controls."

That brings me to my last main point. Weak or nonexisting controls, like the ones in place today, leave the door wide open to theft. Army internal controls are AWOL. The General Accounting Office tested Army transactions against a standard set of internal controls. Army failures rate on the control tests were unbelievably high, across the board; as high as 86 to 87 percent in key areas.

An important part of checking to make sure that you got what you paid for, obviously, is inventory control; and it is seen as the Army having none.

At Fort Benning, GA, for example, 84 percent of pilferable items bought with purchase cards were not recorded in the books. So where is this property today, right now? Letting soldiers keep their cards when they leave is another kind of control failure.

The General Accounting Office found 317 cardholders at Fort Hood, Texas, who were allowed to keep their cards when they left the Army. We know that at least one of these cards was used to commit fraud. When weak controls and no credit checks are combined with monthly purchase card spending limits of up to $4,100, fraud is very easy.

Mr. Chairman, weak controls leadeth the dishonest into temptation. Checking credit card transactions is so very simple; just match receipts with statements. Why is the Army not doing it?

The General Accounting Office says the Army troops are just too busy with other duties to do it. Being too busy to make routine control checks to protect the taxpayer's money is not acceptable.

Purchase card accounts are U.S. Treasury accounts. These are accounts obviously belonging to the taxpayers. Protecting tax money is not an option. It is mandatory, Mr. Chairman. If the troops can not do it, then maybe credit cards are not the answer.

So Mr. Chairman, this is what I have to say on your topic this morning. If I can, I plan to return, as you requested that I do, to this afternoon's hearing, to provide an in-depth report on very troublesome fraud cases, and particularly one involving a current Army employee, Ms. Tanya Mays.

Thank you, Mr. Chairman.

[The prepared statement of Senator Grassley follows:]

TESTIMONY:

DOD Credit Card Abuse:
Army Day

By

Senator Chuck Grassley
Ranking Member
Senate Finance Committee

Before

Subcommittee on Government Efficiency, Financial Management
And Intergovernmental Relations
Committee on Government Reform
U.S. House of Representatives

July 17, 2002

Introductory Remarks

Mr. Chairman, before I get started today, I would like to thank you for your outstanding leadership on the Department of Defense (DOD) credit card issue.

We began this oversight investigation more than two years ago.

We leaped into this mess head first not knowing what we would find. As each new layer of abuse has been peeled back, we've made new discoveries. You have encouraged us to keep digging. At times, I feel like we're starring into a bottomless pit.

With 2.3 million government credit cards at 23 different agencies spawning expenditures of twenty billion dollars a year, the pit is deep and dark indeed.

Through thick and thin, you have stood like the Rock of Gibraltar. You have been steadfast and unwavering. You have provided the venue where we could do oversight without fear of interference. You have created an environment that gets results.

Thanks to you, Mr. Chairman, we have DOD credit card abuse under the microscope, and we're keeping it there.

And the General Accounting Office (GAO) is helping us do it and is doing a great job.

It has been an honor and a privilege for me to participate in this process.

As I said in March, in a place like the Pentagon, the glare of the public spotlight is never welcome, but shedding light on a problem like this one is the heart and soul of oversight. All the exposure makes good things happen.

Thanks to you, Mr. Chairman, the spotlight is switch is set on full power. The beam is focused on the problem. Hopefully, we will soon see the bottom of the pit and know what to do.

Mr. Chairman, we have come a long way. We have seen the Promised Land, but we are not there yet. We have generated pressure for change. The momentum is good, but the outcome is uncertain.

So we have more work to do. I hope today's revelations help us maintain momentum and keep us moving down the field toward the end zone.

Recent Progress

For starters, Secretary Rumsfeld is on our side.

He is trying to solve the problem instead of making excuses. And that's rare for the secretary of defense. He created the Charge Card Task Force to clean up the mess. It's moving in the right direction.

The Office of Management and Budget has just announced a crackdown on credit card abusers.

Salary offsets are working. Travel card "charge offs" have stopped. "Charge offs" are DOD accounts that Bank of America had to write off as bad debt due to non-payment. More than $6.0 million in outstanding debt has already been recovered and more is on the way.

The 713 commissioned officers who had defaulted on 1.1 million dollars in travel card charges are being dragged to the pay window. Half of those bills have been paid in full. The rest are in salary offsets or voluntary re-payment plans.

And the DOD Inspector General (IG) is starting to get proactive. So far, the IG has been "out to lunch" on credit card abuse, but that's changing. The IG is creating an automated "data mining" capability to "police" the system and provide real-time oversight.

One area still needing drastic improvement is travel voucher turn-around-time. It's taking far too long to reimburse troops for official travel expenses. This, in turn, is pushing account delinquencies upward.

With a little luck, maybe we may get to see reform in our lifetime.

Army Day-More Rotten Apples

Today is Army Day - Army purchase cards and Army Travel cards.

Our first hearing in July 2001 and second hearing in March 2002 were Navy Days.

After the first two hearings, our critics complained that Grassley and Horn were focusing on a few isolated cases. One rotten apple doesn't make the whole barrel bad.

Well, today's hearing will lay the one-bad-apple theory to rest for good. It's dead.

This time around the GAO visited 13 installations and tested a much bigger sample.

The GAO used "data mining" techniques to cull several thousand suspicious transactions from hundreds of thousands of charges.

All sorts of stuff fell out, including 13 purchase card fraud cases, plenty of waste and abuse, plus a number of potential travel card fraud cases. Some are now active criminal investigations.

Lack of Reliable Data on Fraud Cases

We now know that there are lots of bad apples out there. But exactly how many?

The GAO says the number is big - like 500 plus.

-5-

The DOD IG thinks maybe it's more like 72.

However, nobody knows for sure.

GAO says there is no reliable data on the total number of cases under active investigation.

Somebody should be able to punch a button and get that number.

The lack of data on fraud cases is the product of a "hear no evil - see no evil" kind of mentality.

DOD can't manage effectively without that information.

Fraud and Abuse Cases

The GAO has found everything but the kitchen sink. And now we found that, too.

We have found government employees using their cards to make mortgage payments and closing costs; to buy cars; an engagement ring; racetrack betting; Elvis photos from Graceland; a framed John Elway jersey; a trip to the Rose Bowl game, and even Caribbean Cruises. You name it. They're doing it.

The GAO found at least 200 individuals who were using DOD plastic to buy cash in **"Gentleman's Clubs"** - like the **Bottoms Up Lounge**.

These are adult entertainment bars that are located near military bases. They are probably run by the mob.

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After surrendering their military id's and credit cards, the soldiers get $500.00 in cash.

They spend the $500.00 on lap dancing or other forms of entertainment. But the amount posted on their accounts is $550.00. The extra $50.00 covers a 10 percent fee to get the cash.

At the last hearing, I mentioned **Pablo Falcon**. He ran up a bill of $3,100.00 at one of these places. Since then, the GAO has found many others doing it, too, to the tune of $38,000.00.

"NSF" Check Writers

The GAO found **1,200 DOD personnel who wrote "NSF" or bad checks to** pay travel card bills. Over 200 are chronic rubber check writers. Some are commissioned officers. One individual - a staff sergeant at Fort Jackson, S.C. - wrote 86 bad checks in 2001 alone totaling $270,000.00. That was against his unpaid balance of $36,000.

The staff sergeant's 86 bad checks should have come as no surprise. Before receiving his government cards, he had a criminal record for credit card fraud and bad checks; he had a $115,000 real estate loan that went bad; he had declared bankruptcy; and used two social security numbers to perpetrate his crimes.

The staff sergeant engaged in a "boosting" operation. This is how "boosting" works.

Under industry regulations, a payment check must be credited to an account upon receipt. Once posted, the account appears to have been paid, providing more credit for more purchases. By writing successively larger bad checks, the staff sergeant succeeded in raising his credit limit to $35,000. And he went right to the limit.

One or two bad checks can happen. I understand that, but the regular abusers - especially the commissioned officers - need to be held accountable.

Mr. Chairman, I asked the GAO to transmit the list of chronic bad check writers to Secretary Rumsfeld and the DOD IG for further review.

Writing a lot of bad checks and leaving a trail of bad debt are signs of financial irresponsibility. These people could be **national security risks**.

Under existing DOD rules, a person's level of financial responsibility is a key factor in determining whether that person holds a security clearance and is placed in a sensitive position.

The GAO tested the rule.

To do this, the GAO culled out the **105 worst or most abusive travel card cases** and did a match up with clearances.

Among the 105 worst cases, the GAO found 40 cardholders who hold secret, top secret or higher clearances. Each of those 40 accounts had to be "charged off" by Bank of America as bad debt. The bad debt on these 40 accounts alone is a staggering $148,430.00.

One of these individuals - GS-13 in the Pentagon - wrote 4 bad checks worth over $7,700.00 and had accumulated $3,257.00 in bad debt on her DOD travel card account. She used it to cover a personal move for $3,600. The move was from her apartment in Virginia to a new home in Mitchellvile, MD.

When she applied for a DOD travel card, she exercised her rights. She put an X in the no-credit-check box and for good reason. She had a bad credit record. She had defaulted on several charge accounts.

She holds an top secret clearance and works on a highly classified project.

This case is troublesome for three reasons: 1) The person's supervisor was completely unaware of the bad checks and bad debt;

2) No disciplinary action has been taken; and 3) On the day she was interviewed by the GAO, she paid off her debt to the bank.

The GAO has referred all these cases to the Army's Central Adjudication Facility or CAF for review. The CAF grants clearances.

The CAF needs to assess the level of financial irresponsibility and determine whether any of these clearances should be pulled.

"Goodies For Everyone!"

"Let's get enough goodies for everyone!" That's the lofty objective behind a "command" decision to buy 80 Palm Pilots for $30,000.00.

The Palm Pilots were bought by an office over in the Pentagon - the Office of the Assistant Secretary of Defense for Acquisition. That's the office run by the DOD Purchase Card "Czar," Ms. De Lee.

Mr. Chairman, those audacious words come right out of an internal memo. I ask unanimous consent to place it in the Record.

"Let's get enough goodies for everyone." That's the epitome of abuse. It's the product of a culture. It is an attitude nurtured in a place where there is no restraint.

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It says we can splurge at the taxpayers' expense

and not worry about it.

It's unfortunate that such an attitude is being nurtured in the purchase card "Czar's" front office. It sends the wrong message to the troops in the field. The message going out is clear: Abuse is OK. Everyone deserves to get some "goodies."

The GAO figures Ms. Lee wasted $1,540.00 on the Palm Pilots. She paid top dollar for a rush order that ended up in a storage cabinet. Maybe the "goodies" were not needed after all. Maybe she wasted $30,000.00.

Mr. Chairman, we need to answer the question: Why are there so many bad apples in the barrel?

The reason can be boiled down to three words: **Ineffective Internal Controls**.

Weak or non-existent controls - like the ones in place today - leave the door wide open to theft.

Army internal controls are AWOL.

The GAO tested Army transactions against a standard set of internal controls. **Army failure rates on control tests were unbelievably high across-the-board - as high as 86 to 87 percent in key areas.**

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An important part of checking to make sure "you

got what you paid for" is inventory control. And the Army has none.

At Fort Benning, GA, for example, 84 percent of pilferable items bought with purchase cards <u>were not</u> recorded in the property books. Where is this stuff right now today?

Letting soldiers keep their cards when they leave is another kind of control failure.

The GAO found 317 cardholders at Fort Hood, Texas who were allowed to keep their cards when they left the Army. We know that at least one of these cards was used to commit fraud.

When weak controls and no credit checks are combined with monthly purchase card spending limits of up to $100,000, fraud is too easy.

Mr. Chairman, weak controls leadeth the dishonest into temptation.

Checking credit card transactions is so simple - just match receipts with statements.

Why isn't the Army doing it?

The GAO says that Army troops are just too busy with other duties to do it.

Being too busy to make routine control checks to

protect the taxpayers' money is not acceptable.

Purchase card accounts are U.S. Treasury accounts- accounts belonging to the taxpayers. Protecting tax money is not an option. It's mandatory.

If the troops can't do it, than maybe credit cards aren't the answer.

Mr. Chairman, I plan to return at 2pm to provide an in-depth report on a very troublesome fraud case involving a current Army employee, Ms. Tanya Mays.

Tanya Mays Case

Mr. Chairman, at the last hearing, I shed some light on a particularly troublesome fraud case

involving a current Army employee - Ms. Tanya Mays.

I would like to re-visit this case. I have new information.

The alleged fraud occurred while she was employed by the Navy Department in San Diego.

She is now in charge of "cash integration" in the Army's financial management organization over in the Pentagon.

Since our March hearing, her case has disappeared off the radar screen.

By raising this troublesome matter in March, I had hoped someone over in the Pentagon with some clout would hear me and do something.

Secretary Rumsfeld's Charge Card Task Force came to my office on May 16th to provide a briefing on plans for cleaning up the credit card mess.

The Task Force doesn't seem to care a hoot about Tanya Mays. I hope that's not a bad omen. The Task Force brushed off my questions about the Mays case.

When asked about it, the Task Force provided this canned response: " The Navy got the money back. Problem solved."

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That response really bothers me. It just doesn't cut it.

Mr. Chairman, getting the money back is a red warning flag. It should trigger follow-up action - like a criminal investigation.

The GAO's Office of Special Investigations examined the Tanya Mays case. Here are the facts as we know them.

Ms. Mays' purchase card allegedly went Christmas shopping in December 1999 and in a few short days ran up a $12,000 bill.

It was used to buy seven gift certificates worth $7,500.00, a Compaq computer, Amana range, groceries, gas, clothing. You name it. They got it. All expensive stuff - and all at the taxpayers' expense.

The Citibank statement for her December 1999 shopping spree is dated January 21, 2000.

All her purchases were made over a six-day period - December 20th to December 26th.

The grand total on the statement is $12,550.24.

The Christmas shopping spree prompted the bank to suspend her account. Ms. Mays got the bad news when she attempted to use the card again on December 27th.

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When confronted with the suspicious transactions, she told the Bank she lost the card.

Two days later, she was issued a new one.

In late January 2000, she presented the $12,550.24 bill to her Navy supervisor for approval. Her signature appears at the bottom of the statement. Her signature signifies that she accepted the charges as her own.

According to the supervisor, she said she needed it approved in a hurry because she was already late in submitting it.

If she questioned the charges, she was required to attach a dispute form to the January 2000 statement. No dispute form was attached. There were no complaints, and no story about losing the card.

The supervisor then "rubber stamped" it - approved - without reviewing it.

Once she got the skids greased and the payment ball rolling, she claimed once again the charges weren't hers.

She said she kept the card in her office desk drawer and somebody took it for a few days. She told that story on January 31, 2000. But the bill got paid in full anyway.

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At this point, Citibank gave her a dispute form. But for reasons yet to be explained, she waited fourteen months - until February 2001 - to file a sworn

affidavit disputing charges.

By then, the evidence trail was cold.

When Ms. Mays left the Public Works Department in June 2000 for another Navy office in San Diego, she did not surrender her card. She was allowed to keep it - contrary to regulations.

And she abused it again - this time for a personal car rental on June 18, 2000 for $357.95. Public Works gladly paid this bill, too.

Ms. Mays had previously used her official travel card to buy three airline tickets for her son. They cost another $722.00.

The grand total on Ms. Mays' government cards was $13,630.19

Mr. President, I ask unanimous consent to place Ms. Mays January 2000 statement and related documents in the Record.

The handwriting on Ms. Mays' purchase card receipts has been subjected to analysis by the U.S. Secret Service Forensics Division.

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These experts have concluded that someone other than Ms. Mays actually signed the receipts but all appear to have been signed by the same person.

The Amana range, for example, was bought with a gift certificate made out to Ms. Mays' ex-boyfriend's mother.

The boyfriend in question resided at Ms. Mays' address at the time the fraudulent purchases were made.

Mr. Chairman, her ex-boyfriend has a long criminal record. He is considered a real pro at committing fraud.

This new information seems to raise the possibility that the boyfriend used the card without Ms. Mays knowledge or approval.

Most of the experts who have investigated this case don't buy that theory.

They believe that Ms. Mays did not make the purchases but knows who did.

Ms. Mays needs to come clean. There are too many unanswered questions.

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If she someone stole the card between December 20th and December 26th as she claims, how did it come to be back in her possession again on December 27th

when she tried unsuccessfully to use it?

Why didn't Ms. Mays examine her January 2000 bill before presenting it to her Navy supervisor? Did she check it and reconcile charges with her receipts?

Why did she sign the January 2000 statement, signifying that the charges were hers?

Why didn't she attach the required dispute form to her January 2000 statement?

Why did it take her 14 months to give a sworn affidavit disputing the charges?

Why did she abuse her purchase card again in June 2000?

When she handed the January 2000 statement to her supervisor, she had to know the score.

These charges were incurred on her credit card account. They appeared on her statement. She endorsed that statement, she submitted it and demanded immediate payment.

She now needs to accept responsibility for the charges that appear on her statement.

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Yes, it's true that the Navy eventually got the money back in April 2001. And that's good news. The taxpayers' losses were recovered.

Getting the money back is a powerful indictment, however.

It means that Citibank and/or the Navy came to the conclusion that the charges on Ms. Mays' account were fraudulent.

Mr. President, why can't Mr. Rumsfeld's Task Force see the handwriting on the wall?

And why didn't the Naval Criminal Investigative unit - NCIS - get on the stick and attack this case in January 2000? NCIS dropped the ball.

And that brings us back to Ms. Mays.

Ms. Tanya Mays and/or her associates allegedly have the stolen goods. That means the bank gets left holding the bag. The bank gets busted, and the criminals skate. That's not right.

There are other signs that Ms. Mays was not acting in good faith.

The $357.95 personal car rental charge that she incurred was also reversed through a credit from Cititbank. Again, the Navy got the money back. Ms. Mays agreed to re-pay the bank but hasn't done that.

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Ms. Mays has just re-paid Bank of America the money she owed for her son's airline tickets. She initially paid the bank $343.21 on that bill.

But $378.79 was left unpaid for three years – until recently when we starting cranking up the pressure.

In February 2002 - after being grilled by GAO investigators, she finally paid off the balance. The account was closed and not re-issued.

Mr. Chairman, Ms. Mays' credit record is a virtual trail of bad debt. It's scandalous. She should never have been issued a government credit card. She has a long history of personal credit card abuse. She had at least 12 accounts that went bad.

Whoever gave her government credit cards should have their head examined.

Mr. President, the bottom line is a lack of accountability.

Based on the GAO's work so far, I would have to say that the Army is tougher on credit card crime than the Navy. We found a Army female sergeant who was court marshaled in April 2002 and sentenced to 18 months incarceration for $30,000 in fraudulent purchases. The Navy is at the zero end of the scale.

The Mays case is a combined Army/Navy case.

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To my knowledge, no disciplinary action has been taken against Ms. Tanya Mays.

She seems to be working her way up the

promotion ladder like nothing ever happened.

As I understand it, she was moved into a bigger job and given a promotion in October 2001 - 21 months after the alleged Christmas shopping spree.

Mr. Chairman, I am told the Navy helped put her on the fast track for the Army job.

The Navy gave her glowing recommendations when she applied for her current position with the Army. That's an old bureaucratic trick: Sprinkle some perfume on tarnished goods and pass it on the other service.

This case sets a terrible example. It symbolizes all that's wrong with the DOD credit card program.

Ms. Mays must be held accountable for the purchases, which are allegedly fraudulent, that appear on her government credit card accounts.

If someone else committed these crimes, she needs to spill the beans.

I want this matter investigated and resolved.

Right now, Mr. President, the prospect for accountability looks dim.

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No one wants to touch this case with a ten-foot pole.

The U.S. Attorney has repeatedly declined to prosecute because the amount stolen is too small to

mess with.

The Navy refuses to pursue the case because Ms. Mays is no longer employed by the department.

Her current employer - the U.S. Army - refuses to take action because the alleged crimes were committed while she was employed by the Navy.

The Tanya Mays case is falling right between the cracks.

However, there are two new developments.

First, I am told the DOD IG opened an active investigation on June 3rd.

Second, Ms. Mays holds a security clearance. As I explained this morning, a person's level of financial responsibility is a key factor in granting clearances.

On June 12th, I asked the Assistant Secretary of the Army to review her credit history and determine whether she has the requisite level of financial responsibility to hold a clearance.

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On July 1st, I was informed that her security clearance has been "informally suspended," pending further review.

If DOD is unable to find a way to resolve this

matter in a way that is fair and just for Mays and Citibank, then all the promises about credit card reform are nothing but empty promises.

Accountability and reform go hand in hand. Without accountability, there will be no reform.

Tanya Mays is a good place to start. That's where the rubber meets the road.

Mr. HORN. Thank you very much, Senator, for taking this time. I know you have plenty of business on the other side of the Hill. So we appreciate you taking this time.

Senator GRASSLEY. And I thank you for letting me in early, ahead of all your Members' statements, because we do have a vote at 10:30. So I appreciate that very much.

Mr. HORN. We have one on our side in 5 minutes.

Senator GRASSLEY. I will leave my statement here for the record.

Mr. HORN. Thank you. Well, let us swear in everybody, and then I will yield to Ms. Schakowsky as the ranking member.

Mr. Waxman.

Mr. WAXMAN. Mr. Chairman, may I request that I be allowed to give an opening statement right away, because I am called to another committee?

Mr. HORN. Sure.

Mr. WAXMAN. Thank you very much.

We are going to hear today yet again about the financial mismanagement of the Department of Defense. Americans have been hearing a lot about financial mismanagement lately. Revelations about corporate misdeeds in companies like Enron and WorldComm fill the headlines on a daily basis.

The public is growing increasingly concerned, and this concern is spreading to how the Federal Government manages its money.

We, in Congress, have a responsibility to ensure that the Federal Government's accounts are honest. That is why today's hearing is so important, and I want to thank the chairman for calling it.

I also want to thank my colleague, Representative Schakowsky for her vigilance in pursuing this issue. I am pleased to work with her to hold the Defense Department accountable.

Today, she and I will send a letter to Secretary Rumsfeld, urging him to address the problems of financial mismanagement, found by GAO's investigations.

As GAO's testimony and report reveal, this mismanagement is rampant. GAO found widespread abuse of Government travel cards and purchase cards. Both of these cards are intended to increase convenience for Government employees.

The travel cards are designed to make it easier for Government employees to pay for official travel, and the purchase cards are designed to make it easier to buy needed items. Both cards are specifically intended for official business.

But we will hear today that these cards were frequently used, not for official business, but instead for private pleasure. For instance, GAO found that at one site, 45 percent of the purchases on the travel card were for personal use.

For example, one use of these travel cards was at strip clubs. Army personnel would use these cards to obtain cash or sometimes "club cash" from the strip club, often at 10 percent fee. GAO identified about 200 individuals who were charged almost $38,000 at these establishments. One cardholder alone obtained more than $5,000 in cash.

But that is not the only disturbing example. GAO found that these travel cards were being used to pay for everything from dating and escort services, to casino and Internet gambling, to cruises.

GAO's findings on purchase cards, which the committee will hear about today are similarly troubling.

For instance, these cards were also used to purchase escort services. In another example, GAO estimates that $100,000 was spent on various items, including a computer game station, digital camera, and a surround sound system. In another case, $30,000 was spent on items that included clothing from Victoria's Secrets.

These abuses are unacceptable, and it is even more unacceptable that the Defense Department has not done more to stop them. GAO reported on these problems last year, yet the department failed to correct them.

It is common sense that the use of these cards require proper oversight. No Government agency should give its employees a blank check, and not watch to see how the money is spent. Yet, that is effectively what the department has done with these cards.

GAO found that a weak overall control environment, and breakdowns in key internal control activities leave the Army vulnerable to potentially fraudulent, improper, and abusive purchases. It is past time for our Government to get its books in order.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Waxman follows:]

Opening Statement
Representative Henry A. Waxman
Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations

Hearings on Army Purchase Card and Travel Card Abuse
July 17, 2002

We will hear today, yet again, about the financial mismanagement at the Department of Defense. Americans have been hearing a lot about financial mismanagement lately. Revelations about corporate misdeeds in companies like Enron and WorldCom fill the headlines on a daily basis. The public is growing increasingly concerned and this concern is spreading to how the federal government manages its money.

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For example, one use of these travel cards was at strip clubs. Army personnel would use these cards to obtain cash, or sometimes "club cash," from the strip club, often at a 10% fee. GAO identified about 200 individuals who charged almost $38,000 at these establishments. One cardholder alone obtained more than $5,000 in cash.

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that "a weak overall control environment and breakdowns in key internal control activities leave the Army vulnerable to potentially fraudulent, improper, and abusive purchases."

It is past time for the government to get its books in order.

Mr. HORN. Thank you.

Would you like, Ms. Schakowsky, to add anything at this point?

Ms. SCHAKOWSKY. How were you going to do this?

Mr. HORN. I am going to swear in the witnesses, and I would just as soon have you do it now, and then they will be here.

Ms. SCHAKOWSKY. Thank you, Mr. Chairman, for calling these hearings today. I appreciate your separating the travel card and purchase card issues, so we can focus on the unique aspects of each.

Mr. Waxman referred to the letter that he and I now have authored to Secretary Rumsfeld today, urging that there be a consistent and effective effort to solve the financial management problems at the Defense Department.

The primary issue before us today is the failure of financial management at the Department of Defense. Last year, the Inspector General reported that the Defense Department had $1.2 trillion in expenditures that could not be properly accounted for in the annual audit.

The GAO has repeatedly testified that the failure of the Defense Department to be able to audit its books is what is keeping the entire Government from being able to have a clean audit.

Today, we will hear several examples of misuse of Government credit cards. I am sure that tomorrow's news stories will focus on the most outrageous of these examples, as they should.

However, we will not solve this problem by only focusing on these examples, and only singling out the individuals, because it will not reveal the true problem facing our oversight role; which is the department.

As Senator Grassley stated, we are talking about having to change the culture, a culture of abuse, a culture of no accountability that is in the Department of Defense right now. Government travel and purchase cards were instituted to save money for the Government.

However, we have gone from a system of Byzantine chains of review for small purchases or day trips, to no management at all.

The span of control in many of the agencies reviewed by GAO is absurd. We see purchases made on Government cards for personal use. We see individuals defaulting on large sums owed for Government travel; travel for which the individual was reimbursed, and then the person is promoted. Where is the management oversight?

Again and again, whether it is procurement, travel cards, purchase cards, or contract management, the story is the same. DOD management is not just bad, it is atrocious.

Last week was one of the worst weeks on Wall Street in Wall Street history, because the public has lost confidence in corporate financial management.

What is clear from our testimony today is that the financial management at DOD, at the Department of Defense is as bad or worse as Enron, WorldComm, Xerox, or any other corporations that have misled the public.

I want to say that again, because I think the American people should be shocked that financial management in our own U.S. Government of Defense is as bad or worse as Enron, WorldComm,

Xerox, in my opinion, or any of the other corporations that have misled the public.

At a time when allegations of wrongdoing, about business executives and high ranking Government officials are dominating the news, we must demand that our agencies set a good example.

The President ran on the idea that Government should be run more like business. Well, it looks like one should be careful what one wishes for.

Our former colleague, Senator Proxmire used to give out the Golden Fleece Award, which often went to some unit within the Defense Department. Perhaps it is time that we brought that back.

I am dismayed at the number of hearings that we have had that highlight the failure of financial management at DOD, and yet nothing has happened.

Some, I am sure, will complain that we should not be distracting the military from its primary mission, as we fight terrorism. But it is scandalous that the Department of Defense management is permitted to squander funds that could be spent protecting our home front, and those serving on the front line.

Thank you, Mr. Chairman.

[The prepared statement of Ms. Schakowsky follows:]

**STATEMENT OF THE HONORABLE JAN SCHAKOWSKY
AT THE HEARING ON
ARMY PURCHASE CARDS**

JULY 17, 2002

Thank you Mr. Chairman for calling this hearing. As I said this morning, I am deeply disturbed by the record of financial mismanagement at the Defense Department, and I am not encouraged by anything I have learned today. I look forward to Secretary Rumsfeld's response to the letter Rep. Waxman and I sent this morning asking how he was going to address the financial management problems at the Defense Department.

The abuse of purchase cards, even more than the problems with travel cards, is simply bad management. There are too many cards. There is too little oversight, and there is no accountability.

This morning we heard about a National Guard officer who defaulted on $5,400 of travel charges, and then was promoted. Earlier this year we were told about a Navy employee who purchased $800 worth of luggage supposedly to transport computer equipment, and then left the luggage behind when he returned to San Diego. This afternoon we will hear more examples of egregious behavior by Defense Department employees. Where will it end?

The purchase card program may have been a promising idea when it was devised, but the management at the Defense Department has turned it upside down. A program that was designed to save money, has, instead, made it easier to abuse the purchasing system. A program that was designed to streamline the bureaucracy, has, instead made it easier for an employee to buy personal items and on the federalgovernment's tab. I am anxious to see the results of the study I requested from GAO that compares the price paid on these purchase cards to the price for the same item on the GSA schedule. I have little doubt now what it will show.

Any of these abuses could have been stopped if management was managing, but it is not. The abuses of financial management do not stop at credit cards. Last month we heard about DOD selling chemical protective

suits on the web for pennies on the dollar. Last year we heard that there was over a trillion dollars on the DOD books that could not be properly accounted. Two years ago, GAO included financial management at the Defense Department on its high-risk list and it will be there again next January.

First it was $600 hammers and $3000 toilet seats, now it's strip clubs, escort services, and plastic surgery. Leadership must come from the top and this pattern of abuse at the Defense Department must come to an end.. At a time when the deficit is growing and the government must meet the new challenges of terrorism. The Department of Defense must become a partner in improving government accountability, not the poster child for fiscal irresponsibility.

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Security, Not Secrecy

Wednesday, July 17, 2002; Page A22

DEEP IN THE homeland security legislation now being prepared by the House of Representatives is a provision designed to protect sensitive information about America's critical infrastructure. Most of this country's vulnerable infrastructure -- dams, computer networks, chemical plants -- is privately owned. So, for counterterrorism to be effective, the government needs companies to share information about their vulnerabilities. But companies are sometimes unwilling to do so, fearing public disclosure or regulatory action. So the administration is backing a proposal to exempt from public disclosure under the Freedom of Information Act critical infrastructure information that companies provide voluntarily to federal agencies. It also would bar the government from using such information in regulatory proceedings against companies.

But all kinds of information might be designated by companies as related to critical infrastructure. Merely by labeling their own information as sensitive, companies might avoid public disclosure and keep damning data off-limits in enforcement actions. A company that feared an impending government action over an environmental hazard risk could preempt the action by "voluntarily" delivering self-incriminating documents as critical infrastructure information. This material would then presumptively become unavailable to regulators in enforcement actions -- unless they could show they had obtained it independently -- and to the public and private litigants as well. No law should put in the hands of a regulated party the power -- by turning over information -- to preclude government's use of that information for legitimate law enforcement purposes.

It's not clear that such protections against disclosure are needed. While companies say they are reluctant to cooperate with government because of fears of disclosures, executives testifying in favor of the provision last week offered no examples of such unwarranted disclosures. The Freedom of Information Act already broadly shields confidential business information as well as national security information; the burden now ought to be on industry to identify specific categories of information that are vulnerable to improper disclosure under current law and legitimately in need of protection. Exemptions ought to be crafted narrowly to apply to those categories. Homeland security should not be about secrecy for secrecy's sake, and it certainly shouldn't be about strengthening industry's hand against government's other important regulatory functions.

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Congress of the United States
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July 17, 2002

The Honorable Donald Rumsfeld
Secretary of Defense
The Pentagon
Washington, DC 20310

Dear Secretary Rumsfeld:

Revelations about corporate misdeeds and accounting irregularities at companies such as Enron and WorldCom are causing enormous public concern. Increasingly, this concern is spreading to how the federal government manages the taxpayers' money. We in government have an obligation to ensure that the government's accounts are honest and the taxpayers' money is not squandered.

For this reason, we are writing you to bring to your attention serious financial mismanagement within the Department of Defense. Today, testimony and a report are being released by the General Accounting Office that find widespread problems in the use of travel and purchase cards at the Defense Department. A copy of the testimony and report are enclosed.

Travel cards are special credit cards given to employees by the Defense Department that are intended to be used to pay for travel on official business. But GAO investigators found that these cards are regularly being used for nonofficial business. According to the testimony of Gregory Kutz, the Director of Financial Management and Assurance for Defense at GAO, 15% to 45% of the charges on the travel cards that GAO reviewed were for personal – not government – use.

For example, GAO investigators found that the travel cards were frequently used by Army personnel to obtain cash at strip clubs. GAO found that Army personnel would present the cards at a strip club and ask for cash. The strip club would then commonly charge a 10% fee for the cash and record it as a "restaurant" transaction. GAO also found that these travel cards were being used to pay for everything from dating and escort services to casino and internet gambling to cruises.

GAO's investigation of purchase cards is similarly disturbing. These purchase cards are designed to provide a convenient method to purchase supplies that are not available through the

General Services Administration (GSA) or would take too long to purchase through GSA. Although use of the cards is strictly limited to purchases for official business, GAO's report finds that these cards are regularly being used to purchase personal goods.

According to the GAO report, the personal goods bought with taxpayer dollars on these purchase cards include jewelry, cosmetics, and computer equipment. The purchases reviewed by GAO included:

- An estimated $30,000 spent on items such as rings, purses, and clothing, including purchases from Victoria's Secret;
- Over $10,00 spent on a trip to Las Vegas, personal clothing, and paying personal bills;
- An estimated $100,000 for a variety of items including a computer game station, digital camera, and a surround sound system; and
- $630 for escort services.

According to GAO, this abuse can be traced to the poor financial management practiced by the Department of Defense. Proper use of these cards requires that someone independently verify that the goods were received by the government and that the purchase was for a government use. GAO found rampant failures to provide these safeguards. In fact, GAO found that "none of the installations . . . audited had a comprehensive or effective program of oversight and monitoring."[1]

These new GAO findings are unfortunately not isolated examples of financial mismanagement at your Department. Last year, GAO found that Navy personnel were similarly using government purchase cards to acquire personal items.[2] And the Inspector General found that in fiscal year 2000 alone, "$1.2 trillion in department-level accounting entries . . . were unsupported because of documentation problems or improper because the entries were illogical or did not follow generally accepted accounting principles."[3]

Earlier this year, the Department convened a task force to examine the issue of travel and purchase cards and, just two weeks ago, the task force issued recommendations on how to

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[1]U.S. General Accounting Office, *Purchase Cards: Control Weaknesses Leave Army Vulnerable to Fraud, Waste, and Abuse*, 17 (June 2002).

[2]U.S. General Accounting Office, *Purchase Cards: Control Weaknesses Leave Two Navy Units Vulnerable to Fraud and Abuse* (July 30, 2001).

[3]Office of the Inspector General, Department of Defense, *Independent Auditor's Report on the Department of Defense Fiscal Year 2001 Agency-Wide Financial Statements* (Feb. 26, 2002) (D-2002-055).

address this problem. While we commend your efforts in convening the task force, its recommendations are clearly inadequate. For example, the recommendations do not address how the use of these cards at strip clubs can be avoided. Furthermore, the task force report does not lay out a specific plan for implementing management changes.

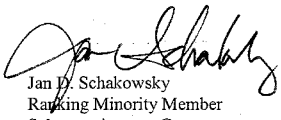
We urge you to take immediate and decisive action to address the problems of financial mismanagement at your Department. The Defense Department should institute sound and effective oversight of these cards, as recommended by GAO.

We also urge you to speak out against efforts by Republican leaders in Congress to expand the use of these cards without proper oversight. Just last week, Rep. Tom Davis, the chair of the Subcommittee on Technology Procurement Policy, and Rep. Dan Burton, the chair of the Government Reform Committee, inserted language in the homeland security bill that raised the threshold for transactions using purchase cards from $2,500 to $5,000. Due to the efforts of Rep. Jim Turner, the ranking member of the Subcommittee on Technology and Procurement Policy, the proposed increase in the threshold was reduced from $15,000 to $5,000. But even this increase is too much without proper financial management.

At the same time as the federal budget is deteriorating rapidly, our nation is fighting a new and expensive war on terrorism. We can not afford to allow financial mismanagement to continue: The American people need to be sure that every dollar is well spent. The Department of Defense spent over $6.1 billion with purchase cards in fiscal year 2001. With the increase in the threshold for the cards and the increases in appropriations for the Department, that number is sure to rise. As it does, it is your responsibility to ensure that this money is not wasted.

We respectfully request that you inform us of your plans to rectify this financial mismanagement no later than September 4, 2002.

Sincerely,



Jan D. Schakowsky
Ranking Minority Member
Subcommittee on Government
Efficiency, Financial Management, and
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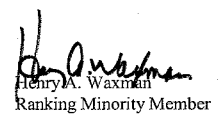

Henry A. Waxman
Ranking Minority Member
Committee on Government Reform

Mr. HORN. Thank you. We will now ask panel two to come forward. Gregory Kutz is Director, Financial Management and Assurance, U.S. General Accounting Office. He is accompanied by Special Agent John Ryan, Assistant Director, Office of Special Investigations in the U.S. General Accounting Office.

Then we have Major General Thomas Eres. He is Commander of the California Army National Guard. Sandra L. Pack is the Assistant Secretary of the Army, Financial Management and Controller, Office of the Secretariat; and Jerry Hinton, Director for Finance, Defense Finance and Accounting Service, Department of Defense.

Now we want not just you, but we want all your assistants that are going to give you testimony or whisper in your ear or whatever it is. The clerk will take down the names and put in those people, the staff back-up, and they will be in the record at this point.

So if you will all come and raise your right hand. Let us see, we have 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, it looks like.

[Witnesses sworn.]

Mr. HORN. The clerk will note that all have affirmed the oath. We have now a vote on the floor. Please be seated. We are going to come, as fast as we can, back off the floor, and then come back here. So we are in recess now.

[Recess.]

Mr. HORN. The recess is over at seven before the time. So we now will have Greg Kutz, Director of Financial Management and Assurance, U.S. General Accounting Office. You have spent a lot of time with this, so give us the best you can think of, in terms of the summary.

STATEMENTS OF GREGORY D. KUTZ, DIRECTOR, FINANCIAL MANAGEMENT AND ASSURANCE, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY SPECIAL AGENT JOHN RYAN, ASSISTANT DIRECTOR, OFFICE OF SPECIAL INVESTIGATIONS, U.S. GENERAL ACCOUNTING OFFICE; MAJOR GENERAL THOMAS W. ERES, COMMANDER, CALIFORNIA ARMY NATIONAL GUARD; SANDRA L. PACK, ASSISTANT SECRETARY OF THE ARMY, FINANCIAL MANAGEMENT AND COMPTROLLER, OFFICE OF THE SECRETARIAT; AND JERRY S. HINTON, DIRECTOR FOR FINANCE, DEFENSE FINANCE AND ACCOUNTING SERVICE, DEPARTMENT OF DEFENSE

Mr. KUTZ. Thank you, Mr. Chairman. It is a pleasure to be here to discuss our audit of the Army Travel Program. With me is Special Agent John Ryan from our Office of Special Investigations, who is an expert in credit card fraud and abuse.

I have in my hand a travel card, and it is also shown on the monitor, for those in the audience. As you can see, it looks like a normal credit card. The card used by the Army is a Bank of America Master Card, and can generally be used wherever Master Card is accepted. However, notice that it says, "For Official Government Travel Only."

Travel card charges are billed to and paid for directly by the cardholder, unlike the purchase card, where they are billed to the Government and paid by the Government.

Travel cards were introduced to the Government to improve efficiency and reduce the cost of operations. The Department of De-

fense individually billed travel card activity was over $2 billion in fiscal year 2001.

With 1.4 million travel cards in the hands of DOD employees, effective internal controls are necessary to prevent fraud and abuse.

Today, I will discuss our audit of the Army travel program for fiscal year 2001. This is the first in a series of audits on the Department of Defense travel programs. We plan to issue the results of our Navy and Air Force audits in the next several months.

I also want to thank the Army for their cooperation in our audit. The recent success of our forces in Afghanistan has again demonstrated that our military forces are second to none.

The bottom line of my testimony is that the Army had significant breakdowns in internal controls over the travel program. These breakdowns contributed to significant delinquencies and charge-offs, and fraudulent and abusive activity.

My testimony has three parts. First, delinquencies and charge-offs; second, fraudulent and abusive activity; and third, the effectiveness of internal controls.

First, we found substantial delinquencies in charge-offs of Army travel card accounts. Most Army employees used their card appropriately and paid the bank on time. However, as shown on the posterboard, we found that the Army has the highest delinquency rate in the Federal Government.

For the 2-years ending March 31, 2002, the Army's delinquency rate fluctuated between 10 and 18 percent. this was about 5 percentage points higher than the rest of DOD and 7 percentage points higher than Federal civilian agencies. In addition since 1999, nearly $34 million of Army accounts have been charged-off.

These delinquencies and charge-offs have cost the Army millions of dollars in lost rebates, higher fees, and substantial resources spent pursuing and collecting past-due accounts.

We found that the Army's delinquency and charge-off problems relate primarily to young, low and mid-level enlisted military personnel. Specifically, this is privates to staff sergeants, with basic pay ranging from $11,000 to $26,000.

The Army and DOD have taken action to improve management attention on delinquent accounts. In addition, beginning November 2001, DOD began offsetting military and civilian employee wages and retirement payments. These and other actions have significantly reduced charge-offs and increased recoveries in fiscal year 2002.

My second point relates to our findings of numerous instances of potentially fraudulent and abusive activity. Fraud and abuse were substantial in fiscal year 2001. Since 1999, 23,000 Army accounts were charged off, while thousands more have been delinquent.

In addition, we estimate that 15 to 45 percent of 2001 travel card transactions at the four installations that we audited were for personal charges.

The instances of potential fraud we found related to individuals who wrote three or more NSF or "bounced" checks to the Bank of America. During fiscal year 2001, over 4,000 Army personnel wrote NSF or bounced checks to the bank. More than 200 of these cardholders, all having their accounts charged-off, may have committed bank fraud by writing three or more NSF checks to the bank.

One cardholder, as Senator Grassley mentioned, from Fort Jackson, wrote 86 NSF checks to the bank, for about $270,000. This cardholder was convicted of writing NSF checks, prior to getting a Government travel card.

This cardholder was able to boost his credit limit from $10,000 to $35,000, by writing these NSF checks. As of late May, this cardholder was being court martialed.

We also identified substantial abuse of the travel card. Abuse due to failure to pay Bank of America included both cardholders that were reimbursed for official travel, and those that used the card for personal charges.

The posterboard shows examples of abuse, resulting in charged-off accounts, including: the purchase of a used car from Budget Rent-A-Car; adult entertainment charges, including gentlemen's clubs, such as the Spearmint Rhino Adult Cabaret; Internet and casino gambling, including a Pennsylvania National Guard solder, who charged nearly $14,000 for his Black Jack gambling habit; and use of reimbursed travel money to pay for the closing costs on a home purchase.

We found that having the travel card was like having cash. Specifically, cardholders abused the travel card by improperly obtaining cash at gentlemen's clubs.

These clubs, which provide adult entertainment, supplied cardholders with actual cash or "club" cash for a 10 percent fee. For example, a cardholder wanting $300 of cash would be provided $300 and billed $330. These transactions appeared on the monthly credit card bill as restaurant or bar charges.

One cardholder, who was on official travel, obtained $5,000 in cash at two gentlemen's clubs, in Columbia, South Carolina, called Bottoms Up and Platinum Plus. This cardholder told us that the ability to obtain cash at these clubs was common knowledge among military members.

We also found abusive charges that were personal use, but where the cardholder ultimately paid the Bank of America. These cardholders benefited by effectively getting an interest-free loan. These purchases included cruises, a package for the Rose Bowl, sports and theater tickets, insurance, and women's lingerie.

In addition, it was troubling to see little evidence of disciplinary action against travel card abusers. In the rare cases where severe disciplinary action was taken, it was often done in conjunction with other problems such as drug abuse.

We even found that a California National Guard employee was promoted from Major to Lieutenant Colonel, after having her $5,000 account balance charged-off.

In addition, we found that 38 of 105 severe travel card abusers from our testing have active, secret, or top secret clearances. An individual's finances are one of the key factors used in determining whether a clearance is granted.

We found that the Army does not link fraudulent or abusive use of the travel card to the maintenance of security clearances.

In addition to travel card abuse, many of these 38 individuals had other financial problems, such as bankruptcy, foreclosed home mortgages, and repossessed automobiles. Let me repeat, the people

with these financial problems had secret and top secret clearances in June 2002.

Mr. Chairman, as you, Representative Schakowsky, and Senator Grassley requested, we have provided the DOD with a list of these individuals to reevaluate the security clearances.

My third point relates to weaknesses in internal controls.

Mr. HORN. Let me just interrupt on that. We sent over to the Secretary about 800 names on that, and I think they came from you. So I just wanted to know where that is.

Mr. KUTZ. That is a different list. This is a list of people with active, secret, and top secret clearances that abused their travel card.

Mr. HORN. And they have matched that against that?

Mr. KUTZ. We had matched that.

Mr. HORN. You matched that?

Mr. KUTZ. Yes, we did the matching.

Mr. HORN. OK.

Mr. KUTZ. My last point relates to weaknesses in internal controls. A weak control environment, compounded by instances of delays in processing travel reimbursements, contributed to the Army's high delinquency rates.

Army management has not provided for an effective infrastructure, primarily human capital related, to effectively manage this program.

For example, agency program coordinators, who oversee travel cardholders' activities, are often military personnel, who are rated primarily on other job responsibilities, such as airport security.

The APC role is an "other duty as assigned." Many of these APCs are set up to fail in their duties, because they are given a substantial span of control, in one instance, up to 1,000 cardholders, and virtually no time to do this collateral duty.

Many problems related to the Army issuing travel cards to individuals, regardless of their prior credit history. We found a significant correlation between travel card abuse, fraud, and delinquencies, and prior credit problems.

Prior problems included defaulted credit cards, automobile loans and home mortgages, bankruptcies, and prior convictions for writing bad checks.

Delays in processing travel reimbursements, particularly at the California National Guard, contributed to the high delinquency rate for that unit. We found a substantial number of California Guard, and several employees at other units, that should have been reimbursed for interest and late fees.

In summary, a weak internal control environment has resulted in a travel program with substantial fraud and abuse, and a significant level of delinquencies and charge-offs. DOD and the Army have taken positive steps to improve the delinquencies and charge-offs.

However, we believe that the Army actions to date have focused primarily on treating the symptoms of the problems, the delinquencies and charge-offs, rather than the causes.

Preventive solutions include mandatory splitting of disbursements; exempting individuals with financial problems from receiv-

ing a card; deactivating cards when employees are not on official travel; and a strong, consistent disciplinary policy.

We will followup on this testimony with a report with recommendations. We plan to work closely with the Army and the Charge Card Task Force to implement these recommendations.

Mr. Chairman, that ends my statement. Agent Ryan and I would be happy to answer questions when the others have done their statements.

[The prepared statement of Mr. Kutz follows:]

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations, Committee on Government Reform, House of Representatives

For Release on Delivery
Expected at 2 p.m.
Wednesday,
July 17, 2002

PURCHASE CARDS

Control Weaknesses Leave Army Vulnerable to Fraud, Waste, and Abuse

Statement of Gregory D. Kutz
Director, Financial Management and Assurance

John Ryan
Assistant Director, Office of Special Investigations

GAO-02-844T

Mr. Chairman, Members of the Subcommittee, and Senator Grassley:

Thank you for the opportunity to discuss the Army's purchase card program. Our related report,[1] released today and developed at the request of this Subcommittee and Senator Grassley, describes the problems we identified in the Army's purchase card program. For a number of years, the Department of Defense (DOD) has been promoting departmentwide use of purchase cards, and their use has dramatically increased. DOD reported that in fiscal year 2001 the purchase card was used by more than 230,000 civilian and military cardholders to make about 10.7 million transactions at a cost of over $6.1 billion. Purchase card transactions include acquisitions at or below the $2,500 micropurchase limit as well as for payments on contracts. The benefits of using purchase cards versus traditional contracting and payment processes are lower transaction processing costs and less "red tape" for both the government and the vendor community.

We support the use of a well-controlled purchase card program to streamline the government's acquisition processes. However, it is important that agencies have adequate internal control in place to protect the government from fraud, waste, and abuse. As a result of our work at two Navy sites[2] that showed significant breakdowns in internal control and your continuing concern about fraud, waste and abuse, you requested that we expand our audits of purchase card controls. Our report to you today is on the Army, which has the largest purchase card program in DOD with about 109,000 cardholders, 4.4 million transactions, and $2.4 billion in purchases in fiscal year 2001. We plan to report to you separately on the results of our audits of the Navy and Air Force purchase card programs.

Today, I will summarize our Army work. The purchase card program offers significant benefits; however, a weak overall control environment and breakdowns in key internal control activities leave the Army vulnerable to potentially fraudulent, improper, and abusive purchases. Our work at five Army major commands and one installation in each of the commands showed that the Army has not established an effective internal control

[1]U.S. General Accounting Office, *Purchase Cards: Control Weaknesses Leave Army Vulnerable to Fraud, Waste, and Abuse*, GAO-02-732 (Washington, D.C.: June 27, 2002).

[2]U.S. General Accounting Office, *Purchase Cards: Control Weaknesses Leave Two Navy Units Vulnerable to Fraud and Abuse*, GAO-01-995T (Washington, D.C.: July 30, 2001) and *Purchase Cards: Continued Control Weaknesses Leave Two Navy Units Vulnerable to Fraud and Abuse*, GAO-02-506T (Washington, D.C.: Mar. 13, 2002).

environment. As the use of purchase cards has expanded, Army management has not emphasized internal control activities that can provide reasonable assurance that the individual transactions are for authorized purposes or that they adhere to legal and regulatory requirements. At the individual transaction level, we identified a substantial number of purchases for which cardholders and approving officials had not adhered to important internal control activities and that were not in accordance with valid requirements, policies, and procedures. The weaknesses we identified in the control environment and the breakdown in specific internal control activities resulted in potentially fraudulent and other improper transactions not being prevented or identified promptly.

During our review, Army officials began to address some of the deficiencies we identified and to implement applicable actions at their levels. As discussed in the report released today, DOD concurred with our recommendations to improve the overall control environment; to strengthen key internal control activities; and to increase attention to preventing potentially fraudulent, improper, and abusive and questionable transactions.

Weaknesses in Overall Control Environment

Army purchase card management has not taken action to encourage a strong internal control environment. The importance of the role of management in establishing a strong control environment cannot be overstated. GAO's *Standards for Internal Control* discusses management's key role in demonstrating and maintaining an organization's integrity and ethical values, especially in setting and maintaining the organization's ethical tone, providing guidance for proper behavior, and removing temptations for unethical behavior.

Army purchase card management focused significant attention on maximizing the use of the purchase card for small purchases and on paying bills quickly to reduce delinquent payments, and it developed performance measures for them. However, purchase card management has not focused equal attention on internal control, and it has not developed performance measures to assess the adequacy of internal control activities. As a result, we identified a weak internal control environment characterized by a lack of (1) adequate operating procedures specifying needed program management, oversight, and internal control activities, and (2) oversight by all management levels over the program's implementation at the installation level.

Inadequate Program Operating Procedures

While existing governmentwide, DOD-wide, and Army-wide procurement regulations are the foundation for the Army purchase card program, the Army has not issued a specific servicewide regulation or standard operating procedure to govern purchase card activities throughout the agency. Instead, the Army relies on memorandums issued by the DOD and Army purchase card program offices and procedures issued by major commands and installations. Our assessment of the existing Army guidance is that it does not adequately identify and direct the implementation of needed actions and control activities. The memorandums issued by the DOD and Army purchase card program offices do not provide a comprehensive set of policies and operating procedures that identify the actions and control activities needed to manage the program.

Without agencywide operating procedures, the Army has relied on its major command and local installation program coordinators to establish purchase card policies and procedures to guide approving officials, cardholders, and others involved in the purchase card program as they implement the program. The standard operating procedures varied widely among the major commands and installations we audited, and they were not adequate.

Collectively, the Army policy memorandums and the major command and installation-level operating procedures do not adequately address key control environment issues. Among the key control activities meriting explicit attention are (1) responsibilities and duties of installation-level program coordinators, (2) controls over the issuance and assessment of ongoing need for cards, (3) appropriate span of control for approving officials, and (4) appropriate cardholder spending limits.

Ineffective Program Oversight

Ineffective oversight of the purchase card program also contributes to weaknesses in the overall control environment. In general, effective oversight activities would include management reviews and evaluations of how well the purchase card program is operating, including the internal control activities. We identified little monitoring or oversight activity directed at assessing program results, evaluating internal control, or identifying the extent of potentially fraudulent, improper, and abusive or questionable purchases.

At no management level, Army headquarters, major command, or local installation, is the infrastructure—guidance and human capital—provided

for monitoring and oversight activities. At Army headquarters, the purchase card agency program coordinator—the position involving direct oversight of the Army program—does not conduct internal control oversight activities. The coordinator's activities are mainly directed at answering program operation questions from and transmitting reports to major command and installation-level program coordinators. The major commands have direct authority over the installations that report to them and have responsibility for the purchase card programs of their installations. While the major commands that we audited had procedures to guide the installations' activities, we found little evidence of oversight activities by the commands to monitor the installations' implementation of the procedures.

Installation program coordinators are established as the pivotal officials in managing and overseeing the purchase card program. However, none of them at the installations we audited had developed a comprehensive or effective oversight program. They were devoting significant time and attention to basic activities such as establishing cardholders and approving officials and providing required training to these individuals. While devoting time and resources to establishing cardholders and approving officials, other important activities, such as monitoring potentially abusive and questionable transactions, were not receiving attention.

The lack of an infrastructure needed for program monitoring and oversight is especially critical at the installation level. There, program coordinators did not have guidance or training on what they should be doing to monitor and oversee the implementation of internal control activities, and they had not been trained. Although installation-level program coordinators are tasked with major program management responsibilities, applicable DOD, Army, and major command guidance did not provide a statement of duties, position description, or other information on the scope, duties, or specific responsibilities for the position. At each of the five audited installations, the coordinators told us they had not received any specific program coordinator training. Program coordinators essentially had been left on their own to develop and implement program management and oversight activities.

Further, the Army had not provided sufficient human capital resources at the installation level to enable the building and maintenance of a robust oversight program. The two key positions for monitoring purchases and overseeing the program are the program coordinator and the approving official. While the program coordinator position is a specifically designated

responsibility, we found that the Army did not have guidance on the appropriate human capital resources for the program coordinator's office and that program coordinators received very limited assistance in administering, managing, and overseeing the program. At the five installations that we audited, the assistance available to the program coordinator ranged from no staff to one full time assistant. Considering that the coordinators are responsible for procurement programs involving thousands of transactions and millions of dollars, the inadequacy of human capital resources was apparent. The program coordinators told us, and our observations confirmed, that with current resources, time was not available to conduct systematic reviews of approving officials' activities, much less undertake other management analyses and oversight activities.

As opposed to the specifically designated role of the program coordinator, approving official responsibilities generally fall into the category of "other duties as assigned," without any specific time allocated for their performance. We found that approving officials generally had many other duties that they perceived as a higher priority than monitoring purchases and reviewing their cardholders' purchase card statements. Also, many approving officials were responsible for a large number of cardholders. A large workload, especially one in an "other duties as assigned" category can inevitably lead to less attention than expected or desired. We found that a number of approving officials at the installations we visited had numerous cardholders reporting to them. For example, at Fort Hood, 29 billing officials had 10 or more cardholders. Two of the 29 had over 20 cardholders. Such a large span of control for approving officials is not conducive to thorough review of each cardholder's monthly statement. During our review, DOD established a benchmark of no more than 7 cardholders per approving official, and the installations reported that they were bringing their approving officials' span of control into line with the criteria.

Another symptom of a weak infrastructure was that program coordinators at the five installations we audited generally did not have the grade level or organizational authority—"clout"—to enforce compliance with purchase card procedures. At the five installations we audited, the program coordinators were part of the installation's contracting operation and reported to the director of contracting, from whom they derived their authority. However, we believe that the program coordinators' grade levels were not commensurate with their responsibilities or sufficient to provide the authority needed to enforce purchase card program rules. Only one of the five was a GS-12, two were GS-9s, and two were GS-7s. Program

coordinators have the primary responsibility for purchase card program management and significant control over procurement activities carried out by a large number of individuals. For example, the Fort Hood program coordinator has responsibility for overseeing a program of over 110,000 purchase card transactions totaling about $58 million and carried out by 321 approving officials and 1,242 cardholders. In addition to the relatively low grades levels, the Army has not made the program coordinator position career enhancing by making it part of a contracting career path.

Internal Control Activities Not Effectively Implemented

Our work shows that critical internal control activities and techniques over the purchase card program were ineffective at the five installations we audited. Based on our tests of statistical samples of transactions, we determined that the transaction-level control activities and techniques were not effective, rendering the five installations' purchase card transactions vulnerable to potentially fraudulent and abusive purchases and theft and misuse of government property.

Control activities occur at all levels and functions of an agency. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, and the production of records and documentation. For the Army purchase card program, we opted to test those control activities that we considered to be key in creating a system to provide reasonable assurance that transactions are correct and proper throughout the procurement process. The key control activities and techniques we tested are (1) advance approval of purchases, (2) independent receiving and acceptance of goods and services, (3) independent review by an approving official of the cardholder's monthly statements and supporting documentation, and (4) cardholders obtaining and providing invoices that support their purchases and provide the basis for reconciling cardholder statements. Table 1 summarizes the results of our statistical testing.

Table 1: Internal Control Activity Statistical Testing Failure Rates

Installation	Estimated percent* of transactions without documentation of			
	Advance approval	Independent receiving	Approving official review	Supporting invoice
Eisenhower Army Medical Center	60	71	86	26
Fort Benning	46	75	73	16
Fort Hood	36	65	66	7
Soldier, Biological and Chemical Command – Natick	25	55	40	14
Texas Army National Guard	69	87	41	14

*All estimated percentages have 95 percent confidence intervals of plus or minus 13 percentage points or less, except three estimates at Fort Hood. There, the 95 percent confidence intervals for advance approval, independent receiving, and approving official review ranged from 23 to 51 percentage points, 51 to 77 percentage points, and 52 to 79 percentage points, respectively.

Source: GAO testing and statistical analysis of Army purchase card transaction files.

Advance approval. Without Army-wide operating procedures, requirements for advance approval are not consistent but do exist to varying extent at each of the five audited installations. Two major commands and three installations specifically require advance approval. Others required written descriptions of purchases and appropriate coordination and review prior to the purchase. We believe that leaving cardholders solely responsible for a procurement without some type of documented approval puts the cardholders at risk and makes the government inappropriately vulnerable. A segregation of duties so that someone other than the cardholder is involved in the purchase improves the likelihood that both the cardholders and the government are protected from fraud, waste, and abuse.

Independent receiving. In our sample transactions, the five installations we audited generally did not have independent, documented evidence that the items ordered and paid for with the purchase card had been received. Independent receiving by someone other than the cardholder provides additional assurance that purchased items are not acquired for personal use and that the purchased items come into the possession of the government. The requirement for documentation of independent receiving was not generally addressed in the procedures of the commands and installations we audited. However, we believe that documented independent receiving is a basic internal control activity that provides additional assurance to the government that purchased items come into the possession of the government.

Approving official review. Approving official review is a recognized control activity at all levels of the purchase card program, and the approving official review process has been described as the first line of defense against misuse of the card. However, our testing revealed that documented evidence of approving official review of cardholder transactions and reconciled statements did not exist for most of our sample transactions. The high failure rate—40 to 86 percent—is of particular concern for this control activity because it is perhaps the most important to providing reasonable assurance that purchases are appropriate and for a legitimate government need.

Although the failure rates are of concern, they are not unexpected because major command and local standard operating procedures, while recognizing the importance of approving official review, do not specify the required extent, content, or documentation of approving officials' reviews. In addition, the high failure rate may be attributable to approving official responsibilities falling into the category of "other duties as assigned" and to approving officials being responsible for a large number of cardholders. A large workload, especially one in an "other duties as assigned" category, can inevitably lead to less attention than expected or desired. We believe that an approving official's review of the cardholders' purchases is a vital internal control activity. Without documentation of such review, neither we, internal auditors, nor program coordinators can determine the extent that approving officials are carrying out review responsibilities.

Supporting invoice. Essentially, the Army requires that an invoice support purchase card transactions. Thus, the invoice is a key document in purchase card internal control activities. The invoice is the basic document that is to be attached to the cardholder's monthly statement during a cardholder's reconciliation. The estimated failure rates for evidence of invoice—7 to 26 percent—were lower than those for the other internal control activities we tested. A valid invoice to show what was purchased and the price paid is a basic document for the transactions and a missing invoice is an indicator of potential fraud. Without an invoice, two key control activities—independent receiving and approving official review—become ineffective. Independent receiving cannot confirm that the purchased items were received, and the approving official cannot review a cardholder statement reconciled with the supporting invoice. A near zero failure rate is a reasonable goal considering that invoices are easily obtained or replaced when inadvertently lost.

Potentially Fraudulent, Improper, and Abusive and Questionable Transactions

Buying items with purchase cards without the requisite control environment creates unnecessary risk of excess spending, which can range from outright fraudulent purchases to ones that were of questionable need for the unit's mission or were unnecessarily expensive. We identified purchases at the installations we audited and through our Army-wide data mining[3] activities that were potentially fraudulent, improper, and abusive or questionable, which can result from a weak control environment and weak internal control activities. Although our work was not designed to identify the extent of potentially fraudulent, improper, and abusive or otherwise questionable transactions, such transactions are occurring and have not been detected considering the control weaknesses identified at each installation.

Potentially Fraudulent Purchases

We identified instances of potentially fraudulent transactions at three of the five installations we audited and in our Army-wide data mining. Some were identified in response to our inquiries and others were identified or being investigated independent of our audit. We considered potentially fraudulent purchases to include those made by cardholders that were unauthorized and intended for personal use. Potentially fraudulent purchases can also result when a purchase card or account number is stolen and used by someone other than the cardholder or when vendors charge purchase cards for items that cardholders did not buy. The following examples illustrate the cases we describe in the report that we are issuing today.

- At Eisenhower Army Medical Center, an Army investigation initiated near the end of our work has revealed an estimated $100,000 of potentially fraudulent purchases. The investigation began when an alternate cardholder received an electronic game station that had been ordered by another cardholder who was away on temporary duty. The alternate cardholder, noting that the purchase did not appear to be for government use, notified the program coordinator who notified the local Army criminal investigations division. The ensuing investigation revealed that the military cardholder, approving official, and several other soldiers and civilians colluded to purchase numerous items

[3]In our work, data mining involves the manual or electronic sorting of purchase card data to identify and select for further follow-up and analysis transactions with unusual or questionable characteristics.

including computers, digital cameras, an audio surround system, a 32-inch television, a stereo system, and other items for personal use.

- A Fort Benning military cardholder charged $30,000 for personal goods and cash advances before and after retirement. Because these 178 transactions went undetected, it appears that the approving official's certification was only a "rubber stamp" and was not based on a review of the cardholder's bill, reconciliations, and supporting documentation. The approving official not only did not detect these potentially fraudulent transactions while the cardholder was on active military duty, but also did not notice that charges were continuing to be made after the cardholder retired.

As part of our work, we attempted to obtain other examples of potentially fraudulent activity in the Army purchase card program from the Army's Criminal Investigation Command in Washington, D.C. However, data on the command's investigations were not available. Purchase card program officials and Army investigation command officials said that they had no information on the total number of fraud investigation cases throughout the Army that had been completed or were ongoing. Based on our identification of a number of potentially fraudulent cases at the installations that we audited, we believe that the number of cases involving potentially fraudulent transactions could be significant.

Improper Purchases and Transactions

Besides potentially fraudulent activity, our work also identified transactions that were improper, which are those purchases that, although approved by Army personnel and intended for government use, are not permitted by law, regulation, or DOD policy. We identified three types of improper purchases: (1) purchases that did not serve a legitimate government purpose, (2) split purchases in which the cardholder circumvents cardholder single purchase limits, and (3) purchases from an improper source.

We found several instances of purchases such as clothing in which cardholders purchased goods that were not authorized by law or regulations. The improper transactions were identified as part of our review of fiscal year 2001 transactions and related activity, including our Army-wide data mining of transactions with questionable vendors. For example, as part of our data mining of Army-wide purchase card transactions, we identified a questionable transaction, for which a subsequent investigation determined that a cardholder had purchased a

Bose radio for $523 for his personal use in his office. The employee was required to reimburse the U.S. Treasury for the cost of the radio. This and other purchases indicated that approving officials were not adequately reviewing cardholder transactions.

The second category of improper purchase occurs when a cardholder splits a transaction into more than one segment to avoid the requirement to obtain competitive bids for purchases over the $2,500 micropurchase limit. Once items exceed the limit, they are to be purchased through a contract. Our analysis of data on purchases at the five installations we audited and our data mining efforts identified occurrences of potential split purchases such as one at Fort Stewart, Georgia. There, an approving official had two cardholders spend $16,000 over a series of days to buy numerous pieces of executive office furniture for the official's office that was located on the mezzanine of a warehouse. These purchases included elegant desks, chairs, and a conference table.

We also identified numerous cases where the Army made repetitive micropurchases to meet requirements that in total greatly exceed the micropurchase limit. While some repetitive purchases might not clearly be split purchases, using a blanket purchase agreement for such purchases instead of separate micropurchases could result in lower costs. The *Federal Acquisition Regulation* provides for blanket purchase agreements as a "simplified method of filling anticipated repetitive needs for supplies or services." The following case is an example of when a blanket purchase agreement could have been used. At Fort Benning, the Dismounted Battlespace Battle Lab, a combat training unit, routinely purchased doors that were destroyed during training exercises to instruct troops how to enter a building that may contain an enemy. The battle lab spent $111,721 in 84 transactions with one vendor to buy doors during a 10-month period in fiscal year 2001. In this case, battle lab officials had refused attempts by the Fort Benning contracting division and purchase card program coordinator to execute a blanket purchase agreement. Use of blanket purchase agreement, rather than repetitive, individual micropurchases, could lower per unit prices.

Another type of improper purchase occurs when cardholders do not buy from a mandatory procurement source. Various federal laws and regulations such as the Javits-Wagner-O'Day Act (JWOD) require government cardholders to acquire certain products from designated sources. The JWOD program is a mandatory source of supply for all federal entities. It generates jobs and training for Americans who are blind or have

severe disabilities by requiring federal agencies to purchase supplies and services furnished by nonprofit agencies, such as the National Industries for the Blind and the National Institute for the Severely Handicapped. Most JWOD program supplies are small value items such as office supplies, cleaning products, or medical/surgical supplies that nearly always fall into the micropurchase category. We noted that cardholders frequently did not purchase from these required sources when they should have. For example, in our data mining work, we identified a cardholder at Tooele Army Depot who made 10 purchases for inserts to day planners, which can be ordered from the JWOD catalog, from Franklin Covey for about $11,900. In response to our questions, we were informed that future purchases of such items would be through JWOD.

Abusive and Questionable Purchases

We also identified abusive and questionable transactions at installations we audited. We defined abusive transactions as those that were authorized, but the items purchased were at an excessive cost (e.g., "gold plated") or for a questionable government need, or both. When abuse occurs, no law or regulation is violated. Rather, abuse occurs when the conduct of a government organization, program, activity, or function falls short of societal expectations of prudent behavior. Often, improper purchases such as those discussed in the previous section are also abusive. For example, the executive furniture purchased at Fort Stewart discussed earlier as improper split purchases were also abusive purchases.

Questionable transactions are those that appear to be improper or abusive but for which there is insufficient documentation to conclude either. For questionable items, we concluded that cardholders purchased items for which there was not a reasonable and/or documented justification. Questionable purchases often do not easily fit within generic governmentwide guidelines on purchases that are acceptable for the purchase card program. They tend to raise questions about their reasonableness. Many, such as gym quality exercise equipment, are common Army—and DOD—purchases because the Army must provide more than merely a work environment for its soldiers. However, others, like the fine china purchased for culinary arts team competition discussed below, clearly raise questions about whether they are appropriate purchases. Precisely because these types of purchases tend to raise questions and subject the Army to criticism, they require a higher level of prepurchase review and documentation than other purchases.

When we examined these types of purchases, we usually did not find evidence of prepurchase justification. In attempting to justify whether purchases were acceptable, improper, or abusive, program coordinators, approving officials, and cardholders often provided after-the-fact rationales for the purchases. We believe that these types of questionable purchases require scrutiny before the purchase, not after. The following examples illustrate our point.

- *Palm Pilots for Pentagon officials.* In February 2001, two purchases for a total of 80 Palm Pilots at a total cost of $30,000 were made for the Office of the Assistant Secretary of Defense for Acquisition, Technology, and Logistics. Two questions about this purchase are whether a valid need had been identified for the purchase and whether the urgency of the purchase justified the purchase from a vendor that could deliver immediately but was charging $1,540 more than the lowest priced competitor. No documentation was available to show how the office had determined that 80 Palm Pilots were a valid government requirement. An e-mail related to the purchase suggested that there was a need "to get enough goodies for everyone." The documentation also suggested that the items were being ordered for inventory and would be issued to personnel when requested. This does not indicate a predetermined requirement and does not appear to support that the requirement was urgent, as the office determined. Based on a determination of urgency, the price paid was $1,540 more than the lowest competitor's price so that delivery could be immediate.

- *Culinary arts.* At Fort Hood and during our Army-wide data mining effort, we noted several purchases for various culinary arts events. Among the purchases were fine china and crystal from Royal Doulton and Lenox. Other purchases were for accessories such as a rotating lighted ice-carving pedestal. Although participation in culinary arts team events is an approved Army activity, the transactions we examined and inquired about did not have documented justifications of the need for the specific items purchased. We examined transactions that totaled only about $3,800, but we believe that the total cost of such purchases Army-wide is far more because we were told that these type purchases for the culinary arts are common throughout the Army. One reason, we were told, is because most installations have culinary arts teams that attend competitions involving the use of expensive accessories and fine crystal and china.

Concluding Comments

The use of a well-controlled purchase card program is a valuable tool for streamlining the government's acquisition processes. However, the Army program is not well controlled. The Army's weak control environment was the root cause of the problems we saw with purchase card transactions, including the potentially fraudulent, improper, and abusive or questionable purchases. The Army has not provided the aggressive leadership needed to build and maintain an internal control infrastructure that encourages a strong control environment that provides accountability. Such an environment is an important counterbalance to the increased risk of potentially fraudulent and wasteful spending that results from the rapidly expanding use of the purchase card. The Army needs to ensure that installation-level program coordinators, the primary program management officials, have the tools to develop local control systems and oversight activities. Strengthening the control environment will require a renewed focus of attention on, and commitment to, building a robust purchase card infrastructure.

Our report on these issues includes recommendations that address the need for the Army to strengthen the overall control environment and improve internal control activities. Key among them are our recommendations that the Army issue agencywide standard operating procedures to guide the overall implementation of the program and that the Army ensure that it supports program coordinators and approving officials with the infrastructure, authority, and oversight tools they need to provide reasonable assurance that the program is well controlled. We also made specific recommendations for improvements in control activities and for addressing the weaknesses we identified in preventing and detecting potentially fraudulent, improper, and abusive and questionable purchases.

In written comments on a draft of our report, DOD concurred with our recommendations and described actions completed, underway, or planned to implement them. Although it concurred with our recommendation for an Army-wide standard operating procedure directing the implementation of specific internal control activities, DOD said that the broad application of two of the five recommended activities—advance approval and independent receiving—would add costs without comparable benefit. However, it recognized the applicability of these activities in some circumstances and commented that the Army standard operating procedure currently being developed will (1) include a list of items requiring advance approval and (2) require advance approval for a category of items that fall outside the "common sense" rule. We agree that not all

purchases require advance approval and that some small dollar and other purchases may not lend themselves to independent receiving. However, we continue to believe these are important control activities and that the Armywide standard operating procedure should (1) discuss the criteria for determining when these activities are applicable and (2) articulate guidelines for implementing them.

Mr. Chairman, Members of the Subcommittee, and Senator Grassley, this concludes my prepared statement. I would be pleased to answer any questions that you may have.

Contacts and Acknowledgments

For future contacts regarding this testimony, please contact Gregory D. Kutz at (202) 512-9505 or at *kutzg@gao.gov*. Individuals making key contributions to this testimony included Ray Bush, David Childress, and Jamie Haynes. Numerous other individuals made contributions to the audit of the Army's purchase card program.

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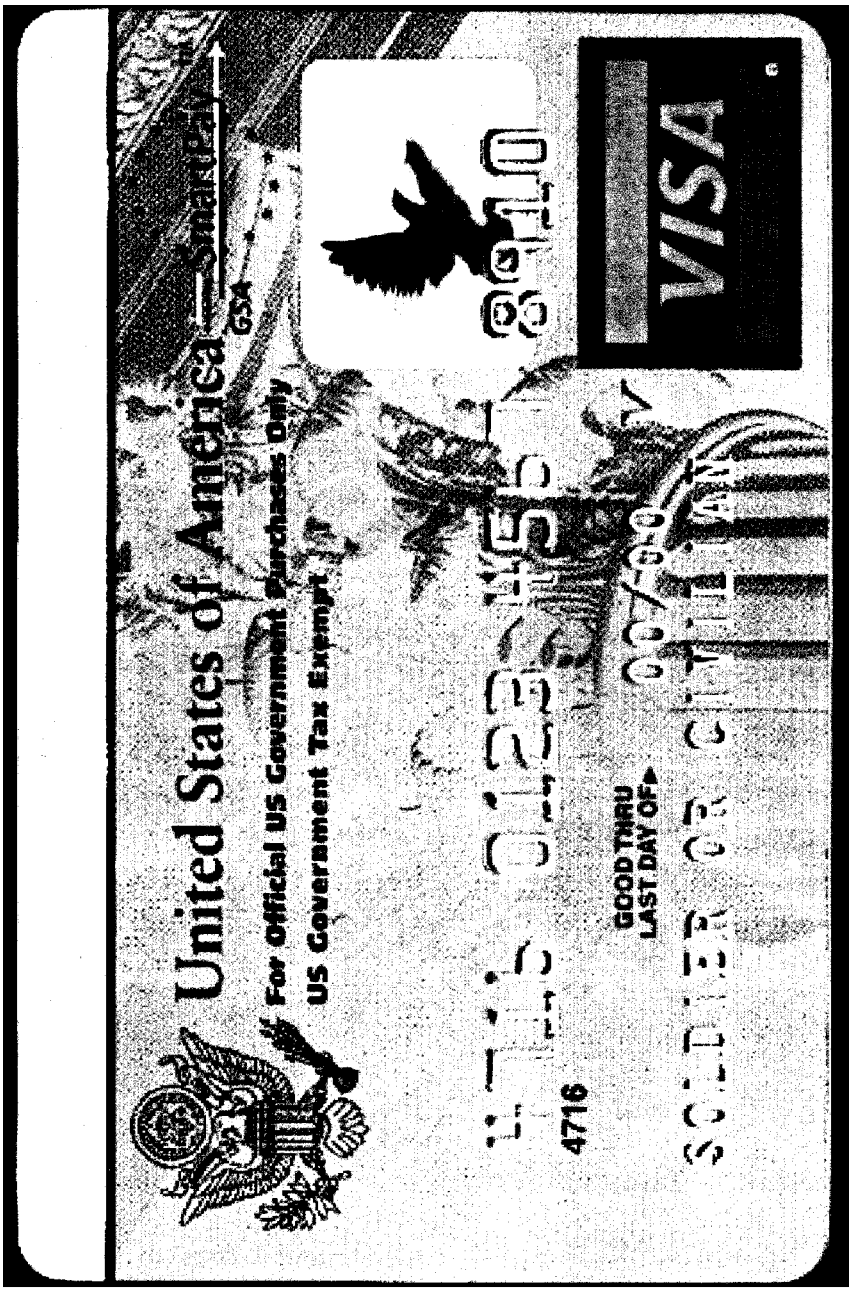
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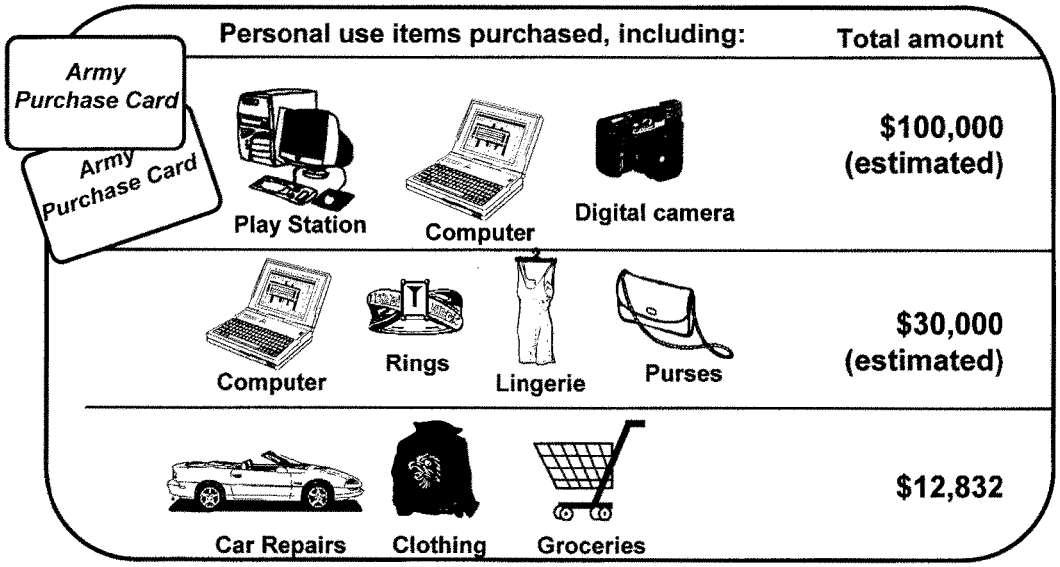
Eisenhower Medical Center: Potential Fraud



Source: GAO analysis of Army purchase card transactions and related documentation.

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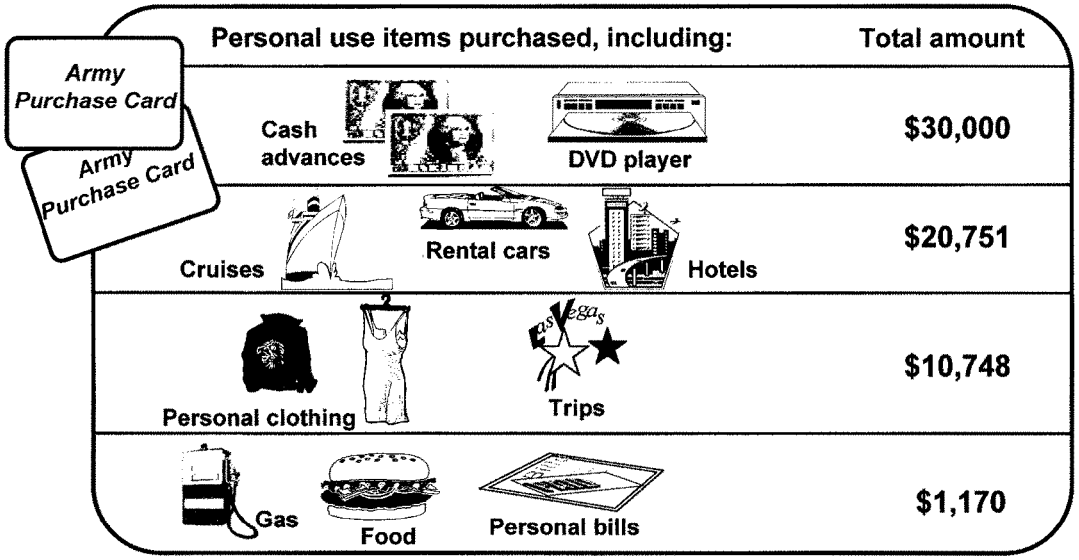
Fort Benning: Potential Fraud



Source: GAO analysis of Army purchase card transactions and related documentation.

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Examples of Improper, Abusive, and/or Questionable Purchases

Items	Vendor
Executive office furniture	National Business Furniture
Leather bomber jackets	SkyMall
Cell phone charges	AT&T Wireless
Radio	Bose
Designer day planners	Franklin Covey
Palm pilots	Franklin Covey
Fine china	Hecht's, Royal Doulton outlet
Sunglasses	Sunglass Hut
Tree	Bigelow Nurseries

Source: GAO analysis of Army purchase card transactions and related documentation.

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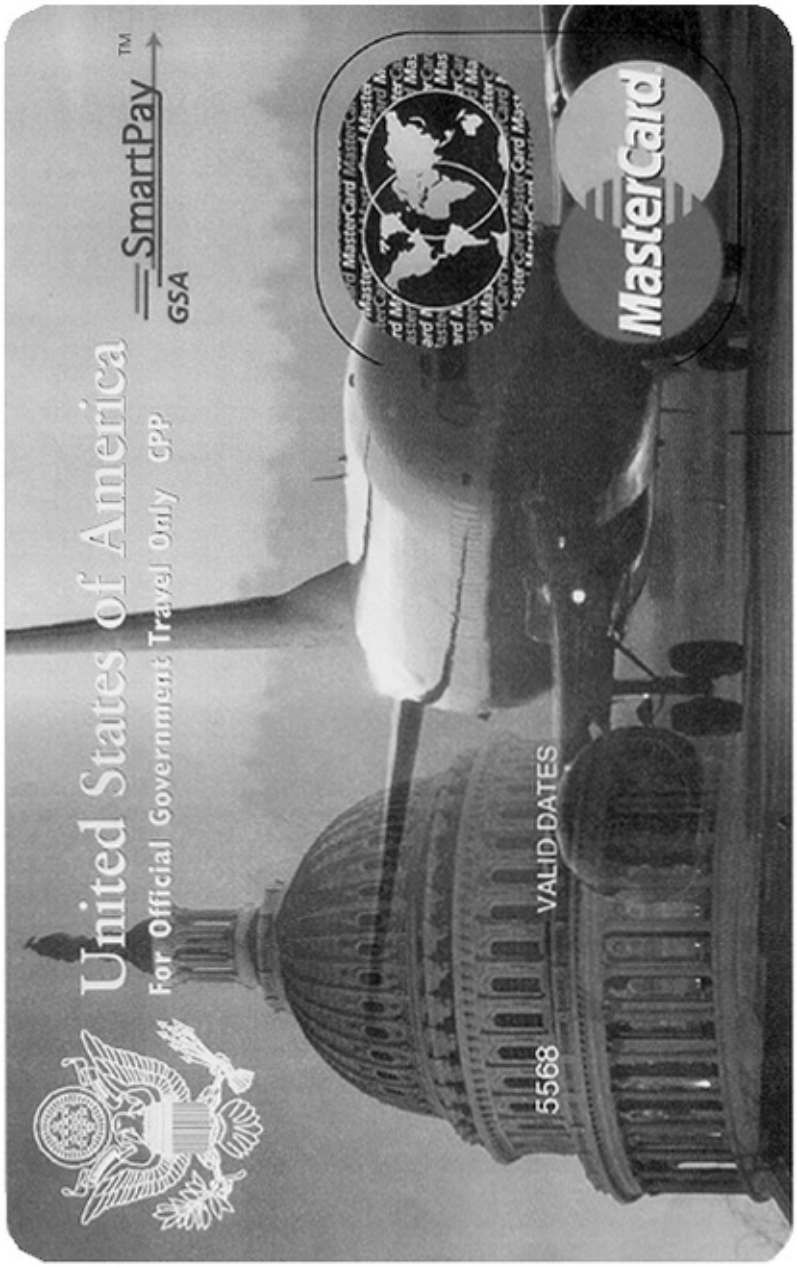
Internal Control Activity Statistical Testing Failure Rates

Installation	Estimated percent of transactions without documentation of			
	Advance approval	Independent receiving	Approving official review	Supporting invoice
Eisenhower Army Medical Center	60	71	86	26
Fort Benning	46	75	73	16
Fort Hood	36	65	66	7
Soldier, Biological and Chemical Command – Natick	25	55	40	14
Texas Army National Guard	69	87	41	14

Source: GAO testing and statistical analysis of Army purchase card transaction files.


United States of America
For Official Government Travel Only GPP
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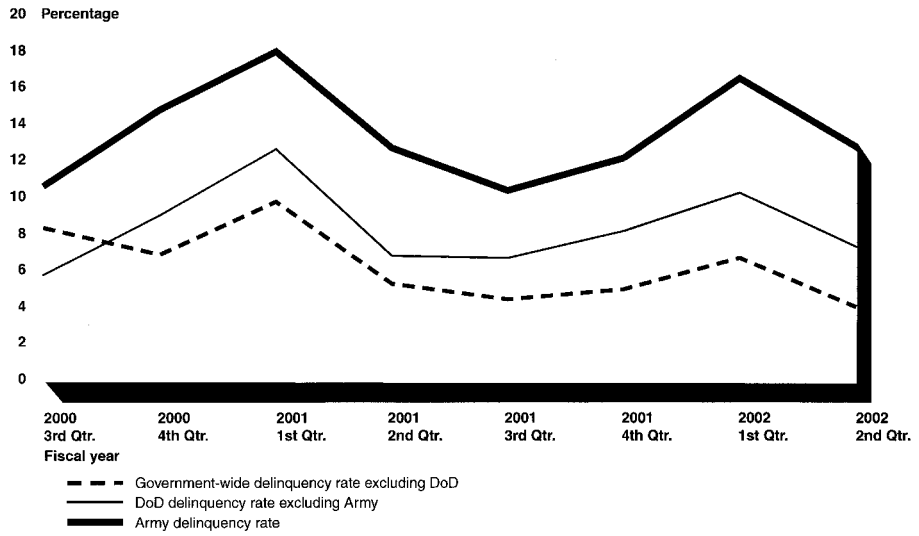
Army, Non-Army DOD, and Civilian Agency Travel Card Delinquency Rates



Source: General Services Administration provided data.

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Abusive Travel Card Activity

Vendor	Description
Budget®	Purchase used car
Spearmint Rhino Adult Cabaret	Adult entertainment
Cryptologic Inc. GCA*Turning Stone	Internet and casino gambling
Unknown	Down payment on home

Source: GAO analysis.

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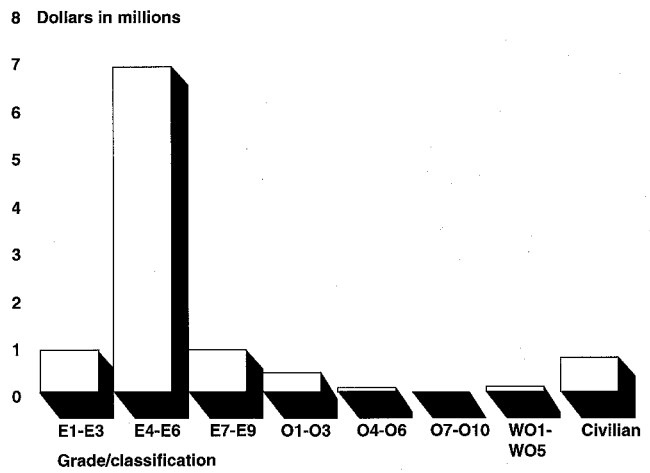
Fiscal Year 2001 Army Charge-Offs



Source: GAO Analysis of Bank of America data.

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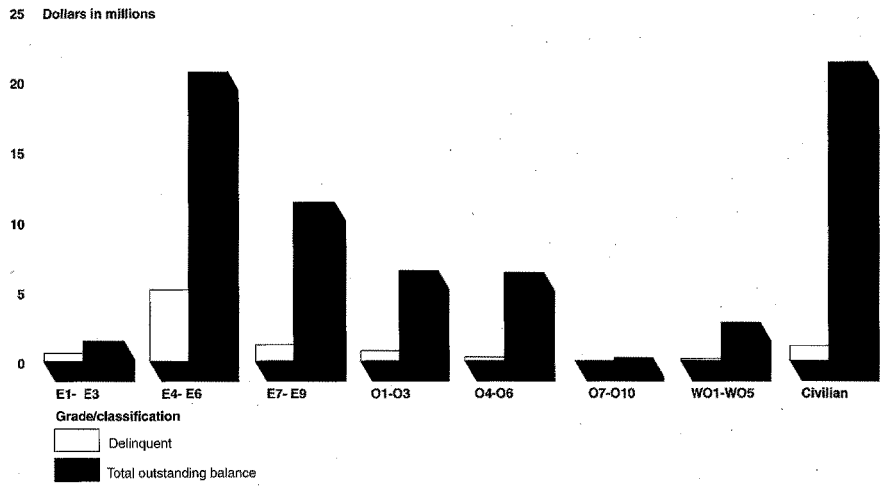
Army Delinquent and Total Outstanding Travel Card Balances as of September 30, 2001



Source: GAO Analysis of Bank of America data.

Mr. HORN. Let us start now with Mr. Ryan. Is there anything that you would like to add?

Mr. RYAN. Not at this time, Mr. Chairman.

Mr. HORN. All right, we will go to Major General Eres, Commander of the California Army National Guard. We will go ahead with your testimony, General.

General ERES. Good morning, Mr. Chairman, thank you for the opportunity to be here representing the California Army National Guard. Recently I assumed a new position in homeland security/homeland defense.

I am here representing Major General Paul D. Monroe, the Adjutant General of the State of California. We have prepared remarks that have been submitted to your our committee, which are quite extensive and comprehensive.

My remarks here will be identified in those areas that I think need particular attention from our standpoint. I would like to thank the GAO and this committee for commissioning them to come to California, because you do not know what you do not know; and GAO has given us a basis within which to get a good sense of the people component of trying to manage this program, with all of the technology that we have in existence.

I believe that a little bit of context for the National Guard in California is important. It is about 16,450 in size, about 2,000 of which are full-time, 14,000 of which would be traditional guard, which means they have other employment and other jobs.

We have a full-time manning challenge out in California, in that we actually have personnel full-time at about 43 percent of what we have authorized. What that means is, 43 percent of the individuals who are necessary are actually doing the job.

That is an environmental point only, for purposes of the context within the management challenges created by the travel card program are presented.

This is a people world. This is a people business that we are dealing with in credit management. One of the cotter-pins for that is the Agency Program Coordinator has been identified by GAO out in California. We use this position as an additional duty.

It is clear from the audit and clear from our review, this must change. This must be a high priority, dedicated assignment, with responsibility and authority commensurate with it. That will require a readjustment of priorities of the limited full-time personnel, but that is something that will need to be reviewed carefully by the Adjutant General, and those adjustments made.

Included in that would be reducing the span of control; as was mentioned, something more modest, down to perhaps 300 to one.

We also believe that about 90 percent of the problem that we are dealing with here is in the area of communication. As I mentioned, this is a people business. Perhaps we should look more at a partnership-type thinking, in terms of the players and principles we are dealing with, from the Bank of America, the Department of Defense, the National Guard and its chain of command, the individual soldier, and ultimately, the merchant that accepts the card.

I am intrigued by, for example, the nature of the look of the card. It looks very clear up on the screen, but when you look at the card directly, it is very hard to discern it from any other credit card.

I believe merchants, if they were to see a card that had something more like a chartreuse color, with very bold "United States Federal Government, For Official Use" would be more questioning in terms of swiping that card, when someone is purchasing tickets to Disneyland, when they are supposed to be on travel.

These are some of the suggestions that we have been looking at, to try to make the culture a little bit more attuned to the responsibilities that we have with respect to managing this program.

One of the things that we have found is that we need better systems integration. If we can get the systems integrated, then we can have better synchronization as relates to trying to manage the program.

As has been noted, we had a situation where an individual was promoted, and how could that happen when they have a deficient credit card?

It happens because of stovepipes, and we have to find a better way of integrating between those stovepipes their information, in a way that we can better synchronize those actions necessary to identify an individual and their file, and any personnel actions that may be in the pipeline, so that, in fact, these can be reconciled.

Administratively, we are in the process of trying to better tune the time delay between processing travel vouchers, so that the individual solder gets, in a timely fashion, a reimbursement of that travel voucher. So, in fact, they have the capability to pay that credit card bill.

Internal controls are very important to us. We believe that we have now a better handle in terms of segregating responsibility within USPFO, the APCs and the chain of command.

We believe that GAO hit the nail on the head with respect to the fact that you need to have that independence, that check and balance, and the chain of command has to be intimately involved, in terms of making sure that the right people, the supervisorial chain, get the right information at the right time, that is accurate; so in fact, they can post their chain of command, and take those actions that are necessary.

We think that the notion of a split disbursement is a very good notion. It is voluntary at the moment, but we think perhaps some legislative change there to make it mandatory would be appropriate; that, in effect, when you use your travel card on official business, it is for official business.

Therefore, the reimbursement should go to the Bank of America for those direct costs that the card was used for; incidental expenses, of course, going to the individual soldier.

We also think that the notion of the offset is important, and we think that is a good idea. We also think the idea of interest charges and the notion of late fees are also important.

One of the things, though, that we need to do is to be preemptive in our educational process with the soldier. We need to have an early warning system that allows the bank to integrate with our system, in terms of when that soldier goes on orders, so that travel card is activated at that moment, and when that soldier comes off of orders, it is de-activated; and then internally within that timeframe of active duty or, if you will, on travel.

Any kind of a transaction that appears to be out of the ordinary creates a flag with respect to the reporting of that transaction. So before the travel voucher is even submitted, we are already alerted that there is a potential transaction that appears to be inappropriate, in terms of that travel.

We think this would be an additional way to try to find, at the front end, an opportunity to find out if there is a problem, and do the reconciliation before 60, 90, 120, or 180 days pass. At that stage of the game, the ship has sailed and we are fighting, in effect, a backfire.

Again, I thank you for the opportunity to make these preliminary remarks in support of the written statements that we have prepared, and I am available to answer any questions you might have, sir.

[The prepared statement of General Eres follows:]

GEN ERES

The Honorable Stephen Horn
Subcommittee on Government Efficiency,
Financial Management and Intergovernmental Relations

15 July 2002

Dear Representative Horn,

Thank you for the invitation to testify and the opportunity to provide input for your hearing regarding GAO's audit of the Government Travel Card program in the Army. The travel card program is important to our mission accomplishment and we appreciate the importance of Congress' oversight of the program and your committee's sincere interest in how the program can be improved. I want to assure you that we take the GAO's findings seriously and consider them, warts and all, to be of assistance to us in improving our administration of the travel card program.

Overall the travel card program is a success for the Army as a whole and the Army National Guard, and a travel card program is essential to the efficient administration of travel in the Army.

Obviously, as discussed in GAO's reporting and in the previous work of your subcommittee, the travel card program has had flaws in both its design and administration. As noted the California National Guard is not immune from those flaws. I would like to address some of those flaws and our actions to overcome them. I would also like to address the program in general, offer our perspective on unique challenges the program poses in a reserve component environment, and offer a few suggestions for improving the program.

First I have some good news. In 2001 the California Army National Guard participated in a wide variety of deployments all around our nation and the world. Since September 11th, we have mobilized a larger proportion of our already large force, than almost any other state. The travel card has made supporting some of these missions much more feasible and cost effective. As you may imagine the pace of operations we have faced these last few years makes focusing on administrative matters such as the travel card program that much more difficult. Despite that, our state has been progressively increasing its efforts at improving card administration and results are beginning to show. The National Guard Bureau's State Performance Indicator Reporting System 2nd quarter FY02 report shows California's ranking considerably improved. In April and May of this year we have achieved a delinquency rate of below 10%, better than the Army average reported by GAO, so we are heading in the right direction.

In addition to an unacceptably high delinquency rate, GAO made note of other deficiencies in our travel and travel card administration. Most of these deficiencies were common with the other installations studied but some, particularly those pertaining not to the card but to travel voucher processing, were unique or more pronounced at our location.

Increasing the number of Agency Program Coordinators (APC)

As noted by GAO our cardholder to APC ratio was the highest they had seen. It is also an area where we have already been pursuing, and continue to pursue changes. Breaking down our cardholders to lower levels of commands and fulltime activities allows the smoother flow of information on delinquencies more directly to relevant commanders and supervisors. We began this process in early 2001 and have already seen an improvement in leadership awareness and involvement. We also made the GAO team aware we had already arranged in early 2002 for another increase in APC's to be established that will lower the ratio they observed. Cardholders' accounts are being moved to those new "hierarchies" now but it is unfortunately a time consuming process that must be done one account at a time. We have now determined to further increase the number of APC's and hierarchy accounts to the point where no APC will have more than 300 cardholder accounts.

Finding appropriate personnel in a reserve component environment to perform APC duties is particularly challenging. For example, a brigade headquarters may oversee well in excess of a thousand personnel and a few hundred cardholders, but have less than 10, already fully tasked, fulltime personnel. In some cases we will assign a hierarchy account to a command level so that reporting of delinquencies can be simplified, but the APC will remain at a higher echelon.

As GAO and we have noted, our organizational structure dose not support having APC's and APC duties are an additional function placed on existing staff everywhere below the state level. In September 2001 National Guard Bureau issued a position description for a fulltime GS7 APC at the state level. While the cookie cutter approach of one per state regardless of size is not adequate for the largest state, it is a start.

Our APC's below the state level, while by no means dedicated solely to this task, are at least fulltime employees. The same is not true of most reserve component commanders for whom time constraints are exponentially greater. The resulting conflict of priorities between administrative duties and the pursuit of readiness can admittedly lessen focus on the travel card program. However we can make the part time commanders' job easier through better reporting and we will.

Improving Communication Between People and Systems

Many of the problems GAO noted can be traced to inadequate communication between the various players or non-existent communication between the automated systems involved in the travel and travel card programs. For example, the GAO noted that many times commanders were unaware of delinquencies of personnel assigned to their commands. While this situation is being substantially mitigated by the appointment of additional APC's, the reserve component environment makes this problem more complex when it involves fulltime personnel who make up a large proportion of our cardholders. With the ARNG's dual status personnel systems, a delinquent cardholder could be

disciplined by their fulltime supervisor, while their military unit commander remains unaware and submits them for military promotion or other favorable action. To prevent this type of disconnect, we will ensure that our Military Personnel Office and Security Manager are notified of serious delinquencies so that the information can be considered in promotion and security clearance decisions. Also, checking a cardholder's account status will become checklist item for processing favorable personnel actions, similar to having a current physical fitness test.

Along these same lines, we have identified all delinquent officers regardless of their duty status, and forwarded their travel card information to their appropriate commands for action. At least one officer has already been removed from their fulltime position.

We have also directed our programmers to develop an automated interface between our personnel databases, both full and part time, and the bank's EAGLES system, that will identify and guard against personnel that have left the system without their travel card account being closed. The National Guard Bureau recently developed an interface between EAGLES and the ARNG's highly effective automated orders system (AFCOS) and just last week applauded California for being one of the first states to implement it. When an AFCOS user inputs a travel order, the interface will flag the request if the traveler is also a delinquent cardholder. The interface will also generate a statement of understanding about card usage along with the order if the traveler has not traveled for a lengthy period of time.

Timely Processing of Vouchers is not Currently a Problem

The untimely processing of travel vouchers by our Travel Section has been overcome through the use of temporary state personnel and contracted temporary help. For the last 10 weeks the processing of travel vouchers within our travel section has taken less than 5 business days. This removes slow processing as a potential contributing cause of late payments. Being caught up will also allow our Travel Supervisor to focus more on quality control of voucher processing and reduce the unusually high error rate on computations noted by GAO. Unfortunately, timely submission of travel vouchers by travelers and administrative review by commanders/supervisors remains a problem as at the other installation reviewed by GAO.

Internal Controls Over Travel Processing

The GAO found fault with our control over passwords for computation and processing of vouchers in the standard automated travel system (IATS). Guest passwords are shared among visiting personnel (usually Finance Battalion personnel receiving training) because of the limited number of passwords available on our system. The passwords were known to permanent personnel, presenting at least the theoretical possibility that a permanent voucher examiner could anonymously process their own voucher. However that possibility was highly unlikely in that all vouchers processed under guest passwords are edited for quality control purposes. The guest passwords were changed while GAO

was present and will be changed each time outside support departs. For added assurance the travel payment histories of all travel personnel will be reviewed periodically.

Increased Use of "Flexible Activation" Cards

An early point in GAO's report is that the preponderance of delinquencies and chargeoffs are attributable to young, lower ranking, (financially inexperienced) and other personnel who would not otherwise be issued a card on a commercial basis by a bank. However we must have a way providing the means to travel to all our personnel. Demographically, this may make some misuse and delinquency inevitable. A key way of reducing potential misuse and delinquency by these personnel is a restricted card which is only useable when activated for dates of actual travel. However, full use of the flexible activation feature is deterred by the time consuming and administratively cumbersome way in which cards are activated and deactivated. Currently, APC must receive travel orders, and input travel dates and cardholder information into the Bank's EAGLES system or, in short notice situations, call the Bank with information.

Those instances noted by GAO where card deactivation did not occur, whether caused by bank error or APC error, are immeasurably greater because of the manual steps involved. The effectiveness of the flexible activation feature would be greatly enhanced through the use an automated interface between the Guard's AFCOS orders system and the Bank's EAGLES system. Using information from each day's orders run, the AFCOS system could generate a file for uploading in EAGLES for activating travel cards automatically.

When American Express held the DOD Travel Card contract, considerable work was done by the National Guard in cooperation with American Express to develop such an interface. However, that effort was lost during the transition to Nations Bank (now BofA) and their system. An automated interface would guard against cards left "on" during non-travel periods and would conversely increase the acceptance of flexible activation cards amongst those concerned their card won't be on when they need it. An interface can be done but must be accepted by the bank because it would actually input information into their system.

Mandatory Split Disbursement

GAO notes that split disbursement, where a portion of a traveler's reimbursement sent directly to the bank, is intended to reduce delinquencies. Its effectiveness in doing so is limited by the fact that is strictly voluntary even for delinquent cardholders. Our organization has direct experience with delinquent cardholders who have explicitly rejected an APC's request that they use split disbursement. DOD's Charge Card Task Force's recent report recommends that statutory authority be granted to make split disbursement mandatory. We concur with that recommendation and feel that it only makes sense that delinquent cardholders be subject to mandatory split disbursement.

Interest Charges

Also allowing the bank to charge interest on delinquent accounts would further reinforce to cardholders the importance of keeping their accounts current.

Summary

In conclusion, I am pleased to provide this statement regarding GAO's travel card report and to have this opportunity to apprise you of our actions in the California National Guard to improve our implementation and use of the Army's Travel Card program. I hope my statement is helpful to the subcommittee in its work. I and my staff are available to answer any questions or provide any additional information the subcommittee may desire.

Sincerely,

PAUL D. MONROE JR.
Major General
The Adjutant General

Mr. HORN. Thank you, General; you made some suggestions that need to be implemented.

Sandra Pack is the Assistant Secretary of the Army, Financial Management and Comptroller. Please proceed.

Ms. PACK. Good morning, Mr. Chairman; I am pleased to appear before the committee today to talk about the Army's travel card program.

Given the scope and the complexity of the U.S. Army, we face daunting challenges, any time we undertake significant change. That certainly was the case in November 1998, when we began implementing the Army's travel card program.

We did this as a result of the Travel and Transportation Reform Act of 1998, which stipulates that the Government-sponsored, contractor-issued travel card be used by all Government employees, to pay for official business travel costs.

Despite initial implementation problems, including inadequate software, on-line management system deficiencies, and insufficient training for our personnel, the Army has succeeded in implementing a stable travel card program.

The travel card program provides many benefits to the Army. It meets our travel and transportation needs, and provides an effective, convenient method for Army travelers to pay official travel expenses, and moreover, the travel card program improves the Army's cash management and provides cost savings.

For example, the Army received $2.7 million in travel card rebates during fiscal year 2000. In fiscal year 2001, the Army saved over $73 million in administrative processing and accounting costs, because the travel card greatly reduced the need for travel advances.

The Army has two kinds of travel card accounts: individually billed accounts where the individual cardholder is liable for payment; and centrally billed accounts, where the Government is liable for payment.

Given the current delinquency rate of less than 1 percent for the centrally billed accounts, we believe that the Army has established and is maintaining adequate oversight and internal controls for these accounts. Hence my comments today will not focus on centrally billed accounts.

Managing the delinquency rates for the Army's individually billed accounts, however, has proven significantly more difficult. This is the area where we are focusing our attention.

The Army currently has approximately 420,000 individually billed account cardholders. In any given month, approximately 115,000 Army travelers satisfy their travel needs with this card, and over 92 percent pay their bills on time So it is fair to say that the vast majority of Army travel card users are following the rules.

In October 2000, the Army's Vice Chief of Staff established a delinquency goal of not more than 4 percent, which is consistent with the three to 5 percent delinquency rate experienced by the private sector. By May 2001, the delinquency rate for individually billed accounts had dropped from 11 percent to 5.6 percent. Since then, the delinquency rate has fluctuated and now stands at about 8 percent.

As of June 2002, most Army commands had met or were within 2 percentage points of the 4-percent goal. We are now concentrating on bringing those few remaining commands in line with our 4 percent delinquency goal. I will elaborate on some of the challenges that we face in accomplishing this goal.

As you know, the nature of the Army's mission involves destinations, durations, and circumstances that are not comparable with others in the Federal Government and, therefore, may not have been envisioned in the original contract.

While the travel card has proven to be a valuable tool for the majority of the Army's personnel, it frequently is not useful for travelers in remote locations or on deployments.

In addition, our experience has been that the majority of our delinquent cardholders are lower grade, enlisted soldiers, who tend to be inexperienced in personal finance and in the use of charge cards.

These 130,000 cardholders represent 30 percent of the cards issued, and only 15 percent of the Army's total spending, but they are responsible for 59 percent of the delinquencies and bank write-offs.

The Army leadership is engaged and committed to solving these travel card problems. For example, the Secretary of the Army has authorized, and we now post on the Army's senior leadership intranet site, the delinquency statistics for our commands.

We provide Army senior leaders and major commands monthly delinquency reports that permit them to compare their performance with other commands and subordinate units. We conduct biweekly teleconferences between our Army travel card program manager and his counterparts in the field.

In addition, the Army is working closely with the Department of Defense to remedy its travel card problems. We were actively involved in the Department of Defense's recent effort to re-negotiate the contracting bank's task order.

These contract modifications include key provisions that help reduce travel card delinquencies, including: a salary offset program that allows delinquent account balances to be collected from the cardholder's pay; increased cardholder fees for late payments and back checks; and a significant reduction in the number of travel cards issued to infrequent travelers. As a result, the Army has canceled or de-activated over 60,000 travel card accounts.

The Army also is an active participant on the Department of Defense Charge Card Task Force. In conjunction with this effort, the Army has taken a number of actions, including: providing additional training for cardholders and unit travel card program coordinators; working closely with the bank to resolve problems of cardholders who are misplaced in the Army account structure; expanding the use of split disbursement and salary offset; closing inactive accounts; assessing alternative travel card products, such as debit cards and smart cards; working closely with the Army investigative community to ensure that relevant findings of cardholder delinquency are promptly coordinated with security administration personnel and the cardholder's supervisor; and using the Travel and Transportation Reform Act exemption for en-route expenses associated with mission deployments.

In addition we are making changes in the Army's travel card policy, including: prohibiting travel card use for permanent change of station moves; encouraging the commands to use the training request form or the purchase card to pay advance conference and registration fees; including the unit travel card program coordinator as a mandatory step in the in-and-out processing procedures; and reducing the number of cardholder accounts for which each unit travel card program coordinator is responsible.

In short, the Army believes that the travel card program is worthwhile. It is an effective tool for meeting the Army's travel and transportation needs, and for reducing administrative and support function costs. We are committed to reducing our travel card problems, and we strongly support initiatives to improve the program.

We have made good progress in reducing delinquencies and misuse, and we believe that our continued efforts will result in continued improvements in the future.

Mr. Chairman, that concludes my statement. I will be happy to take any questions.

[The prepared statement of Ms. Pack follows:]

RECORD VERSION

STATEMENT BY

SANDRA PACK

ASSISTANT SECRETARY OF THE ARMY

(FINANCIAL MANAGEMENT AND COMPTROLLER)

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT EFFICIENCY, FINANCIAL MANAGEMENT AND INTERGOVERNMENTAL RELATIONS

COMMITTEE ON GOVERNMENT REFORM

U.S. HOUSE OF REPRESENTATIVES

SECOND SESSION, 107TH CONGRESS

JULY 17, 2002

ARMY TRAVEL CARD PROGRAM

NOT FOR PUBLICATION UNTIL
RELEASED BY THE HOUSE
GOVERNMENT REFORM COMMITTEE

Good Morning Mr. Chairman. I am pleased to appear before the committee today to talk about the Army's travel card program.

Given the scope and the complexity of the United States Army, we face daunting challenges anytime we undertake significant change. That certainly was the case in November 1998, when we began implementing the Army's travel card program. We did this as a result of The Travel and Transportation Reform Act of 1998, which stipulates that the government-sponsored, contractor-issued travel card be used by all government employees to pay for official business travel costs. Despite initial implementation problems, including inadequate software, on-line management system deficiencies and insufficient training for our personnel, the Army has succeeded in implementing a stable travel card program.

The travel card program provides many benefits to the Army. It meets our travel and transportation needs and provides an effective, convenient and commercially available method for Army travelers to pay official travel expenses. Moreover, the travel card program improves the Army's cash management and provides cost savings. For example, the Army received $2.7 million in travel card rebates during fiscal year 2000. In fiscal year 2001, the Army saved over $73 million in administrative processing and accounting costs because the travel card greatly reduced the need for travel advances.

The Army has two kinds of travel card accounts:

1. Approximately 420,000 Individually Billed Accounts, where the individual cardholder is liable for payment. These accounts are used by individual travelers to pay for official travel expenses, including lodging, rental cars, meals and incidentals.
2. Approximately 2,300 Centrally Billed Accounts, where the government is liable for payment. These accounts are issued to certain Army units and are used for paying transportation charges and group travel expenses.

The Army's current monthly spend volume is approximately $59 million for Individually Billed Accounts and $56 million for Centrally Billed Accounts.

The Army's Military Traffic Management Command manages the Centrally Billed Accounts. Given a current delinquency rate of less than 1%, we believe that the Army has established and is maintaining adequate management and internal controls for these accounts. Hence, my comments today will not focus on Centrally Billed Accounts.

Managing the delinquency rates for the Army's Individually Billed Accounts, however, has proven significantly more difficult. This is the area where the Army is focusing its attention.

In any given month, approximately 115,000 Army travelers satisfy their travel needs with this card and over 92 percent pay their bills on time. So, it is fair to say that the vast majority of Army travel card users are following the rules.

In October 2000, individual cardholder delinquency rates exceeded 11%. At that time, the Army's Vice Chief of Staff established a delinquency goal of not more than 4%, which is consistent with the 3-5% delinquency rate experienced by the private sector. By May 2001, the delinquency rate for Individually Billed Accounts dropped to 5.6%. Since then, the delinquency rate has fluctuated and now stands at about 8%.

As of June 2002, most Army commands had met or were within two percentage points of the 4% goal. We are now concentrating on bringing those few remaining commands in line with our 4% delinquency goal. I will elaborate on some of the challenges that we face in accomplishing this goal.

As you know, the nature of the Army's mission is such that much of our travel involves destinations, durations and circumstances that are not comparable with others in the federal government and, therefore, may not have been envisioned in the original contract. While the travel card has proven to be a valuable tool for the majority of the Army's personnel, it frequently is not useful for travelers in remote locations with minimal infrastructure or on deployments. In addition, our experience has been that the majority of our delinquent cardholders are lower grade, enlisted soldiers, who tend to be inexperienced in personal finance and in the use of charge cards. These 130,000

cardholders represent 30% of the cards issued and only 15% of the Army's total spending, but they are responsible for 59% of the delinquencies and bank write-offs.

The Army leadership is engaged and committed to solving these travel card delinquency problems. For example, the Secretary of the Army has authorized and we now post on the Army's senior leadership intranet site the delinquency statistics for our commands. We provide senior Army leaders and major commands monthly delinquency reports that permit them to compare their delinquency performance with other commands and subordinate units. We conduct bi-weekly teleconferences between our Army travel card program manager and his counterparts in the field commands.

In addition, the Army is working closely with the Department of Defense to remedy the delinquency problems. We were actively involved in the Department of Defense's recent effort to re-negotiate the contracting bank's task order. These contract modifications include key provisions that help reduce travel card delinquencies, including:

- a salary offset program that allows delinquent account balances to be collected from the cardholder's pay;
- increased cardholder fees for late payments and bad checks; and
- a significant reduction in the number of travel cards issued to infrequent travelers. As a result, the Army has canceled or deactivated over 60,000 travel card accounts.

The Army was also an active participant in the Task Force on Department of Defense Charge Card Programs. The Under Secretary of Defense (Comptroller) released the Task Force's final report on June 27, 2002. In conjunction with this effort, the Army has taken a number of actions, including:

- providing additional training for cardholders and unit travel card program coordinators;
- working closely with Bank of America to resolve problems of cardholders who are misplaced in the Army account structure.
- expanding the use of split disbursement and salary offset;
- reducing the number of cards issued and not being used;
- assessing alternative travel card products, such as, debit cards and smart cards, to facilitate paying travel expenses for our "unique" groups of travelers and mission requirements;
- working closely with the Army investigative community to ensure that relevant findings of cardholder delinquency are promptly coordinated with security administration personnel and the cardholder's supervisor; and
- using the Travel and Transportation Reform Act of 1998 exemption for en-route expenses associated with mission deployments.

In addition, we are exploring changes in Army's travel card policy, including:

- prohibiting travel card use for Permanent Change of Station moves;
- encouraging the commands to use the training request form or the purchase card to pay advance conference and registration fees;

- including the unit travel card program coordinator as a mandatory step in the in and out processing procedures;
- requiring that unit travel card program coordinators review their active accounts each month and report apparent instances of misuse to the cardholder's supervisor and commander;
- requiring that each unit travel card program coordinator be responsible for no more than 450 cardholder accounts;
- revising the Army delinquency goal to not more than 4.5 percent of "dollars owed," effective with the October 11, 2002 billing cycle; and
- requiring that Major Commanders ensure all unit travel card program coordinators receive initial and refresher training and all cardholders receive initial training.

In short, the Army believes that the travel card program is worthwhile. It is an effective tool for meeting the Army's travel and transportation needs and for reducing administrative and support function costs. We are committed to reducing our travel card delinquencies and misuse and strongly support initiatives to improve the program. We have made good progress in reducing delinquencies and misuse and we believe that our continued efforts will result in continued improvements in the future.

Mr. Chairman, that concludes my statement. I will be happy to take any questions.

Mr. HORN. Thank you very much for your testimony.

We now move to Jerry S. Hinton, Director for Finance, Defense Finance and Accounting Service.

Mr. HINTON. Good morning, Mr. Chairman, thanks; I am pleased to be here today to discuss the Department's travel card program.

The travel card program falls within my responsibilities. The travel card program provides savings to the Department, and has helped to streamline our operations, and the cards offer convenience to those who travel on official business.

The Department's senior leadership is seriously concerned about the operational shortcomings, the delinquencies and abuses that are the focus of this hearing. the failure to fulfill the job responsibilities and observe appropriate standards of conduct will not be tolerated.

Mr. Chairman, when I appeared before this subcommittee in May of last year, I noted that the Department was working to address delinquencies and improve the travel card program.

Since last year, we have reduced the Department's centrally billed travel card account delinquency rate from 14 percent in January 2001, to less than 2 percent in May 2002. The June report, which we received Monday, shows it is now approximately 1 percent.

We also modified the task order terms to eliminate the automatic billing cycle credit replenishment feature for standard and restricted accounts.

We canceled approximately 115,000 cards, and deactivated another 112,000 belonging to infrequent travelers.

We implemented salary offset that has significantly reduced the number of accounts written off by the bank. As of May 2002, $15.1 million had been collected and paid to the card-issuing bank, Bank of America. Again, our general report this week shows over $17 million has now been collected.

Accountability is a major focus within the Department. Component heads have been directed to report on the actions taken to resolve current cases of charge card misuse, abuse, delinquencies, and to preclude future such instances.

Improved internal controls and process re-engineering are important to the Department. The Under Secretary of Defense Comptroller, Dr. Zakheem, established a task force in March to investigate the Department's charge card programs and to propose ways to strengthen them.

The task force report, issued on June 27, 2002, included findings and observations similar to those of GAO, and 16 of those recommendations address the travel card program.

Those recommendations fall into three areas: one, management emphasis and organizational culture; No. 2, process and work force development; and three, compliance. The specific recommendations related to the travel card program are summarized in my statement, and we are working their implementation.

Mr. Chairman, the senior leaders in the Department are engaged in ensuring the travel card program is properly administered and successful.

That concludes my remarks, and I will be pleased to answer any questions you may have.

[The prepared statement of Mr. Hinton follows:]

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Committee on
Government Reform

STATEMENT OF JERRY S. HINTON

DIRECTOR OF FINANCE

DEFENSE FINANCE AND ACCOUNTING SERVICE

BEFORE THE

U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON GOVERNMENT REFORM

SUBCOMMITTEE ON GOVERNMENT EFFICIENCY, FINANCIAL

MANAGEMENT AND INTERGOVERNMENTAL RELATIONS

ON

U.S. ARMY'S TRAVEL CARD PROGRAM

JULY 17, 2002

For Official Use Only
Until released by the
Committee on Government
Reform

Mr. Chairman and members of the Subcommittee, I am pleased to be here today to discuss the Department's travel charge card program. My name is Jerry Hinton and I am the Director of Finance at the Defense Finance and Accounting Service. The Travel Card Program falls within my responsibilities. The travel card program provides savings to the DoD Components and has allowed the Department to streamline its operations and offers convenience to those who travel on official business.

The Department's senior leadership is seriously concerned about the operational shortcomings, delinquencies, and abuses that are the focus of this hearing. The failure to fulfill job responsibilities and observe appropriate standards of conduct will not be tolerated.

Mr. Chairman, when I appeared before this Subcommittee in May of last year, I noted that the Department was working to address delinquencies and improve the travel card program. I would like to highlight a few of the changes implemented in the last year. The Department has:

- Reduced the Department's centrally billed travel card account delinquency rate from 14 percent in January 2001 to less than 2 percent in May 2002.

- Modified its task order terms to eliminate the automatic billing cycle credit replenishment feature for standard and restricted accounts.

- Cancelled approximately 115,000 cards and deactivated another 112,000 belonging to infrequent travelers.

- Implemented salary offset that has significantly reduced the number of accounts written off by the bank. As of May 2002, $15.1 million has been collected and paid to the card-issuing bank.

Accountability is a major focus within the Department. Component Heads will ensure the necessary oversight of government charge card programs and education of all personnel as ways to eliminate fraud, misuse and abuse. Any misuse that violates the public trust will not be tolerated. Further, the Component Heads were directed to report on actions taken to resolve current cases of charge card misuse, abuse and delinquencies and to preclude future such instances.

Improved internal controls and process re-engineering are important to the Department. The Under Secretary of Defense (Comptroller) established a DoD Charge Card Task Force to investigate the Department's charge card programs and propose ways to strengthen them. The final report, issued on June 27, 2002, includes findings and observations similar to those of the GAO and 16 recommendations that address the travel card program.

The Task Force recommendations fall into three areas:

1. Management Emphasis and Organizational Culture:

   - Issue guidance for military and civilians on proper stewardship of public resources.
   - Issue a Directive assigning responsibilities for management of all charge card programs.
   - Develop standard metrics for managers

2. Process and Workforce Development:

   - Develop methods for positive control of charge cards upon transfer or departure

   - Initiate mandatory split disbursement

- Review infrequent travelers' need for travel cards – mandatory review of all card accounts with the expectation that close to 400K cards will be canceled

- Review infrequent traveler definition for appropriate level of travel

- Pursue authority for mandatory salary offset, expanding the program to include civilian annuitants in addition to active military, civilians and retired annuitants

- Review voucher submission process for delays in payments

- Evaluate alternatives to the travel charge card

- Create an exemption to mandatory use for en route travel associated with certain mission deployments

- Evaluate enhancements to the Defense Travel System

- Provide information concerning travel card behavior to appropriate officials concerning security clearances

- Increase awareness of available training materials

3. Compliance:

- Publish clarifications of potential punishments and supervisor/command responsibility in regulations

- Complete the development of automated data mining tools

Mr. Chairman, Senior executives at all levels of the Department will be held accountable for evaluating and implementing the Task Force recommendations to strengthen travel card program operations and controls. In doing so, we will continue working cooperatively with the General Accounting Office and the Office of the Inspector General, Department of Defense.

Mr. Chairman, that concludes my remarks. I would be pleased to answer any questions you may have.

Mr. HORN. Thank you, and we now will recognize the gentleman from California, Mr. Ose, for 5 minutes of questioning, and then the ranking member next.

Mr. OSE. Thank you, Mr. Chairman; I regret I was late. It is not often that someone sneaks something by me, but when I got back to my office this morning, I discovered, much to my chagrin, that somebody had snuck one by this morning.

In watching the television and noting the introduction of one of our witnesses today, I am not sure that we did quite enough justice to him; that being Major General Eres, who is a resident of Sacramento.

Frankly, he is too humble. But I will tell you for a fact, that in my community, there are people who do and there are people who talk; and this gentlemen is a man who does. He has for many years.

He is a past President of the Sacramento Metropolitan Chamber of Commerce. He has been in Rotary. He has got four wonderful kids. His wife is actually the General in the household.

I will tell you, he has a long history in Sacramento business enterprise, also. He has served in any number of roles, one of which has been as counsel to my family. It is a distinct pleasure to have him join us here today.

I am sorry I was not here for his remarks or his first introduction, but I did want to get here and thank him. Because he is one of those people that make Sacramento a great place to live. So, General, thank you for coming.

General ERES. Thank you.

Mr. OSE. My questions really devolve around to the issues that you put on the table, and I am not going to speak to a chartreuse card, at the moment. I will get back to that.

The question I do have, I mean your testimony is very telling. What General Eres brought up was the issue of, if somebody is deployed, and they have a claim for reimbursement, as is his want, he is always worried about the people who are actually out in the field.

What happens when someone who is deployed makes a reimbursement request, and it takes longer than 30 days for that person to recover their funds, and what is the consequence there?

General ERES. The consequence that we have found is that a vast majority of the cards have been issued to people in the lower ranking positions, both enlisted, warrant, and in the officer core. So these are people that are usually pretty tight, in terms of the amount of cash-flow that they have available to them.

The primary resource then, for repayment of the card, would be the reimbursement that they get from the voucher that is processed. Depending upon the timeframe within the bank, it goes from a card that is delinquent to one that is seriously heading toward a potential for a charge-off or potentially would be a candidate for an offset or a garnishment, if you will.

It is a timeframe that can be influenced by a delay in processing that travel voucher. We believe, in California, from the National Guard's perspective, we have taken strong efforts to try to augment the actual staff that are going to be processing these cards. We think that we can do a much better job than we have been doing.

The requirement is that the individual, after leaving that travel status, has 5 days to turn their report in, or their travel request in. That should be processed, and they should have a check on the way in approximately 30 days.

If the system is working, that money ought to be applied to the travel card and clear the account. In an abundance of caution, I think, though, under the notion that has been suggested as a split disbursement perhaps, in my view that, and I believe for General Monroe, is a very positive step.

So, in fact, those charges legitimately on that card for travel are bifurcated, and the check is paid directly to the Bank of America, with the incidental payments going directly to the soldier.

Mr. OSE. Would you recommend doing that electronically, for instance, to the card provider?

General ERES. I really do. I think that in this paperless information technology, there is much more we can do to interface between the Bank of America and its systems, our systems and the National Guard called aft-costs, and in the processing that we do through the U.S. Property and Fiscal Office, and the oversight that can be provided by the APCs. I think we have the capability to integrate and synchronize those activities by using technology.

Mr. OSE. Does the Guard in California bifurcate these payments, or follow the system you have just described?

General ERES. They do only on a voluntary basis, on this split disbursement. We really favor that the notion be mandatory. We do not know of any reason why it should not.

In the old days, and I will show my age here, when you went and obtained a vehicle for military travel, you got what was called a log book. When you got the log book, you signed for that vehicle. There was a gas card in it. You went on your travel. You turned the card and the log book in and logged out. That is a system that ought to fit nicely within the use of the travel card, we think.

Mr. OSE. I regret my time is expired, Mr. Chairman.

Mr. HORN. Well, we will get back to that. Let me just say, to followup on one question, you mentioned the Bank of America. Could they not match their particular knowledge of either people that had accounts, or where you can get from any place, I guess, and what do you think about them? Do they ever look to see if this is a person that is a deadbeat; and if not, why not?

General ERES. One of the suggestions from the General Accounting Office was to take a look at the pre-qualification of those soldiers who are given the card. That is, in effect, a manifestation of trust in the soldier.

To the extent those cards are being given to those who already have a credit history that is not supported in the private sector for a card, it is something that we should ensnare at the front end of this process.

The difficulty we have is that a number of the individuals, this is their first card, their first exposure to credit. We have a larger job to do, as basically credit managers, to educate, train, and oversee those who are given that trust, and may not use it expeditiously or responsibly.

As relates to the Bank of America, I am not familiar with their capabilities and capacities, in terms of managing these accounts. I

believe their Eagle system is a good start, and I believe it gives an opportunity for the electronic interface, the integration and synchronization I mentioned, to alleviate a great deal of the challenge. Because if we do not have timely, accurate information on the transaction itself, we are behind the power curve.

Mr. KUTZ. Mr. Chairman, let me add to that. Because we would distinguish, as the General did, between people with bad credit and no credit. A lot of the young people coming into the military have no credit. We are not suggesting in our recommendations that they not be provided a card. They should be provided what is called a restricted card, which has a lower credit limit and has tighter controls.

But what we did find was a significant correlation between the abusers of the travel card and those that had prior credit problems. One of our recommendations is going to be that they deny travel cards to people with prior significant credit problems.

Mr. HORN. I now yield 5 minutes to Mrs. Schakowsky, the ranking member on this subcommittee.

Ms. SCHAKOWSKY. Thank you, Mr. Chairman.

Mr. Kutz, you have testified in the last year on a number of instances of fraud, waste, and abuse, including purchase card fraud and abuse at the Navy, chem-bio suits that were being sold on the Internet for less than $3, while DOD is buying them for over $200 each.

DOD is spending $17 per line to process a purchase card bill; and Army purchase card fraud and abuse, and Army travel card delinquencies, charge-offs, fraud, and abuse, it seems like even more than that.

Given your broad perspective, can you tell me why the Department of Defense continues to have billions of dollars in waste, fraud, and abuse?

Mr. KUTZ. I think this gets into your initial opening statement with respect to, this is a financial management problem. The Department has been unable to reform its business processes.

You have issues such as culture, which we have talked about at many of these hearings, being a common theme throughout these different types of problems that we find.

You find lack of sustained leadership over periods of time. This credit card problem that we have here is not something that a task force report or a quick hit is going to fix. It is going to take sustained leadership and time to deal with this.

Then I believe that things oftentimes revert back to their norm. If you do not stay on top of this over a period of time, it could revert back to the way it is.

The other thing that we see here is the issue with disciplinary action and accountability, and who is responsible for this program?

I think that is something the Department often has trouble with, with respect to the Office of the Secretary of Defense versus the Army here. Whose program is this? Who is the point person?

Who can you actually go out and touch and say, you are responsible, and you are the one who is going to fix this program? That is a common theme, I think, we have seen with all the things we have testified before you.

Ms. SCHAKOWSKY. Well, let me followup on that then with the General. Because we have a case where a California National Guard cardholder was actually promoted after charge-offs.

I am just trying to understand how we can establish the right culture, the right atmosphere, the right accountability and controls, when we find that those individuals, rather than being punished, in fact, in some instances, are promoted.

General ERES. Yes, ma'am, the particular case that you are referring to, I have become very familiar with. I mentioned in my opening remarks the challenge we have with what we call stovepipes or parallel systems.

So it is entirely possible that you could have a member of the National Guard, who has a full-time position within the National Guard, but also has a position within a chain of command that is the military chain of command.

It may be that the abuse of the credit card was something that was handled by the immediate supervisor on the full-time side of that pipeline; whereas, the chain of command on the miliary unit side was not aware that was even a problem.

What we have done to take corrective action on that is to integrate those two stovepipes. We have also integrated the security check, the classified process by which we have security clearances for our personnel.

So at the minimum, the immediate action we have taken is to link not only the full-time military system with the military unit system, with the security system, and to be in a position where we have any indication that there has been a default or a deficiency on the travel account that, I will use the term descriptively, flags that particular individual across all of those stovepipes.

So you do not have a promotion or an award or send somebody off to school or other training, when you have that kind of an incident or a flag, if I could use that phrase.

Ms. SCHAKOWSKY. So do you feel confident that kind of problem will not surface again?

General ERES. I feel confident, ma'am, that purposes if we have accurate information that drives the flagging process, and again, I am using that descriptively, we can do that.

What I am not confident in is, do we get accurate, timely information of the condition of the account soon enough, so that those flags will be effective.

As I mentioned earlier, I think this is where the technology between the Bank of America and its Eagle system and our pay system will help us flag, very early, immediately when that account becomes deficient; or, I do not whether the term is slow pay or no pay.

Ms. SCHAKOWSKY. Well, let me ask you this, General, because in the GAO report, we are talking about, and I do not know if this is the full extent of it, the delinquencies and charge-offs cost the Army $2.4 million, estimates the GAO, in lost rebates, and will cost $1.4 million.

You know, in every case, we are talking about millions and millions of dollars. Do you feel confident that we are not going to have the same hearing a year from now? Let us start with 6 months

from now. Do you feel confident we are not going to find the same thing, 6 months from now?

General ERES. In the context of the California Army National Guard, I am confident that we have a very good data base on the problems that you are addressing, and that we have meaningful solutions.

I would be more than willing to submit it to another look-see, whether it is by GAO, or I can assure you internally within our own system, we will have our own audit, to make sure that we are benchmarked, and that we are not going to be back here in 6 months having the discussion because those systems, those stovepipes, are not communicating and are not integrated.

Ms. SCHAKOWSKY. Mr. Ryan, did you want to say something? Do you mind, Mr. Chairman? Mr. Ryan wanted to respond.

Mr. HORN. Go ahead, Mr. Ryan.

Mr. RYAN. I think in response to what the General is saying, a lot if it ties in on how much the Army is committed to bring in full-time APCs. These APCs are front line. They identify potential problems. They can notify commands of problems.

If we have APCs that are doing part-time work, they cannot do both jobs. We talked to one APC that had over 1,000 cardholders to manage. The only thing that he did at the end of the months was to try to look at delinquencies, and keep his Commander out of trouble.

If we have full-time APCs that, on a daily basis, are looking at the transactions, that are looking at the delinquencies, I think that you will find that overall there will be a better management of the program.

But the Army has to commit to this. They have to commit to full-time people to do this job. We have a lot of money invested in this, and I think that we need full-time people to monitor the program.

Ms. SCHAKOWSKY. And is there a commitment to do that?

Mr. RYAN. I think you need to ask the Army.

General ERES. I will pass that on to the Army. I am sure they are pleased to get it. But I can tell you that in the National Guard, we are staffed at 43 percent of authorized, required full-time.

So the National Guard gets the resources that we are assigned. We utilize those, and as Mr. Ryan has indicated, that means our APCs are duo-hatted, triple-hatted, or even more.

What we are talking about here is if the program is important enough, what we need to do is to look at how you can re-prioritize resources in order to have more and dedicated personnel in this area. Because we are in a sub-optimum environment, in terms of resource allocations.

Mr. KUTZ. Representative Schakowsky, I would like to add one thing to that, quickly. We also saw, at some of the different units than the California National Guard, that the military APCs turned over every 6 months or so.

One of the other things that we are going to be recommending is that the Army look at having more civilians, if possible, to act in the APC role. Because what we found was that APC's were in the position for 2 or more years and you need some continuity in that position to have it be effective.

Ms. SCHAKOWSKY. Thank you.

Mr. HORN. I think the answer to your question is one, for the Assistant Secretary of the Army, Ms. Pack, what can you do in answering Mrs. Schakowsky's question, which is a very important question; and what is the Army doing about it?

Ms. PACK. Mr. Chairman, I became aware of these problems in preparing for this hearing today. What I would say about that is, the Army, like any other institution, has to make tradeoffs with resources.

From the GAO report, which I found very beneficial—and I am an accountant by trade, so I believe audits are good—we have learned that, basically, we have an oversight problem. The way to fix that is to put human capital against that and, of course, that costs money.

Ms. SCHAKOWSKY. Excuse me, but we are talking about huge sums of money that is just falling away like sand through our fingers; huge sums of money that should be used to protect our homeland, to take care of our men and women in uniform.

I understand that we are going to have to put more money into it. But this cavalier attitude that I find that, well, you know, we are like any other organization, and we have to have the resources, this is a crisis worth billions of dollars.

I think it is absolutely equal to the Enrons and the WorldComms, with our own Department of Defense; and it requires a much more aggressive attitude than what I am hearing from you and that what we have heard, time and time again, at hearing after hearing.

We are talking billions. We are talking about trillions, $1.2 trillion, that we do not know where it is or how it is accounted for. This is not just a nickel and dime kind of operation, a couple of guys going to a strip club. We are talking about a culture, a systematic problem within this department. We are talking about being in deficit spending right now. We are talking about $48 billion more for the Department of Defense to do its job.

So I think that we ought to find the money to do it, because we are going to save, hopefully, billions and billions of taxpayer dollars. They deserve no less, Ms. Pack.

Ms. PACK. Yes, ma'am, I agree with everything you have said. I have been in this position for 8 months. I have just now come to understand the scope of this and the complexity of this. Believe me, I take this personally. I believe this is my personal responsibility to correct. So do not take me wrong in saying that there are tradeoffs.

What we need to do, and you are right, we can save billions of dollars, by adding people. One of the things that I had asked my staff before I came over here this week is, I need to know what it would take to get the right people in the right places to take care of this?

What is the dollar figure we are talking about, so that we can take this to the leadership and say, here is what we need to do. This is the solution. If we do this, yes, it will cost something, but the savings will far outweigh that.

Mr. HORN. Well, I would like to add to that, when did you first learn of this situation? You have been here 8 months, and when did you first learn of this?

Ms. PACK. When I first learned of this, I believe, was in the March timeframe, when these hearings were being held earlier.

Mr. HORN. OK, well, when you heard that, what did you and the various civilian officers in the Army do? Did anything happen?

Ms. PACK. Well, we became part of this task force, the DOD Charge Card Task Force, and we started looking at this program in detail to see where are the problems. That is why I say, the GAO report was especially helpful, because it looked at specific places, specific problems, and gave us the details on where the problems lie.

In my line of work, credit problems are a security risk, and you do not get hired if you have those problems. So I take those very seriously.

The thing that is frustrating to me is, these kinds of problems are manageable. It just simply takes somebody at the monitor, looking at this. We simply do not have the people doing that. Therein lies the major problem.

Mr. HORN. Well, I guess what I asked, when this first came to my attention, months ago, was where are the Master Sergeants; where are the people that know what is going on?

Ms. PACK. The chain of command; I agree.

Mr. HORN. The officers often do not know what is going on.

Ms. PACK. That is right.

Mr. HORN. New lieutenants and everybody that ever was in the Army or any of our services; woe be the person that thinks they know everything out of the Academies or everything out of the technical this or that.

Get a good Chief Petty Officer for the Navy and a good Master Sergeant for the Army; now can they not do that and say, you know, go down the command bit, where you have got the problems, and assign a few people to that to say, straighten it up. Then I think it would be straightened up.

Ms. PACK. Absolutely, sir, and let me just add, the supervisor cannot do anything about a problem of which he knows nothing. That is where the program coordinators come in. If you do not have somebody watching this to spot the problems, then no action will be taken.

Mr. HORN. Yes.

Ms. SCHAKOWSKY. Are you saying to us that we will be back here in 6 months or a year, if we do not get more personnel there? There is really virtually nothing you can do if there are not more people to straighten out these problems?

Ms. PACK. No, I am not saying that, ma'am. What I am saying is, give me 6 months, and let us see what we can do about this. I am engaged on this, and we will work on this. I know at the outset, one of the problems we have is oversight, and we have got to solve that.

So let me work on this, and let me come back to you in 6 months and tell you what we have been able to accomplish. This is fixable.

Ms. SCHAKOWSKY. Mr. Chairman, how many hearings over how many years have you had on this?

Mr. HORN. On this one, alone?

Ms. SCHAKOWSKY. Not just this one alone; on the problems at DOD? We hear the same thing.

Mr. OSE. Mr. Chairman, if I might?

Mr. HORN. Yes, the gentleman from California.

Mr. OSE. Ms. Pack.

Ms. PACK. Yes.

Mr. OSE. With the problems that you have discovered in the payment systems that we are talking about here today, I mean, I think Mrs. Schakowsky raises an interesting question. How long have they been going on?

Ms. PACK. I am sorry, I did not understand your question.

Mr. OSE. How long have the payment or credit issue problems that you are dealing with been going on, that Mrs. Schakowsky has very eloquently brought up?

Ms. PACK. With this program, I am aware of the program starting in 1998. There were immense problems in the first year, implementation problems, because the on-line system was not available. It did not work.

So, once the bank got that program working, and we finally had the detail that we could look at, we had a back log to get through. So many of the specific problems that had been mentioned in early testimony, we were completely unaware of, because we had no way to see them.

So what I would say to you is, the problem was that, and this goes to the culture, it gave the impression that no one was watching, and no one was. It gave the impression that no one cared. That is hard to negate, once you have established that.

Mr. OSE. Was the program set up by virtue of a congressional mandate?

Ms. PACK. I believe so; yes, sir.

Mr. OSE. So somewhere in legislation, it was specified that this system will be implemented?

Ms. PACK. What was specified was that an official travel card be used for all travel, and that all Federal employees use that.

Mr. OSE. All right, as it relates to this particular branch of this particular system, what you are pointing out is that, frankly, whoever set it up really did not understand checks and balances, in terms of how it gets implemented. Is that what you are saying?

Ms. PACK. I would say it was not ready for implementation. The systems were not there in the first year. So it took that long just to get them, so that we had the visibility of the accounts.

Mr. OSE. And the system of checks and balances, I mean, I understand credits and debits and all that. It is not a very complicated thing. I mean, banks do it all the time.

Ms. PACK. I agree. I agree.

Mr. OSE. So is there some reason it has not been done, to date?

Ms. PACK. Sir, I am not sure what you are asking me.

Mr. HORN. I think what he is saying, if I might add to it, because we are all feeling that way, that you are a newcomer, and thank heavens they get newcomers, because that is what we need to turn some of these systems around; and I am sure you will be handling this as best you can.

But the problem is that they have not really got it yet, and that is what gets us, I think. Every time they come in, they take the oath and all this, and we are saying, hey, what have you done? Mr. Hinton, we asked him, the last time, what are you going to do?

I mean, the problem is, when people go in with the services, they run them around to facilities, and they have a lot of flags and all the rest of it, to keep you from doing the real work that you have got to do. Where do you get the people and at what point are supervisory going?

We ought to change a lot of civilians in a lot of these major bureaucracies. Some of those people have very good skills, and they would know how to solve this. It is just that we get a feeling that, well, here they are again and, you know, let us just wear them out for a month or two.

Well, we are not going to end this, I mean, this afternoon. We are going to see a few cases due for the fraud people; namely, the U.S. attorneys.

Ms. PACK. Sir, I agree with you, and if I were in your shoes, I would be enormously frustrated. I cannot speak for the performance of my predecessors. I can speak for myself, and I am a person who understands the meaning of commitment.

I am committed to fixing this. This is not going to lose my attention, when I walk out this door. I commit to staying on top of this, as long as I am serving in this position.

Mr. HORN. Yes, the gentlewoman from Illinois?

Ms. SCHAKOWSKY. I wanted to ask about training. The General was talking about young people sometimes, who do not have a lot of experience.

And when I look at the Army delinquent and total outstanding travel card balances that are in the GAO report, you find that the single largest bulk is E–1 to E–3s and E–4 to E–6. We are talking about people who earn between $11,000 and $26,000. It is not all that surprising that at the end of the month, they do not have money to pay those.

What are we doing to help train these young people. Often, they are 18 or 20-year-olds, who may not have had any experience or any credit, as was pointed out, in how to handle this? We all know, those of us who have kids that have gone to college understand the problem, you know.

Ms. PACK. Right.

Ms. SCHAKOWSKY. You give a kid a credit card and things happen. So we have to train them on how to responsively use those.

When we are distributing them wholesale throughout a huge system like this, what are we doing?

Ms. PACK. Well, you make very good points, ma'am. I mean, training is absolutely essential. The other thing is just mass distribution. Do not give the cards to people unless they truly need them. Then before you give them the cards, make sure they have the training.

So one of the things I have requested from our field, is for them to send in all of the training materials they have come up with, so that we can compile these and come up with a standard training package that we make available on the Internet; and that we get back to the Commands and ask them to use in training these people.

That is one point. We do not have one specific training package now. So that is one of the things I have already ordered. Let us call it all in from the field, just take the best of it, compile it, de-

velop a standard package that will address this and address it effectively.

Ms. SCHAKOWSKY. Also, Mr. Kutz said that we could set lower credit limits.

Ms. PACK. Yes.

Ms. SCHAKOWSKY. I think we could turn cards on, when an individual is on travel and off, at other times. I mean, it seems that there are lots of management tools that could be applied to this kind of situation.

Ms. PACK. I agree with you. Those are great ideas. But keep in mind, that type of management is contemporaneous. That means, you have to have people dedicated to that job, who are dedicated to knowing when people are going on travel and when they are coming off, so that you are activating and inactivating correctly.

If we do not have the people now, after the fact, looking at the transactions, after they have already been made, obviously, we do not have the people who can do that in advance, or be there contemporaneously.

Ms. SCHAKOWSKY. I guess, I mean, credit limits are credit limits.

Ms. PACK. That is true. That is true. Keep in mind also, there are two parties to this, and that is what complicates it, in the sense that the bank, itself, I do not think was prepared for the volume of transactions it was going to get on this.

Hence, transactions have come through that should not have, because someone was over their credit limit. Transactions have come through from merchant codes that should not be allowed. Both parties on this have had to work together to get to where we are today.

Ms. SCHAKOWSKY. Which is in a mess.

Ms. PACK. Well, it is not what it needs to be, absolutely. But if you look at it from the standpoint that 92 percent of the cardholders are following the rules, we have come a long way.

Ms. SCHAKOWSKY. Well, let me ask you this. What would the Army do, and what would it cost, if Congress canceled the travel card program?

Ms. PACK. The Army would have to go back to doing travel advances, which would then raise our bill with the DFAS folks quite a bit. It would be $24 per transaction, I believe.

So the savings, you would be throwing the baby out with the bath water. We would go back to a cumbersome system that required a lot of accounting support and would be expensive. We would be going backward if we did that.

Ms. SCHAKOWSKY. I am a little concerned, though, that then we have a cost benefit ratio, that it is better to let all these abuses go on, because in the end, it is cheaper than, you know, taking away the travel cards.

Ms. PACK. No, ma'am, we would not look at it that way. I mean, we want no abuses. It is an imperfect world. I am sure we will not ever get to 100 percent, but we can do a lot better than we are doing.

Ms. SCHAKOWSKY. I hope so.

Mr. HORN. Well, on that point, and you have obviously started on this, the General Services Administration has a number of training programs on line. Is the Army making use of those tools?

Ms. PACK. I am not sure the awareness is what it should be. That is another thing that we are going to do, to make sure that people in the field are aware that is there and available to them.

Of course, having it available is not necessarily the whole answer, either. These people need to have the time to do the training.

Mr. HORN. Well, General Eres has, I think, some good suggestions on a change in the travel card's appearance and a kind of reduction, really, in that card, and the changing of it. What do you think of that? Have you had a discussion with either the Command you are in or with the Army, in itself, in the Pentagon? What is the best way to do it, General?

General ERES. I do not want to go way out of my pay grade. I am just a poor country General from California. [Laughter.]

The notion, from my standpoint, was looking at "Private Snuffy" in the foxhole out in the State of California.

What sorts of things can we do to help change the culture, and particularly when we are dealing with that 18 year old that you are referring to, that will help at least alert the fact that if they pull that card out of their billfold, and it gives enough distinction to it, just maybe there is a little bit of a reminder that this is for official use only? I think, from that standpoint, that may be a first step.

I do believe that we owe the solders in the system a better system of education and training. I think that in much of that, it befalls the chain of command to do that; those Master Sergeants that you are referring to; that particularly in a high risk group, that we do not just have a CD, or we have simply a canned briefing that they get once year.

But there should be something a little more hands-on to that, that is going to help make them more responsible for a lifetime; not just simply the time that they are in the military.

I think this is an opportunity, and I welcome the institutionalized education and training materials that might come to us. But I am also reminded that making the training available will not work if we do not have the execution of the actual training. That means, again, that Master Sergeant, one on one, with those youngsters, those young soldiers.

Mr. HORN. Well, I would think, either at reveille or whatever, that it ought to be that finance does matter. Granted, they are there for fighting. Obviously, we do not want to disturb that.

But we need to have some point of key enlisted or commissioned people on regiments and battalions and the company, right down to the platoon, that this is your chance. If you mess it up, you might lose your credit, in terms of the civilian area. We want you to be people that are good citizens, and you are going to have to do this, this, and this.

If you say it enough, they ought to be well put, I would think, by a few people, out in the range and in the forts and in the camps, and so forth. But it has got to be right down there. I cannot be in the Pentagon, although they have sure abused it, also. But you need to do all of those things.

Mr. Ryan, as a good investigator, tell me what would you do, if you were put over in the Army, and they said, look, clean this up?

Mr. RYAN. That is a tall order, Mr. Chairman.

First of all, I truly believe that if the Army Command, at Ms. Pack's and levels comparable to her, pay attention to this issue, I think the delinquency rates and the charge-offs can come way down.

I think that will affect the Government going back in and renegotiating with Bank of America to lower some of these fees. We are paying a lot in regards to fees.

I think also, by putting what I call the "Cop on the Watch," the APC, getting someone in there at a grade level that is not going to take any guff from any of these people when they talk to them, and also using them as an educational tool, a teacher, they are going to be in contact with these soldiers. They are going to be the person who is going to push the buttons and talk to their commanders. I think that we can start at that level.

I think also we need to make the security clearances directly tied in to the fact that these accounts and these soldiers are charging-off accounts.

We have some soldiers that absolutely have committed crimes by writing bad checks. They have a pattern of writing bad checks. They have a pattern of boosting their own accounts.

This all has to be taken into consideration. We need to start making people responsible, and we start, as the General says, getting away from the stovepipes and crossing the responsibilities.

It all starts at the top. If you cannot get the people at the top to emphasize the importance of the issue, then we are at a loss, and we will be back here again in 6 months.

From the perspective of an investigator, I think the most important tool that we can use is the "Cop on the Beat," the APC, who can use the Eagle system to help monitor and find out exactly what is going on.

In regards to the General's chartreuse color card, I think it is a good idea. People cannot use as an excuse, I pulled the wrong card out of my wallet.

But on the other hand, there has to be some responsibility put on the merchants that accept it. We have deceptive transactions taking place between cardholders and the vendors of these adult entertainment facilities.

We have, in my opinion, them making false statements to financial institutions. They are selling money, and they are disguising it under bar and restaurant charges.

This is something that also has to be looked at. DOD does not necessarily have visibility over that, because as business goes on, these vendors are changing their names.

We have institutions, Crazy Horse II, is doing business as the Power Co. It is hard to figure out what the Power Co. is. From an APC's perspective, if they are in the full-time, they are going to gather intelligence information in regards to doing their job.

So again, the APC, I think, Mr. Chairman, to me, is the most important person to help with this problem.

Mr. HORN. Any other advice?

Mr. KUTZ. I would say, on the issue that was discussed earlier with Congressman Ose, the issue of splitting of disbursements, that would be probably our No. 1 recommendation, to have the Depart-

ment work with the Congress to mandate that; not only probably for DOD, but possibly Government-wide.

You could potentially drive down all of the delinquency rates across the Government by mandating the splitting of disbursements. That is something that we have found is also used in the private sector by large corporations, which has kept their delinquency rates low.

Mr. HORN. In my remaining months in Congress, I am committed to reviewing the implementation of this legislation, and see it moving through the subcommittee.

The travel card and the purchase card program that we have talked about today were the result of legislation that I pushed through Congress. My intent was to reduce the transactional costs for the Government's performing basic functions.

The abuses described today are very troubling. I am encouraged by the steps taken by Secretary Rumsfeld to address this issue, but more must be done, and it must be done more.

Let me assure you that you will be back before us in the Fall, and I hope we want to hear better news, and make sure that it is just another game and we want action, in brief.

So with that, we are going out of this particular one, into the 2 one this afternoon. It will be at 2, and we are thanking the people here that put all this together. So we will combine all of this, and we will now adjourn this. We will see you at 2.

[Recess.]

Mr. HORN. The Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations will have this oversight hearing. It goes over from the morning and this is "Government Purchase and Travel Card Programs at the Department of the Army."

We are glad to have the number of people that know what can be done and we hope this is the last time we have to ask the very bright officials to come here and still not have served the thing.

A quorum being present, we will continue our examination of government credit card programs at the Department of Defense focusing on the Department of the Army's Purchase Card Program.

Last year, I was joined by Ms. Schakowsky and Senator Grassley in requesting that the General Accounting Office examine the purchase card programs at two naval facilities in San Diego, California. At a subcommittee hearing held on July 30, 2001, the General Accounting Office reported it found serious abuse and fraudulent use of these government guaranteed credit cards. Purchases were made for personal items, including clothing, luggage, designer briefcases and the taxpayers paid the bills.

At the time, we did not know whether these abuses were unique to these two facilities or whether they were symbolic of a much broader problem. Now, the General Accounting Office has found similar examples of waste, fraud and abuse of credit cards at the Department of the Army, including extravagant purchases and items for personal use. Once again, no one is minding the store at the Department of Defense. I realize well that you have a major war going on and there are many things to do, but we also have people in finance over there and they ought to be doing the right thing and not just letting it sit there.

I welcome this panel of witnesses and I want to know what is being done to ensure this appalling waste of taxpayers' money is stopped. We will probably have to swear in some because you weren't here. Let us have those who did not take the oath this morning.

[Witnesses sworn.]

Mr. HORN. The clerk will note that seven have affirmed and Senator Grassley, I am told, is here. We will start with Senator Grassley and then we will go to the panel.

Senator GRASSLEY. I had an opportunity to thank you for your leadership and I appreciate that very much, and the hard work you do in this area.

At the last hearing, I shed some light on a particularly troublesome fraud case involving a current Army employee, Ms. Tanya Mays. I would like to revisit the case and give you some new information.

The alleged fraud occurred while she was employed by the Navy Department in San Diego. She is now in charge of what they call cash integration in the Army's financial management organization in the Pentagon. Since our March meeting, her case has disappeared off the radar screen and by raising this troublesome matter in March, I had hoped someone in the Pentagon with some clout would hear me and do something about the case.

Secretary Rumsfeld's Charge Card Task Force came to my office on May 16 to provide a briefing on the plans for cleaning up the credit card mess. The Task Force doesn't seem to care a hoot about Tanya Mays' case though. I hope this is not a bad omen. The Task Force brushed off questions I had about the Mays' case and when I asked about it, the Task Force provided kind of a candid response, something about the Navy got the money back, consequently problem solved. That response really bothers me, it just doesn't seem to cut it.

Mr. Chairman, getting the money back is a red warning flag. It should also trigger a followup action like criminal investigation. The General Accounting Office's Office of Special Investigations examined Tanya Mays' case and here are the facts as we know them.

Ms. Mays' purchase card allegedly went Christmas shopping in December 1999 and in a few short days ran up $12,000 of bills. It was used to buy seven gift certificates worth $7,500, a Compaq computer, an Amana range, groceries, gas, clothing. You name it, it seems like they got it, and all expensive stuff and all at taxpayers' expense. The Citibank statement for December 1999's shopping spree is dated January 21, 2000. All purchases were made over a 6-day period from December 20 through December 26 for a grand total of $12,550.24.

The Christmas shopping spree prompted the bank to suspend the account. Ms. Mays got the bad news when she attempted to use the card on December 27. When confronted with the suspicious transaction, she told the bank she lost the card. Two days later, she was issued a new one. In late January 2000, she presented the $12,550.24 bill to her Navy superior for approval. Her signature appears at the bottom of the statement. Her signature signifies that she accepted the charges as her own. According to the super-

visor, she said she needed it approved in a big hurry because she had already been late in submitting it.

If she questioned the charges, she was required to attach a dispute form to the January 2000 statement. No dispute form was attached, there were no complaints and no story about losing the card. The supervisor then rubber stamped it, approved, without reviewing it. Once she got the skids greased and the payment ball rolling, she claimed once again the charges were not her's. She said she kept the card in her office desk drawer and somebody took it for a few days. She told that story on January 31, 2000 but the bill got paid in full anyway.

At this point, Citibank gave her a dispute form but for reasons yet to be explained, she waited 13 months until February 2001 to file a sworn affidavit disputing charges. By then the evidence trail was cold. When Ms. Mays left the Public Works Department in June 2000 for another Navy office in San Diego, she did not surrender her card. She was allowed to keep it and that was contrary to regulations. She abused it again. This time for a personal car rental on June 18, 2000 for $357.95. Public Works gladly paid this bill as well. Ms. Mays also used her official travel card in mid-1999 to buy three airline tickets for her son. They cost around $722. The grand total on Ms. Mays' government card was $13,630.19.

Mr. Chairman, I ask unanimous consent to have these documents and statements of January 2000 printed in the record.

Mr. HORN. Without objection, this will be in the record at this point.

[The information referred to follows:]

Table 1: Fraudulent Transactions on Tanya Mays' Government Purchase Card Account

Transaction Date	Vendor	Merchant Category Code	Amount
December 20, 1999:			
	EXXON	Gas Station	$ 9.50
	ULTRAMAR Imperial	Gifts	10.00
	MACY's West	Gift Certificates	1,500.00
	Nordstrom	Gift Certificates	1,500.00
	Robinson/May Co.	Gift Certificates	1,500.00
	EXXON	Gas Station	10.25
	Circuit City	370 Compaq computer, HP printer and cable	2,392.00
Subtotal			**$ 6,921.75**
December 21, 1999:			
	Mervins	Clothing	**$ 250.00**
December 22, 1999:			
	Lees Men's Wear	Clothing	167.01
	Robinson/May Co.	Gift Certificates	500.00
	Shell	Gas Station	20.12
	MACY's West	Undetermined	269.91
	Footlocker	Clothing	53.85
Subtotal			**$ 1,010.89**
December 23, 1999:			
	Robinson/May Co.	Gift Certificates	**$ 1,500.00**
December 24, 1999:			
	Circuit City	Gift Certificate[a]	500.00
	Circuit City	Balance related to purchase of Amana range	150.05
	Smart and Final	Food	39.89
	Circuit City	Gift Certificate	500.00
	Circuit City	Compaq computer monitor and an unknown item	527.95
Subtotal			**$ 1,717.89**
December 26, 1999:			
	EXXON	Gas Station	14.25
	MACY's West	Undetermined	73.26
	MACY's West	Undetermined	63.20
Subtotal			**$ 150.71**
Total, fraudulent transactions during December 1999			**$11,551.24**

[a] GAO investigators determined that the gift certificate was used as partial payment for an Amana range, connector, and service plan costing $606.17.

Table 2: Personal Charges on Tanya Mays' Government Purchase Card and Travel Card Accounts

Type of Account /Transaction Date	Vendor	Merchant Category Code	Amount
Purchase Card:			
June 18, 2000	Thrifty Car Rental	Car rental[a]	$ 357.95
Travel Card:			
May 25, 1999	United Airlines	Airline ticket	432.00
June 19, 1999	United Airlines	Airline transaction	75.00
September 10, 1999	Priceline	Airline ticket	215.00
Subtotal, personal use of government travel card			**$722.00**
Amount paid for personal use of government travel card			(343.21)
Total, unpaid amount charged-off			**$378.79**
Total unpaid amounts related to personal use of government purchase card and travel card			**$736.74**

[a] The cardholder claims to have used the government purchase card by mistake. Citibank credited the government purchase card account, but the cardholder has not paid Citibank for the improper charge.

CITIBANK

Account Number

[redacted]

JL 00-13

[redacted]
NPWC SAN DIEGO

CITIBANK GOVERNMENT CARD SERVICES

FOR CUSTOMER SERVICE CALL 1-800-790-7206 OR WRITE P.O. BOX 45134, JACKSONVILLE, FL 32232-5134
OUTSIDE THE U.S. AND CANADA CALL COLLECT 904-954-7850

Agency Name: NPWC SAN DIEGO
Accounting Code: 97X4930NE1E00077777063387
Billing Office Id:
Discretionary Code:
Single Purchase Limit: $2,500.00
Agency/Org Id:
Tax Exempt #:
Monthly Purchase Limit: $0.00

Account Number	Available Credit Line	Cash Advance Limit*	Available Cash Line
[redacted]	$17,000	$0	$0

Sale Date	Post Date	MCC Code	Ref Number	Type of Activity	Purchase/Cash Amount	Tax/Fee	Total Amou
[redacted]							
12/22	12/24	5542	7035136752015	SHELL NO 6045280681 NATIONAL CITY CA	20.21		20.1
12/22	12/24	5542	7035136752015	NON EXEMPTED FUEL TAX CA	0.00		0.0
[redacted]							
City Fuel Sales Tax				City Motor Fuel Tax	0.00	County Motor Fuel Tax	0.00
County Sales Tax				2.26 State Fuel Sales Tax	1.12		
[redacted]							
12/26	12/28	5311	7701181512	MACY'S WEST #077 SAN DIEGO CA	79.2		
12/26	12/28	5542	7701181510	EXXON BUS SAN DIEGO CA	14.2		
12/26	12/28	5542	7200307605	NON EXEMPTED FUEL TAX CA	0.00		0.0
[redacted]							
City Fuel Sales Tax				City Motor Fuel Tax	0.00	County Motor Fuel Tax	0.00
County Sales Tax				1.66 State Fuel Sales Tax	0.79		
12/27	12/30	5969	4147000010062	**NEW HORIZONS CMPUTER LE SAN DIEGO CA	999.00		999.0

THE NEW DOD/DON SUSPENSE PROCEDURES ARE NOW IN EFFECT. IF YOU HAVE LOST YOUR PURCHASE ABILITY, PLEASE CONTACT YOUR AGENCY PROGRAM COORDINATOR.

CITIBANK GOVERNMENT CARD SERVICES

*Cash Advance Limit is a portion of your Total Credit Line
** Available Cash Line is a portion of your Available Credit Line

[redacted]

*556677900002350700000000000000234

Account Number	Statement Date	Total Amount Due
[redacted]	01/21/2000	$0.00

Delivered
1/13/00
KAD

[redacted]
M03974
NPWC SAN DIEGO
4635 PACIFIC HWY
SAN DIEGO CA 92110-2756

For a telephone or address change contact your Agency Program Administrator

CITIBANK GOVERNMENT CARD SERVICES

Statement Date
01/21/2000

Credit Line	Previous Balance	Credits	New Charges	Total Activity
$17,000	$0.00	-$0.00	$12,550.24	$12,550.24

FOR CUSTOMER SERVICE CALL 1-800-790-7206 OR WRITE P.O. BOX 45134, JACKSONVILLE, FL 32232-5134
OUTSIDE THE U.S. AND CANADA CALL COLLECT 904-954-7859

Agency Name: NPWC SAN DIEGO
Accounting Code: 97X4930NE1E00077777063387
Billing Office Id:
Discretionary Code:
Single Purchase Limit: $2,500.00
Agency/Org Id:
Tax Exempt #:
Monthly Purchase Limit: $0.00

Account Number	Available Credit Line	Cash Advance Limit*	Available Cash Line
[redacted]	$17,000	$0	$0

Sale Date	Post Date	MCC Code	Ref Number	Type of Activity	Purchase/Cash Amount	Tax/Fee	Total Amount
12/20	12/22	5311	[redacted]	MACY'S WEST #059 SAN DIEGO CA	[redacted]		12,500.00
12/20	12/22	5311	[redacted]	ULTRAMAR/IMPERIAL SAN DIEGO CA	[redacted]		10.00
12/20	12/22	5311	[redacted]	ROBINSON'S GIFT CARDS SAN DIEGO CA	[redacted]		500.00
12/20	12/22	5542	[redacted]	[redacted]	[redacted]		10.25
12/20	12/22	5542	[redacted]	EXXON POS 75 - 2502585 SAN DIEGO CA	1.50		1.50
12/20	12/22	5311	[redacted]	NORDSTROM - 00003609 SAN DIEGO CA	[redacted]		1,200.00
12/20	12/22	5732	[redacted]	CIRCUIT CITY #1 KIOSK LA MESA CA	392.00		392.00
12/20	12/23	[redacted]	[redacted]	NON EXEMPTED FUEL TAX CA	0.00		0.00
Federal Fuel Excise Tax			1.44	State Motor Fuel Tax	1.90	County Motor Fuel Tax	0.00
City Fuel Sales Tax			0.00	City Motor Fuel Tax	0.00	Secondary State Fuel Tax	0.00
County Sales Tax			1.44	State Fuel Sales Tax	0.57		
12/20	12/23	5542	[redacted]	NON EXEMPTED FUEL TAX CA	0.00		0.00
Federal Fuel Excise Tax			1.23	State Motor Fuel Tax	1.21	County Motor Fuel Tax	0.00
City Fuel Sales Tax			0.00	City Motor Fuel Tax	0.00	[redacted]	0.00
County Sales Tax			1.23	State Fuel Sales Tax	0.53		
12/22	12/23	5411	7206055793272	LEE'S MEN'S YEAR NATIONAL CITY CA	167.01		167.01
			2000				
12/21	12/23	5311	7270055049012	MERVYNS - 00005463 SAN DIEGO CA	250.00		250.00
12/22	12/24	5311	7193423142	MACY'S WEST #059 SAN DIEGO CA	269.91		269.91
			5904263974				
12/22	12/24	5311	7030591547159	ROBINSONMAY GIFT CARDS NATIONAL CIT CA	500.00		500.00

CITIBANK GOVERNMENT CARD SERVICES

*Cash Advance Limit is a portion of your Total Credit Line
** Available Cash Line is a portion of your Available Credit Line

[redacted]
CARDHOLDER SIGNATURE

SUPERVISOR SIGNATURE

Senator GRASSLEY. The handwriting on Ms. Mays' purchase card receipt has been subjected to analysis by the U.S. Secret Service Forensic Division. These experts have concluded that someone other than Ms. Mays actually signed the receipts but all appeared to have been signed by the same person. The Amana range, for instance, was bought with a gift certificate made out to Ms. Mays' ex-boyfriend's mother. The boyfriend in question resided at Ms. Mays' address at the time the fraudulent purchases were made. Mr. Chairman, her ex-boyfriend has a long criminal record; he is considered a real pro at committing fraud.

This new information seems to raise the possibility that the boyfriend used the card without Ms. Mays' knowledge or approval. Most of the experts who have investigated this case don't buy that theory. However, they believe that Ms. Mays did not make the purchases but that she knows who did. Ms. Mays needs to come clean; there are too many unanswered questions.

If someone stole her credit card and used it between December 20 and December 26, 1999 as she claims, how did she happen to have it yet again on December 27 when she tried unsuccessfully to use it? Why didn't Ms. Mays examine her January 2000 bill before presenting it to her naval superior? Did she check it and reconcile charges with her receipts? Why did she sign the January 2000 statement signifying that the charges were her's? Why didn't she attach the required dispute form to her January 2000 statement? Why did it take her 14 months to give a sworn affidavit disputing the charges? Why did she abuse her purchase card again in June 2000?

When she handed the January 2000 statement to her supervisor, it seems to me that she had to know the score. These charges were incurred on her credit card account, they appeared on her statement. She endorsed that statement. She submitted it and she demanded immediate payment. She now needs to accept responsibility for the charges that appeared on her statement.

It is true that the Navy eventually got the money back in April 2001. That is good news. The taxpayers' losses were recovered. Getting the money back is a powerful indictment at the same time. It seems that Citibank and/or the Navy came to the conclusion that the charges on Ms. Mays' account were fraudulent. Mr. Chairman, why can't Mr. Rumsfeld's task force see the handwriting on the wall? Why didn't the Navy Criminal Investigation Unit get on the stick and attack this case in January 2000? The Naval Criminal Investigative Service seems to have dropped the ball. That brings us back to Ms. Mays. Ms. Tanya Mays and/or her associates have the stolen goods. That means the bank gets left holding the bag. The bank gets busted and the criminals skate. That is not right.

There are other signs that Ms. Mays was not acting in good faith. The $357.95 personal car rental charge she incurred was also reversed through a credit from Citibank. Again, the Navy got the money back, Ms. Mays agreed to repay the bank but she hadn't done that. Ms. Mays has just repaid Bank of America the money she owed for her son's airline tickets she initially paid the bank $343.21 on that bill but $378.79 was left unpaid for 3 years until recently when we started cranking up the pressure. In February 2002 after being grilled by the General Accounting Office investiga-

tors, she finally paid off that balance. The account was closed and not reissued.

Mr. Chairman, Ms. Mays' credit record is a trail of bad debt. It is scandalous, she should never have been issued a government credit card. She had a long history of personal credit card abuse. She had at least 12 accounts that went bad. Whoever gave her government credit cards, should have had their head examined, quite frankly. The bottom line again is lack of accountability.

Based on the General Accounting Office's work so far, I would have to say the Army is tougher on credit card crime than the Navy. We found an Army female sergeant who was court martialed in April 2002 and sentenced to 18 months incarceration for $30,000 in fraudulent purposes. The Army Staff Sergeant who wrote 86 bad checks was court martialed and is now confined. The Navy is at the zero end of the scale. The Mays case is a combined Army-Navy case. To my knowledge, no disciplinary action has been taken against Ms. Tanya Mays. She seems to be working her way up the promotion ladder like nothing has ever happened. As I understand it, she was moved into a bigger job and given a promotion in October 2001, 21 months after the alleged Christmas shopping spree. I am told the Navy helped put her on the fast track for the Army job. The Navy gave her glowing recommendations when she applied for her current position with the Army. That seems to be an old bureaucratic trick, sprinkle some perfume on tarnished goods and pass it on to the other service. This case obviously sets a terrible example. It symbolizes all that is wrong with the Department of Defense Credit Card Program. Ms. Mays must be held accountable for the purchases that appear on her government credit card. If someone else committed these alleged crimes, then she obviously needs to spill the beans.

I want this matter investigated and I think by investigating it, the matter would be solved, at least based on what I know. Right now, the prospects for accountability look dim. No one wants to touch this case seemingly with a ten foot pole. The U.S. attorney has repeatedly declined to prosecute because the amount stolen is too small.

Mr. HORN. Which U.S. attorney, San Diego or here?

Senator GRASSLEY. I will have to get that information and insert it in the record because I don't know.

Mr. HORN. Does Mr. Kutz with the GAO team know? Mr. Ryan.

Senator GRASSLEY. We will have the information for you in the next panel.

The Navy refuses to pursue the case because Ms. Mays is no longer employed by that department. Her current employer, the U.S. Army, refuses to take action because the alleged crimes were committed while she was employed by the Navy, and the Tanya Mays case seems to be falling through cracks.

However, there are two new developments. First, I am told the Department of Defense IG opened an active investigation on June 3. Second, Ms. Mays holds a security clearance. As I explained this morning, a person's level of financial responsibility is a key factor in granting clearances. On June 12, I asked the Assistant Secretary of the Navy to review her credit history and determine whether she has the requisite level of financial responsibility to hold a clear-

ance. On July 1, I was informed that her security clearance has been, in their words, informally suspended pending further review.

If the Department of Defense is unable to resolve this matter in a way that is fair and just for Mays but also in the case of Citibank, then all the promises about credit card reform are nothing but empty promises. Accountability and reform go hand in hand. Without accountability, it doesn't seem to me that you can have reform. Tanya Mays is a good place to start, and that is where the rubber meets the road.

I spent my time on just one case, but I think it is an example of a culture that if we focus more light on a few of these very egregious cases and get action on them, that consequently we will be able to continue on the positive approach that I expressed in my statement this morning.

That is the end of my comments, Mr. Chairman.

Mr. HORN. Thank you very much for digging into this. I was worried about that the last time and you have broadened out a lot more than we knew at that time. If we knew it, why can't the legal enforcement of the executive branch deal with these matters? Is someone up high protecting her or what? This is just idiocy.

Senator GRASSLEY. Obviously your question is a legitimate one and maybe time will prove we will get a positive response from the people concerned. In the meantime, I guess we just raised questions.

Mr. HORN. So the Inspector General over there now has this case?

Senator GRASSLEY. Starting June 2 with some preliminary reports, July 1.

Mr. HORN. Is that Army or Defense IG?

Senator GRASSLEY. I think it is the Department of Defense.

Mr. HORN. We need to get into that.

Senator GRASSLEY. Thanks a lot, Mr. Chairman.

Mr. HORN. Thank you. You have done a lot of work and it is well done.

We will now move to Panel Two, Gregory Kutz, Director, Financial Management and Assurance, U.S. General Accounting Office; Special Agent John Ryan, Assistant Director, Office of Special Investigations, U.S. General Accounting Office; James T. Inman, Acting Deputy Assistant Secretary of the Army for Policy and Procurement; and Diedre A. Lee, Director, Defense Procurement, Office of the Under Secretary of Defense for Acquisition, Technology and Logistics, Department of Defense.

Ms. SCHAKOWSKY. I would like to give my opening statement now.

Mr. HORN. Fine.

Ms. SCHAKOWSKY. Thank you for allowing me to give my opening statement at this point before we hear the witnesses. I appreciate once again your holding this hearing.

As I said this morning, I am deeply disturbed by the record of financial mismanagement at the Department of Defense, and I am not encouraged by anything I have heard so far today. I look forward to Secretary Rumsfeld's response to the letter that Representative Waxman and I sent this morning asking how he was going

to address the financial mismanagement problems at the Defense Department.

The abuse of purchase cards, even more than the problems with travel cards, is simply bad management. There are too many cards. There is too little oversight. There is no accountability.

This morning, we heard about a National Guard officer who defaulted on $5,400 of travel charges and then was promoted. At the last hearing, I made the comment that nothing happens to people who abuse the privileges they have and I was corrected by, oh, yes, something happens, they get promoted.

Earlier this year, we were told about a Navy employee who purchased $800 worth of luggage supposedly to transport computer equipment and then left the luggage behind when he returned to San Diego. This afternoon, we will hear more examples of egregious behavior by Defense Department employees. Where and when will it end?

The Purchase Card Program may have been a promising idea when it was devised, and I know it was devised in good faith, but the management at the Defense Department has turned it upside down. A program that was designed to save money has instead made it easier to abuse the purchasing system. A program that was designed to streamline bureaucracy has made it easier for an employee to buy personal items and on the Federal Government's tab.

I am anxious to see the results of the study I requested from the GAO that compares the price paid on these purchase cards to the price of the same item on the GSA schedule. I have little doubt now what it will show. Any of these abuses could have been stopped if management was managing, and it was not.

The abuses of financial management do not stop at credit cards. Last month we heard about DOD selling chemical protective suits on the Web for pennies on the dollar. Last year we heard there was over $1 trillion on the DOD books that could not be properly accounted for. Two years ago, GAO included financial management of the Defense Department on its high risk list and it will be there again next January. First it was $600 hammers and $3,000 toilet seats, and now it is escort services and plastic surgery. Leadership must come from the top and this pattern of abuse at the Defense Department must come to an end.

At a time when the deficit is growing and the Government must meet the new challenges of terrorism, the Department of Defense must become a partner in improving Government accountability and not the poster child for fiscal irresponsibility.

Thank you, Mr. Chairman.

Mr. HORN. Thank you. You have hit a lot of the hot spots.

Let us start now with Mr. Kutz. Do you want to give us a summary of the purchase card problem?

STATEMENTS OF GREGORY KUTZ, DIRECTOR, FINANCIAL MANAGEMENT AND ASSURANCE, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY SPECIAL AGENT JOHN RYAN, ASSISTANT DIRECTOR, OFFICE OF SPECIAL INVESTIGATIONS, U.S. GENERAL ACCOUNTING OFFICE; JAMES T. INMAN, ACTING DEPUTY ASSISTANT SECRETARY OF THE ARMY FOR POLICY AND PROCUREMENT; AND DIEDRE A. LEE, DIRECTOR, DEFENSE PROCUREMENT, OFFICE OF THE UNDER SECRETARY OF DEFENSE FOR ACQUISITION, TECHNOLOGY AND LOGISTICS, DEPARTMENT OF DEFENSE

Mr. KUTZ. It is a pleasure to be here again this afternoon to discuss our audit of Army purchase cards. With me again this afternoon is Special Agent John Ryan from our Office of Special Investigations.

I have in my hand a purchase card. It is also shown on the monitor. As you can see, similar to the travel card, this looks like a normal credit card. The card used by the U.S. Army is a U.S. Bank Visa card and can generally be used wherever Visa is accepted. However, notice this says "For official U.S. Government purchases only." The Army has about 100,000 of these purchase cards and spent about $2.4 billion in fiscal year 2001. Unlike the travel card, purchase card charges are billed to the Government and paid directly by the Government.

Today, I will discuss our third in a series of audits of purchase cards at the Department of Defense. I have testified twice before the subcommittee on purchase card usage at two Navy units in the San Diego area. Today, I will discuss Army purchase cards and in the next several months, we will be releasing reports on Air Force and Navy purchase cards.

I want to thank the Army for their cooperation in the audit. As I mentioned this morning, the recent success of our forces in Afghanistan has shown once again that our military forces are second to none. Also, I want to make clear that our audit of the purchase card was looking at implementation, not design. Used and controlled appropriately, the purchase card can benefit the Federal Government.

The bottom line of my testimony is that for fiscal year 2001, we found significant breakdowns in purchase card controls. These breakdowns contributed to fraudulent, improper and abusive purchases and theft and misuse of government property. My testimony has three parts: first, the overall purchase card control environment; second, the effectiveness of key internal controls; and third, examples of fraudulent, improper and abusive charges.

First, our work has shown that the lack of a strong internal control environment leads to the risk of improper behavior. We found that Army management has focused primarily on maximizing the use of purchase cards and paying the bills quickly. However, the Army has not provided for adequate infrastructure for management of the program. Specific weaknesses in the control environment related to operating procedures, management over the number of cardholders, spending limits, program coordinator oversight, and span of control for approving officials.

One effect of the weak control environment was ineffective control over canceling accounts of departed cardholders. For example,

Fort Hood had a substantial problem with termination of purchase cards. Data show that over 300 active cardholders at Fort Hood were no longer assigned to the units that issued their card. One of these purchase cards was used to make undetected fraudulent purchase at the Sunglass Hut and the Discovery Channel Store. These fraudulent purchases were not identified until we informed Fort Hood officials about them.

Second, with Army's weak overall control environment, it is not surprising we found controls were ineffective at all five of the case study installations that we audited. The control activities we tested in aggregate are intended to provide reasonable assurance that purchases are for valid, authorized government needs.

Based on statistical sampling, we found key internal controls failed from 25 to 87 percent of the time. In addition, the installations could not provide supporting invoices for 7 to 26 percent of the transactions we tested. For example, for many of the fraud cases, the certification of the monthly bill by the approving official was nothing more than a rubber stamp. Further, the job of approving official is a collateral duty with insufficient time available for effective performance.

Third, given the weak control environment, it is also not surprising that we found potentially fraudulent, improper and abusive purchase card transactions for 2001. Based on our limited testing, we identified or became aware of 13 fraud cases. Seven of the 13 cases were at two locations, Eisenhower Medical Center and Fort Benning. As shown on the poster board, three large fraud cases were at Eisenhower. Fraudulent purchases included computers, digital cameras, women's lingerie, jewelry, car repairs and clothing.

As shown on the next poster board, four of the fraud cases were at Fort Benning. Fraudulent purchases there included DVD players, cruises, a trip to Las Vegas, and food. One cardholder made 178 criminal charges for $30,000 both before and after he retired. These charges were made over the period of 2 years and the approving official did not verify the purchases. Another cardholder, a Chapel fund manager, used the purchase card to pay for escort services in New Jersey. Funds used to pay for the purchase card bill for these services came from the Chapel offering. This individual was demoted and required to repay the funds.

In addition to fraudulent purchases, we also identified a significant number of improper or abusive purchases. Examples, as shown on the poster board, include $16,000 of executive office furniture, including elegant desks, chairs and a conference table, leather bomber jackets from Sky Mall, wasteful and abusive cell phone usage at Fort Hood, a $500 Bose radio purchased by an individual to listen to music in his office, designer day planners costing up to $250 each, as the Senator mentioned this morning, 80 palm pilots for Pentagon officials, fine china and crystal from Royal Daulton and Lenox that was used for culinary arts competition, 30 sunglasses purchased from the Sun Glass Hut for the Golden Knights Parachute Team, and a damaged $2,250 tree to plant in celebration of Earth Day. For these purchases, we generally found no documented justification. Rather, Army often provided us with after the fact rationalization for the purchases. With 100,000 Army purchase cards, there are many people making daily decisions

about how to spend the Government's money. However, the abusive and wasteful purchases I just described raise questions that go far beyond the confines of the Purchase Card Program.

In summary, our testimony shows some real consequences of ineffective financial management and internal controls. We support the use of a well controlled Purchase Card Program. However, as implemented by the Army, this program is highly vulnerable to fraud, waste and abuse. As reflected by our recommendations, we believe the keys to reforming Army's Purchase Card Program include well designed, Armywide operating procedures and controls, effective program coordinators and approving officials, reducing the number of purchase cards to the minimum number necessary, developing clear, detailed guidance in the appropriate usage of the purchase card, and establishing proper incentives, accountability and consequences for all personnel involved in the program.

The Army has reacted in a positive manner to all of our recommendations. We plan to continue working constructively with the Army and the DOD Charge Card Task Force to implement these recommendations.

Mr. Chairman, this concludes my testimony. Agent Ryan and I would be happy to answer your questions.

Mr. HORN. Thank you very much.

We will now move to James T. Inman, Acting Deputy Assistant Secretary of the Army for Policy and Procurement. To start with, Mr. Inman, how did they get you into this situation?

Mr. INMAN. I was drafted. Dr. Oscar left and he asked if I would be willing to sit in the hot seat and I said I would do whatever he wanted me to do. So I am here, sir.

Mr. HORN. Army Policy and Procurement, this falls in that rubric then?

Mr. INMAN. Yes, sir. We are the established executive agency for the Army's program in the new Army Acquisition Contracting agency but I answer to Mr. Bolton and Mr. Bolton does not like unanswered questions, so that falls within my purview.

Mr. HORN. Tell us what you know.

Mr. INMAN. I am Jim Inman, the Acting Deputy Assistant Secretary of the Army for Policy and Procurement.

I have submitted testimony for the record and with your permission, I would like to summarize that testimony.

Mr. HORN. Thank you.

Mr. INMAN. I feel strongly, first of all, about the Purchase Card Program. It is contributing significant savings to the Department and I firmly believe that we cannot go back to the old way of doing business. Before I continue, however, I want to thank the Government Accounting Office for the assistance they have rendered us in defining the scope of our program's shortcomings. I do know that we have shortcomings and I affirm to you that we are committed at the very highest levels of the Army to correcting our programmatic weaknesses to ensure the continuance of the public trust. That is critical to our existence as an organization.

The Army experienced a rapid growth in the use of the purchase card between 1995 and 1999. At the same time, we were dramatically reducing the population of the acquisition community, the functional element responsible for the administration of the pro-

gram. We are taking steps to respond to the GAO's findings that the Army has not devoted adequate manpower to the program. We recognize that these shortages have contributed to an overall weak internal control environment. This has made the Army program vulnerable to fraud, waste and abuse.

Recently, the Department of Defense Charge Card Task Force identified several best practice workload matrices. On July 8, 2002, our Vice Chief of Staff tasked the Army to "comply with the recommended ratios and monitor the Purchase Card Program to eliminate the weaknesses noted in the GAO audit." He reiterated the need to develop and maintain a system of strong internal controls to ensure we are proper stewards of the taxpayers' dollars.

The Army is also pursuing other measures to improve our effectiveness. We are completing a standard operating procedure [SOP] to standardize and tighten purchase card procedures. The SOP will address weaknesses identified by the GAO, as well as those uncovered by the Department of Defense Inspector General. These weaknesses include controls over the issuance and assessment of the ongoing need for cards; cancellation of cards when appropriate; span of control of the approving official and their respective cardholders; and appropriate cardholder spending limits.

The Army Standard Operating Procedure will also include checklists as part of its oversight system for program coordinators to use in performance of program reviews as well as for the approving officials' reviews of their respective cardholders. In addition, we have requested that the bank assist us in developing standard data base queries that our program coordinators can use in reviewing transactions to evaluate our own program performance.

In conclusion, I will tell you that the Purchase Card Program is critically important to the Army. We recognize that we need to make changes. We are aggressively correcting weaknesses and implementing across the board standard practices. We are determined, and I think I speak for Mr. White when I say this, to make this the most effective and efficient system possible.

This concludes my testimony. I am prepared to respond to any questions you or members of the subcommittee may have.

[The prepared statement of Mr. Inman follows:]

RECORD VERSION

STATEMENT BY

MR. JAMES T. INMAN

ACTING DEPUTY ASSISTANT SECRETARY OF THE ARMY

FOR POLICY AND PROCUREMENT

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT EFFICIENCY, FINANCIAL MANAGEMENT AND INTERGOVERNMENTAL RELATIONS

COMMITTEE ON GOVERNMENT REFORM

U.S. HOUSE OF REPRESENTATIVES

SECOND SESSION, 107TH CONGRESS

JULY 17, 2002

ARMY PURCHASE CARD PROGRAM

NOT FOR PUBLICATION UNTIL RELEASED BY THE HOUSE GOVERNMENT REFORM COMMITTEE

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Mr. Chairman and members of the Committee:

My name is Mr. James T. Inman. I am the Acting Deputy Assistant Secretary of the Army for Policy and Procurement. The Army is the Executive Agent for the DOD Joint Purchase Card Program. The program management, functional and operational responsibility and oversight of the Army's program is located in the Army Contracting Agency. I am testifying on the Army's behalf.

I welcome the opportunity to speak to you about the Army's response to weaknesses found by the General Accounting Office (GAO). The Army is aggressively correcting internal control weaknesses to ensure that a system of strong internal controls is in place. We are committed to improving the system to ensure that it is effective and efficient at every level, in every organization.

My testimony will focus on the where we have been, where we are, and where we are going. I feel strongly about the Purchase Card Program as it is contributing significant savings to the Department and I firmly believe that we cannot afford to go back to the old way of doing business. I am committed to strengthening the internal control weaknesses identified by the GAO and to holding accountable those individuals responsible for misuse of the card.

Today, the purchase card is used in virtually every organization at every level within the Army. The introduction of the purchase card program has significantly streamlined the acquisition process and produced administrative savings.

Where we have been:

Congress passed the Federal Acquisition and Streamlining Act of 1994, which created the micro purchase threshold. The threshold ($2,500 for supplies and services, $2,000 for construction) was the limit at or under which purchases were exempt from previously required contract clauses, provisions and representations. With that change came the opportunity to eliminate paper and de-centralize purchasing authority for low-cost commercial buys. Studies conducted within the Department of the Army showed significant savings could be achieved if the card was used to simplify the acquisition process. The Army Audit Agency's study in 1996 concluded that the savings approximating $100 per transaction could be realized when purchases were made by a purchase card instead of the old system using purchase orders.

The Army experienced a rapid growth in the use of the purchase cards between 1995 and 1999. This growth rate stemmed in part from the passage of the Federal Acquisition and Streamlining Act of 1994 and the establishment of a 90 percent goal by the Department and Congress. The Army went from 29.96 percent of micro purchases made with the card in Fiscal Year 1995 to over 97.46 percent in Fiscal Year 1999. The growth translated to over a 395 percent increase in card purchases (921,421 to 3,637,817 transactions) and a 411 percent increase in card sales ($426.8 million to

$1.76 billion). Another significant factor contributing to the rapid growth of the program was the downsizing of the acquisition community in the 1990s. Since the peak year of 1989, the workforce in DOD acquisition organizations has been reduced by about 50 percent according to data from the Defense Manpower Data Center.

Based on these reductions, our acquisition workforce was no longer able to support the significant number of relatively non-complex, non-critical purchase requests. The purchase card became a vitally important tool the acquisition community could use to re-engineer the purchasing process. We empowered requirers by giving them purchasing authority for low cost, commercial off-the-shelf supplies and services.

Reduced acquisition workforce and a rapidly growing program have presented a challenge to the Army. As we increased the size of the program we were reducing the size of the acquisition workforce --- the functional element responsible for the administration of the program. The Army Audit Agency acknowledged this dichotomy when they stated that the savings they computed in their audit in 1996 did not consider the added cost of administering the program (the costs of setting up and training cardholders and approving officials, the costs of account maintenance, setting authorization controls, the costs of managing delinquencies, and the costs associated with oversight)."

We are taking steps to respond to the GAO's finding that the Army has not devoted adequate manpower to the program. We recognize that this contributes to an

overall weak internal control environment and makes the Army program vulnerable to fraud, waste, and abuse. Proper management and oversight on the use of the card is a must.

In response to the GAO report, the Army's Vice Chief of Staff, the Purchase Card Program Management Office and I are working together to ensure Commanders throughout the Army provide adequate resources to the program. Recently, the Department of Defense Charge Card Task Force identified several best practice workload metrics. One such metric identified the span of control for the Agency/Organization Program Coordinator (A/OPC), a full time equivalent is typically required in the purchase card organization for each 300 card accounts, responsibilities of the program coordinator position typically warrant a General Schedule (GS)-11, and the position typically requires in-depth skills in financial and contracting policy and procedures with strong verbal communication skills.

The Army has concurred with GAO's recommendation regarding this workforce best practice metric. Army also agreed to issue policy directing Army Activities to ensure adequate resources (number and grade) are committed to the program, positions are adequately described, and that program official performance evaluations accurately portray adherence to program requirements. On July 8, 2002, the Vice Chief of Staff of the Army tasked the Army "to comply with the recommended ratios and monitor the purchase card program to eliminate the weaknesses noted in the GAO audit." He stated the need to "develop and maintain a system of strong internal controls to ensure we are proper stewards of the taxpayer's dollars.

The Army is pursuing other measures to enhance the efficiency: The Army is developing a Standard Operating Procedure (SOP) to standardize and tighten purchase card procedures. Although we did have card policy coverage in the Army Supplement to the Federal Acquisition Regulations, it did not address all the various acquisition, financial, and supply management requirements in one place. The SOP will address weaknesses identified by the GAO as well as those uncovered by the Department of Defense Inspector General (DoDIG). These weaknesses include: Controls over the issuance and assessment of ongoing need for cards; cancellation of cards when a cardholder leaves the Army, is reassigned, or no longer has a valid need for the card; span of control of the approving official; and, appropriate cardholder spending limits.

The Army's Standard Operating Procedure will also include checklists as part of its oversight system for program coordinators to use in performance of program reviews as well as for the approving official reviews over their cardholders. In addition, the bank was requested to assist the Army in developing standard data base queries that the program coordinators can use in review of transactions to evaluate program performance.

In conclusion, the Purchase Card Program is critically important to the Army. We recognize that we need to make changes and are aggressively correcting internal

control weaknesses and implementing across the board standard practices. The Army is determined to make this the most effective and efficient system possible.

Mr. HORN. Thank you very much.

We have to go into recess and we will be back. We will be in recess now and will be back at 2:55 p.m.

[Recess.]

Mr. HORN. Sorry it is so late but we had three votes that were very complicated. We won most of them.

It is now 3:20 p.m., and we will pick up where we left off. Mr. Inman.

Mr. INMAN. I believe I concluded my remarks and said I would be glad to answer any questions.

Mr. HORN. OK. Now we will go with Ms. Lee.

Ms LEE. I appear before you today to discuss the Department of Defense's implementation of the governmentwide Purchase Card Program and corrective actions we are taking to correct the problems identified by our own internal reviews and the General Accounting Office.

I would like to echo what Mr. Inman said about the importance of the purchase cards to the Department of Defense. We do use the cards to streamline process and we do save a good amount of money on administrative process. However, I would also like to echo what Mr. Inman and Mr. Kutz said. It is absolutely unacceptable that we have abuse or misuse of these cards and we have a lot of work to do to ensure that we rebuild your confidence and that of the taxpayer and make sure our people understand the obligations and the responsibilities we expect for them to deliver on.

As you know, we established a task force in response to your request and the concerns of your subcommittee and the concerns of the GAO. I have a copy of that Task Force report and I know we previously furnished it to you. I would like to mention a few things in the report. The thing that particularly catches my attention and I think one of the most important for all of us to emphasize is that the recommendations note that the tone at the top or leadership is absolutely essential for a successful purchase card program.

We have heard you loud and clear. We absolutely agree and we are aggressively pursuing to ensure that everyone knows the importance of the proper use of these cards.

I am going to focus on three areas today that are contained in the Credit Card Task Force report. The first one is management emphasis and organizational culture. As I mention there, we need to focus on leadership. At the Department, we have made sure we have emphasized that. The Deputy Secretary signed a letter on the 21st of June to all the Service components and defense agencies explaining to them the importance of proper use of the card and requiring them to come back and tell him if they had any actions and corrective actions they were taking within their service. We will be acting promptly and vigorously on those issues.

As well, I personally made some visits to some areas where we have had concern and I have talked with service acquisition executives, my boss, Mr. Wynn and we have even had some meetings in the purchasing areas to make sure everyone realizes the importance of that.

Another key area that the Task Force emphasizes is the process. We have a concept of operations which is here. The concept actually goes into quite a bit of detail, including flowcharts on how to

do everything through the program from set up and approval of purchase card officials, how to train them, what to do. It is true we haven't had that guidance as concise and clear in the past as we should have, so we are now working on that.

In meeting with the GAO, we talked a little about do these things, if implemented properly, will they help with the answers. The answer is absolutely yes.

Mr. HORN. What is the title of that document?

Ms. LEE. This is called "The Government Purchase Card Concept of Operations." We have it in draft and are going to finish it probably within the next month or so.

Mr. HORN. That is the DOD version?

Ms. LEE. Yes, sir.

Mr. HORN. Not GSA?

Ms. LEE. No, sir. This is the DOD version.

Mr. HORN. We would like that put in the record at this point.

Ms. LEE. Will do.

The third thing I would like to mention beyond process is basically people. As you and I have discussed, this is all about paying attention. We need to make sure we have not only the right people but we have them appropriately trained and we have emphasized the right oversight for this program. Those are some areas we are also going to focus on.

We have talked about internal controls and the issues that have been brought up here today. I do want to give a few examples. We are looking at making sure the approving official has a reasonable span of control. We said the maximum of 300 cardholders but that could vary if you have people with a lot of charges. Perhaps the number should be less and we have a method for monitoring that.

We also have a way we are going to use data mining. We used to call it mongoose but it actually is an electronic method where we go in and look at the purchases and certain things cause a blip, and then we further investigate. For example, certain purchases around a holiday might show us something we need to go further and investigate into that. We are working on that with the GAO and our own IG to make sure we aggressively pursue any questionable transactions.

Last but not least, we are stressing to our folks not only the importance of the card but the remedies for misuse. We are processing an additional FAR case, a defense acquisition regulations case, which will go out for public comment but it very clearly delineates the Uniform Code of Military Justice could be applied for misuse and what the civilian remedies are for anyone who misuses their card.

I agree wholeheartedly that we need to focus and make sure we are using these cards properly. They are a good tool. The majority of our people are great folks who are using the cards properly. We do have some misuse and we are going to aggressively pursue that and correct it.

I would be happy to answer any questions you may have.

[The prepared statement of Ms. Lee follows:]

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STATEMENT OF

MS DEIDRE A. LEE

DIRECTOR, DEFENSE PROCUREMENT

OFFICE OF THE UNDER SECRETARY OF DEFENSE FOR

ACQUISITION, TECHNOLOGY & LOGISTICS

BEFORE THE SUBCOMMITTEE ON GOVERNMENT EFFICIENCY,

FINANCIAL MANAGEMENT AND INTERGOVERNMENTAL

RELATIONS OF THE COMMITTEE ON GOVERNMENT REFORM

July 17, 2002

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to come before you and discuss the Defense Department's implementation of the Governmentwide purchase card program and corrective actions we have taken to address problems identified by our internal reviews and the General Accounting Office. Defense Procurement is the manager of the Defense Department's Governmentwide purchase card program and, in this capacity, we provide overall guidance for the purchase card program. The program is implemented through the DoD purchase card program manager and the services and defense agencies.

On March 19, 2002, the Under Secretary of Defense (Comptroller), in coordination with the Under Secretary of Defense (Acquisition, Technology and Logistics), established a DoD Charge Card Task Force to evaluate the internal controls supporting the Department's purchase and travel charge card programs in response to your concerns, Mr. Chairman, your subcommittee, and the GAO. The Task Force was asked to develop recommendations for corrective actions and improvements to the credit card programs—to change the "tone at the top" and ensure proper internal controls were in place. We are aggressively implementing the Task Force's recommendations in its final report dated June 27, 2002.

Today, I will focus on three key areas of emphasis for the purchase card discussed in the Credit Card Task Force Final Report:

- Management Emphasis and Organizational Culture
- Purchase Card Processes
- Workforce Development and Accountability

Management emphasis and organizational culture are key determinants of success in the purchase card program. Direct involvement by our most senior military and civilian managers for the Department is essential. As part of the DoD chain of command, they set the "tone at the top" that is necessary for program success. Our Service Secretaries and Agency Heads must ensure that the purchase card programs implemented within their organizations are properly structured, and that managers at all levels devote the necessary attention and resources to the program to ensure success. Appropriate management emphasis on the purchase card program will result in adequate staffing, particularly for Agency Program Coordinators, who provide oversight of the organizations' purchase card programs and are key in establishing effective internal control programs.

To ensure focus on Management Culture and Command Emphasis, the Deputy Secretary of Defense issued a memorandum on June 21, 2002, to the Services and Defense Agencies. In this memorandum, the Deputy Secretary of Defense outlined his expectation of Command emphasis and directed the Service Secretaries and Agency Heads to report back to him on the actions they are taking to address any identified weaknesses within their Command or Agency. This emphasis reinforces a positive organizational culture from our most senior leaders.

The second key area of emphasis is the Purchase Card Process. This process involves many different functional areas such as legal, logistics, finance, acquisition, personnel, audit, and payment. To describe and document this complex process, my staff, as part of the Task Force, established a multifunctional working group. This working group developed a Concept of Operations that defines the purchase card process, identifies best practices and identifies process vulnerabilities. We anticipate publishing this Concept of Operations by the end of the summer as a "deskbook" or program guide for use by purchase card officials and their supervisors. We will also maintain the Purchase Card Concept of Operations within Defense Procurement for the Department to use as a requirements guide for potential electronic solutions as well as business

process reengineering efforts. Finally, we will use this Concept of Operations to provide the underpinnings for an upcoming Defense Federal Acquisition Regulation Supplement change that will emphasize proper purchase card procedures and cardholder and supervisor responsibilities. That change will be submitted to the Defense Acquisition Regulations Council this summer, with implementation as a final rule in early 2003.

The last key area I would like to emphasize is in the area of workforce development and accountability. Workforce development is a critical factor to the success of the purchase card program. Therefore, the Department is developing two electronic training modules that address various constituencies within the DoD purchase card program. The first training module is for billing officials and cardholders, and will reside on the Defense Acquisition University Continual Learning Website. This course covers a full range of topics that these program officials need to perform their responsibilities. It will be used for initial training and will be able to be accessed for refresher training or reference. We plan to make the course available in August 2002.

The second training effort underway is the development of an informational CD containing the recommendations of the Credit Card Task Force. It will be available to all purchase card program officials and their

supervisors, with the primary emphasis being setting the appropriate "tone at the top."

In the area of accountability, the Department is taking steps to strengthen internal controls for the purchase card, provide appropriate sanctions for misuse, and strengthen existing regulatory language.

Internal control programs include implementing the best practices portrayed in the Concept of Operations. One such practice is establishing reasonable spans of control by having no more than 300 active accounts per person who performs Agency Program Coordinator duties and responsibilities. This will be verified through periodic reviews of the program by the DoD Inspector General and other internal audit organizations. In addition, the Department has organized a Fraud Focus Group that will develop new ways to identify potentially fraudulent purchases. It includes the Defense Finance and Accounting Service, the Defense Manpower Data Center, Office of the Inspector General of the DoD, the DoD Purchase Card Program Management Office, the Service Criminal Investigation Organizations, and the Service Audit Agencies. This group is developing methods to increase the surveillance of all purchase card buys. These methods are commonly known as data mining. Field testing of promising methods is being conducted this summer and successful

applications will begin widespread implementation this fall.

If misuse and fraud are identified, the Department intends to aggressively pursue sanctions against wrongdoers. We are emphasizing this in an upcoming regulatory change. Existing regulatory language on the purchase card program is contained in the Federal Acquisition Regulation (FAR) and Defense FAR Supplement, agency supplements and regulations. We are drafting a change to the Defense Federal Acquisition Regulation Supplement that will incorporate guidance that specifically states the penalties for unauthorized use of the purchase card.

I also have asked the DoD Inspector General to include in future purchase card program audits a review of the Defense components compliance with the best practices incorporated in the Concept of Operations. If noncompliances are identified, my staff will track corrective actions and make it clear to the services, defense agencies, and local commanders that the Pentagon is paying attention to how they are administering the program.

The purchase card program is vital to the efficient operation of the Department of Defense. We estimate that the streamlined procedures we use with the purchase card saved the Department, on average, $20 for every item

acquired. Last year more than 10 million purchases were made with the card. That's savings in excess of $200 million. In addition, the banks pay a rebate to activities that pay their bills promptly. The Department earned refunds of approximately $28 million from card use in fiscal year 2001. This money is deposited back into the appropriations from which the original purchases were made, allowing the services and defense agencies to "get more for their money." The Department does not wish to lose these benefits. We are taking aggressive action to address problem areas.

Mr. Chairman, the Department is improving the strength of the purchase card program internal controls, and is in the process of correcting the root causes of the deficiencies identified by the General Accounting Offices. We have increased management attention to the need for proper program implementation by setting the "tone at the top;" we have improved process controls; and we are developing improved mechanisms for ensuring workforce training and accountability for the purchase card program.

This concludes my testimony, and I am prepared to respond to any questions you or other members of the subcommittee may have at this time.

Mr. HORN. Let us start.

Ms. SCHAKOWSKY. This is our second hearing of the day on waste, fraud and abuse, travel cards this morning and purchase cards this afternoon. As I said this morning, I think the overall picture of financial mismanagement at the Department of Defense is really equal to the problems we are seeing at Enron, at World Com, etc. and worthy of equal attention because we are talking about billions of taxpayer dollars once you go through all these problems we have, and over $1 trillion that cannot be accounted for.

I was happy, Ms. Lee, to hear you talk about culture, solving the problem comes from the top, but I want to tell you that I come here today even more skeptical than I have been in the past because if you look at the top of the Army, at the Secretary of the Army, you find the Secretary of the Army, Thomas White, is under FBI investigation for possible insider trading for sale of Enron stock, being one of Enron's top executives and Enron employees have said that he knew about accounting practices and inflated revenues.

I think we are talking about culture and creating a culture of honesty where people aren't fast and loose, cooking the books, they feel that financial management is really important, that being a guardian of the money is really important. I think it ought to start with replacing the Secretary of the Army if we want to create a culture that really demands accountability and financial management that is appropriate.

I think what the Department does in terms of its inability to pass an audit and therefore making it impossible for the whole Government to have a clean audit, should be laid at the feet of the people at the top. The people at the top right now are under a cloud and I think should not be there.

I want to change tones here because I think there has been this task force, you do have the report, you have some plan for how to get there. When do you think you can come back and tell us about concrete improvements that have been made so that we don't have to come back here again in 6 months as we have over and over and find the same problems existing?

Ms. LEE. I will be happy to come back at any time. We do have specific dates in our report by which things are due and are just working them off one by one, including additional direction and additional training. At any time, I would be happy to come and discuss any and all points in the report or any other issues that concern you.

Ms. SCHAKOWSKY. When is the next date when you measure the success of your reform efforts?

Ms. LEE. Probably the next really upon us date is the responses to the Deputy Secretary's letter, how the services responded and what corrective action and in turn, what do we need to do to make sure we accomplish that and support it. That is the next pending date which will be the end of this week or early next week we should see those results.

Mr. INMAN. Let me add I have seen Mr. White's draft response and I think it is pretty substantial.

Ms. SCHAKOWSKY. Mr. Kutz, at the end of your testimony you listed some specific recommendations of things that could be done

in terms of these credit cards. Would you tic through them once again, setting limits on the amount of credit, etc?

Mr. KUTZ. I had five bullets at the end which highlight some of the major recommendations we have made both to the Navy and the Army. One for the Army was to develop Armywide operating procedures, which they do not have, but which have been underway for quite some time. I believe that is one thing that is going to be done here. Reducing the number of cards, since we had our first Navy hearing, Navy has taken substantial action. They have gone from 58,000 cards to 26,000 cards, so they have made significant improvements in that area. I believe Army is working toward the same type of situation, although they still have 100,000 cards. I think probably Army needs to do a scrub of cardholders.

Again, accountability, infrastructure and I think at the first two hearings we talked about some sort of guidelines that lay out what is or isn't an appropriate use of the purchase card with probably some specific examples of things that are prohibited because we have seen in the Army and the Navy some similarities in the types of things that are being purchased that shouldn't be.

Ms. SCHAKOWSKY. Ms. Lee, do you feel all of those are adequately responded to in your plan?

Ms. LEE. Yes, ma'am. We have addressed those issues, including special approvals and things in the back of the concept of operations and a list of things that are inappropriate. I would emphasize that anything that is not government official is a inappropriate purchase.

Mr. INMAN. I would like to add that in the Army's Standard Operating Procedure we have addressed all those issues, working with the GAO. I am very pleased with the help we have gotten from the Joint Program Office in helping us come to grips with trying to put out unified guidance on this. Just this week, we canceled 1,700 accounts. We put out guidance in February, followed up in March, twice in June. People didn't want to play, we said OK, game is over, goodbye.

Mr. HORN. Is there a policy that when a person leaves the Government, the Military, the Department of Defense, whatever, they get their credit cards cut just as we do when we get a new one from some credit card company? What is the policy on that where you can say, you are leaving, so we want the card back?

Mr. INMAN. It has been a while since I have cleared post but when I used to clear post, I would get a sheet of places I had to go and things I had to do and the people I had to clear with would signoff or initial that. I would take that piece of paper to the final clearing place and the person would make sure there were initials in the correct blocks, nice to know you, goodbye. I expect that is still the process but there is nothing to prevent forged initials and signatures. That is one of the things.

Mr. HORN. Say if you are on a base, that is usually where that happens, maybe it is with civilians, I don't know, but that is when you see they are going, you need to ask for the government credit card. Is there a place there? Do you have a government credit card? At that point, you say we want it.

Mr. INMAN. I am told there is APC clearance, the person in charge of the program at the installation has to be cleared so that

everyone has to stop by there to make sure their credit card is turned in.

Mr. KUTZ. The place we found that was the biggest issue was at Fort Hood with respect to purchase cards. We found there were about 300 cards for people that had left that were still active. There was at least one, maybe two of those cases where we identified fraud. In my oral statement, I mentioned the Sun Glass Hut and the Discovery Channel Store. That was one of those examples.

Since we have been at Fort Hood they have canceled those cards, but what they have done to change the policy and make sure it happens again, we are not sure. I believe there are policies to check out your card at these installations. It is a matter of if they are being enforced and if the APCs are actually involved in that policy to be notified that someone with a card is actually leaving. So there may be policies in place but either the policies need to be beefed up and/or there needs to be something done to ensure the policies are actually being followed.

Mr. HORN. Did you see beyond the various military facilities and deal with some of the civilian part of the military?

Mr. KUTZ. Some of these were civilians at Fort Hood but it was primarily military. Again, it was something we saw in the Army Travel Program where there were people who had left or retired who had kept their travel card and were still using the card. Some of the chargeoffs for travel cards were people that had used a card after leaving the service.

Mr. HORN. When a thief in this country sees a Master card, they simply use it over the phone and here is my number and so forth. Meanwhile, they are long gone with the goods or whatever or it is done by mail. What do you have as a thought as to how we deal with this?

Mr. KUTZ. With respect to canceling cards, I think they could also have a back-up policy. You can use the data to bump active cardholders against active employees. That would be a failsafe back-up policy they could have to make sure there aren't any people who have active credit cards that aren't on the current payroll. That would be something we probably would recommend they consider as a back-up policy.

Mr. HORN. That would mean that they hadn't paid all their obligations and you could take it out of the payroll or what?

Mr. RYAN. In the case you are talking about with these purchase cards, the Government is paying the bill. The cardholders are the agents of the Government. One of the things we have to consider is when they do leave, that the approving official can contact the issuing bank and have the card canceled. Therefore, it can't be used outside of their employment. That is kind of the best way to try to approach that from a backup standpoint.

Mr. KUTZ. What happens with the purchase card and the examples we found was the people who had left were gone, so they were no longer on the payroll, they were using the purchase card because nobody was reviewing the monthly bill, charges were going through and being paid for people who no longer worked at the Army. So once you are gone, there is nothing you can do to actually offset wages. It is too late at that point.

Mr. HORN. That is also our problem with the IRS, I might add, on some of these questions.

The GAO report contains an expansive list of recommendations. What are the most important actions the Army needs to take?

Mr. KUTZ. I believe reducing the number of cards to the minimum number necessary to complete the mission. I think Mr. Inman said they are working hard to reduce the number of cards. That is a critical element as is making sure the agency program coordinators and the approving officials are sufficiently trained. For example, the approving officials are given sufficient time and are rated on their job as approving official. Right now, those are collateral duties, they are not rated on that, it is not important and if they don't do it, there are no consequences.

Mr. HORN. Obviously, Senator Grassley and I care about the problems of fraud, waste and abuse. If the Army effectively implements some of their recommendations, will fraud, waste and abuse be reduced?

Mr. KUTZ. It would be reduced but there is no way you can eliminate fraud. Wherever there is money, as Mr. Ryan has taught me, there is fraud. Certainly if you put a reasonable set of controls in place, which are the kinds of controls we talked about, advance approval, approving official review, and independent receipt and acceptance, if you have a group of those controls in place and they are consistently being followed, it is much more difficult for fraud to be committed. That doesn't prevent you from having fraud such as collusion or kickbacks with vendors which are some of the fraud cases we found here. Again, it makes it much more difficult for someone to actually perpetrate and get away with the fraud.

Mr. RYAN. I would also like to add that the better job that we can do identifying the government agent, the individual who is holding the card, both financially, criminally and mentally, we can better identify the individual when we know what type of individual we are giving the card to. We found situations, as Senator Grassley mentioned, where an individual had poor credit. That is another example in which we have given this person, an agent of the government, the power to spend the taxpayers' money. We need to do a better job in identifying who those agents are going to be and we need to be doing the proper background checks. We are never going to eliminate fraud, but at least try to curtail it.

Mr. HORN. The Department of Defense Comptroller is Dov Zakheim and he announced the establishment of a Charge Card Task Force to deal with the problems. They issued a report on June 27. Is that part of what you have Ms. Lee?

Ms. LEE. That is the report right there.

Mr. HORN. Let us get that. We want to see what happens between there and then. We will put this in the hearing record also and we will also look at it.

[NOTE.—The report entitled, "Department of Defense Charge Card Task Force Final Report," may be found in subcommittee files.]

Mr. HORN. What are your views on the Task Force because the Army is taking it in the head now for what they had to say about the Purchase Card Program, I assume not just for the Army but for all the services, or was this focus strictly for the Army?

Ms. LEE. No, this task force was DOD-wide, looking at appropriate use of the purchase card and the travel card. There are separate recommendations for travel card versus purchase card. I had a brief discussion with Mr. Kutz and asked him, what do you think about our recommendations. I will let him answer that.

Mr. KUTZ. For the purchase card, we thought the task force report was complete in describing the issue and in the types of recommendations and that the recommendations they had were consistent with the ones we had issued for the Navy reports and also for the Army.

With respect to travel, we did find that the report had a lot more holes in it with respect to some of the issues we talked about this morning. For the Purchase Card Program, it appeared to be reasonably complete with respect to the types of issues we had seen in those two. We haven't completed our work Navy-wide or Air Force-wide to know if our recommendations are complete but assuming what we found so far, they would address those if implemented as Ms. Lee said across the Department of Defense.

Mr. HORN. Would this be simply the tip of the iceberg or do we see something under the water?

Mr. KUTZ. With respect to fraud, we found that the Department does not know how much there is out there with respect to purchase card. They do not have a system that tracks the kinds of cases. The 13 cases we either identified or became aware of, if you wanted to roll that up for the Army, you couldn't because there isn't a data base, so they don't know what they know. They also don't know what they don't know because there is a lot of fraud out there that does not get identified, especially with the kind of control environment we have identified and talked about this morning and this afternoon.

So we don't know whether it is the tip of the iceberg necessarily but what we do know is that the Department needs to start keeping track of these fraud cases and learning from them, knowing where they are and trying to identify the types of things that are happening so they can try to prevent them from happening in the future.

MR. HOGAN: For example, apparently, Mr. Kutz, on questionable purchases you mentioned, there was a damaged tree plant on Earth Day. The Army paid $2,250 for the tree. I don't know if that is good or bad. I happen to like trees. Maybe whoever the officer was liked trees too. What do you conclude from all that?

Mr. KUTZ. We concluded that was an abusive purchase, not only because they didn't need to buy a $2,200 tree to plant in the middle of a courtyard with a bunch of other trees but as it turned out, this tree was damaged. It had 50 holes, it was leaking sap, there appeared that woodpeckers had been at the tree basically. By the time they actually tried to return it to the vendor, the vendor said it is too late, it is your tree. So the Government was stuck with a $2,250 damaged tree.

Mr. HORN. Was that a nursery?

Mr. KUTZ. Yes, it was a nursery they bought it from.

Mr. HORN. Can we just say, folks, that will be the last thing we buy from you if you don't take this back?

Mr. KUTZ. Hopefully, that is what happened. What we do know is they did plant another tree for Earth Day this year and they spent $500 this year, so they didn't need a $2,250 tree.

Mr. HORN. Mr. Ryan, the GAO's report includes dollar amounts of some fraud cases. Is that the total amount of money involved in these cases of fraudulent purchases? How much have we got in some chart?

Mr. RYAN. We have no idea. I don't think DOD has any idea. In regards to keeping track of the number of fraud cases both for purchase and travel, there doesn't seem to be a system in which you can push a button and get data back. We asked, in some cases they did worse searches. They ran credit card, travel card, purchase card, impact card and then they combined that information and said, this might be what we have. We can't tell you they are fraud cases but this is the result of our inquiry.

As a criminal investigator and a supervisor in my former Secret Service life, we were able to identify the number of cases by assigning a specific administrative number to a type of case. So when we needed data to determine what the trends were, where we need to put our resources, and I might also add the amount of training that is needed for investigators. We talk about a lot of training for people that handle the system, but what about the people responsible for doing the investigations? All this data needs to be gathered and needs to be at someone's fingertips.

It also maybe should be considered that when we are awarding these contracts to these banks, we put a condition in there that the banks have to train our investigators, give them the latest investigative information, the tactics, make it a responsibility of the financial institutions that we contract with to provide training to the investigators, to bring in the best investigators we can to work on financial crimes.

Mr. HORN. Mr. Ryan, do vendors contribute to the defrauding of the Army purchase card program, and if so, please explain and give us some examples?

Mr. RYAN. When looking at vendor fraud, I think it is important to recognize that we have learned the cardholders are turning over their account numbers to the vendors. The vendors have a data base of our government purchase card numbers. As a direct result, a vendor can then submit the purchase card number to the merchant bank for the transaction that maybe was done correctly and then they could just keep adding transaction after transaction. So it is a vehicle for them to get money.

If we have cardholders and approving officials that are asleep at the switch, and have no idea what they are approving or what they are not approving, yes, the vendor is going to make money on submitted transactions. That is the way vendor fraud can work.

Mr. HORN. Does the DOD have the resources it needs to identify and investigate financial crimes involved in these credit card programs, or can you move around people to solve the problem, at least so you can build a decent culture there? Where do you get the personnel to do this because somebody will whine about that and say, "we can't do that, we have this great burden." For heavens sake, right down at the field, they ought to have somebody. They ought to make that in the office's analysis when they get a chance

to go from a lieutenant to captain, captain to major and so on, and when you have civil servants and they go for the senior class and so forth, it seems to me like the people above them, they ought to have something in the file to say that person didn't have one idea in America on this thing, they just don't seem to care.

Mr. RYAN. I can talk about it from an investigator's point of view. I think the investigators in the military services are good, hard-working investigators. Fraud investigations sometimes turn out to be a complicated issue because of the mechanics of a credit card transaction or a bank transaction. I would like to emphasize again the importance of providing enough training to the investigators to make them the best they can be. We can use them to learn when they do an investigation, they can bring back what the systemic problem was within that so we can pass that on to the appropriate management people so if adjustments need to be made, they can be made.

Investigators can provide a lot of information if they are taught correctly how to do the investigations. I would like to emphasize again that if we could tie it into a contract where the banks have to provide some training to our investigators, I think it will be a benefit for the military services to use the resources of those investigators.

Mr. HORN. I now yield to Ms. Schakowsky.

Ms. SCHAKOWSKY. Ms. Lee, at our March hearing, we learned from the GAO—I believe you were here and corroborated this—that the Navy had a policy of not putting on its inventory items that were easily pilfered. We just don't list those in our inventory. I am wondering, that was March, this is July, what the Defense Department has done now to change that policy?

Ms. LEE. The concept of operations talks about the importance of having recordable property. There is also some dual receipt matching and guidance on how to do that. The Navy specifically suspended almost all their cards where they had a very small amount and they have had a very aggressive reinstatement program with letters from the Admiral telling people who are reinstated and are quite aggressively trying to correct some of those issues but we are focusing on it DOD-wide as well.

Ms. SCHAKOWSKY. So you have changed your policy on that?

Ms. LEE. The policy was always that sensitive property should be recorded and tracked. For some reason or other, some of the items, the Navy was not doing that, so we have reemphasized that requirement.

Ms. SCHAKOWSKY. You have reemphasized it but do you know now that it is being done? Let me ask the GAO if you know if there has been a change now?

Mr. KUTZ. In the Army, four of the five installations we audited had difficulty finding property. For Army, I think the policy generally was to record pilferable property in the records. In some cases, the issue becomes what is pilferable property, so they would tend to err on the side of not recording it rather than recording it.

With the Navy units in San Diego, they interpreted guidance from the Navy to mean they did not have to put it on the records. Whether that issue has been cleared up, I don't know, but they had

interpreted the guidance they were getting from the Navy to mean they did not have to account for any pilferable property.

Ms. SCHAKOWSKY. Which is different from what you just said, that it was always the rule. They interpreted the rule to mean they didn't have to so that is the way they were executing.

Ms. LEE. The Navy interpreted the rule differently. We have clarified to them that their interpretation is not correct.

Ms. SCHAKOWSKY. I wanted to ask about training. In the earlier hearing, we were dealing with people who use travel cards who are often young people who have no credit history, no experience in using credit cards. Here, we are dealing with individuals, all of whom have been assigned actually to make purchases; but is there some kind of built in retraining program so that these people understand, not just for the people supervising them, but for the people who have the cards in their hands? Is there some kind of staff training going on?

Ms. LEE. Yes, we are putting in place right now a new electronic training process which will be housed in Defense Acquisition University, will be required for people to take it before they are allowed to have a card and to have refresher training. It includes basics about how to use your card. It also includes some specific instruction from the government because as you know, for example, before you purchase, if it is a certain item, it should be purchased from JWOD or Javitz Wagner O'Day or blinded, handicapped people, or certain products have certain requirements. Certain hazardous materials, you have to have a special approval before you can purchase it even if it is available on the purchase card. So we train people in all those processes as well as what they can buy and how it has to be approved, how they have to reconcile their statements, what their limitations of time are and what happens if you don't do what you are supposed to do.

Ms. SCHAKOWSKY. I want to get to that. I think the two things that the American people would care about are restitution, the people pay back the money they have stolen from the taxpayers and punishment, and that there actually is some consequence to having done that. If you could address that? With Tanya Mays, it is still unclear that we actually got the money back that she probably stole, so I want to know about restitution and punishment.

Ms. LEE. Mr. Inman has a list here. We do have examples where people have been prosecuted, they have made restitution, they are serving jail time.

Ms. SCHAKOWSKY. We also have examples of people who have been promoted, so it is not just a matter of examples, it is policies and the norm now.

Ms. LEE. The policy is to take the appropriate action and to recover the money for the taxpayer. We do give people due process, so we do give them an opportunity to respond but yes, we are taking corrective action.

Ms. SCHAKOWSKY. If 6 months from now this purchase card problem is not resolved, will you be held accountable?

Ms. LEE. Yes, ma'am.

Ms. SCHAKOWSKY. What does that mean?

Ms. LEE. Obviously I will be explaining to you, as well as my bosses, what the issues were, what we need to continue to do, and

what I have done to make that improvement. I unfortunately do not think we can totally eliminate it. We need to make sure when we discover a misuse of the card, that we take prompt and meaningful action.

Ms. SCHAKOWSKY. Let me ask another question. Mr. Ryan was just asked a question to quantify the problem, he said, I don't know. Maybe you can answer Mr. Inman. I don't think DOD knows, I don't think the Army knows. Who knows? Are we going to have the data so that we know, so these questions can be answered in a meaningful way to anyone?

Ms. LEE. Yes. We have gone to our Inspector General for the Department of Defense who is the focal point for all DOD audits and asked them to assume the oversight, an additional oversight of the Purchase Card Program. They are making sure all the audits conducted by the IG, whether the Army IG, the Air Force IG, the Navy IG, that they have a broad oversight from that standpoint. I did go back to them and say, what is our accounting method, how do we record them and report back.

Ms. SCHAKOWSKY. It sounded like Mr. Kutz said this is kind of a no-brainer, that these are coded in a special way so that you can actually retrieve them from a data base in some orderly fashion. I don't think you have to be a management mavin to imagine that would be a smart idea. Is that kind of thing happening?

Ms. LEE. I am not familiar with the IG's accounting system and I will certainly get an answer for you on that.

Ms. SCHAKOWSKY. Mr. Ryan.

Mr. RYAN. I think it is important to recognize the difference between the audit responsibilities and investigative responsibilities. We are looking to identify systemic problems to help curtail the purchase card fraud. We are going to do that by learning from our investigations. We found there is no centralized data base to record the number of investigations that the DOD IG is doing in the area of purchase card fraud.

My suggestion is, like a lot of other Federal agencies, they should have a data base that when an office in California, New Orleans or whatever opens a credit card case, there is a central data base that says, in New Orleans we have 14 credit card cases open. Right now, unless you specifically go to the people in that office, management can't really tell. It is a great tool to be able to see where you have your problems and maybe you can use your investigative cases in conjunction with trying to do audits in those particular areas. I have talked to some of the IG people and I believe they are headed in that direction. They just need a central data base to record their investigations.

Ms. SCHAKOWSKY. The need for clear and comprehensive guidance for purchase card operations through DOD, you said there needed to be some standards concerning what could be purchased, what was right and you identified that as an essential element of the reform efforts.

My understanding was DOD itself is reluctant to take direct action to establish those guidelines but rather rely on the individual services to establish those guidelines and the components of those. Is that not the responsibility of DOD?

Ms. LEE. It is a shared responsibility. We set the general parameters and the services have the implementation. As well, I also do the Defense Acquisition Regulation which is a departmentwide regulation which tells people the parameters under which the program operates. They do have some flexibility in their implementation in that the Department of Defense doesn't appoint the cardholders, that flows down through the individual organizations because we feel they are best equipped to identify the people who need to do it for their job and are qualified. We set the general policy and then the services implement.

Ms. SCHAKOWSKY. We have talked about vendor fraud, which we haven't really had a hearing about. Is there anything about getting a rein on these purchase cards? Have you dealt at all with vendor fraud at DOD and where are we with that?

Ms. LEE. If properly implemented, if people are paying attention—if a vendor did have your card, if you pick up the phone and make a transaction, they have your number. In any of those cases, a vendor could choose to misuse your card, my personal card, my government card.

Ms. SCHAKOWSKY. But much more likely is a situation where they think that money is going to get paid without scrutiny.

Ms. LEE. Correct. If we are not paying attention, it certainly can happen. If you are paying attention and you have used your card for one tree and all of a sudden you get billed for ten and you know you didn't get 10 trees, the system works and people would dispute it and we would go back. So paying attention will help us, will make the difference.

Ms. SCHAKOWSKY. It seems to me vendor fraud could really mount to a lot of money. Where are we in understanding the extent of this?

Mr. KUTZ. With respect to the biggest fraud case in our report, the $100,000 case at Eisenhower, there was vendor fraud involved in there. There were kickbacks and there was a combination of collusion between the cardholder, approving official and some vendors, so there were a number of parties involved in that. Again, $100,000 is what they know about. When we first looked at the case and picked some of the cardholders from that in our samples, it was $20,000, so it grew to $100,000. It is still ongoing at this point, so it could be larger than that. That was an example where there was vendor fraud involved.

Ms. SCHAKOWSKY. One vendor, right?

Mr. KUTZ. One vendor, I believe. There were other smaller instances of single purchases where there were charges with no support. The Army went back to the vendor who said, oops, we really didn't give you anything. Whether it was fraud or not, or an unintentional billing, we don't know, but there were several cases like that of transactions we selected for say $500 or something like that where there was no support, the Army had paid the bill, and when they went back to the vendor they got their money back.

Ms. SCHAKOWSKY. I have a real bad feeling we are talking about large amounts of money when you think of all the vendors that are involved in this. Have we asked for a systematic look at vendor fraud overall?

Mr. KUTZ. Not as a separate study. We are looking at it on the Air Force and the Navy-wide audits but that is something that could be looked at with a sharper focus solely on that if that is something you would be interested in. We are looking at that as part of a broader study of those two but we haven't focused just on that.

Ms. SCHAKOWSKY. Let me end with this. I am tired of the product always being just a report. Reports fill up shelves, etc. I am not saying this report won't turn into action, but if it doesn't, it is not worth the paper it is printed on. I think it is real important this not be put on a shelf somewhere and viewed as, yes, we are doing something, and I can show you on page 42 that we are really doing it. No. We have to come back with some evidence that this kind of financial mismanagement is under control. I look forward to that hearing.

Mr. HORN. The Defense Department keeps saying the cases of purchase card fraud are isolated. However, the General Accounting Office found 13 cases in the Army with only limited testing. The GAO also reported the Army does not know the number of fraud cases under investigation. Of course nobody knows how much unidentified fraud there is.

Given all this, how can the Department of Defense continue to maintain there is not much fraud in the program?

Ms. LEE. Those numbers are troubling and those instances are troubling but we have also spent over $6 billion this past year and had 10 million transactions. I realize it is a limited sample but it is a sample that identified 13. We have good people in the Department, the majority use the cards properly. We do have some who either through intention or not who have misused the card. We need to go after those aggressively but I do recognize we have a lot of good people who use the cards properly and have confidence they will continue to do so.

Mr. HORN. Mr. Inman, based on the GAO report, immediate actions are needed to improve control over the Army's Purchase Card Program. What in your view are the most important actions that need to be taken to improve the program?

Mr. INMAN. We have taken some actions. The Vice Chief of Staff of the Army has sent a memorandum to the Army saying do this, do it right now, or else. We are looking to respond very quickly over Mr. White's signature. The Army's Standard Operating Procedure is due to be signed off by the end of this month, I am told, which will pull guidance that is admittedly in diverse locations into one location to address each and every one of the GAO recommendations.

The things we are really focusing on are controls over the issuance and assessment of the ongoing need for cards or cancellations of cards where appropriate. I would like to reiterate this week alone, we canceled 1,700 accounts because they were not in compliance with our guidance. I don't know what the total is to date but it is a lot because I know the program manager and he doesn't take many prisoners. He is very serious about his job.

The span of control of the approving official and the respective cardholders—we want our billing officials to manage not more than seven cardholders and our APCs to have responsibility for not more

than 300 cardholders. The Vice Chief of Staff put out in his memorandum that he wants the agency program coordinators to be General Schedule 11 graded personnel, the equivalent of a captain in the Army, the position requiring in-depth skills in financial and contacting policy and procedures with strong verbal communication capability.

We are also looking at policies directing Army activities to ensure adequate resources by number and grade are committed to make this program work the way you intended for it to work when you passed the legislation.

Mr. HORN. Could you tell me who that individual is that takes no prisoners in this thing?

Mr. INMAN. My very dear friend, Mr. Bruce Sullivan. He is sitting behind me. He is a first round draft choice on anybody's team.

Mr. HORN. Is he a senior member in the civil service?

Mr. INMAN. Unfortunately not, sir. We are going to lose him very quickly, I am also sad to say.

Mr. HORN. If he is the solution to getting a solution, I would hope the powers that be over there give him a decent place to work and let him go. Mr. Sullivan, we would like to make sure you really are going to go after these people. Mr. Ryan is a good companion in this regard. He knows all the different things they can do.

The Army has taken exception to the General Accounting Office recommendations that two control activities, advance approval and independent receiving and acceptance, should be included in the Army's Standard Appropriating Procedures governing the Purchase Card Program. Would you explain why the Army is taking that position? Is this out of the Vice Chief?

Mr. INMAN. No, that was our response to the GAO audit. We felt for the majority of purchases, it was not necessary to have advance approval if we had properly trained and motivated personnel. I operate from very wide point of view. Obviously I get caught up short from time to time but I tend to trust my employees to do those things which I ask them to do. So I do not think it is necessary to have advance approval in most cases. If there is any question, either don't do it or ask permission.

The second thing was?

Mr. HORN. The Army takes exception to the GAO's recommendation that two control activities, advance approval and independent receiving and acceptance, should be included in the Army's Standard Operating Procedures governing the Purchase Card Program. Mr. Kutz, was that a response to the GAO audit?

Mr. KUTZ. As I recall, we had a lot of recommendations and they did agree with everything except in some respects those. I would agree with respect to advance approval. We would not expect it for every type of purchase. I don't know if I would say most shouldn't have necessarily, but certainly routine purchases within the normal scope of someone's operating responsibility don't necessarily need to have advance approval.

We are looking at some of the questionable type items we are talking about at the hearing today, that those should have advance approval. I guess we thought in a lot of instances that those with advance approval got bought anyway but there were a lot that didn't have advance approval or documented justification as to why

they were buying them. I would agree to some extent with the comment on that one.

Mr. HORN. Mr. Inman, in your civilian authority, when you are dealing with both senior military leaders and civilian managers in eliminating fraud, waste and abuse, what are the items that have been done and what the ones you want to do?

Mr. INMAN. One of the things we want to do is unify the guidance for the Purchase Card Program within the Department of the Army. That is being done and will be signed out under the Standard Operating Procedure this month I am told.

Mr. HORN. That goes through the Vice Chief of Staff?

Mr. INMAN. That will be signed out by the Director of the U.S. Army Contracting Agency who is executive agent for the program with the Army. I guarantee you that General Keane will know about this. I got a call at noon. There was an article in the Early Bird that talked about—there was an early release on our hearing, he hadn't heard about it and he was interested so I had an opportunity to explain.

Mr. HORN. I haven't seen it either.

Mr. INMAN. He is interested. I can assure you that General Shinseki is interested; my boss, Mr. Bolton, is quite interested, as is my Military Deputy, General Caldwell. We will put the guidance out, we know we have to come to grips with the idea that intent doesn't bring home the bacon. We are going to have to do more than "intend to do well," we are going to have to do well and we have to prove ourselves to you because we owe that.

Our focus is the 20 year old kid who is turning over rocks killing bad guys, that is our focus. We don't want anything to detract from what it is you ask us to do on behalf of the Republic. We will do everything we can to get the focus off the things we have not done properly to get it back on the kids doing the job for the country.

Mr. HORN. Let us see what happens over the next 2 months. Do you think all this can be done in 2 months, 1 month, what, getting all this moving?

Mr. INMAN. If I get the Standard Operating Procedure signed off this month, I would think we should have some good information. Mr. Sullivan advised me part of what we have to do is realign the resources and he would think we should show some measurable results within 3 months from the time the Standard Operating Procedure is signed off.

Mr. HORN. Around the Christmas season.

Mr. INMAN. Or shortly thereafter when things are settled down.

Mr. HORN. I just wonder if they will use their cards more likely in December.

Mr. INMAN. I think you sent us a very clear message and we will be watching those very closely.

Mr. HORN. Ms. Lee, could you explain your office's purchase of palm pilots mentioned in the GAO's report?

Ms. LEE. That was covered in the earlier hearing. That was the Office of Acquisition and Technology and Logistics and the e-mail I saw and the little I know about it, I would need to get you more information for the record. It appears there was a purchase made to support the office. I am not familiar with the specifics and I would be happy to get that information for you.

Mr. HORN. As I remember, either you or somebody in your office said, gee, those are goodies, we are going to have them all out. How do you know they need to have the goodies?

Ms. LEE. I did see a copy of the e-mail, somebody provided it to me. I think that was misstated. I am not listed on the e-mail, nor did I participate in the purchase.

Mr. HORN. That is why I don't have e-mail. After going through the White House under Mr. Clinton and seeing the silliest things I have ever seen in my life in their e-mails, I decided I don't need that. If you want to see me, bring a candle.

Ms. SCHAKOWSKY. Let me followup on the palm pilot. You did read the GAO report, right?

Ms. LEE. Yes, I did.

Ms. SCHAKOWSKY. And it is in there?

Ms. LEE. Yes.

Ms. SCHAKOWSKY. So you knew about the palm pilot? I am confused as to why you can't respond to that since it was in the GAO report.

Ms. LEE. There is a line in the report that says these are some of the findings that we found and we are looking into those but I don't have the specifics on that at this moment.

Ms. SCHAKOWSKY. Let me reiterate that it is time for us to have a totally different set of hearings, ones where we come in with real progress reports, real changes where we can measure from what was to show what is and there has been measurable progress. If 3 months is what it takes, then I think we should reconvene in 3 months and show the American people we are serious about good financial management at the Department of Defense and within our government.

Mr. HORN. We used to do that under the Y2K thing. Does OMB know about all these things going on and do they worry about it or have they ever said anything about it?

Ms. LEE. Yes. OMB is very concerned. They have tasked us all governmentwide to look at our purchase card programs and to give them a plan. We all submitted plans for improvement to the Office of Management and Budget.

Mr. HORN. How about GAO, Mr. Kutz, anybody talk to GSA because that was most of it originally I believe, for the Government generally.

Mr. KUTZ. Are you asking if we have talked to GSA?

Mr. HORN. Yes.

Mr. KUTZ. We talked to GSA as part of understanding what the guidances they have issued are. We have not spoken to OMB about anything, they have not contacted us but I know they have read our reports and I believe OMB was at a hearing one of my counterparts, Linda Calbom, back in May about purchase cards. I know an OMB representative was there expressing concern for the administration with the problems identified in the purchase card program.

Mr. HORN. It is a good idea because I would think it has spread a bit around the civilian part and we haven't looked at that.

Mr. KUTZ. Yes, there are problems beyond the Department of Defense with the usage of purchase cards other agencies. That is why OMB has gotten involved, they are now seeing this as a governmentwide issue, not a DOD issue.

Mr. HORN. I thank you all for these interesting questions and interesting answers. Let us hope next time there is some real difference. I hope those of you here now know we really will become very tired of having to deal with this if no progress is being made. I am looking especially to the political employees that get the thing moving and get the services moving. It looks like you are doing it. Let us hope we can get that done. I am glad the Vice Chief of the Army is taking it seriously.

I am not quite clear, you have a Defense IG and civilian IGs and don't we still have service IGs from the services. What are they doing on this?

Mr. INMAN. We intend to use the Department of the Army IG and the Army Audit Agency as co-helpers in doing a perennial review of the things we have put in place. I have been talking to Mr. Sullivan about how we might best do that. We are not going to let people rest on their laurels even if they improve.

Mr. HORN. Because they are generally going to be the ones out in the facilities, not sitting around in the Pentagon. That is where if you can head it off at the pass, we are in better shape that we don't get in the way of the IGs and really direct them in that. Often it isn't something like credit cards they are worried about, they have a long line of what they worry about. It would be good to see what they say when they go to various forts and camps and hospitals and all the rest.

With that, we thank you and I thank those that put together this hearing: J. Russell, Staff Director, Chief Counsel; and Bonnie Heald, to my left, Deputy Staff Director; Justin Paulhamus, the Clerk; Chris Barkley, the assistant to the subcommittee; Sterling Bentley, Intern; and Joey DiSilvio, Intern; Freddy Emphraim, Intern; Michael Sazanov, Intern; and Yigal Kerszenbaum, Intern; and Senator Grassley's staff, Charlie Murphy; David McMillen, professional staff, along with Jean Gosa, the minority clerk for Ms. Schakowsky and Mr. Waxman. The court reporter is Mel Jones. Thank you. We appreciate it.

With that, we are adjourned.

[Whereupon, at 4:20 p.m., the subcommittee was adjourned, to reconvene at the call of the Chair.]

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