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Report to the Chairman, Committee on Transportation and Infrastructure, House of Representatives

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FAA ALASKA

Weak Controls Resulted in Improper and Wasteful Purchases

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Accountability ★ Integrity ★ Reliability

GAO-02-606

United States General Accounting Office
Washington, D.C. 20548

May 30, 2002

The Honorable Don Young
Chairman
Committee on Transportation and Infrastructure
House of Representatives

Dear Mr. Chairman:

This report responds to your request for a review of purchasing controls and activities within the Airway Facilities Division of the Federal Aviation Administration (FAA) in Alaska. This FAA unit, which we refer to in this report as AFA, is responsible for maintaining airway navigation and communication equipment, such as radar and communications towers, throughout the state.

With the approval of FAA's Airway Facilities Division headquarters (AFHQ), AFA implemented a pilot program in March 1997 called the Corporate Maintenance Philosophy (CMP). This program reduced periodic maintenance and certification requirements for the equipment, allowing AFA to do its work with fewer staff members. Under this program, AFA's funds originally intended for payroll compensation and benefits were freed for use on capital improvements and an employee recognition system. The program, which was discontinued in 2001, was controversial, with allegations of inappropriate spending among the concerns raised. This report, our second to address CMP,[1] deals with internal controls and expenditures at AFA both during and after the program. We focused our work on determining whether AFA had

- maintained a strong set of internal controls over purchases,
- purchased items properly (that is, used practices that were in compliance with FAA purchasing policies),
- avoided wasteful spending (that is, spending that was excessive, of questionable need, or of little benefit to the government), and

[1]Our earlier report examined the transition from CMP to national maintenance and certification standards. See U.S. General Accounting Office, *National Airspace System: Incomplete Transition Back to National Maintenance and Certification Standards in the Federal Aviation Administration's Alaskan Region*, GAO-02-127R (Washington, D.C.: November 30, 2001).

- created an operating environment that minimized susceptibility to poor internal controls and improper or wasteful spending.

Results in Brief

AFA did not have good internal controls over purchases. Good internal controls include such steps as separating purchasing responsibilities so that no one person can manipulate the process, documenting and accurately recording transactions, and ensuring accountability for purchased items. At AFA, however, purchasing duties were not separated, supervisory review of purchases was inadequate or lacking, errors in purchasing records were widespread, and property inventories were incomplete. For example, the same individual was able to request, approve, receive, and review final records for a purchase. In addition, tracking of items after they were purchased was limited, with many assets not entered into the property management system at all. For example, 39 out of the 44 accountable assets we reviewed, such as computers and snowmobiles, should have been entered into the system but were not. Similarly, inventories of merchandise to be given to employees for awards were not adequately controlled, increasing their vulnerability to loss or theft.

These control weaknesses allowed many improper purchases to occur. As part of our review, we selected 150 purchases made in fiscal years 1999 through 2001 that appeared to have high potential for being improper or wasteful. Of this group, 118, or 79 percent, did not comply with one or more FAA purchasing requirements. For example, employees did not document how—or whether—they had ensured that the purchases represented the best value to the government, such as checking prices at other locations or showing why an expensive option was better than a less expensive one. One specific example was a purchase of two digital cameras costing about $1,620 each (including peripherals) and one pair of binoculars, costing $599, that were purchased from a small retail camera store. Although determining and documenting best value is one of the basic requirements of FAA's acquisition policies, the purchaser did not document why the particular equipment purchased and the vendor selected represented best value. Other improper practices included splitting a purchase into two transactions in order to circumvent dollar limits on single purchases, failing to obtain required approval before purchasing certain items such as food and beverages, purchasing furniture and other items from other than required vendors, and using a certain type of government-issued credit card to pay for items such as travel expenses that should have been purchased through other means.

We also identified purchases that appeared wasteful in that less expensive options were available or the government received little value for the money expended. For example, we identified numerous purchases of expensive items when less expensive alternatives were available, such as desktop flat panel computer monitors purchased for over $3,000 each when standard monitors were available for $300. Many of these items were purchased without regard for standardizing equipment or grouping purchases to achieve lower prices. This lack of prudence extended to larger purchases as well. For example, AFA purchased a $340,000 security system that did not work properly in the inclement weather in Alaska and was disposed of after only 2 years.

AFA's operating environment increased its susceptibility to problems with internal controls and improper or wasteful purchases. AFA operates in a highly decentralized environment. Its parent unit at FAA headquarters in Washington, D.C., provides little oversight of spending practices, and regional officials administering FAA's overall operations in Alaska have no oversight authority over AFA's practices. AFA itself is highly decentralized, with personnel in many different locations, and with more than half of them having agency credit cards. There was no evidence that within the past 2 years the vast majority of them had received any training on using these cards. Under CMP, large amounts of money were available for capital expenditures and employee recognition programs because AFA had authority to apply unused salary and benefit moneys to these other purposes. One example of the widespread availability of money was that in fiscal year 2000, AFA solicited its local offices nine times, primarily in the last 3 months of the year, asking for additional spending priorities. Spending for these multiple rounds of purchases, which was from 1-year funds that would have expired at the end of the fiscal year, totaled about $4.5 million.

Although CMP ended in 2001, AFA remains vulnerable to the kinds of problems we identified because the specific control weaknesses continue to exist. Management's commitment to addressing and correcting them is necessary to reduce AFA's vulnerability to improper and wasteful expenditures. We are making a number of recommendations, which, if properly implemented, should help AFA and FAA improve internal controls over expenditures and reduce vulnerability to improper and wasteful spending. In its comments on a draft of this report, the Department of Transportation (DOT) indicated that FAA is taking aggressive action to address all of the issues and recommendations identified in the report.

Background

AFA maintains FAA equipment that helps guide pilots in Alaska's airspace. It is part of FAA's Alaskan Region (one of nine FAA regions nationwide), and it reports to AFHQ in Washington, D.C. AFA is composed of two system management offices (SMO),[2] a resource management branch, and an operations branch. There are various other FAA divisions in the Alaskan Region, including the Logistics Division, which is responsible for acquisitions, property management, and procurement of real estate. The Logistics Division also has responsibility for administering the Alaskan Region's purchase card program.

The CMP program, implemented in March 1997 with the agreement of AFA's labor union, was a 3-year pilot program that changed the periodic equipment maintenance and certification requirements for national airspace equipment. CMP had several goals, including increased productivity, decreased operating costs, and improvements to the airspace system infrastructure. To accomplish these goals, AFA—the only FAA unit where CMP was implemented—was allowed to conduct periodic maintenance and certification less frequently than required under national standards, reducing the level of staffing needed and related travel costs. During the period the program was in effect, the number of AFA employees decreased by 19 percent, but AFA's annual budget authorization increased. AFA had permission from AFHQ to use unused personnel funds for other purposes such as capital improvements and an employee recognition system.

During its 4-year existence, CMP was controversial. When the program's 3-year pilot phase expired in fiscal year 2000, AFA management continued using the program without further agreement from its labor union. After the union filed a complaint with federal labor authorities, management and the union reached an agreement in early 2001 to terminate CMP. The agreement identified certain actions to be taken by FAA including, that by October 1, 2001, maintenance of all facilities and services in Alaska would be completed in accordance with national standards.

[2]The two SMOs are the North Alaska SMO located in Fairbanks, Alaska, and the South Alaska SMO located in Anchorage, Alaska. Each SMO is responsible for managing a number of field sites in its respective jurisdiction. Together, the SMOs and their field sites are responsible for all of the equipment maintenance activities throughout Alaska.

Implementation of CMP occurred soon after FAA had adopted a new acquisition system. The Department of Transportation and Related Agencies Appropriations Act of 1996 exempted FAA from other federal acquisition statutes and regulations, and directed the FAA Administrator to develop and implement FAA's own acquisition system. The resulting system, called the FAA Acquisition Management System (AMS), took effect April 1, 1996. AMS establishes policy for all aspects of the acquisition life cycle. It was intended to simplify acquisition management into a system that provided for more timely and cost-effective acquisition of equipment and materials. FAA also established the FAA Acquisition System Toolset that supplements AMS by providing additional acquisition policy and guidance. In addition, FAA has certain agencywide and region-specific orders that establish additional or interpret existing policies and procedures. Although FAA is exempted from other federal acquisition requirements per se, it has the discretion to incorporate portions of acquisitions law into its system as it deems appropriate.[3]

FAA uses several methods to acquire goods and services including contracts, purchase orders, commercial purchase cards, and travel and vehicle credit cards. The FAA purchase card is a commercial credit card that, unless otherwise prohibited, is intended to be the primary purchasing method when vendors accept purchase cards for commercial and simplified purchases.[4] The purchase card is intended to streamline procurement and payment procedures and reduce the administrative burden associated with traditional and emergency purchasing of products and services. As of February 2002, 240 out of 437 (55 percent) of AFA employees had commercial purchase cards, most of which had a one-time purchase limit from $10,000 to $25,000 and a monthly purchase limit of $120,000.

[3]References to FAA policies in this report refer to policies established in AMS, the acquisition system toolset, or other FAA orders.

[4]A commercial item or service, other than real property, is an item or service customarily used by the general public or by nongovernmental entities for purposes other than governmental purposes and that has been sold, leased, or licensed to the general public. Simplified purchases are purchases of products or services of any nature that are small in dollar value, less complex, short term, routine, or commercially available and generally purchased on a fixed price basis.

Objectives, Scope, and Methodology

Our objectives were to determine if AFA (1) maintained a strong set of internal controls over purchases, (2) purchased items using practices that were in compliance with FAA purchasing policies, (3) avoided spending that was excessive, of questionable need, or of little benefit to the government, and (4) created an operating environment that minimized its susceptibility to weak internal controls and improper or wasteful spending.

To determine the adequacy of internal controls over purchases, we

- reviewed FAA and AFA financial management orders, policies, and records;
- interviewed management and staff members within AFA, the Alaskan Region Logistics Division, and FAA headquarters;
- performed purchase transaction walk-throughs to gain an understanding of the acquisition process;
- compared procedures and controls in place against federal internal control standards and applicable FAA and AFA orders; and
- traced purchases of accountable property to the property management system.

To determine if purchases were made in accordance with established policies and procedures and provided sufficient value to the government, we made a nonstatistical selection of 150 AFA purchases that we identified as having high potential for being improper or wasteful, examined each transaction for compliance with FAA acquisition policies, and evaluated them against other guidance for reasonableness. We selected these transactions from AFA's databases of obligating transactions from fiscal years 1999 through 2001 that included obligations of all expenditures except normal payroll, compensation, and benefits.[5] Our selection was made to focus on transactions that appeared noncompliant with purchasing policies, unrelated to the agency's mission, or excessive in nature. Because our selection was not a statistical sample, results from testing cannot be generalized to the population of purchase transactions.

[5]The databases did include nonroutine compensation items such as signing bonuses for certain new hires.

During the course of our work, we also became aware of certain large transactions outside of our 150-item selection that we believed warranted further review. We requested and reviewed related supporting documentation for these expenditures and interviewed appropriate officials and staff members to determine the purpose, magnitude, and status of these expenditures.

To determine if AFA's operating environment minimized its susceptibility to problems with internal controls and improper or wasteful purchases, we interviewed management and staff members within AFA, the Alaskan Region Logistics Division, and FAA headquarters to (1) obtain an understanding of AFHQ's and AFA's organizational structures, (2) obtain an understanding of AFA's budgeting process, and (3) obtain an understanding of the Alaskan Region's purchase card program, including the process for issuing purchase cards and the training provided to cardholders. We also reviewed related documents and records to confirm our understanding.

While we identified some improper purchases, our work was not designed to identify all fraudulent or otherwise improper payments made by AFA. We performed our work in accordance with generally accepted government auditing standards from June 2001 through April 2002 at FAA's Alaskan Region in Anchorage, Alaska. We requested written comments on a draft of this report from the Secretary of Transportation or his designee. Written comments were received from the department's Assistant Secretary for Administration and are reprinted in appendix I.

Internal Controls Were Lacking or Ineffective

In the federal government, any purchasing system, including one that, like FAA's, is exempted from many federal acquisition statutes and regulations, must still follow standards for effective internal control. Our *Standards for Internal Control in the Federal Government* contains the specific internal control standards to be followed.[6] These standards define internal controls as the policies, procedures, techniques, and mechanisms that enforce management's directives. They help ensure that actions are taken to address risks, and are an integral part of an entity's accountability for

[6]See U.S. General Accounting Office, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 2000), which contains the internal control standards to be followed by executive agencies in establishing and maintaining systems of internal controls as required by 31 U.S.C. Section 3512(b), (c), commonly called the Federal Managers' Financial Integrity Act of 1982.

stewardship of government resources. AFA's internal controls did not meet these standards in a number of ways. Specifically, AFA (1) lacked adequate segregation of duties over purchases, (2) lacked adequate supervisory review and approval over purchases, (3) made numerous errors, not caught by supervisors, in coding its purchases, (4) did not ensure that purchased assets were properly entered and tracked in its property management system, and (5) did not ensure that award merchandise inventories were properly controlled. Lacking effective internal controls, AFA does not have reasonable assurance that purchases are proper or that items purchased are safeguarded against loss or theft.

Segregation of Purchasing Duties Was Inadequate

Standards for Internal Control in the Federal Government requires that key duties and responsibilities be divided or segregated among different people in order to reduce the risk of error or fraud. This involves separating the responsibilities for authorizing, processing, recording, and reviewing transactions and for handling any related assets. Simply put, no one individual should control all the key aspects of a transaction or event. However, we found a substantial lack of segregation of duties at AFA. For example, during the course of performing purchasing system walk-throughs and interviews, we noted instances where purchase cardholders (1) requested the purchase and placed the order, (2) picked up or received the goods or services purchased, (3) prepared the financial account coding for the transaction, (4) matched the purchase invoice and receipt to the monthly purchase card statement, and (5) maintained possession of the item purchased. While we did not quantify the frequency of failure to segregate duties, we did note through review of supporting documentation for 150 purchase transactions further instances where duties were not segregated. This weakness increases AFA's vulnerability to theft or misuse since there is little oversight or control to ensure that purchased items or services have a legitimate government need and are being used for government purposes.

While the flexibility of the purchase card program offers many benefits, certain risks heighten the need for effective controls in this area. Purchase cards allow the cardholders the flexibility and independence of purchasing items for legitimate mission needs at virtually any business and immediately having the items to satisfy the current needs. Since many purchases are made directly at stores or in the field, the cardholders often become the primary receivers of the goods or services purchased. Adequate controls can be designed to mitigate risks such as diversion for personal use, but AFA did not have such controls and did not effectively

enforce the controls it did have. For example, FAA policy states that the approving official provides a critical checkpoint for verifying that all transactions made are necessary for official government purposes and are in accordance with the acquisition regulations. As such, the Alaskan Region purchase card program coordinator stated that an approving official cannot request that a cardholder purchase an item for the approving official's use and also approve it. However, in our review of AFA purchase transactions, we identified five instances in which cardholders purchased items, such as a laptop computer, for their supervisors who approved the purchases on the cardholders' monthly statements.

We also identified segregation of duties problems with the design of certain aspects of AFA's awards program. One aspect of the program allowed employees to select their awards from a wide selection of merchandise maintained in an employee general store.[7] According to AFA officials, AFA spent $462,656 on employee general store expenditures from fiscal years 1997 through 2000. Control over this merchandise, which included such items as portable compact disc (CD) players, watches, and retail gift certificates, was limited to a few individuals and was not adequately segregated. Specifically, each employee general store was managed by a coordinator who was responsible for purchasing inventory (primarily using purchase cards), receiving inventory via in-store purchases or mail, safeguarding inventory, and coding the purchases for entry into the accounting system. These failures to adequately segregate key responsibilities increase the risk of loss due to fraud, waste, or abuse.

Supervisory Review and Approval Process Was Inadequate

Review of transactions by persons in authority is the principal means of assuring that transactions are valid. The supervisory review of purchase transactions is particularly critical for AFA because, given the lack of segregation of duties described above, the supervisor is often the only person other than the purchaser who would be in a position to identify an inappropriate purchase. However, we found that AFA's supervisory review and approval of purchase transactions was inadequate. FAA policy is vague as to whether purchasers are required to obtain prior approval, and it does not require that prior approval be documented. Consequently, supervisors we interviewed varied as to whether they required cardholders to get prior

[7]AFA maintained three employee general stores: one at the regional office and one each at the North and South SMOs.

approval for purchases. If prior approval was obtained, it was seldom documented.

Without prior approval, the only supervisory review of the purchase transaction came when the supervisor reviewed and approved the cardholder's monthly credit card statement. Although FAA policy requires purchasers to forward supporting documentation to the approving official (supervisor), it does not require that approving officials review such documentation. We found that supervisors were not consistently receiving and reviewing supporting purchase documentation prior to approving purchases. Instead, many supervisors were authorizing purchases after the purchases were made based primarily on a review of the credit card statement, which provided the vendor name, date, and the amount of the purchase but did not provide details on the item purchased. In addition, as described later in this report, FAA acquisition policies require specific documentation for certain types of purchases. By only reviewing the credit card statement, the approving supervisor often did not have access to sufficient detail to determine whether the purchase was necessary or whether it complied with agency acquisition policies.

The lack of supervisory review is further illustrated by the number of purchase transactions we identified that were missing key purchase documentation. Despite the fact key documents, such as a credit card receipt, were missing, supervisors still approved these purchases. Although FAA policy requires documentation, such as invoices and receiving documents, for all purchases and requires that such records be maintained for 3 years after payment, AFA was unable to consistently provide all required supporting documentation for the 150 purchase transactions we reviewed. Table 1 summarizes the required documentation AFA was unable to provide for the items we had selected.

Table 1: Missing Documentation for 150-Item Purchase Transaction Review

Missing documents	Number of instances[a]
Telephone log or other documentation evidencing purchase request via telephone, e-mail, or fax	37
Purchase card receipt or invoice	19
Signed receiving document	37

[a]Some transactions had more than one missing document.

Source: GAO analysis of 150-item AFA purchase transaction review.

Had supervisors been adequately reviewing these transactions, they would have identified the missing documents and required purchasers to provide such documents before approving these purchases. Without documented prior approval and a thorough review of all supporting documentation by approving officials, there is no assurance that items purchased have a legitimate government purpose.

Transactions Were Not Coded Accurately

Office of Management and Budget (OMB) Circular A-11, *Preparation and Submission of Budget Estimates*, requires federal agencies to report obligations by object class, such as salaries, benefits, travel, supplies, services, and equipment, to indicate the nature of the expenditures of federal funds. Accurate object classification data are critical to the reliability of some information reported in the President's budget and in other analyses. Although internal control standards require timely and accurate recording of transactions, we noted that 79 of the 150 purchase transactions we reviewed (53 percent) were coded to incorrect object class codes. This was due to several causes. For instance, many of the incorrectly coded purchase transactions were coded to object class codes that were close in description to the correct codes. Thus, we found purchases of noncapitalizable computer equipment coded to an object class code for capitalized assets. However, other transactions were coded to object class codes that clearly did not reflect the items purchased. For example, conference room fees for a managers' meeting at an off-site lodge were coded to "Maintenance and Repair of Office Furniture and Equipment." AFA officials also indicated that some of the errors might have occurred because the financial system used to initially record these transactions already has a default object class code filled in, and although the user is required to change the default code if it does not pertain to the particular purchase, he or she may not always do so. However, they added that it is the approving official's responsibility, during the supervisory review and approval of the purchase, to confirm that the purchase is properly coded. The fact that there were so many coding errors demonstrates the inadequacy of training, ineffectiveness of the supervisory review and approval process, and lack of attention to financial accountability in AFA.

Such weaknesses make it difficult to determine the amounts spent on particular activities. For example, our selection of 150 purchase transactions contained at least 7 purchases of items for employee general store award merchandise, all of which were coded to the wrong object class code. Although officials reported that AFA spent $462,656 on award

merchandise from fiscal years 1997 through 2000, due to miscodings such as these it cannot ensure the accuracy of amounts spent on its employee awards program both for reporting purposes and for management decision making.

Accountable Items Were Not Properly Tracked

FAA personnel in the Alaskan Region did not always follow established property control policies, and did not consistently identify, record, and track all accountable assets in FAA's Personal Property In-use Management System (PPIMS). As a result, FAA cannot ensure that purchased assets are being properly used and accounted for, thus increasing the risk that purchased items may be lost or stolen without detection. Responsibilities for the management and custody of property in the Alaskan Region cross division lines. Property management, which includes managing and maintaining PPIMS data and ensuring that physical inventories are conducted, is the responsibility of the Logistics Division. However, property custodians, who are responsible for the use, accountability, and control of in-use personal property in their respective areas, are located throughout the FAA divisions, including AFA.[8] FAA policy requires property management personnel to identify accountable items, complete property input forms, and enter adjustments to PPIMS. However, we identified a substantial paperwork backlog from a 2-year period, from 1997 through 1999, when the property management staff members did not enter a significant number of accountable items into PPIMS. Logistics Division officials said this was largely due to the fact that it did not have a full-time PPIMS manager during this period. In addition, the PPIMS manager stated that because many purchases of accountable assets are made directly by the divisions throughout the region, property management does not have a means of consistently identifying all purchases of accountable assets that need to be entered. As a result, PPIMS did not contain an accurate record of all FAA accountable assets.

FAA policy also requires the regional property manager to conduct a physical inventory of personal property every 3 years, and requires property custodians to perform inventories of their assigned property items when requested to do so. However, property management officials indicated that a physical inventory had not been conducted in at least 5 years, and could not provide any documentation evidencing that a physical

[8]AFA officials stated that supervisors are typically assigned as the property custodians for their assigned custodial areas or cost centers.

inventory had ever been accomplished. In June 2000, the PPIMS manager requested that all the property custodians in the region conduct inventories of their respective areas. However, at the time of our review, about one-third of the 37 AFA property custodians still had not completed their inventories. The date of completion is now estimated for June 30, 2002.

With such lax controls to ensure property was timely entered into PPIMS and the lack of inventory procedures to identify items that had not been entered, FAA had no means of establishing accountability for and monitoring its accountable assets. As a result, we found that 39 of the 44 accountable assets in our 150-item purchase selection had not been recorded in PPIMS even though some of these items had been purchased up to 2 years ago. These weaknesses resulted from a lack of training for property custodians and inadequate oversight of the property management program. Prior to our review, the Alaskan Region had not established a formal program to train property custodians. As a result, during discussions with property custodians, we found they were not always aware of their responsibilities. Furthermore, AFA did not have a property management focal point responsible for general program oversight and coordination when necessary. Consequently, the PPIMS manager in the Logistics Division had to coordinate individually with all 37 of AFA's property custodians to request the physical inventory, further hindering property management oversight.

Combined, the backlog of accountable items to be input to PPIMS, the lack of a full-time PPIMS manager for 2 years, the lack of compliance with physical inventory requirements, and the lack of training for property custodians reflect the low priority given to property management within the Alaskan Region. The lack of timely and accurate property information may impede program officials' ability to properly manage and safeguard these assets. Until these weaknesses are addressed, government assets in the Alaskan Region are at increased risk of theft or loss.

Award Merchandise Inventories Were Not Properly Controlled

As mentioned earlier, AFA maintained three employee general stores where employees who received performance awards could select from a wide range of merchandise. Because these items fell below the $500 accountability threshold, they were not required to be entered and tracked in PPIMS. However, the merchandise included items highly vulnerable to misappropriation, such as store and restaurant gift certificates and CD players. *Standards for Internal Control in the Federal Government* requires certain controls such as periodic counts and comparisons to

control records in order to properly safeguard and account for vulnerable assets, which include inventories. AFA did not have adequate inventory procedures to establish proper accountability for such items, which, according to AFA officials, totaled almost a half-million dollars from fiscal year 1997 through fiscal year 2000.

Specifically, guidance for the employee general stores did not require conducting periodic inventory verifications or maintaining records on additions and issuances of merchandise. Officials told us store coordinators occasionally performed partial inventories for restocking purposes, but the resulting inventory records were not always kept. While store coordinators maintained some documentation, such as redemption logs, they were not consistently maintained and the coordinators could not verify the completeness of any of the documentation. In addition, the information compiled in the logs was insufficient to consistently track items from purchase to inventory to distribution. Therefore, the store coordinators had no records to determine if a particular item purchased was still in inventory. If the item was no longer in inventory, they had no records to determine if it had been issued and, if so, to whom. This lack of inventory controls made it difficult for AFA to determine if merchandise was missing and therefore made it highly susceptible to theft or other improper use.

In addition, AFA did not establish appropriate controls over the awarding of store merchandise. One of the ways employees could select and receive store merchandise was through the receipt of various redemption cards. Program guidance extended to all AFA employees the authority to recognize individuals with these redemption cards without placing restrictions on frequency of recognition or requiring adequate supervisory review. Because there was little recordkeeping of who was awarding or receiving cards and how frequently an employee gave or received cards, there was little control to prevent, for example, collusion between two employees who might give each other multiple cards. Without appropriate recordkeeping, there was also no control to identify if several employees independently awarded one employee for the same act.

Shortly after the agreement to end CMP was signed in March 2001, AFA shut down several elements of its awards program and returned to the national program. However, because AFA had purchased so much inventory for the program in advance, an AFA official informed us that over $67,580 in award inventory remains locked in cabinets and storage rooms. AFHQ officials stated that AFA is to gradually use the inventory in

conjunction with the national awards program procedures. However, while most of the inventory will hold its value until disbursed, AFA estimated that $13,160 of gift certificates has already expired. Although attempts were made to get vendors to extend the expiration dates for gift certificates, many of the gift certificates that were granted extensions have also expired. The remaining gift certificates are not for vendors that AFA would use in its normal course of business, so use of the gift certificates for business purposes is not feasible. More prudent purchasing and inventory practices might have prevented this loss as well as the expenditure of tens of thousands of dollars in merchandise that may take years to issue.

Noncompliance with Purchasing Requirements Resulted in Improper Purchases

The lack of good internal controls could be readily seen in the specific transactions we reviewed, which often were not carried out in accordance with the requirements of FAA's purchasing system. Although FAA is exempt from certain federal acquisition statutes and regulations, it does have specific policies establishing purchasing requirements that incorporate many of the federal requirements. In our review of 150 purchase transactions, we found 118 of these transactions (79 percent) did not comply with one or more FAA acquisition requirements and, therefore, were considered to be improper purchases. More specifically, we noted (1) purchases where determination of "best value" for the agency had not been made or documented as required, (2) instances in which cardholders split a single purchase into two transactions to circumvent single purchase limits, (3) purchases of restricted items that required but did not have advance approval from contracting officers, (4) purchases from other than required vendors without the appropriate waivers, and (5) purchase cards used for unallowable purposes. Table 2 shows the extent to which the 150 transactions showed problems in each of these areas, as described further below.

Table 2: Transactions Not in Compliance with Purchasing Requirements

Purchasing requirement	Number of transactions applicable	Number of transactions not in compliance	Percentage of applicable transactions not in compliance
Documentation of best value	140	99	71
Transaction within purchase limits without splitting	150	4	3
Preapproval for purchase of restricted items	27	27	100
Purchase from required vendor	25	23	92
Purchase with correct purchase card	150	5	3

Source: GAO analysis of 150 purchase transactions.

Determination of Best Value Was Seldom Documented

The goal of FAA's acquisition system is to obtain high-quality products, services, and property timely and cost effectively, at prices that are fair and reasonable. A major component of this goal is the requirement that purchasers determine and document that prices are fair, reasonable, and provide the best value to FAA. In reviewing the selected items, we accepted as determination of best value any indication that the purchaser considered prices from other vendors, service provided by the vendor, quality of product versus alternatives, prior experience with a vendor, or useful life of the product. Although AFA was able in some cases to provide documented evidence that the purchasers considered best value before making their purchases, in 99 of the 140 transactions (71 percent) to which this requirement applied,[9] no such documentation was available. For example, we identified a purchase of two digital cameras costing about $1,620 each (including peripherals) and one pair of binoculars, costing $599, that were purchased from a small retail camera store in downtown Anchorage. Although an AFA official indicated a need for digital cameras and binoculars, there was no evidence that the purchaser took any of the steps outlined above before selecting the specific products and vendor.

[9]Not all purchase transactions in our 150-item selection were subject to the requirement to document determination of best value. For example, purchases from required vendors, travel card purchases, and payroll compensation related items were not subject to determination of best value.

Purchases Were Split to Circumvent Purchase Limits

Although FAA acquisition policy specifically prohibits the splitting of purchases in order to circumvent the cardholder's single purchase limits, we identified four transactions where the cardholders did just that.[10] For example, one purchaser made a $28,375 purchase, which exceeded the purchaser's $25,000 single purchase limit. Because the purchase was ordered by telephone, the vendor faxed to the purchaser two handwritten purchase card receipts, one for $25,000 and one for $3,375. Although the vendor had handwritten the dates on the two charge receipts as "9/14/00" and "9/15/00," the fax was dated September 14, 2000, and both receipts referenced the same purchase order number. We identified another instance in which a cardholder with a $25,000 single purchase limit purchased three all-terrain vehicles with trailers and two snowmobiles totaling $31,039 from the same vendor. Even though the vendor billed the all-terrain vehicles on one invoice and the snowmobiles on another, the invoices were both dated on the same day. Furthermore, the invoices were each paid with the same purchase card, on the same date, only 2 minutes apart. The purpose of the single purchase limit is to require large purchases to be subject to additional controls to ensure they are properly reviewed and approved before obligating the agency's funds. By allowing these limits to be circumvented, FAA has less control over the obligation and expenditure of its resources.

Restricted Items Purchased without Required Preapprovals

FAA acquisition policy prohibits purchases of certain items such as food and beverages, gifts, and household appliances without advance approval from the contracting officer in the Logistics Division. We found that AFA cardholders did not always comply with this requirement. Specifically, none of the 27 purchases of restricted items in our selection had the required pre-approval. For example, we noted the purchase of food and beverages for managers' meetings, a jade bear plaque retirement gift, and a mini-refrigerator that did not have the required preapprovals. By failing to obtain and document approval for restricted items, purchasers circumvented controls designed to prevent fraud, waste, and abuse.

[10]Two of these transactions related to both parts of one split purchase.

Purchases Not Made from Required Vendors

FAA policy requires that purchasers acquire certain products and services from designated mandatory sources, including Javits-Wagner-O'Day Act (JWOD)[11] suppliers and the Federal Prison Industries, Inc. (UNICOR).[12] FAA purchasers are permitted to purchase from other sources only after the mandatory source provides a waiver indicating that it cannot provide the requested items. However, 23 of the 25 transactions in our selection that were required to be purchased from specific vendors were not purchased from the mandatory vendors and did not have the required waivers. For example, an AFA purchaser obtained 35 conference room chairs costing $11,400 from a local vendor without obtaining a waiver indicating that UNICOR could not meet the purchase request. Moreover, numerous transactions from our selection indicated that AFA purchasers often purchased items available from JWOD suppliers from commercial vendors. AFA could not provide waivers for any of these purchases of non-JWOD items.

Purchase Card Used for Unallowable Purposes

FAA acquisition policy specifically prohibits the use of the purchase card for travel-related expenses and for vehicle repairs, which should be procured using the individualized travel card or the vehicle-specific credit card, respectively. In 5 purchases from our 150-item selection, cardholders used the purchase card for these purposes. For example, a cardholder used the purchase card to charge $8,500 for food and lodging for 16 managers attending an off-site management meeting. Although all staff members apparently checked in under their own credit cards, all of the charges were transferred to one staff member's purchase card at checkout. AFA officials indicated this was done to save money and avoid daily per diem[13] costs; however, by doing so they circumvented controls in which

[11]JWOD governs products and services offered for sale by workshops of the blind or other severely handicapped persons. The Committee for Purchase from People Who are Blind or Severely Disabled is an independent government activity and is responsible for determining products and services to be purchased from the central nonprofit agencies, that is, the National Industries for the Severely Handicapped and the National Industries for the Blind. They carry a wide range of office products and household supplies.

[12]UNICOR is a self-supporting, government-owned corporation that provides training and employment for prisoners confined in federal penal and correctional institutions through the sale of its products and services to government agencies. It carries a wide range of office furniture products.

[13]Daily per diem costs as used here refer to the subsistence reimbursement provided to federal employees for meals and incidentals while on official travel duty.

staff members outside AFA review all travel expenses against established travel requirements before approval or payment. Similarly, using the purchase card for vehicle-related expenses bypasses the fleet manager's review process in the Logistics Division and does not allow for reliable tracking of the aggregate costs of operating individual vehicles.

Poor Purchasing Practices Resulted in Wasteful Spending

Our review of the 150 items, together with reviews of several other acquisitions that came to our attention, identified a number of transactions that we classified as wasteful—that is, while not in violation of specific policies or regulations, were excessive or for questionable needs. Specifically, AFA purchased expensive items when significantly less expensive alternatives were available, often did not give consideration to economies of scale and standardization in making purchases, and purchased certain large items that provided little value to the agency.

Expensive Items Purchased When Less Costly Alternatives Were Available

We identified a number of potentially wasteful transactions. While these items may have been used for government business, less costly alternatives that would meet the same basic needs were available. Many of these were items of new technology when acquired, and were purchased in multiple lots of one or two. Purchases we identified that fell into this category include the following:

- *Flat panel computer display monitors*. Our selection of 150 transactions contained two purchases for two 18-inch desktop flat panel monitors, at a cost of over $3,000 per monitor. According to AFA officials, a total of 18 of these monitors were purchased for a total cost of $44,965, or an average price of about $2,500 per monitor. In contrast, the current General Services Administration schedule cost of a standard 17-inch computer monitor is about $300. Because these types of monitors were relatively new on the market at the time these purchases were made, they were costly compared to other alternatives that would have met the same basic need. The primary advantages of a flat panel monitor are that it saves desk space and has better display quality. However, at locations in AFA headquarters where 10 of the monitors were found, we observed that all 10 had a large amount of vacant desktop space behind them that would have easily accommodated a much less expensive monitor. AFA management indicated these monitors were needed because employees use their computers so much, and flat panel monitors are easier on users' eyes and reduce

occurrences of headaches. However, we did not observe any greater use of computers in AFA than would occur in other government offices nor the use of any graphics or specialty software that would require higher resolution or display quality.

- *Plasma displays for conference rooms*. According to AFA management, three wall-mounted plasma displays were purchased for a total cost of $34,587, or an average cost of about $11,500 each. AFA officials indicated that the plasma displays were for videoconferences, slide displays, and other presentations. A projector capable of similar functions as the plasma display costs about $4,500. Two such projectors were in our selection of purchase transactions. AFA officials indicated the lower-cost projectors would be used for presentations while traveling, while the higher-cost plasma displays would be permanently attached to the walls in AFA conference rooms. They indicated that since the plasma display is anchored to the wall there is less chance for damage than if a projector was used. However, we question whether this rationale warrants the additional cost of $7,000 per unit.

- *Personal digital assistants*. Another example of purchasing expensive items instead of less costly alternatives was AFA's liberal policy of purchasing personal digital assistants (PDA), which are handheld electronic devices that function as calendars, address books, and other job aids. We noted several purchases of PDAs in our selection of transactions that, with peripherals, ranged in price from $300 to over $500. By comparison, alternatives such as a calendar or a daily planner cost about $15 and $50, respectively. Refills for the daily planner cost about $20. AFA had an informal policy that anyone who wanted a PDA instead of a calendar or daily planner could have one. AFA management indicated that in the long run it was cheaper to buy PDAs than refills for daily planners. However, we question that statement, given that it would take about 15 years of purchasing daily planner refills to total $300, and we saw purchases of other peripherals such as digital camera attachments for the PDAs, which would likely continue as technology improves.

Part of the reason these types of purchases were so expensive was because AFA did not always make a concerted effort to centralize purchases of items such as computer equipment in order to take advantage of quantity discounts. For example, AFA cardholders were not required to coordinate computer and other automated data processing equipment purchases through the information technology group, which is responsible for

computer purchasing and technical support. Consequently, in our 150-item selection we noted numerous purchases of varying brands of automated data processing equipment in small quantities at various times with no documented coordination with the information technology group. Specifically, we noted six purchases of individual computers from three different manufacturers, all occurring on different dates from April 1999 through August 2001. Such haphazard purchasing practices prevent AFA from taking advantage of quantity discounts, and hinder the information technology group's ability to build, support, and maintain a standardized computer network.

Certain Large Expenditures Yielded Little Value

AFA made several high-dollar, fixed-asset purchases that were short-lived or underutilized. While there may have been legitimate reasons initially for engaging in these purchases, adequate controls were not in place to ensure that the projects were properly implemented or to periodically assess their viability. As a result, millions of dollars were wasted. These purchases included the following:

- *Housing project.* AFA constructed 30 residential housing units in King Salmon, Alaska, at a total cost of about $12.9 million.[14] Initial surveying and utilities work on the housing project began in October 1995, and major construction began in May 1996. Prior to the start of construction, two events occurred that reduced AFA's need for residential housing in King Salmon. In 1993, FAA's flight service station was closed due to reduced U.S. Air Force traffic, and in September 1995, operation of the air traffic control tower in King Salmon was contracted out so that FAA personnel were no longer needed to staff the tower. However, although its housing needs were reduced, AFA continued with its plan to build all 30 units in King Salmon. As of January 2002,

  - 8 of the units had been vacant since completion of construction in February 1997,

[14]Although we did not evaluate the costs incurred to build these units, we did note that it is generally more expensive to construct housing units in Alaska, especially in remote areas, due to transportation of materials and equipment and travel and accommodation costs for construction personnel.

- 11 were being leased out to other agencies in order to keep the units occupied—leases on these units were entered into shortly after completion of construction,

- 7 were being occupied by full-time AFA employees who reside in King Salmon, and

- 4 were being used as transient quarters by AFA employees.

Although there might have been a legitimate need for a housing project this size when plans were first being discussed, AFA should have reassessed its needs, particularly with the staff reductions that occurred as a result of the flight service station and air traffic control changes.

Based on executed leases and AFA's records, it does not appear that rental revenues received from the units are adequate to cover AFA's monthly operating costs. Given that eight (27 percent) of the units have never been used, ongoing needs assessments might have saved the government millions of dollars spent building and maintaining these units.

- *Security system.* In response to an aging lock system with compromised security in the field, AFA purchased a security locking system for $340,000 in September 1998. Before purchasing the system, AFA tested it noting system deficiencies including brittle key buttons that occasionally broke and locks that did not open in extremely cold conditions. An AFA official indicated one example in which a technician had to use bolt cutters to remove a frozen lock. Despite knowledge of these system deficiencies, AFA proceeded to invest $340,000 in the security system and another $30,000 to install the system at various facilities, where staff again reported similar problems. With the end of CMP, a team of AFA labor and management personnel[15] recommended cancellation of the new security lock system and a return to the previous system. The new system was subsequently dismantled and is currently in storage as excess equipment. Although AFA plans to use three computers from the system, the majority of the $370,000 spent represents a complete loss.

[15]The labor management team was established to make recommendations on the transition of AFA from CMP back to national maintenance standards.

- *Thirty-foot powerboat.* In September 1997, AFA awarded a $122,809 contract for the construction of a 30-foot powerboat intended to ferry maintenance technicians and equipment approximately 10 miles from Sitka to Biorka Island where a variety of airspace system equipment was located. AFA management indicated that travel costs to maintain equipment on Biorka Island had been averaging about $65,000 to $75,000 a year to charter a helicopter and that safety of its employees was the primary concern. AFA took delivery of the boat in February 1998. The technicians who were sent to maintain and repair the airspace equipment were required to operate the boat themselves and, according to management, were provided with training on boating safety and navigation. During the 3 years the boat was in operation, two incidents occurred that seriously damaged the boat. The first incident required part of the propulsion system to be replaced. AFA was unable to provide supporting documentation for the repair costs associated with replacing the propulsion system. The second occurred when the boat broke loose from its mooring and crashed on the rocks, damaging 14 feet of hull. Repair costs for the second incident were about $42,000. Based on the CMP labor management team's recommendation, the boat was removed from service in June 2001 and later excessed to the U.S. Forest Service in October 2001.

Operating Environment Contributed to Improper and Wasteful Purchases

At AFA, several factors in the operating environment increased the susceptibility to the kinds of problems we identified with internal controls and individual transactions. First, there was little outside oversight of AFA's financial activities due in part to FAA's decentralized organizational structure. Although AFA was in the Alaskan Region, local regional management had no authority over it. Instead, AFA reported directly to AFHQ management in Washington, D.C., thousands of miles away, but AFHQ management supplied little in the way of oversight. This decentralization was further extended through AFA's practice of allowing its units a high degree of spending autonomy. Second, under CMP, AFA had substantial amounts of money to spend. AFA was allowed to use millions of dollars originally authorized for personnel costs for other discretionary spending and was exempted from certain spending restrictions that were imposed on other FAA regions. Third, AFA did not provide adequate training to its many staff members who had purchase cards or to the supervisors who approved purchases. Although the termination of CMP may have removed some availability of funds, all these other factors—as well as the control weaknesses discussed earlier—still remain.

Decentralized Organizational Structure Resulted in Little Oversight of Spending

AFA operates with considerable autonomy in regard to planning, directing, and controlling operations. It reports directly to AFHQ in Washington, D.C., thousands of miles away. Although AFA submits periodic budget to actual status reports to AFHQ, the reports are at a summary level and do not provide sufficient detail to facilitate oversight of spending activities. Although external reviews are done to review AFA's maintenance activities, there are no outside reviews of its financial activities. In addition, the FAA Alaskan Region's Regional Administration Office, which has certain operational responsibilities for the Alaskan Region, has no authority over AFA. Consequently, it cannot require or enforce any actions on the part of AFA. The decentralized operating environment leaves AFHQ without critical information about AFA's programs and funding.

For example, during our review an AFHQ official indicated to us that a component of AFA's awards program, the Instant Gratification Bags, had been discontinued. This component of the program allowed a supervisor to provide a staff member with an on-the-spot award that the staff member could select from the supervisor's Instant Gratification Bag. Although the headquarters official said the program was discontinued in February 2000, we noted that the program was still operational in late 2001.

This decentralized organizational structure is further demonstrated by AFA's management philosophy, which provides its units with a high degree of purchasing autonomy. SMOs and branches are required to submit to AFA division management a budget request by object class. The budget allotments the SMOs and branches ultimately receive are lump-sum amounts, and they have the autonomy to allocate their lump-sum budget allotments as they deem necessary. SMOs and branches are also free to reallocate budget amounts between object classes without tracking their original budget allotment allocations. Although AFA division management reviews the SMOs' and branches' budget submissions against the prior year's actual expenditures, there is little challenging of funding needs. An AFA management official indicated that SMOs and branches almost always get the amounts they request.

AFA Had Substantial Funds Available with Few Restrictions

AFA had substantial funds available with few restrictions, which made it more susceptible to improper and wasteful purchases. FAA headquarters allotted funds to AFA based in part on its authorized full-time employees, but due to CMP, AFA's authorized number of full-time employees was significantly higher than the actual number employed (see table 3). From fiscal year-end 1997 to fiscal year-end 2000, AFA's actual number of employees fell 19 percent from 483 to 391. However, during the same period AFA's budget allotment increased. AFA was free to use the unexpended personnel funds for other purposes.[16]

Table 3: AFA Employee and Budget Information, Fiscal Years 1997 through 2002

	1997	1998	1999	2000	2001	2002[a]
Authorized number of employees	519	514	505	488	461	461
Actual number of employees	483	442	420	391	430[b]	433
Final budget authorization (dollars in millions)	$ 56.9	$ 63.4	$ 61.9	$ 63.8	$ 65.6	$69.3

[a]The actual number of employees and final budget authorization are as of March 31, 2002.

[b]At the end of CMP, due to specific staffing actions identified in the management/union agreement, personnel levels began to rise in fiscal year 2001.

Source: FAA's Financial Management Division and AFA's Annual Budgetary Authorization sheets.

The ready availability of money was all the more pervasive because AFA was not operating under spending restrictions placed on the rest of the agency. Because of budget constraints, the FAA Administrator issued agencywide spending restrictions in February 1999. In response, AFHQ issued more specific spending restrictions on all other Airway Facilities regions to reduce or eliminate all costs not directly related to the operation and maintenance of the national airspace system. However, while CMP was in effect, AFA was exempt from these spending restrictions, although the restrictions stated that AFA was still expected to be prudent and adhere to the spending guidelines to the extent possible. Although these restrictions remained in effect for almost 2 years through December 2000, the ready availability of funds allowed AFA to spend more freely. For example, during this period AFHQ restricted other Airway Facilities

[16]According to AFHQ officials, other Airway Facilities regions were allowed to shift funds budgeted for personnel costs to other purposes only during the end of the fiscal year. However, AFA was allowed to shift funds all year.

regions from spending on nonessential travel related to conferences, meetings, workshops, and site visits. However, AFA officials took at least three 1-week trips during this period for management meetings at premier resorts in Alaska costing from $6,000 to $8,800 each.

This substantial availability of funds at AFA is further demonstrated by its year-end spending practices. To manage its annual budget, AFA's resource management branch, which is responsible for managing AFA's budget, maintains a reserve account consisting of the difference between the budget allotment received from FAA headquarters and the amounts subsequently allotted to the SMOs and branches. This allows the resource management branch to shift funds between SMOs and branches as needs change and unexpected emergencies arise. However, because AFA had substantial funds available due to reductions in personnel, travel, and other costs resulting from CMP, the balance in the reserve account was significant. Since the funds in the reserve account were 1-year funds and expired at the end of each fiscal year, the resource management branch sometimes had to solicit multiple spending requests from the SMOs and branches in order to use up the money in the reserve account. For example, in fiscal year 2000, AFA solicited the SMOs and branches nine times for additional spending requests, primarily in the last 3 months of the year, spending a total of about $4.5 million. Included in such purchases were items such as health club equipment, plasma displays, PDAs, and snowmobiles.

In addition to AFA's reserve account, the individual SMOs and branches each maintained their own reserve accounts as well. Except in one year, fiscal year 2000, AFA division management did not require the SMOs and branches to specifically identify the purchases made from their individual reserve accounts. In that year, we noted that the SMOs and branches spent an additional $611,000 from their reserve accounts on purchases that included laptop computers, PDAs, digital cameras, snowmobiles, and all-terrain vehicles.

With the end of CMP in 2001, the level of funding available to AFA for purchasing is likely to be reduced. Funds available for purchases during CMP because positions were unfilled are now being applied once again to compensation and benefits for the additional staff members needed under the management/union agreement. However, the other factors discussed here remain, as do the control weaknesses previously identified.

Cardholders and Supervisors Lacked Acquisitions Training

A lack of acquisition training also contributed to a weak operating environment at AFA. FAA procurement guidance requires that all prospective cardholders and approving supervisors receive training in the proper use, financial control, and property management restrictions of a purchase card prior to being granted delegation of purchase authority or approving authority. This is especially important with respect to purchase card purchases because purchasing authority was widely dispersed among the staff, with 55 percent of employees having purchase cards, most with authorized limits of up to $120,000 per month. The large number of cardholders and transactions makes it difficult to monitor individual purchases for propriety and compliance with the various acquisition policies. However, based on Alaskan Region training records, we found no evidence that 38 percent of current cardholders and 67 percent of approving supervisors at AFA had received purchase card training since AMS was implemented in April 1996. Furthermore, as table 4 indicates, most cardholders and approving supervisors had not received any purchase card training in the last 2 years.

Table 4: Training of Purchase Cardholders and Approving Supervisors Since AMS

	Purchase cardholders		Approving supervisors	
	Actual	Percentage of total	Actual	Percentage of total
Trained within the last 2 years[a]	34	14	1	4
Trained over 2 years ago[b]	115	48	7	29
No evidence of training post-AMS	91	38	16	67
Totals	240	100	24	100

[a]Calculated based on our review of Alaskan Region training records as of the date the work was performed, that is from February 13, 2002, back 2 years to February 14, 2000.

[b]Calculated based on our review of Alaskan Region training records as of February 13, 2000, back to the implementation of AMS on April 1, 1996.

Source: GAO analysis of AFA training records from April 1, 1996, to February 13, 2002.

AFA has no system to monitor whether and when its cardholders and approving officials have had acquisition training. In addition, cardholders and approving supervisors are not required to receive periodic refresher training to inform them of new purchasing requirements and other updates to the program. This lack of timely, sufficient training of purchase cardholders and approving supervisors increases the risk that improper or wasteful purchases will be made and go undetected.

Conclusions

The problems we found in AFA's purchasing system were widespread. They leave the organization vulnerable to improper purchases, wasteful spending, and loss or theft of assets. Although the substantial availability of funds under CMP may have exacerbated these weaknesses, we saw no evidence that the end of CMP substantially changed their underlying causes. Fixing these problems requires top-to-bottom strengthening of AFA's procedures—a strengthening that would be enhanced through management attention at the Department of Transportation and FAA headquarters levels. Until positive action is taken to remedy this situation, improper and wasteful spending practices such as those we identified are likely to continue.

Recommendations for Executive Action

We recommend that the Administrator of FAA ensure that the following actions are taken to address internal control weaknesses, noncompliance with purchasing requirements, and operating environment issues identified in our report in order to reduce AFA's vulnerability to improper and wasteful purchases.

Internal controls

With regard to improving AFA's internal controls over purchasing, we recommend the Alaskan Region Logistics Division Manager and the AFA Division Manager do the following.

- Establish and implement policies and procedures to effectively implement the segregation of duties principle. No individual should be able to take all the steps needed to make and pay for a purchase.
- Require approving supervisors to review supporting documentation including applicable waivers, proper object class code, and any applicable PPIMS input forms for purchase card procurement transactions prior to approving the credit card statements. In addition, supervisors should also review for potential split purchases.
- Require purchase card system users to input an object class code for each transaction and eliminate the default object class code feature in the system.
- Establish a focal point in AFA to assist property management in ensuring that property custodians are informed of their responsibilities

and timely comply with policies and procedures such as periodic inventory requirements.

We further recommend that the Alaskan Region Logistics Division Manager or designee do the following.

- Provide the property manager or designee read-only access to obligating systems to review for potential accountable assets that can then be compared against PPIMS input forms to verify that accountable assets have been identified and input forms received.
- Conduct a complete regionwide inventory (floor to book and book to floor) of all accountable assets.
- Complete the input of existing backlogged PPIMS input forms by fiscal year-end 2002.
- Establish a policy requiring PPIMS input forms to be completed and entered within 10 business days after the items have been placed into service.

Purchasing Requirements

With regard to identifying noncompliance with and enforcing purchasing requirements at AFA, we recommend that the Alaskan Region Logistics Division Manager and AFA Division Manager do the following.

- Establish policies covering the allowability, justifications, and approvals required for purchasing specific high cost or sensitive items such as plasma displays, flat panel monitors, PDAs, and digital cameras.
- Require purchases of certain assets such as computer equipment, handheld radios, and snowmobiles to be coordinated centrally to take advantage of economies of scale and to standardize types of equipment purchased.
- Require annual reassessments of construction projects lasting over 1 year, from the time of initial bid to time of completion, as to the continued viability, need, and size of the projects.

We further recommend that the Alaskan Region Logistics Division Manager do the following.

- Perform periodic independent reviews of AFA purchase transactions, including the supervisory approval function, and test for compliance with specific purchasing requirements.

- Revoke or suspend purchasing authority of cardholders found to be repeatedly noncompliant with policies.

Operating Environment

In order to provide a positive and supportive attitude toward internal control at AFA, we recommend that the Director of Airway Facilities or designee perform periodic site visits to Alaska to review AFA's financial operations and activities, including management's decision-making process behind the procurement of large purchases.

We also recommend that the Director of Airway Facilities and the AFA Division Manager assess the number of individuals at AFA who need purchase cards and whether current purchasing limits are appropriate.

We further recommend that the Alaskan Region Logistics Division Manager do the following.

- Require existing and new purchase cardholders and approving officials to sign that they have read, understood, and agreed to follow all local and national acquisition policies.

- Require all existing purchase cardholders and approving officials to attend periodic refresher training covering key purchasing requirements such as documentation requirements, segregation of duty requirements, proper object class coding, as well as any recent policy changes.

- Establish a system to track and monitor training for purchase cardholders and approving officials to help ensure they receive training before being granted purchase cards or approval authority and receive timely refresher training.

Agency Comments and Our Evaluation

DOT agreed with our findings and recommendations and indicated that FAA has taken or plans to take a number of actions to ensure that the issues identified in our report are effectively addressed and appropriately enforced. For example, the Director of Airway Facilities issued a memorandum on April 30, 2002, to reemphasize purchase card

requirements. The Director also has plans to partner with other FAA offices to conduct a comprehensive review of the adequacy of internal controls related to FAA purchase cards and other acquisition requirements, and plans to review the appropriateness of all purchase cards issued and the cardholders' purchase limits. Implementation of these and the other recommendations in our report should greatly reduce AFA's vulnerability to improper purchases, wasteful spending, and loss or theft of assets.

We are sending copies of this letter to the Ranking Minority Member, House Committee on Transportation and Infrastructure; Senator Ted Stevens; Senator Frank H. Murkowski; the Secretary of Transportation; and the FAA Administrator. Copies will also be made available to others upon request. In addition, the report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you have any questions about this report, please contact me at (202) 512-9508 or Doreen Eng, Assistant Director, at (206) 287-4858. Key contributors to this report were Richard Kusman, Justin Flaa, Aaron Holling, and Stan Stenersen.

Linda M. Calbom
Director, Financial Management and Assurance

Comments from the Department of Transportation

U.S. Department of Transportation

Assistant Secretary for Administration

400 Seventh St., S.W.
Washington, D.C. 20590

May 14, 2002

Ms. Linda Calbom
Director, Financial Management and Assurance
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Ms. Calbom:

We appreciate the work GAO has done that identified a number of problems with acquisitions and the use of purchase cards within the Airways Facilities (AF) regional office in Alaska. FAA's top management team is taking swift action to ensure that the issues identified in the GAO draft report are quickly and effectively addressed with the appropriate mix of policy reinforcement, new or intensified oversight, and other corrective actions. FAA has already initiated action to strengthen internal controls, reemphasize purchase card requirements, and change the operating environment to provide local oversight to better ensure all acquisitions are appropriate. It is the FAA's intent and determination to ensure that purchases made on behalf of the agency are appropriate, prudent, and made in full compliance with all applicable requirements.

FAA has already initiated action to implement each of the draft report's recommendations. For example, on April 30, the Director of Airway Facilities issued a memorandum to the entire AF regional and headquarters management team that reiterated the need to assure best value when using the purchase card. It also noted restricted purchase items, indicated required vendors, delineated requirements for object class coding, tracking accountable property, providing property custodian training, and reemphasizing how large value purchases were to be treated. Similar and parallel actions are underway in FAA offices responsible for acquisition, budget, and operation of FAA's regional centers. Action is being taken to ensure purchase cardholders are fully and appropriately trained and that their knowledge is kept up-to-date. The agency is also reevaluating its policies on revocation and suspension of purchase card authority to assure that it deals effectively with noncompliance.

To assure these requirements are fully and appropriately enforced, AF and key offices involved with acquisition and financial management policy are taking a number of steps. Within AF, a new performance standard for administering internal controls will be instituted in managers' performance standards. In addition, AF in partnership with other FAA offices will conduct a comprehensive review of the adequacy of internal controls surrounding the FAA purchase card and other acquisition requirements. AF will also review all cardholders to ensure that each one is necessary and that the applicable purchase limit is appropriate. Further, new oversight authorities are being considered for local management officials to help ensure compliance with purchase requirements. Finally, FAA is also working to ensure that once purchased, assets are appropriately inventoried and tracked.

2

FAA is also clearing up the backlog in its property management system transactions in Alaska, and expects to be fully up-to-date by the end of June. Subsequently, a full personal property inventory will be conducted in Alaska to ensure appropriate accounting for all items. Finally, FAA is in the process of implementing an automated inventory tracking tool that will electronically input information from bar codes upon receipt, and maintain and reconcile the data electronically to keep the system up to date and error free.

In summary, FAA is taking aggressive action to address all the issues identified in the GAO draft report and its recommendations. FAA is taking extensive action, well beyond the examples cited above, in order to ensure that all acquisitions and use of the purchase card are appropriate and fully comply with applicable requirements.

We appreciate the opportunity to comment on this draft report. A full update on the status of FAA's actions will be provided in the Department's response to the GAO final report. If you have any questions, please contact Martin Gertel of my staff on (202) 366-5145.

Sincerely,

Melissa J. Allen

Melissa J. Allen

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