

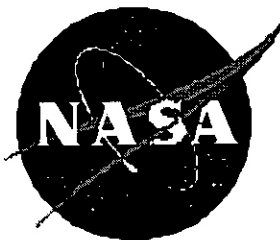
IG-97-007

**SURVEY
REPORT**

RAPID ACTION

**NASA PROCUREMENT INITIATIVES
CREDIT CARD PROGRAM**

November 22, 1996



National Aeronautics and
Space Administration

OFFICE OF INSPECTOR GENERAL

National Aeronautics and
Space Administration

Headquarters

Washington, DC 20546-0001



November 22, 1996

Reply to Attn of:

W

TO: H/Associate Administrator for Procurement

FROM: W/Assistant Inspector General for Auditing

SUBJECT: Final Rapid Action Report
NASA Procurement Initiatives - Credit Card Program
Assignment No. A-MA-96-006
Report No. IG-97-007

The NASA Office of Inspector General has completed a survey of NASA procurement initiatives. The purpose of the survey was to evaluate the effectiveness of selected initiatives. During the survey, we identified an issue regarding the NASA Credit Card Program at Kennedy Space Center (KSC) which we believed required immediate management attention due to the potential for the same issue to arise at other NASA locations.

One KSC directorate used NASA credit cards to purchase 80 computer systems over a three-month period. The Federal Acquisition Regulation (FAR) encourages use of the credit card, but the FAR, NASA FAR Supplement, and KSC "Credit Card Users Guide" prohibit splitting requirements in order to stay within the single purchase limit of \$2,500. The 80 computer systems cost a total of \$167,925 but were processed as individual procurements of under \$2,500 to use the credit card. We recommended clarification of the term single purchase and training regarding the concept of splitting a requirement.

We issued a draft report to you on October 4, 1996, and received a written response from your office on October 23, 1996. In addition, on October 18, 1996, the KSC Procurement Office distributed a letter to all KSC directorates that clarified the terms single purchase and split award. Your response and the KSC letter are summarized in this report and are included in their entirety as Appendices 1 and 2, respectively. Because the planned action is not complete, please include our office in the concurrence cycle for closing the recommendation, in accordance with NMI 9910.1B.

The NASA Office of Inspector General staff members associated with this audit express their appreciation to NASA Headquarters and KSC personnel for their courtesy, assistance and cooperation. If you have any questions or need additional information, please contact Mr. Lorne Dear, Program Director, Infrastructure and Support, at 818-354-5634; or Mr. Robert Wesolowski, Director, Audit Division-A, or me at 202-358-1232.

Debra A. Guentzel

Debra A. Guentzel

cc:

KSC/OP/J. Hattaway

JM/Chait

IG-97-007

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CREDIT CARD PROGRAM**

November 22, 1996



**National Aeronautics and
Space Administration**

OFFICE OF INSPECTOR GENERAL

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INTRODUCTION

The NASA Office of Inspector General (OIG) conducted a survey to evaluate the effectiveness of selected NASA procurement initiatives. One initiative under review was the NASA Credit Card Program. Under this program, non-procurement individuals are authorized to purchase supplies and services costing \$2,500 or less with a VISA credit card provided by Rocky Mountain BankCard System (RMBCS). The RMBCS was awarded a contract for Government-wide Commercial Credit Card Services by the General Services Administration (GSA). The Governmentwide credit card is called the International Merchants Purchase Authorization Card (IMPAC). This report will refer to the IMPAC as a credit card and to NASA's participation in the GSA program as the NASA Credit Card Program.

During the survey, we identified a situation that we believe requires immediate attention by the NASA Associate Administrator for Procurement due to the potential for the same issue to arise at other NASA locations. Current regulations and written procedures for the use of credit cards prohibit splitting a requirement to stay within the single purchase limit of \$2,500. However, a Kennedy Space Center (KSC) directorate has split a requirement for 80 computer systems (central processing units and monitors) into 80 individual purchases to fall within the single purchase limit.

BACKGROUND

NASA has undertaken several initiatives directed at streamlining the procurement process. Under one such initiative, the NASA Credit Card Program, authorized personnel may procure such items as office supplies and equipment with bank issued credit cards. The use of credit cards is expected to result in more efficient procurement operations, shorter lead time and less paperwork.

Kennedy Space Center implemented the use of credit cards by non-procurement technical personnel in June 1995. To minimize risk, KSC management limited single purchases to \$2,500 and annual purchases to \$20,000 for each non-procurement cardholder. The goal of KSC is that technical organizations will use their credit cards for all purchases at or below the \$2,500 threshold and only send purchase requests to the Procurement organization for processing when an item cannot be procured with the credit cards.

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OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The overall objective of this survey was to evaluate the effectiveness of selected procurement initiatives. Specific objectives included:

- identifying the status,
- evaluating the planned approach and expected benefits, and
- evaluating the actual impact.

SCOPE AND METHODOLOGY

For purposes of this rapid action report, we limited the scope of our survey to reviewing the effectiveness of the credit card program at KSC. Specifically, we reviewed the monthly Statements of Account (SOAs) for each non-procurement cardholder at KSC. Initially, SOAs dated July 24, 1995, through April 24, 1996, were reviewed for 26 cardholders. We judgmentally selected SOAs with the largest dollar amount for detailed examination to determine the effectiveness of established controls. In addition, we interviewed six cardholders and reviewed supporting documentation for their SOAs. After identifying a potential split requirement in a directorate, SOAs dated May 24 and June 24, 1996, were reviewed for 13 cardholders with authority to purchase for that directorate.

MANAGEMENT CONTROLS REVIEWED

We reviewed management controls related to procurements using credit cards as described in the Federal Acquisition Regulation (FAR) 2.1 and 13.1, NASA FAR Supplement (NFS) 18-70.403, and KSC's "Credit Card Users Guide." Cardholders' monthly SOAs were specifically reviewed to determine whether:

- the single purchase limit of \$2,500 was observed,
- requirements were not split to fall within the single purchase limit,
- purchases appeared reasonable,
- SOAs were reconciled by cardholders, and
- purchases were subsequently certified by approving officials.

Except for the splitting of a requirement to fall within the single purchase limit, our review did not identify weaknesses in established controls.

SURVEY FIELD WORK

The survey field work related to the observation in this report was conducted from March to August 1996. The field work

was conducted at KSC and NASA headquarters. The survey was performed in accordance with generally accepted government auditing standards.

OBSERVATION AND RECOMMENDATION

OVERALL EVALUATION

We have not yet completed our overall evaluation of the effectiveness of the KSC Credit Card Program; however, one directorate split a requirement for \$167,925 worth of computer systems into 80 separate procurements to fall within the single purchase limit.

OBSERVATION

During survey field work, we found one KSC directorate that had split a requirement for 80 computer systems into 80 single purchases. Although FAR 13.103 encourages use of credit cards "to the maximum extent practicable," the FAR, NFS, and KSC "Credit Card Users Guide" prohibit splitting requirements in order to stay within the single purchase limit of \$2,500. According to FAR 13.103, requirements aggregating more than the \$2,500 threshold may not be broken down into several purchases that are less than the threshold merely to permit use of simplified acquisition procedures or to avoid any requirements that apply to purchases exceeding the \$2,500 threshold. The directorate approving official considered each computer system to be a separate purchase because each was delivered to an individual user. The directorate apparently obtained approval from the KSC Agency Program Coordinator to purchase two or three computers using the credit card, but after that approval, purchased 80 computers. In our opinion, the directorate exceeded the authority intended by the credit card program and circumvented standard procurement procedures.

The Procurement organization must use standard procurement procedures to process requirements exceeding the single purchase threshold. These procedures include initial identification of a requirement, purchase authorization, solicitation of offers, evaluation of offers, adequate competition, possible negotiation, and contract award.

The NASA KSC Logistics Operations Directorate (LO) purchased 80 personal computer systems from a single vendor, using credit cards to pay for the systems. To accomplish the purchases, LO designated 13 directorate personnel as credit cardholders. The KSC Director of Procurement delegated procurement authority of \$2,500 for each purchase and \$20,000 annually to each cardholder. Each cardholder purchased a minimum of one and a maximum of nine computer systems. For

example, one cardholder purchased nine computer systems priced at \$2,076 each in one month from the same vendor for a total charge of \$18,684. Because the cardholder's delegated procurement authority was \$20,000, no more than nine computer systems could be purchased. The combined cost of the 80 computer systems was \$167,925. Most of the computer systems (78 of 80) were charged to Statements of Account dated May 24 and June 24, 1996.

When we informed KSC Procurement officials of LO's computer systems purchases, they recognized the acquisition as a splitting of a requirement. The LO approving official (responsible for verifying purchases are necessary and in accordance with the FAR), however, considered each computer system to be a separate purchase because each was delivered to an individual user.

According to LO personnel, LO elected to purchase computer systems with credit cards because delivery could be accomplished in about two weeks. In contrast, delivery could take months using the normal procurement process. A credit cardholder stated that she researched available suppliers and chose the supplier offering the best value to provide all 80 computer systems.

Procedures written as guidance for the NASA Credit Card Program are not clear and have been misunderstood. Although NFS 18-70.403, Appendix I, states that a single purchase may include multiple items, the directive does not state whether a requirement for multiple identical items comprises a single purchase. Guidance does not explain the term "splitting of requirements." One cardholder's interpretation of this term was that separately purchasing a central processing unit and a monitor for an individual user would constitute splitting of a requirement.

RECOMMENDATION

The NASA Associate Administrator for Procurement should issue a letter to KSC clarifying the definition of single purchase and reemphasizing that requirements are not to be split. We also suggest the Associate Administrator notify all NASA Procurement Officers that the above clarification and reemphasis be added to local credit card training to minimize the potential of similar situations elsewhere.

***MANAGEMENT'S
RESPONSE***

We agree that corrective action is required and plan to send a letter to the Director, Kennedy Space Center, recommending appropriate action and requiring that cardholders be reminded of the regulation prohibiting splitting requirements to avoid exceeding credit card dollar limits. A second letter will be sent to the Associate Administrators and the other Center Directors requiring that this same emphasis be added to the training for all new cardholders and approving officials.

On October 18, 1996, Kennedy Space Center's Procurement Office Director issued a letter to all KSC directorates that clarified use of credit cards. The clarification included examples of split requirements and the single purchase limit, as well as FAR and NFS requirements.

***EVALUATION OF
MANAGEMENT'S
RESPONSE***

Action planned by NASA and taken by KSC management is considered responsive to the recommendation.

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MAJOR CONTRIBUTORS TO THIS SURVEY

***JET PROPULSION
LABORATORY***

Lorne A. Dear, Program Director, Infrastructure and Support

***MARSHALL SPACE
FLIGHT CENTER***

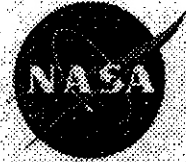
Sandra Leibold, Auditor-in-Charge
Amy Larkin, Auditor

***KENNEDY SPACE
CENTER***

Bonnie Armstrong, Auditor

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OCT 23 1996

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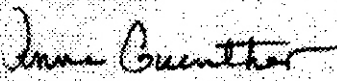
TO: W/Inspector General

FROM: H/Associate Administrator for Procurement

SUBJECT: Response to Draft Rapid Action Report
NASA Procurement Initiatives - Credit Card Program
Assignment No. A-MA-96-006
Report No. IG-97-XXX

We have reviewed your draft action report and agree that corrective action is required. We plan to send a letter to the Director, Kennedy Space Center, recommending that appropriate action be taken. We will also require the procurement office to remind card holders of the regulation prohibiting their splitting requirements to avoid exceeding credit card dollar limits. A second letter will be sent to the Associate Administrators and the other Center Directors requiring that this same emphasis be added to the training for all new cardholders and approving officials.

We appreciate learning of this issue through your survey. Although the incident is troublesome, the audit confirms that, overall, the Bankcard Program is meeting its objectives.


for Deidre A. Lee
Associate Administrator for
Procurement

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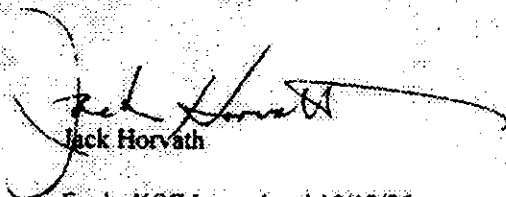
OCT. 24 1996

TO: W/Assistant Inspector General for Auditing

FROM: HC/Audit Liaison Representative for the
Office of Procurement

SUBJECT: Response to Draft Rapid Action Report
NASA Procurement Initiatives -Credit Card Program
Assignment No. A-MA-96-006
Report No. IG-97-XXX

On October 23, 1996, the Office of Procurement provided to your office its response to the recommendation in the subject report. Subsequent to transmitting our response to your office, we received the enclosed letter from the KSC Procurement Officer which outlines action being taken by his office to explain the use and procedures for the credit card program, especially as it relates to splitting awards. Please consider this letter when finalizing your report.


Jack Horvath

Encl: KSC letter dated 10/18/96

cc: HK/Anne Guenther
Valerie Stucky

10/24/96 10:10 AM

10/24/96 10:10 AM

10/24/96 10:10 AM

National Aeronautics and
Space Administration
John F. Kennedy Space Center
Kennedy Space Center, FL 32899



Ready to Act? OP

OCT 18 1985

TO: Distribution

FROM: OP/Director, Procurement Office

SUBJECT: Credit Cards--Split Award and Single Purchase Limit
Clarification

We are experiencing some problems relative to use of Micro-Purchasing Credit Cards which cardholders and approving officials need to be aware of in order to preclude future occurrences. Use of credit cards is being scrutinized at both the local and Headquarters levels. Credit cards can be beneficial to your organization; however, compliance with the Micro-Purchasing Credit Card Users Guide is essential.

Enclosed are some definitions and examples relative to split awards and single purchase limits for clarification purposes. Should you have any doubts about the appropriate use of credit cards, contact Celene Morgan, 867-7353, or Joanne Adams, 867-7217, for assistance.


James E. Hattaway, Jr.

Enclosure

Distribution:

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JJ-3/D. Doerr
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LO-ENG-2/C. Kirkpatrick
LO-MSD/G. Krisingha
LO-MSD/I. Moore
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LO-PMD-1/J. Mosconi
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LO-PMD-A/L. Woodard
MK-MIO/G. Stagman
MK-MIO/W. Wiley
OP-ESO/B. Scott
OP-ESO-A/A. Reaves
PH-BI/J. Oertel
PH-BI/R. Phelps
PK/N. O'Neal
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PZ-B2-A/L. Maier
ST/J. Halsema
ST/T. Belk
OIG/L. Diamond
HQS/H/D. Lee
HQS/HS/D. Fortunat

SPLIT AWARD --- Regulations

According to the Federal Acquisition Regulation (FAR) Part 13.103(c), "Requirements aggregating more than the simplified acquisition threshold or the micro-purchase threshold shall not be broken down into several purchases that are less than the applicable threshold merely to permit use of simplified acquisition procedures, or to avoid any requirements that apply to purchases exceeding the micro-purchase threshold."

Also, according to NASA FAR Supplement (NFS) 18-70.403 (9)(c)(1), "The total of a single purchase to be paid for using the card may be comprised of multiple items and cannot exceed the authorized single purchase limit. Purchases will be denied if the authorized single purchase limit is exceeded. Payment for purchases may not be split in order to stay within the single purchase limit."

SPLIT AWARD --- Examples

- You have a procurement with three line items that totals \$3,000. You may not split the procurement and order two of the line items one day for \$2,400 and then turn around and order the other line item the next day for \$600.
- Your organization establishes a requirement to purchase 80 computers at the beginning of the fiscal year. Those 80 computers may not be purchased individually over the year to avoid the regular procurement process. This would be an example of an organizational split award.

SINGLE PURCHASE LIMIT --- Regulation

According to NFS 18-70.403 (7)(a), "The single purchase limit is a limitation on the procurement authority delegated to the cardholder. This limit cannot be exceeded unless a revised delegation of authority is issued by the Procurement Officer raising the limit. A 'Single Purchase' using the card may include multiple items. However, no single purchases may exceed the authorized single purchase limit established for each cardholder."

SINGLE PURCHASE LIMIT --- Example

- You may have one line item totaling \$2,500 going to one vendor or you may have multiple line items going to one vendor for a total of \$2,500.

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