

-----  
The United States Navy on the World Wide Web  
A service of the Navy Office of Information, Washington DC  
send feedback/questions to [comments@chinfo.navy.mil](mailto:comments@chinfo.navy.mil)  
The United States Navy web site is found on the Internet at  
<http://www.navy.mil>  
-----

Statement of  
Rear Admiral Robert Cowley  
Deputy for Acquisition and Business Management  
Office of the Assistant Secretary of the Navy,  
Research, Development and Acquisition  
before the  
House Government Reform Subcommittee  
Government Efficiency, Financial Management and  
Intergovernmental Relations Committee  
on  
Navy Purchase Card Program  
October 8, 2002

Mr. Chairman and distinguished members of the Committee, thank you for the opportunity today to discuss the Department of Navy Purchase Card Program. I am Rear Admiral Bob Cowley, Deputy for Acquisition and Business Management in the Office of the Assistant Secretary of the Navy for Research, Development, and Acquisition. In this capacity, I am responsible for establishment of Navy and Marine Corps policies and oversight for the purchase card program.

I am aware of, and I am concerned about, the internal control and oversight issues identified by the General Accounting Office (GAO) regarding the Department of the Navy purchase card program. First, let me say that I believe increasing the effectiveness of the Department of the Navy purchase card operations and improving internal controls and oversight, thus preventing waste, misuse and abuse, are synonymous. Second, let me assure you that the Department of the Navy personnel engaged in improving the operations of our purchase card program have been working competently and hard, using both their process improvement skills and information technology, to streamline purchasing and improve controls and oversight. The Department of the Navy continues to aggressively address the specific policy, training and internal control weaknesses identified by GAO. Over the past six months, we have developed and implemented many improvements. We have reinforced and strengthened our written purchase card policies and procedures, updated our training materials, and enforced compliance with the two most vital internal controls, span of control and credit limit guidelines. I am confident the program management policies, procedures and controls, that are now in place are addressing the program weaknesses highlighted by GAO.

## PROGRAM IMPROVEMENTS

### TONE FROM THE TOP

Proper management and compliance of any program must be led from the top. We have engaged Department of the Navy leadership in taking a proactive role in oversight and discipline and setting a supportive command environment. A command environment which sets high expectations for integrity, program compliance and prudent use of the taxpayer's dollars is absolutely critical to success of the program and proper use of the purchase card.

Over a year ago, we issued a Department-wide message reiterating the requirement for Command leadership to set the right tone from the top on program compliance, accountability and the consequences for fraud, misuse or abuse. We have clearly communicated our high standards for the Department's command leadership. Furthermore, we reiterated standards and expectations through Department-wide messages in April 2002 and directed commands to critically review all aspects of their purchase card programs including 100% certification of training completion and validation of compliance with all internal controls. Through these directives, we are holding the Department's leadership responsible for thoroughly assessing their participation in the Navy purchase card programs and taking aggressive corrective action.

### DOD TASK FORCE

As a member of the Department of Defense Charge Card Task Force, the Department of the Navy actively contributed to the research and recommendations of the Task Force. The Task Force focused on the following key areas:

- Management Emphasis and Organizational Culture;
- Compliance; and
- Process and Workforce Development.

In several areas we have made significant progress on implementing the Task Force recommendations. Specifically:

Development of an End-To-End Concept of Operations – The Department of the Navy was instrumental in the team that developed the DoD Concept of Operations and has documented a detailed process flow by specific functional area to identify areas for improvement.

Improve Training – New training materials, including a new desk guide and Computer-Based Training (CBT), have been developed and made available. New methods of training delivery will be used including the use of video tele-training. Additional details of training are enumerated below.

Establish Agency Program Coordinator (APC) Qualifications – The DoD Concept of Operations has defined the recommended APC qualifications. Furthermore, DoD has mandated that no APC shall have more than 300 card accounts under their purview. The Department of the Navy is already 99.7% compliant with this standard and we have taken action to achieve 100% compliance by November 2002.

Strengthen Existing Regulations – While the DoD is revising the regulations that govern the financial management aspects of the purchase card program, the Department of the Navy has revised its own program policy instruction to include recommendations from GAO and the Naval Audit Service.

Expand Surveillance/Data Mining – The Department of the Navy's e-Business Operations Office, the Department's Purchase Card Program Manager, implemented a data-mining tool and process in June 2002 based on the methodology used by the GAO to detect questionable transactions. We have isolated a small number of transactions for further field investigation and have taken action to notify commands of potentially improper use.

## STRENGTHENED NAVY POLICY

The Department of the Navy has reinforced and strengthened written purchase card policies and procedures incorporating the GAO's recommendations:

- GAO recommended that our policy instruction be revised to provide cardholders, approving officials, and agency program coordinators detailed instructions on timely and independent receipt and acceptance of items obtained with a purchase card and documenting the results of that process. This has been done.
- GAO recommended that our policy instruction be revised to provide detailed instructions on screening purchases for their availability from mandatory sources and documenting the results of the screening. We have done this.
- GAO recommended that our policy instruction be revised to provide detailed instructions on timely reconciliation of the monthly purchase card statements and documenting the results of that reconciliation. This has been done.
- GAO recommended that our policy instruction be revised to provide detailed instructions on timely review of cardholder purchase card statements by the approving official prior to certification of the statement for payment, and documenting the results of that review. We have done this.
- GAO recommended that our policy instruction be revised to require cardholders to maintain documented justification and advanced approval of purchases that fall outside the normal cardholder procurements in terms of either dollar amount or type of purchase. We agree and have addressed this in our revised instruction.

- GAO recommended that our policy instruction include a schedule of disciplinary actions that will be taken against cardholders who make improper, or abusive purchases. We are working with the Navy’s Judge Advocate General and the Assistant Secretary of the Navy for Manpower & Reserve Affairs to develop a guideline for Commanders to follow when determining disciplinary actions. A draft proposal will be completed by December 2002.

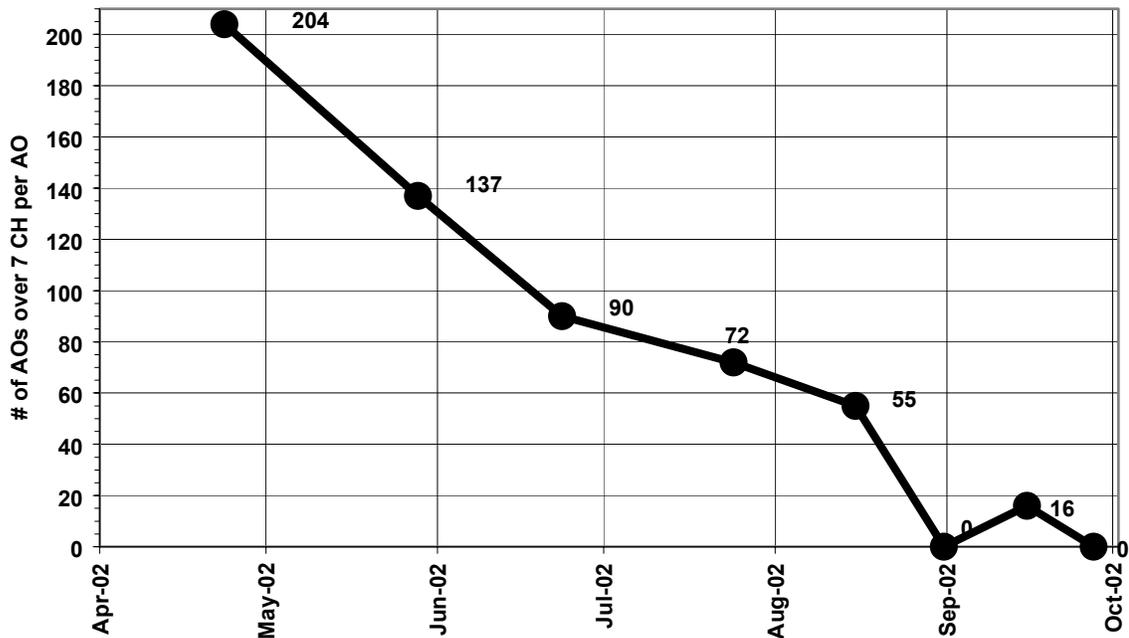
Thus, our policy instruction has been completely revised based on GAO and Naval Audit Service recommendations, and feedback from our purchase card users. We have reemphasized enforcement related to prohibited purchases, split purchases, mandatory sources, separation of functions and compliance with internal controls.

### PROGRAMMATIC CONTROLS

The Department of the Navy has also established more stringent controls for the oversight and management of the program from the major command level down to the local activity cardholder.

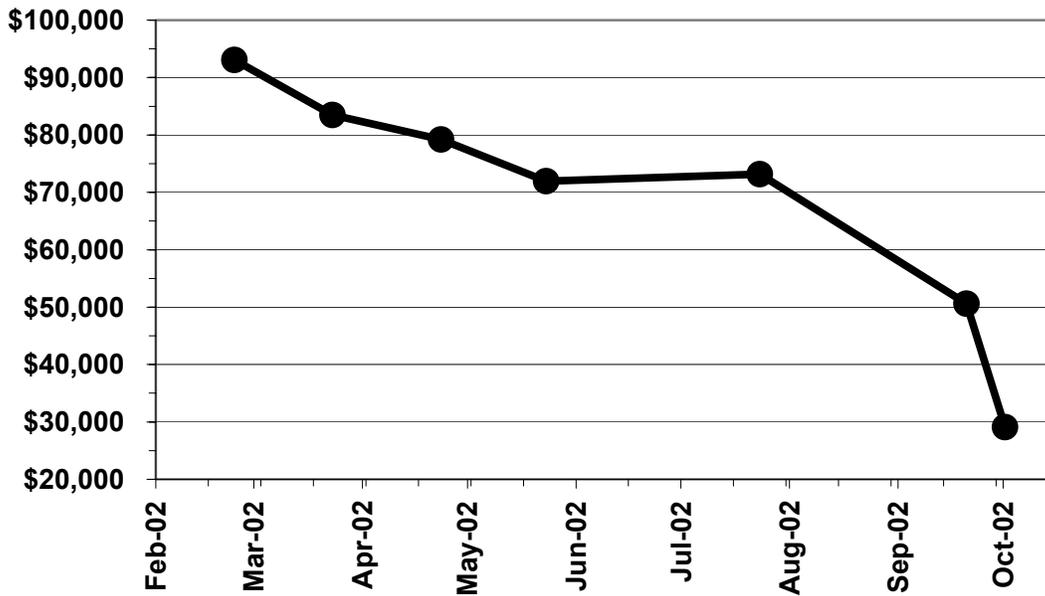
We have set the span of control to be no more than seven cardholders per one approving official as indicated in Figure 1, which shows our progress in reducing span of control during the period April 2002 – September 2002. In that time frame, the number of authorizing officials with a span of control of more than seven cardholders, fell from 204 to zero.

**Figure 1**  
**Progress in Reducing Span of Control**



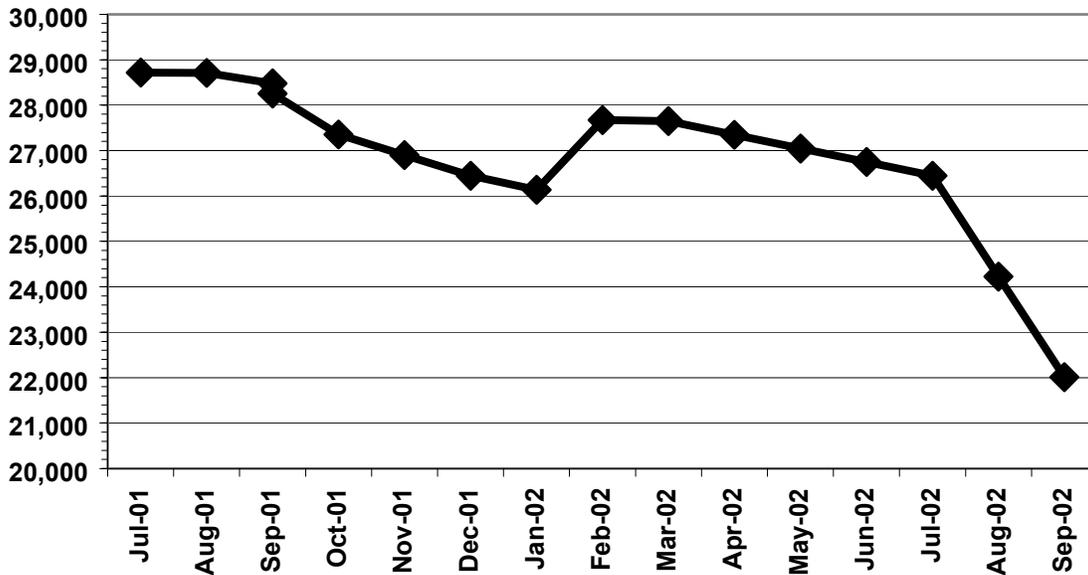
Credit limits have been reduced to be consistent with historical spending, thus minimizing the government's exposure to fraud and misuse. This is indicated in Figure 2, which shows our progress in reducing credit limits during the period February 2002 – October 2002. In that time frame, the average credit limit per active card fell from \$95,000 per active card to under \$30,000 per active card.

**Figure 2**  
**Average Credit Per Active Card**  
**DON-Wide**



We have significantly reduced the total number of cardholders, insuring that only those who need the card have the card. This is demonstrated in Figure 3, which shows our progress in reducing the total number of cardholders during the period July 2001 – September 2002. In that time frame, we have gone from almost 29,000 individual cardholders to some 22,000 cardholders.

**Figure 3  
Total Cardholders**



To provide a higher level of oversight, GAO recommended the Department establish a Navy-wide data mining, analysis, and investigation capability to supplement other oversight activities. This would provide oversight results and alerts to major commands and installations when warranted. In June 2002, the Department of the Navy e-Business Operations Office began using an internal data mining capability using Commercial-off-the-Shelf software to detect and investigate transactions that are potentially improper or abusive. This capability emulates the process employed by GAO to uncover questionable transactions. While currently in use only by the e-Business Operations Office, the system is also in prototype at the major command level. At the conclusion of the prototype, the Department of the Navy will analyze this capability for potential distribution to all major commands. Furthermore, GAO recommended the Department work with the Naval Audit Service to begin periodic forensic audits of activity level purchase card programs to provide Navy management – at the command and unit level – an independent assessment of their control environment and whether the agency program coordinators, approving officials, and cardholders are adhering to control procedures. We have engaged the Naval Audit Service to conduct these forensic audits at activities throughout the Navy on an ongoing basis. The Naval Audit Service will begin their reviews in FY03.

## TRAINING

Training is another key area of increased focus. In its most recent draft report GAO recommended that the Department establish specific training courses for cardholders, approving officials, and agency program coordinators tailored to the specific

responsibilities associated with each of those roles. Specific role-based training materials have been developed. New Computer-Based Training (CBT) modules for Approving Officials and Cardholders have been developed and made available via the Department of the Navy web site. Modules for Agency Program Coordinators will be completed by October 31, 2002. Successful completion of the CBT is mandatory for all new program participants and for bi-annual refresher training for existing cardholders. Scheduled Video Tele-Training (VTT) classes will complement the CBT where interactive video teleconferencing is used to achieve an on-site classroom environment. Both delivery methods will allow us to bring quality training to a wider audience.

Also, the GAO recommended that the Department establish job descriptions that identify responsibilities for cardholders, approving officials, and agency program coordinators. Department of the Navy desk guides have been developed which describe the responsibilities and procedures for Agency Program Coordinators, Approving Officials and Card Holders to follow. These desk guides were promulgated via the DON Program Office web site and via CDROM in September 2002. Finally, each command has recently completed a semi-annual review and certified that they have completed required training. The findings from these semi-annual reviews have been consolidated and analyzed by the Department of the Navy eBusiness Operations Office to identify systemic weaknesses across the enterprise so that improvements in training can be implemented to prevent or minimize future problems.

#### INSERTING TECHNOLOGY TO IMPROVE PROCESS

The Department of the Navy is aggressively implementing the use of electronic systems, in compliance with Department of Defense direction, for online billing statement review, validation and certification. In order to lessen administrative costs and increase rebates, the Navy is working with Defense Finance and Accounting Service and Citibank to facilitate efficient statement review and to reduce hardcopy billing. Under our existing contract, new Citibank software is currently being deployed in order to make these objectives possible. This expansion of online systems will:

- Improve timeliness and accuracy of payment;
- Provide a standardized process for review and certification; and
- Generate an auditable electronic record of Cardholder and Approving Official actions.

#### PROGRAM ASSESSMENT

Overall, Department of the Navy's Purchase Card Program represents a significant business revolution in how the Department purchases supplies and services. The Program allows our Navy and Marine Corps customers to purchase commercially available supplies and services without the delay associated with traditional purchasing processes. Further, the program reduces Department of the Navy's administrative costs by consolidating transactions for payment. For FY01, use of the purchase card resulted in over a \$6 million cost avoidance for the Navy, and we received \$3.8 million in rebates.

Today, Department of the Navy buys 98 percent of all requirements valued at \$2,500 or less using the purchase card. In commands and activities throughout the Navy and Marine Corps, there are 7,981 approving officials and 1,578 agency program coordinators providing management and oversight of 21,205 purchase cardholders. Our oversight and approving official ratios now compare favorably to private industry and other Federal Government agencies. For example, the Department of the Navy now averages 2.6 cardholders assigned to each Approving Official, while other Federal Agencies range from 3.6 to 5.6 cardholders to Approving Officials. Furthermore, only 3.6 percent of our employees are now cardholders while private industry ranges from 7.4 percent to 9.0 percent. (Source: Prof. Richard Palmer, Eastern Illinois University, "2000: Corporate Purchase Card Benchmark Survey Results", Copyright 2001).

From the major command level to the local activity cardholder, a system of controls for accountability has been established. These controls cannot completely eliminate the occurrence of misuse; however, they deter and identify misuse. The purchase card program is structured to place responsibility and accountability at the appropriate level.

#### CONCLUSION

In conclusion, the purchase card is a vital acquisition tool for our service members and civilian employees. I commend the General Accounting Office audit team for identifying opportunities for the Department of the Navy to improve our program. The Department of the Navy will continue to promptly and cooperatively take action to improve its existing program through active engagement of Command leadership, aggressive enforcement of internal controls, and process reengineering.

Mr. Chairman, this concludes my statement. I will be glad to answer your questions.

-USN-