Department of Homeland Security
Office of Inspector General

Use of DHS Purchase Cards

Homeland Security

AUG 0 5 2011

Preface

The Department of Homeland Security (DHS) Office of Inspector General (OIG) was established by the *Homeland Security Act of 2002* (Public Law 107-296) by amendment to the *Inspector General Act of 1978*. This is one of a series of audit, inspection, and special reports prepared as part of our oversight responsibilities to promote economy, efficiency, and effectiveness within the department.

This report addresses the strengths and weaknesses of the department's management of the purchase card program. It is based on interviews with employees and officials of relevant agencies and institutions, direct observations, and a review of applicable documents.

The recommendations herein have been developed to the best knowledge available to our office, and have been discussed in draft with those responsible for implementation. We trust this report will result in more effective, efficient, and economical operations. We express our appreciation to all of those who contributed to the preparation of this report.

Anne L. Richards
Assistant Inspector General for Audits

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Appendices

Abbreviations

AO	Approving Official
CBP	Customs and Border Protection
CH	cardholder
CIS	Citizenship and Immigration Services
DCFO	Deputy Chief Financial Officer
DHS	Department of Homeland Security
FAM 450	Financial Audit Manual Section 450 – *Sampling Control Test*
FY	fiscal year
GAO	Government Accountability Office
ICE	Immigration and Customs Enforcement
MCC	Merchant Category Code
OCFO	Office of the Chief Financial Officer
OIG	Office of the Inspector General
OMB	Office of Management and Budget
TSA	Transportation Security Administration
USCG	U.S. Coast Guard

OIG

Department of Homeland Security
Office of Inspector General

Executive Summary

The Department of Homeland Security's purchase card program provides an efficient, low-cost procurement and payment mechanism to acquire goods and services. In fiscal year 2010, the department made about 1.2 million purchases valued at about $514 million for goods and services using purchase cards. Although purchase card use does reduce administrative procurement costs, the risk of inappropriate use can increase when effective internal controls are not in place. We performed this audit to determine whether DHS has internal controls in place to ensure that purchase cards are used for their intended purpose.

The department generally had an effective internal control framework developed, but it needs to improve specific internal control procedures to mitigate the inherent risks associated with purchase card use. The department's post payment audit process did not ensure that component personnel were meeting minimum internal control requirements established by the Office of Management and Budget. Nor did the process effectively target high-risk transactions for review. Ninety-three percent of the purchase card transactions we reviewed did not fully comply with the Office of Management and Budget's requirements, and the department's purchase card manual and components' guidance were incomplete and inconsistent. As a result, the department cannot be sure that purchase cards are always used for their intended purpose. Based on our audit, the department's Office of the Chief Financial Officer has initiated corrective actions to improve internal controls over the purchase card program.

We are making three recommendations that when implemented will improve the Department of Homeland Security's internal controls and oversight of its purchase card program. The Chief Financial Officer agreed with our recommendations and initiated corrective actions.

Background

Purchase cards provide an efficient, low-cost procurement and payment mechanism that eliminates the need for paper purchase orders, expedites vendor payments, and provides an audit trail. Purchase cards are the preferred method to purchase goods and services under the micropurchase limit of $3,000. A component's Head of the Contracting Activity may also authorize purchases over the micropurchase limit. In fiscal year (FY) 2010, the Department of Homeland Security (DHS) authorized about 10,900 employees to use purchase cards, and the cardholders made approximately 1.2 million purchases valued at about $514 million.

Federal Acquisition Regulation Part 13, Simplified Acquisition Procedures, codifies the policies and procedures for using purchase cards to acquire supplies and services under the simplified acquisition threshold. Office of Management and Budget (OMB) Circular A-123, Appendix B, *Improving the Management of Government Charge Card Programs*, provides guidance to agencies for maintaining internal controls that reduce the risk of fraud, waste, and error in purchase card programs.

The department's Office of the Chief Financial Officer (OCFO) established the Bank Card Program Office to provide department-wide policy and oversight of the purchase card program. This program office issued the DHS Purchase Card Manual to establish purchase card policies and procedures. It also authorized certain components to maintain their own guidance and use the DHS manual as overarching policy. The department program coordinator is responsible for the centralized DHS online purchase card payment process.

The program coordinator has direct responsibility for the department's purchase card program, while components' organizational program coordinators (also known as component coordinators) oversee the program within their organizations. The program coordinator monitors component compliance with departmental policies and procedures. The program coordinator tests the effectiveness of internal controls by monitoring transaction data provided by the bank and through the components' monthly post payment audit review submissions. Component coordinators oversee their approving officials. Approving officials are responsible for ensuring that purchases made by individual cardholders are in accordance with applicable regulations, policies, and procedures.

Although purchase cards provide an efficient method to purchase goods and services, fraudulent, improper, or abusive purchases are inherent risks in every purchase card program. Fraudulent purchases include purchases of goods or services that are unauthorized or acquired for personal use. Improper purchases include purchases of goods or services intended for government use but not permitted by law or regulation. Abusive purchases are purchases for authorized goods or services, but at terms that are excessive, are of questionable government need, or both. These inherent risks generally occur when there is insufficient adherence to internal control policies and procedures.

Results of Audit

DHS generally had an adequate framework for internal controls to manage its purchase card program. However, the department needs to improve its implementation of some internal controls to mitigate the inherent risks associated with purchase card use. The department needs to strengthen its post payment audit process to ensure that component personnel are complying with appropriate purchase card controls, and needs to ensure that the process identifies and tests high-risk transactions. Department personnel did not verify the results of component reviews and did not effectively target high-risk transactions for review. Of the transactions we reviewed, 93% did not comply with at least one of the internal control elements based on OMB requirements. Additionally, the department's Purchase Card Manual and components' guidance were incomplete and inconsistent. As a result, the department cannot be sure that purchase cards are always used for their intended purpose. In response to our audit, the DHS OCFO has initiated corrective actions to improve the internal controls over the purchase card program.

DHS Post Payment Audit Review Program

The Chief Financial Officer implemented the Post Payment Audit Procedures for Purchase Cards Program (post payment audit program) as a control to monitor purchase card use. Component coordinators are required to examine cardholders' transactions and supporting documentation, and then report the results of their reviews to the department program coordinator. However, department personnel did not independently verify the results of the reviews. Additionally, the post payment audit program did not target high-risk transactions.

Supporting Documentation

Under the post payment audit program, the program coordinator provides a randomly selected sample of purchase card transactions to each component coordinator to test the effectiveness of internal

controls. Cardholders are required to provide supporting documentation for the sampled transactions to the component coordinators to review and validate the transactions. Based on OMB Circular A-123 guidance, the department developed requirements within the *DHS Post Payment Audit Procedures for Purchase Card* manual that appropriate supporting documentation should contain evidence to show the following:

- Legitimate government need for the goods or service
- Screening for required vendors
- Independent receipt and acceptance
- Establishment of accountability over property
- Prior approval in writing
- Documentation and invoice dates that match purchase dates
- Disputes with the vendor handled promptly
- Freight costs in excess of $100 supported by the carrier's invoice
- Purchases that do not exceed the micropurchase threshold

Component coordinators provide the results of their reviews, along with the supporting documentation, to the department's program coordinator. (See appendix C for a workflow of the post payment audit process.)

We analyzed 75 of the 450 transactions in the department's post payment audit review covering July to November 2009 to evaluate the effectiveness of this internal control. We determined whether the transactions had adequate supporting documentation to meet OMB purchase card requirements. We found that 67 of the 75 transactions (89%) did not comply with at least one of the internal control elements based on OMB requirements, as shown in table 1.

Table 1. Percentage of Transactions With Insufficient Documentation

Component	Total Transactions Reviewed per Component	Transactions With Insufficient Supporting Documentation	%
CBP	15	15	100%
CIS	15	12	80%
ICE	15	13	87%
TSA	15	14	93%
USCG	15	13	87%
Total	**75**	**67**	**89%**

(See appendix D for more detail.)

Customs and Border Protection (CBP), Citizenship and Immigration Services (CIS), and Transportation Security Administration (TSA) component coordinators originally reported that all of their transactions had supporting documentation and met OMB requirements. However, our review showed that 15 of 15, 12 of 15, and 14 of 15 reports, respectively, did not meet OMB requirements. Immigration and Customs Enforcement (ICE) originally reported that 7 of its transactions did not have sufficient supporting documentation, but we determined that 13 of 15 did not meet OMB requirements. The U.S. Coast Guard (USCG) did not meet the reporting deadline for this post payment audit review period. When USCG provided the post payment audit reports, 13 of the 15 transactions did not meet OMB requirements.

The post payment audit review program was not an effective internal control to mitigate the inherent risks associated with purchase card use. OCFO personnel attributed this to the department program office not having sufficient resources to review the supporting documentation and validate the reports.

Sampling Methodology

Since February 2009, the department has been coordinating with a contractor to develop lists of purchase card transactions for review. The contractor has been using a random sampling methodology based on the Government Accountability Office (GAO) Financial Audit Manual Section 450 – *Sampling Control Test* (FAM 450). On a monthly basis, the contractor provided a list of 45 purchase card transactions from each major component's previous month's transactions to the program coordinator. However, these simplified random sampling techniques did not effectively target high-risk transactions for the post payment audit reviews.

We reviewed four of the contractor's sampling methodologies used for randomly selecting the purchase card transactions for the post payment audit reviews. We compared the sampling techniques with GAO's FAM 450, and found that the sampling techniques did not provide sufficient guidance or documentation on sample selection. The post payment audit transactions selected for review did not address many of the control test requirements, and generally were low-risk, minimal-dollar-value transactions such as the following:

- Make a car key in the amount of $5.17
- FedEx Services in the amount of $6.83
- Purchase a wireless door chime in the amount of $28.97
- Purchase brown paper towels in the amount of $40.10

Overall, using only simplified random sampling techniques to select purchase card transactions for audit limited the effectiveness of the post payment audit program. A more effective approach would be to add data mining techniques to target high-risk purchase card transactions.

Data Mining

Data mining is designed to identify potentially fraudulent, improper, and abusive purchase card transactions. Data mining searches the data to find transactions or patterns of activity that exhibit predetermined characteristics, associations, or anomalies between different pieces of information.

The program coordinator's access to the bank vendor's purchase card data system allowed us to pull raw transaction data from July 1, 2009, to May 1, 2010. We pulled data for CBP, CIS, ICE, TSA, and USCG, the five largest DHS components using purchase cards. The transaction purchase card data consisted of more than 900,000 transactions valued at more than $392 million. Using data-mining techniques, we identified 70,503 potentially high-risk transactions valued at $29,594,948, including the following:

- Potential split purchases to circumvent micropurchase or other single-purchase limits;
- Blocked or recommended blocked Merchant Category Code (MCC) purchases for restricted goods or services; and
- Purchases made outside normal business hours (weekends and holidays).

(For more information on transaction definitions and the data-mining process, see appendixes E and F.)

From these potentially high-risk transactions, we selected a judgmental sample based on purchased goods and services, cardholder locations, purchase times and dates, and transaction dollar amounts. We reviewed 201 transactions valued at more than $184,000 for purchases made by 21 cardholders assigned to five components in four different locations, as shown in table 2.

Table 2. Targeted High-Risk Purchase Card Transactions

Locations	Component	Number of Cardholders	Number of Transactions	Dollar Totals
Boston	USCG	4	45	$35,509.95
Chicago	CIS	2	16	$9,738.15
Chicago	TSA	2	17	$3,801.92
DC	CBP	4	35	$60,550.40
DC	ICE	3	15	$31,732.47
Miami	CBP	1	10	$4,830.49
Miami	USCG	5	63	$38,128.61
TOTALS		**21**	**201**	**$184,291.99**

We found that 187 of the 201 transactions (93%) did not comply with at least one of the internal control elements based on OMB requirements. For example:

- Forty-two percent did not provide any evidence that funds were available prior to the purchases.
- Sixty-nine percent did not provide any evidence that an independent third party signed for the merchandise or service upon delivery.
- Thirty-two percent did not provide any evidence the component established any accountability over property purchased.
- Forty-one percent did not provide any evidence of approval by the approving official.

We identified three transactions valued in excess of $1,000 for items that component personnel could not account for or locate. The cardholder purchased these items at a store, took possession of the items, and transported the items. There was no evidence in the transaction file of independent receipt and acceptance by a third party. OMB Circular A-123 specifically requires supporting documentation as evidence of independent receipt and acceptance of goods by someone other than the cardholder.

We expanded our review of this cardholder's transactions and identified numerous additional questionable split purchase transactions designed to circumvent the simplified single-purchase acquisition threshold of $3,000. Federal Acquisition Regulations require that appropriate acquisition competition take place when

the proposed contract exceeds $3,000. We did not find evidence of approved waivers or required presolicitation notices.

The department generally had effective internal controls in place to manage its purchase card program. However, the post payment audit process did not ensure that components were meeting OMB's purchase card requirements. Department personnel did not verify the results of post payment audit reviews, and the program did not effectively target high-risk transactions for review. As a result, the department cannot be sure that purchase cards are always used for their intended purpose.

DHS Manual and Component Guidance

OMB Circular A-123, Appendix B, *Improving the Management of Government Charge Card Programs*, established standard minimum requirements for government charge card programs that must be included in internal agency regulations, procedures, and training materials. Some components use the DHS Purchase Card Manual as their primary guidance, and DHS has authorized others to maintain their own guidance and use the DHS manual as overarching policy. However, the DHS manual and current components' guidance are inconsistent and do not address all OMB regulatory requirements.

We compared OMB purchase card requirements with the DHS Purchase Card Manual, and found numerous requirements not addressed. For example, the DHS Purchase Card Manual did not require -

- Program participants to certify that they have received purchase card training, understand the regulations and procedures, and know the consequences of inappropriate actions;
- Purchase card managers to communicate the agency's policy on when referral to an agency OIG is appropriate or required; or
- Purchase card managers to check the productivity and sales refund deals offered by charge card vendors in comparison with other government-wide charge card contracts to ensure a competitive offer.

Many of the same OMB requirements were also missing from components' guidance. For example, various components' guidance did not communicate any policy on when referral for fraud to an agency OIG is appropriate or required. Specifically:

- CBP guidance requires referral only to Human Resources Management, Office of General Counsel, the cardholder's supervisor, and/or the organizational program coordinator.
- CIS guidance requires referral only to the Chief of the Financial Management Division.
- ICE guidance requires referral only to the organizational program coordinator, Human Resources, Office of General Counsel, and the cardholder's supervisor.
- TSA guidance requires referral only to the organizational program coordinator.
- USCG guidance does not address where employees are to refer allegations of purchase card fraud.

OMB also requires that cardholders obtain approval from their approving official prior to making purchases. The DHS Purchase Card Manual was unclear on who should provide this prior approval. On one page, the manual required approval "by someone other than the purchase cardholder," but on another it required the cardholder to "receive written authorization from his/her Approving Official to make the prospective purchase." ICE's and USCG's guidance did not require prior approvals by an approving official before purchase.

Cardholders generally obtained some form of written approval prior to making a purchase even though the DHS manual and component's guidance are unclear. However, our review of the 276 purchase card transactions found that someone other than a designated approving official approved 36%, and 5% had no approval.

As a result of our audit, the department revised the DHS Purchase Card Manual on August 25, 2010, to include specific guidance requiring that "all DHS employees shall report suspected purchase card fraud or misuse to the Office of Inspector General." The department also clarified the manual to direct cardholders to "ensure written approval is obtained by their immediate supervisor and their Approving Official prior to incurring each purchase card transaction." However, since not all of the OMB requirements are addressed in either the DHS manual or components' guidance, the department cannot be sure that cardholders are aware of all purchase card requirements or that purchase cards are used for their intended purpose.

Actions Taken by OCFO

We discussed the results of our work with OCFO officials. As a result, OCFO has initiated the following corrective actions:

- Conducted a comprehensive review of the DHS Purchase Card Manual, comparing it with OMB Circular A-123, Appendix B, to identify areas for improvement, gaps in current processes, and deficiencies that may allow improper use of a government purchase card to take place;
- Conducted a comprehensive review of eight component purchase card policy manuals, comparing each with the DHS Purchase Card Manual to identify areas for improvement, gaps in current processes, and deficiencies that may allow improper use of a government purchase card to take place;
- Conducted a comprehensive review of selected component purchase card transactions to determine adherence to federal and DHS policy and detect instances of improper use of a government charge card; and
- Used data mining techniques to identify questionable purchase card transactions, and required components to verify and validate each identified transaction.

OCFO stated that the steps taken above have enabled it to update purchase card policies and create Mission Action Plans to resolve identified deficiencies. OCFO intends to issue a final report containing details of the reviews, along with considerations for improving each manual, to components.

OCFO plans to establish a Bank Card Assessment Team to implement and monitor sustainable management controls covering the government charge card program. OCFO states that the Bank Card Assessment Team will serve as the oversight body for the department's Bank Card Program and will -

- Develop guidance for components to implement, assess, report, and monitor management controls surrounding travel, purchase, and fleet cards.
- Perform post payment audits of randomly selected component transactions and report findings to the DHS Chief Financial Officer.
- Provide government charge card training to the DHS community.
- Provide oversight for determining the level, effort, and resources needed for efficiently managing the department' Bank Card Program.
- Brief the Senior Management Council, Chief Financial Officer, Senior Assessment Team, and other DHS senior leadership on various bank card topics.

Also, OCFO states that it will continue to conduct quality assurance sampling for each post payment audit review. This will include drafting a formal quality assurance plan and revised post payment audit standard

operating procedures. OCFO will also continue to use data mining to improve the review of transaction samples via its post payment audit process. OCFO plans to draft a data mining plan that incorporates OIG's data mining techniques to strengthen processes currently in place.

Recommendations

We recommend that the DHS Office of the Chief Financial Officer:

Recommendation #1: Review post payment audit review transactions and verify that all reports and their supporting documentation are valid and sufficient.

Recommendation #2: Develop data mining techniques to target high-risk transactions for the post payment audit review program.

Recommendation #3: Update the DHS Purchase Card Manual to address all OMB Circular A-123 purchase card requirements, and direct all components to similarly update their guidance.

Management Comments and OIG Analysis

The Deputy Chief Financial Officer (DCFO) provided comments on a draft of this report. A copy of the comments in their entirety is included in appendix B.

The DCFO took exception to our discussion of the post payment audit methodology and stated that OCFO, not contractors, is responsible for developing the lists of purchase card transactions for review. We recognize that OCFO is responsible for developing the list of purchase card transactions for review. However, OCFO used contractors to apply sampling techniques to develop the lists of purchase card transactions.

The DCFO also stated that our report oversimplifies the department's sampling methodology. We recognize that OCFO is applying GAO's FAM 450 sampling methodology. However, these simplified random sampling techniques did not effectively target high-risk transactions in the purchase card program.

The DCFO concurred with all three recommendations in this report.

Management Comments to Recommendation #1

The DCFO concurred with this recommendation, agreeing that it is imperative to ensure that payments are valid and sufficient. The

DCFO indicated that it made several changes to the purchase card program. Using the 27-attribute checklist requirements as a guide, the DCFO stated that it developed and delivered training to components to reinforce documentation retention, signature approval, and internal controls compliance for the purchase card transactions. The DCFO indicated that it also added an additional review requirement to the post-payment audit process.

OIG Analysis: The DCFO's actions are responsive to the recommendation. The recommendation is resolved, but will remain open until the DCFO provides -

- The December 2010 training developed and delivered to components based on the 27-attribute checklist requirement.

- The March 2011 revised post-payment audit standard operating procedure that includes the 27-attribute checklist, the Purchase Card Transaction Worksheet, and the second-level review requirements which also clarifies transaction approval authority.

Management Comments to Recommendation #2

The DCFO concurred with this recommendation, noting that it has piloted its first review of high-risk transactions. The DCFO is incorporating lessons learned from this pilot and our draft report into the development of a data-mining program to identify high-risk transactions for future post-payment audit reviews.

OIG Analysis: These DCFO actions are responsive to the recommendation. However, this recommendation will remain open and unresolved until the DCFO provides copies of its findings from the pilot program and detailed documentation supporting the development of their internal data-mining program.

Management Comments to Recommendation #3

The DCFO concurred with this recommendation. The DCFO did revise the DHS Purchase Card Manual in August 2010 based on preliminary OIG recommendations. The DCFO states that OCFO is revising the DHS Purchase Card Manual to address all of OMB Circular A-123, appendix B requirements. The DFCO plans to direct the components to update guidance to make the necessary revisions into the manuals.

OIG Analysis: These DCFO actions are responsive to the recommendation. The recommendation is resolved, but will remain open until the DCFO provides -

- The revised Purchase Card Manual incorporating all of OMB Circular A-123, appendix B requirements, which is planned to be complete by September 30, 2011; and

- Copies of the management memo directing all components to update their guidance to incorporate these revisions into their manuals, as well as confirmation that components have made all the required updates.

We performed an audit of the use of DHS purchase cards to determine whether DHS had internal controls in place to ensure that purchase cards are used for their intended purpose. We assessed whether guidance was complete and consistent, the DHS post payment audit review process was effective, and how system use could be improved.

We performed this audit at DHS headquarters and the component headquarters of CBP, CIS, ICE, TSA, and USCG in the Washington, DC, area, as well as with field components at the following locations: CBP in Miami, FL; CIS in Chicago, IL; ICE in Washington, DC; TSA in Chicago, IL; USCG in Boston, MA, and Ft. Lauderdale and Miami, FL. We interviewed various officials in the DHS Office of the Chief Financial Officer, the Financial Policy and Review Branch, and the Purchase Card Program Office, as well as components organizational program coordinators, approving officials, and cardholders at five components.

We reviewed and compared the various federal acquisition regulations pertaining to purchase card use, and compared CBP, CIS, ICE, TSA, and USCG components' purchase card guidance against the DHS Purchase Card Manual (October 2009). We conducted data mining analysis using indicators for high-risk transactions and possible fraud to review more than 900,000 purchase card transactions valued at more than $392 million.

We conducted fieldwork for this performance audit between June 2009 and September 2010 pursuant to the *Inspector General Act of 1978*, as amended, and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our audit objectives. We obtained an understanding of the internal controls that were significant within the context of our audit objective. We evaluated the design and operating effectiveness of these internal controls to determine the reliability of information used in performing these significant controls. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objectives.

U.S. Department of Homeland Security
Washington, DC 20528

Homeland Security

June 13, 2011

MEMORANDUM FOR: Anne L. Richards
                    Assistant Inspector General for Audits

FROM: Peggy Sherry
                    Deputy Chief Financial Officer

SUBJECT: *Use of DHS Purchase Cards, OIG Project No. 09-173-AUD-DHS*

Thank you for the opportunity to review and comment on this draft report. The U.S. Department of Homeland Security (DHS) appreciates the Office of Inspector General's (OIG) work conducting its review of the DHS Purchase Card program.

I am pleased to note the OIG found the Department generally has an effective internal control framework for managing its purchase card program. The report also recognizes many of the positive actions the Office of the Chief Financial Officer (OCFO) initiated during the audit, some as long as nearly a year ago, to improve the purchase card program internal controls.

I would, however, like to address a few items in the OIG report that require clarification. I am concerned that the OIG's report characterized a transaction as non-compliant if any one of the 27 attributes tested for each transaction was not met. In June 2009, the purchase card program transitioned to a new Government charge card vendor, and as a result, the Department focused on resolving transitional issues and ensuring continued mission support and program operations. Once day-to-day operations stabilized, OCFO conducted additional post-payment audit work in August 2010 to determine whether the post-payment audit results had improved since the OIG performed its testing. In August 2010, OCFO tested 75 randomly selected purchase card transactions using the same 27 attributes in the OIG's audit. Of the total number of attributes tested, 92 percent of attributes passed.

The OIG's portrayal of our post-payment audit methodology does not accurately reflect DHS sampling techniques. First, OCFO, not contractors, is responsible for developing the lists of purchase card transactions for review. Second, the OIG report over simplifies the Department's robust and efficient sampling methodology, which is consistent with the U.S Government Accountability Office (GAO), *Financial Audit Manual* (FAM), and Section 450.

The OCFO will continue several activities to further improve our assessment of key controls within the purchase card program. For example, we are developing a crosswalk of pending Senate Bill S.300, *"Government Charge Card Abuse Prevention Act of 2011,"* to OMB A-123,

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Appendix B and the DHS *Purchase Card Manual*. We are also testing the design and effectiveness of key controls at several levels, to include organization program coordinators (OPCs) and program managers, and will use our findings to implement new or stronger controls. In addition, DHS will review roles and responsibilities of financial management and procurement functions to provide stronger oversight to prevent fraud, waste, and abuse.

Your report contained three recommendations. As discussed below, DHS concurs with all three recommendations. Specifically, you recommended the OCFO:

Recommendation #1: Review post-payment audit review transactions and verify that all reports and their supporting documentation are valid and sufficient.

Management Response: Concur. DHS agrees that it is imperative to ensure payments are valid and sufficient. DHS takes this responsibility seriously and will continue to exercise a robust post-payment audit review process. To strengthen our existing process, we have already taken the following actions:

- During Fiscal Year (FY) 2010, the OCFO conducted a quality assurance review of the FY 2010 third quarter post-payment audit sample. We are currently conducting a second quality assurance review covering samples from September through December 2010.

- In November 2010, the OCFO, in collaboration with the Office of the Chief Procurement Officer and Office of the Chief Administrative Officer, established a Bankcard Assessment Team (BAT). The BAT is comprised of senior leaders in the Department and from the Components, and it meets monthly to improve management controls for the Department's charge card programs.

- In December 2010, using the 27-attribute checklist requirements as a guide, the OCFO developed and delivered training to Components to reinforce documentation retention, signature approval, and internal controls compliance for the purchase card transactions. The Department is committed to providing additional training to ensure each OPC, approving official, and cardholder understands the controls for the program.

- In March 2011, the OCFO implemented the use of a Purchase Card Transaction Worksheet (PCTW), which is a checklist of the attributes used at the cardholder level. Cardholders will complete this worksheet prior to making purchases, which will help to ensure compliance with OMB Circular A-123, Appendix B and will further strengthen internal controls compliance within the post-payment audit process.

- In March 2011, OCFO added an additional review requirement to the post-payment audit process. Each month, before submitting responses, Components conduct a second, independent level of review of post-payment audit transactions to verify their validity and completeness.

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- In March 2011, OCFO revised the post-payment audit standard operating procedure to include the 27-attribute checklist, the PCTW, and the second-level review requirements. The revision also clarified transaction approval authority.

Based on the aforementioned corrective actions already taken, OCFO considers this recommendation closed.

Recommendation #2: Develop data-mining techniques to target high-risk transactions for the post-payment audit review program.

Management Response: Concur. We piloted our first review of high-risk and questionable transactions. We are incorporating lessons learned from the pilot and the OIG draft report into the development of a robust data-mining program to identify high-risk and questionable transactions for future post-payment audit reviews.

Recommendation #3: Update the DHS *Purchase Card Manual* to address all OMB Circular A-123 purchase card requirements, and direct all Components to similarly update their guidance.

Management Response: Concur. We revised the manual in August 2010 based on preliminary recommendations from the OIG, as acknowledged in the draft report. We are currently revising the manual to incorporate rebate and refund management to address all of OMB Circular A-123, Appendix B requirements by September 30, 2011 and will direct the Components to update their guidance to incorporate the revisions into their manuals.

Once again, thank you for the opportunity to review and comment on this draft report. Technical comments have been provided under separate cover. We look forward to working with you on future Homeland Security issues.

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DHS Purchase Card Program Post Payment Audit Review

Transaction Review | Sample Plan

1) DHS HQ Agency Program Coordinator (APC) with PWC Statistician gathers transaction data for the Purchase Card **Post Payment Audit (PPA)** Review.

2) PWC Statistician randomly selects 45 Purchase Card transactions from cycle month for each component using GAO random statistical sample.

3) APC requests random sample transaction documentation from component's **Organization Program Coordinator (OPC)**.

4) OPCs send requests to the Approving Officials (AOs) and Cardholders (CH). AOs work with CHs to obtain documents to support each transaction. AO returns request and supporting documentation to OPC within allotted timeframe.

5) OPC reviews documentation for indicators of potential fraud. If OPC finds that the documentation is lacking or not sufficient, they contact CHs and/or AOs to determine action to be taken to obtain the appropriate documentation.

6) If CH has committed possible fraud, waste or abuse, OPC will refer the situation to the APC and/or **Office of General Counsel (OGC)** for further action (per PPA Review Manual).

7) OPC forwards an email of their analysis to APC stating total number and dollar value of random transactions, and indicate total number of positive and negative findings with an explanation and next steps for negative findings.

8) OPC must send result to APC within 21 calendar days after receipt of the sample transactions. *(In the case of late responses, APC will remind OPC once and then APC will refer the matter to OPC's Senior Management.)*

9) APC reviews the results of OPC's report. APC refers any cases of possible fraud, waste or abuse to the **OIG** for further action. *(In the case of late responses, the OPCs will be reminded once and then the matter will be referred to their Senior Management.)*

Source: DHS OIG generated based on *DHS Post Payment Audit Procedures for Purchase Cards* (April 2009)

Appendix D
Purchase Card Transactions with Insufficient Documentation

We examined the department's post payment audit review from July to November 2009. We analyzed 75 of 450 reported transactions, totaling $24,649, to determine whether the transactions contained information in the following 27-point internal control checklist based on OMB requirements.

1	Name of Cardholder (CH)
2	Approving Official (AO)
3	Merchant Name
4	Transaction Date
5	Transaction Amount
6	Item or Service Purchased
7	Does the documentation include a Requisition, Purchase Card worksheet, or other written requirement?
8	Did the AO approve for the purchase?
9	Date of Approval by AO (or other official).
10	Date Ordered or Date of Purchase.
11	Did CH provide evidence the procurement was approved prior to the purchase?
12	Did the CH provide evidence that funds were available prior to the purchase?
13	If the purchase is potentially inappropriate for government use (for example, expensive artwork, iPods), is there documented government need for the purchase?
14	Does the amount on the invoice match the amount on the requisition, worksheet, or other written requirement?
15	What is the invoice date?
16	What is the date of shipment?
17	Is the invoice date prior to the date of shipping? (Per DHS Manual, no billing for the merchandise should occur before shipping, except for training and subscriptions.)
18	Was sales tax charged?
19	If sales tax was charged, was a credit or refund received?
20	Is there evidence the CH found unauthorized charges (other than sales tax)?
21	If there is evidence the CH found unauthorized charges, did CH dispute the transaction(s) within 60 days?
22	Did the CH provide evidence the purchase was from the required sources of supply or service?
23	Did the CH provide evidence an independent third party signed for the merchandise or service?
24	Was there a separate carrier's invoice for freight greater than $100?
25	Did the CH provide evidence the component established accountability over property?
26	Is there evidence the CH or AO authorized or allowed someone else to use the card?
27	Is there evidence the CH split the purchase? If yes, explain in remarks section.

Table 3 provides details on eight elements of required information missing from cardholder supporting documentation from the 75 reports we analyzed.

Table 3. Number of Files With Varying Types of Insufficient Documentation

Component	9. Date of Approval *	10. Date of Purchase	12. Whether Cardholder Verified Funds Availability Prior to Purchase	15. Date of Invoice	16. Date of Shipment	22. Whether Cardholder Used Required Sources of Supply	23. Whether Receipt Was Evidenced by an Independent Third Party	25. Whether Cardholder Established Accountability Over Property.
CBP	5	2	8	6	8	13	0	5
CIS	3	0	4	3	7	9	10	7
ICE	6	2	4	5	8	10	4	1
TSA	0	3	1	0	7	13	2	12
USCG	3	2	3	4	6	9	3	6

* Note: Individual post payment audit reports were missing multiple pieces of information, so "type of insufficient documentation" numbers are greater than 75 (the number of reports analyzed).

More specifically, for the post payment audit reports examined, transactions' supporting documentation did not meet the following OMB requirements:

- Twenty-four percent did not include purchase card worksheets.
- Thirty-nine percent did not have approving official approval for the purchase.
- Thirty-six percent did not have evidence that funds were available prior to the purchase.
- Thirty-one percent did not have purchase amounts on the invoice that matched the purchase amounts on the purchase card worksheets.
- Thirty-three percent did not provide evidence that an independent third party signed to accept the merchandise or service.
- Forty-nine percent did not provide evidence that the component established accountability over property.

Appendix E
Purchase Card Categories of Transaction Definitions

Blocked Merchant Category Codes (MCCs) – MCCs that DHS cardholders are blocked from using. Appendix D of the DHS Purchase Card Manual provides a list of blocked MCCs. All cards shall be issued with the DHS mandatory blocks in effect.

Merchant Category Codes (MCC) – A categorization of the type of business the merchant is engaged in and the kinds of goods and services provided.

Recommended Blocked MCCs – Appendix E of the DHS Purchase Card Manual provides a list of recommended blocked MCCs. All components shall consider the recommended blocked MCCs for implementation as a safeguard against questionable transactions.

Single and Monthly Purchase Limits – Each Head of the Contracting Activity or designee should establish a stratified single and monthly purchase limit matrix, and each component program coordinator shall assign each cardholder spending limits consistent with his/her experience or position requirements to mitigate financial risk to the government. Before completing an order, the cardholder must ensure that the purchase is within the cardholder's single purchase limit and will not result in the cardholder exceeding the monthly limit.

Splitting Purchases – Breaking up a larger or higher value purchase (or requirement) so it "fits" under the single-purchase limit established for the cardholder, such as by placing two or more separate orders for a supply/service to avoid exceeding the single-purchase or competition threshold. This practice is strictly prohibited.

Source: *DHS Purchase Card Manual* (October 2009)

Using the department Agency Program Coordinator's access to the bank vendor's purchase card data system, we pulled raw transaction data from July 1, 2009, to May 1, 2010, for CBP, CIS, ICE, TSA, and USCG, the five largest DHS components using purchase cards. The purchase card data consisted of more than 900,000 transactions valued at over $392 million.

We initially data mined this population based on DHS Purchase Card Manual's transaction requirements, including -

- Mandatory Blocked MCCs
- Recommended Blocked MCCs
- Transactions Over the Single-Purchase Limit
- Transactions Over the Purchase Card Limit
- Transactions Occurring on Weekends

We identified the following transactions that occurred across the five largest DHS components, as shown in table 4.

Table 4. First Round of Data Mined High-Risk Transactions

CATEGORIES OF TRANSACTION	TOTAL HIGH-RISK TRANSACTIONS	TOTAL VALUES
Blocked MCC Codes	177	$ 42,352
Recommended Block MCC Codes	225,741	$ 96,367,269
Over Single Purchase Limit	1,543	$ 10,443,347
Over Purchase Card Limit	99	$ 1,465,846
Weekend Usage	65,283	$ 15,846,936

DHS program managers informed us that they do not hold components to the DHS Purchase Card Manual's published Mandatory Blocked and Recommended Blocked MCCs lists. However, components are allowed to bypass most mandatory blocked MCC requirements using "MCC Group Lists" that are approved by the department and assigned to individual cardholders. Upon further review, we found that component coordinators were assigning multiple "MCC Group Lists" to individual cardholders, removing almost all blocks and allowing cardholders to make purchases from almost any merchant.

DHS program managers also explained that they allow component coordinators to bypass any blocked MCC codes based on "operational necessity." After one bypass, policy requires that component coordinators request approval from the department program coordinator when there is a need to force another transaction. However, there are no digital controls to monitor or stop component coordinators from continually bypassing

blocked MCCs. As a result, DHS had in effect removed any mandatory blocks, so cardholders can complete purchase card transactions for any goods or services.

Receiving copies of the "MCC Group Lists," we reran our data mining, taking into consideration the new "allowable transactions," with the results shown in table 5.

Table 5. Identified High-Risk Transactions

CATEGORIES OF TRANSACTION	TOTAL HIGH-RISK TRANSACTIONS	TOTAL VALUES
Always Excluded MCCs	78	$30,146
Blocks By MCC GROUP LISTS	3,500	$1,808,673
Over Single-Purchase Limit	1,543	$10,443,347
Over Purchase Cards Total Limit	99	$1,465,846
Weekend Usage	65,283	$15,846,936
TOTALS	70,503	$29,594,948

We took a sample of these high-risk transactions based on MCCs, goods and services acquired, cardholder locations, and the transaction dollar amounts. We stratified our sample by the number of components' transactions to avoid selecting a disproportional number of reviews for a particular component. In the current DHS post payment audit review process, the methodology used selects a random sample of 45 transactions for each component without regard for the component's number of transactions.

We reviewed 201 transactions valued at more than $184,000 for purchases made by 21 cardholders assigned to five components at four different locations, as shown in table 6.

Table 6. Targeted High-Risk Purchase Card Transactions

Locations	Component	Number of Cardholders	Number of Transactions	Dollar Totals
Miami	USCG	5	63	$38,128.61
Miami	CBP	1	10	$4,830.49
DC	CBP	4	35	$60,550.40
DC	ICE	3	15	$31,732.47
Boston	USCG	4	45	$35,509.95
Chicago	CIS	2	16	$9,738.15
Chicago	TSA	2	17	$3,801.92
TOTALS		**21**	**201**	**$184,291.99**

We visited the cardholders' offices, met all 21 cardholders or their respective approving officials, and gathered all available supporting documentation from their purchase card transaction files. While on site, we made every effort to observe all evidence of goods or services purchased to determine their location and use.

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Andrew Smith, Audit Manager
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David Lu, Program Analyst
Katherine McPherson, Independent Referencer

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