

**Fiscal Year 2014  
Assessment of DHS  
Charge Card Program  
Indicates Moderate Risk  
Remains**





# DHS OIG HIGHLIGHTS

## Fiscal Year 2014 Assessment of DHS Charge Card Program Indicates Moderate Risk Remains

July 31, 2015

### Why We Did This Audit

The *Government Charge Card Abuse Prevention Act of 2012* requires the Office of Inspector General to conduct an annual risk assessment on agency charge card programs. We conducted this audit to determine whether the Department of Homeland Security (DHS) implemented sufficient internal controls to prevent illegal, improper, or erroneous purchases and payments.

### What We Recommend

We made four recommendations to DHS to require components to develop purchase card procedures, implement an oversight plan for purchase and travel cards, and update policy to include penalties for card misuse.

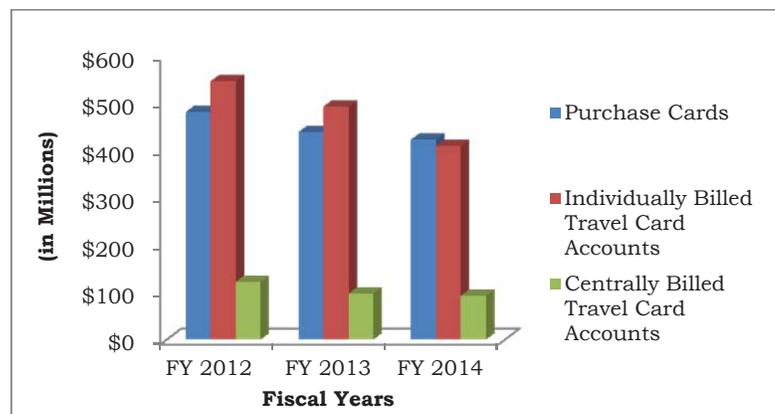
#### For Further Information:

Contact our Office of Public Affairs at (202) 254-4100, or email us at [DHS-OIG.OfficePublicAffairs@oig.dhs.gov](mailto:DHS-OIG.OfficePublicAffairs@oig.dhs.gov)

### What We Found

DHS conducts a large volume of business using government charge cards each fiscal year. As shown below, in fiscal years 2012 through 2014, DHS had more than \$400 million per year in purchase and travel card transactions.

DHS did not ensure components established documented procedures to comply with DHS requirements on charge card use. In addition, DHS components did not have sufficient oversight plans to prevent improper use of charge cards. As a result, there remains a moderate level of risk that DHS' internal controls will not prevent illegal, improper, or erroneous purchases.



Source: OIG analysis of DHS Chief Financial Officer bankcard data.

### DHS Response

DHS concurred with the recommendations and has already begun updating its charge card manuals and oversight plans.



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Department of Homeland Security

Washington, DC 20528 / [www.oig.dhs.gov](http://www.oig.dhs.gov)

July 31, 2015

MEMORANDUM FOR: The Honorable Russell C. Deyo  
Under Secretary for Management

FROM: John Roth   
Inspector General

SUBJECT: *Fiscal Year 2014 Assessment of DHS Charge Card  
Program Indicates Moderate Risk Remains*

For your action is our final report, *Fiscal Year 2014 Assessment of DHS Charge Card Program Indicates Moderate Risk Remains*. We incorporated the formal comments provided by your office.

The report contains four recommendations aimed at improving the effectiveness of the Department's purchase and travel card programs. Your office concurred with all of the recommendations. Recommendations 2 and 4 are open and unresolved. As prescribed by the *Department of Homeland Security Directive 077-01, Follow-Up and Resolutions for Office of Inspector General Report Recommendations*, within 90 days of the date of this memorandum, please provide our office with a written response that includes your (1) agreement or disagreement, (2) corrective action plan, and (3) target completion date for each recommendation. Also, please include responsible parties and any other supporting documentation necessary to inform us about the current status of the recommendation. Until your response is received and evaluated, the recommendations will be considered open and unresolved.

Based on information provided in your response to the draft report, we consider recommendations 1 and 3 open and resolved. Once your office has fully implemented the recommendations, please submit a formal closeout letter to us within 30 days so that we may close the recommendations. The memorandum should be accompanied by evidence of completion of agreed-upon corrective actions and of the disposition of any monetary amounts.

Please send your response or closure request to [OIGAuditsFollowup@oig.dhs.gov](mailto:OIGAuditsFollowup@oig.dhs.gov).

Consistent with our responsibility under the *Inspector General Act*, we will provide copies of our report to congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

Please call me with any questions at (202) 254-4100, or your staff may contact Mark Bell, Assistant Inspector General for Audits at (202) 254-4100.

Attachment



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## Abbreviations

CBA	Centrally Billed Account
CBP	U.S. Customs and Border Protection
CFO	Chief Financial Officer
DHS	Department of Homeland Security
FEMA	Federal Emergency Management Agency
FY	fiscal year
IBA	Individually Billed Account
ICE	Immigration and Customs Enforcement
MCC	Merchant Category Code
OIG	Office of Inspector General
OMB	Office of Management and Budget
USCIS	U.S. Citizenship and Immigration Services



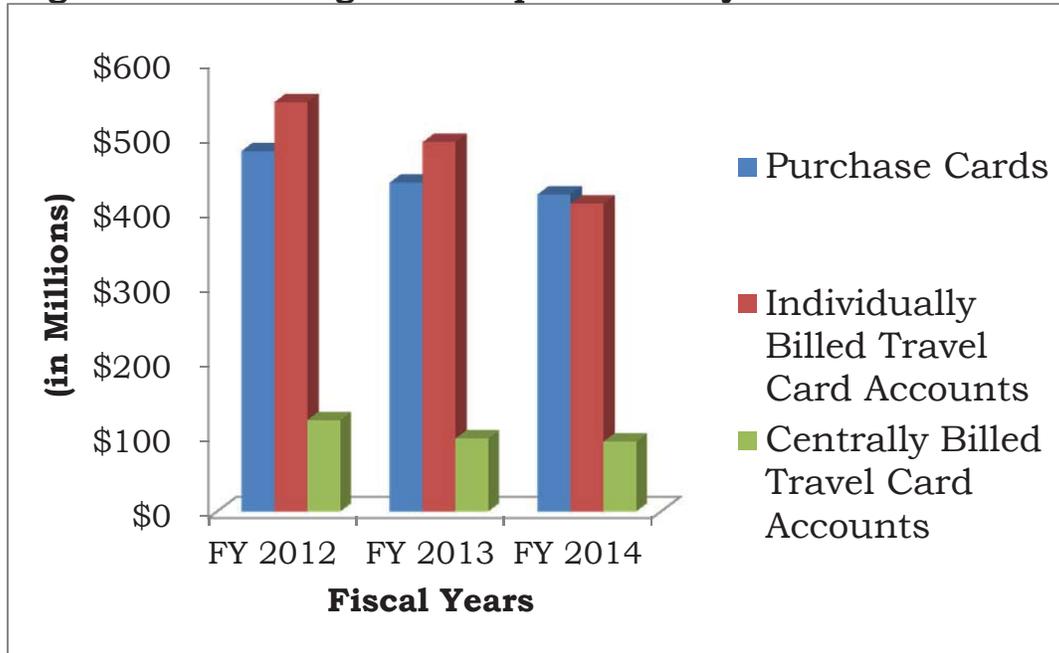
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### Background

The Department of Homeland Security (DHS) conducts a large volume of business using government charge cards each fiscal year (FY). As shown in figure 1, in fiscal years 2012 through 2014, DHS had more than \$400 million per year in purchase and travel card transactions.

**Figure 1: DHS Charge Card Expenditures by Fiscal Year**



Source: OIG analysis of DHS CFO bankcard data.

The *Government Charge Card Abuse Prevention Act of 2012* (Charge Card Act), P.L. 112-194, enacted on October 5, 2012, was designed to prevent recurring waste, fraud, and abuse of government-wide charge cards. The law requires agencies to implement safeguards and internal controls to prevent and detect improper use of government charge cards. It also requires the Office of Inspector General (OIG) to conduct periodic risk assessments on agency charge card and convenience check programs to identify and analyze risks of illegal, improper, or erroneous purchases and payments. In addition to the Charge Card Act, the Office of Management and Budget (OMB) Circular A-123, Appendix B, Revised, *Improving the Management of Government Charge Card Programs*; and OMB Memorandum M-12-12, *Promoting Efficient Spending to Support Agency Operations*, require all executive branch agencies to establish and maintain safeguards and internal controls for purchase, travel, and centrally billed accounts.



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The Bank Card Program, within the DHS Office of the Chief Financial Officer (CFO), provides guidance, administration, and oversight for the fleet, purchase, travel, and debit card programs. These charge card programs provide DHS with an efficient method to purchase supplies and services, and pay for travel-related expenses for the Department. The Department has separate purchase and travel card manuals to help establish an overarching framework of internal controls to guide both card programs.

The Purchase Card Program is a low-cost procurement and payment option that streamlines traditional Federal procurement and payment processes. DHS components may also use convenience checks<sup>1</sup> as a method of payment for transactions when merchants do not accept purchase cards. The *DHS Purchase Card Manual* provides guidance to all DHS components on the administration and use of purchase cards and convenience checks.

The *DHS Purchase Card Manual* recommends using a Purchase Card Transaction Worksheet (Form 1501), which outlines key information and controls required to support a purchase:

- cardholder, requestor, and vendor information;
- detailed justification for the purchase;
- detailed cost information for the purchase; and
- clearly marked approval lines for the funding official, approving official, cardholder, third-party verification, and property custodians.

The *DHS Purchase Card Manual* also requires components to develop and implement procedures and internal controls to comply with each aspect of the purchase card policy.

The Travel Card Program streamlines the payment and reimbursement processes for official travel expenses by reducing administrative costs, saving taxpayer dollars. The DHS Travel Card Program uses two types of accounts:

- Individually Billed Accounts (IBA): Employees with individually billed cards are responsible for all charges incurred on their monthly credit card statements.
- Centrally Billed Accounts (CBA): Components establish centrally billed accounts to purchase transportation tickets for individuals who do not have an IBA or for invitational travelers.

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<sup>1</sup> Convenience checks are checks written on a purchase card account within established dollar limits for products or services when a vendor does not accept the government credit card.



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The *DHS Travel Card Manual* requires that:

- Cards should only be used for expenses associated with official travel.
- Employees are responsible for all charges on individually billed travel cards.
- Cash withdrawals are allowed only after a travel authorization has been approved, generally not more than 3 days prior to departure, and no later than the last day of the trip.

Although the *DHS Travel Card Manual* provides policies and procedures covering the use of travel cards, components must develop and implement procedures and internal controls to comply with the travel card policy.

In our FY 2013 Risk Assessment, our office reported the Department to be at a moderate level of risk based on a review of policies and procedures for DHS' charge card program.<sup>2</sup> We reviewed the policies at three components—U.S. Customs and Border Protection (CBP), the Federal Emergency Management Agency (FEMA), and the United States Coast Guard (Coast Guard)—to identify whether charge card programs followed DHS requirements.

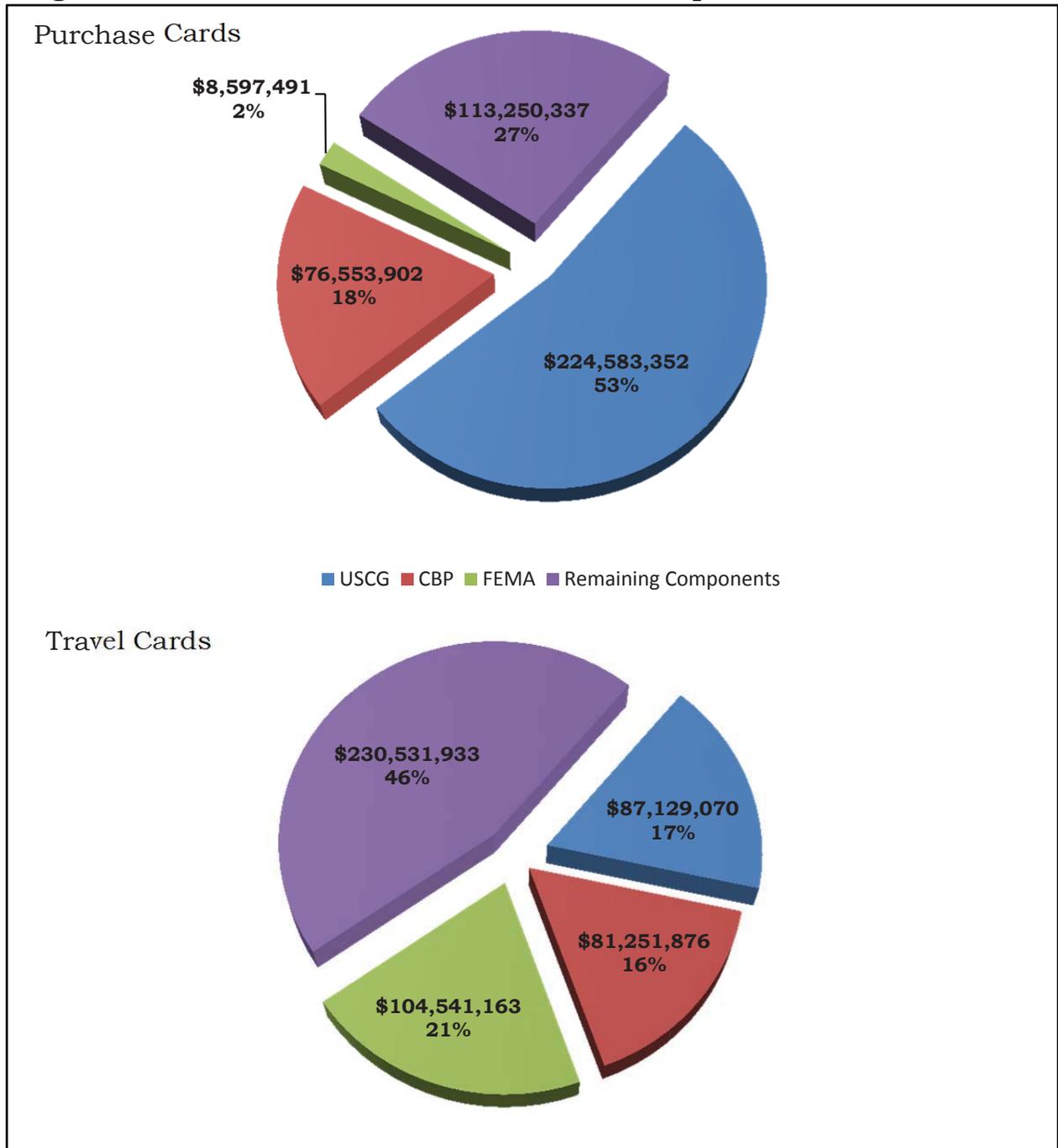
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<sup>2</sup> [OIG-14-29](#), *Fiscal Year 2013 Risk Assessment of DHS Charge Card Abuse Prevention Program*, January 2014, [www.oig.dhs.gov](http://www.oig.dhs.gov).



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**Figure 2: Purchase and Travel Card Use for Components Reviewed**



Source: OIG analysis of DHS CFO bankcard data.

To assess risk in FY 2014, our office conducted testing to identify whether internal controls were functioning as intended to mitigate risks associated with charge cards. We selected a sample of purchase card, convenience check, and travel card transactions from the same three components reviewed in FY 2013 to identify whether transactions complied with DHS requirements.



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### Results of Audit

DHS has established internal controls for both its purchase card and travel card programs, but components do not always comply with these controls. Therefore, there is a moderate risk that these internal controls will not prevent illegal, improper, or erroneous purchases. For the Purchase Card Program, DHS has not ensured that components develop and implement component-level procedures that clearly outline the purchase card process and required supporting documentation for individual transactions. The Department has also not required components to develop and implement approved oversight plans to ensure cardholder compliance with DHS and component procedures.

To deter misuse of travel cards, the Department needs to strengthen the internal controls over its Travel Card Program. DHS has established internal controls to reduce improper payments to travelers on official duty, but it needs to strengthen its ability to detect improper use when not on official travel. In addition, the Department does not have a policy to enforce actions against employees who misuse their travel card. Without stronger controls, the Department cannot ensure that charge cards are being used properly or that it is mitigating the risks of illegal, improper, and erroneous purchases.

### Compliance with the DHS Purchase Card Manual

Components did not always comply with the *DHS Purchase Card Manual*. The Department has established internal controls in the manual to mitigate the risk of an improper transaction occurring. The *DHS Purchase Card Manual* provides guidance for purchases, such as:

- Declined Transactions: declined transactions under Merchant Category Codes (MCC)<sup>3</sup> without prior approval and justification of need.
- Approving Purchases: approvals from the cardholder's approving official and a fund certifier is required prior to purchase.
- Verifying Receipt: documentation that indicates someone other than the cardholder or approving official received the purchase.
- Using Convenience Checks: a method of payment used when a merchant does not accept the purchase card.

We sampled 387 transactions valued at \$395,608 and identified that 189 transactions (49 percent) valued at \$206,903 did not comply with at least

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<sup>3</sup> An MCC is a four-digit number to categorize the type of business the merchant conducts and the kinds of goods and services provided.



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one of the requirements set forth in the *DHS Purchase Card Manual*. Table 1 summarizes the internal control problems we identified.

**Table 1: Purchase Card Internal Control Issues**

Internal Control Oversight Issue	Number of Transactions
<b>Documented approval not maintained for blocked transactions</b>	12
<b>Cardholder did not obtain appropriate approvals prior to purchase</b>	142
<b>No third-party verification of receipt</b>	29
<b>Cardholder did not document the justification for convenience check use</b>	48
<b>Transactions with multiple issues of non-compliance</b>	58
<b>No documentation provided</b>	18

Source: OIG analysis of DHS-provided information.

### Approval for Blocked or Restricted Purchases

Cardholders did not always maintain documentation indicating approval or justification to incur charges against a blocked MCC code. We identified 12 (11 percent) of the 112 transactions valued at \$8,827 that did not have evidence of approval from the component or Department coordinator to ensure there was a justified need. For example, one cardholder purchased 24 picture frames for \$420 from a vendor under the blocked MCC code, Jewelry Stores; however, the cardholder did not provide documentation of approvals allowing use of the blocked code. These blocks prevent cardholders from using their cards for purchases that may not typically be associated with their normal duties.

### Appropriate Approvals

Cardholders did not always obtain approval from the approving official or fund certifier prior to making a purchase. We identified 142 (37 percent) of the 387 transactions valued at \$130,394 where cardholders did not have approval documentation prior to the purchase. The *DHS Purchase Card Manual* requires the cardholder to receive written authorization from the approving official and obtain funds verification prior to making a purchase. The Department may be at risk of violating anti-deficiency laws and not ensuring bona fide need if transactions do not have the appropriate level of approvals prior to the purchase.



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Additionally, some transactions included individuals holding more than one role in the approval process. We identified 113 transactions valued at \$97,801 where an individual had more than one role in the approval process, which is prohibited by the *DHS Purchase Card Manual*.<sup>4</sup> The lack of separation of duties increases risk to the Department, and reduces the effectiveness of the checks and balances in place.

- **Anti-deficiency:** obligating or expending funds in excess of available funding
- **Bona fide need:** a purchase to meet a legitimate need

Source: Government Accountability Office.

### Independent Third-Party Receipt

Cardholders did not always document third-party receipts for products or services purchased. We found 29 (7 percent) of the 387 transactions valued at \$52,193 did not show evidence of an independent third-party acknowledgement of receipt. For example, one cardholder spent \$1,000 on ink at an electronics store, but did not provide evidence of a third-party signature acknowledging receipt of the ink. The absence of a third-party receipt increases the risk that the government is paying for items and services not received or for personal use.

### Convenience Checks

Cardholders failed to provide sufficient supporting documentation for nearly half of the convenience checks we reviewed. Forty-eight (48 percent) of the 100 checks valued at \$49,131 did not have documentation indicating the vendor did not accept the government credit card or that no other vendors were available to fulfill the purchase. DHS requires cardholders to make every effort to find vendors that accept the government purchase card because checks circumvent the MCC block controls and incur a 2 percent fee. For the 100 checks reviewed, we estimate the Department paid \$1,924 in fees. Had other options of payment been available, DHS could have put this money to better use.

## Component Procedures and Oversight

The Department has not ensured components develop and implement procedures that clearly outline the purchase card process and documentation required to support each transaction. Specifically, two of the three components reviewed did not have procedures outlining their purchase card business processes. Also, the Department needs to improve component

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<sup>4</sup> The *DHS Purchase Card Manual* describes four key aspects to a transaction: making the purchase, authorizing the purchase, certifying funding, and auditing the transaction.



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oversight of purchase card transactions to ensure compliance with DHS requirements.

For example, two components used multiple forms to support a purchase, but the forms did not clearly show the approvals DHS requires for a purchase card transaction. Also, one component did not submit all required component-specific forms documenting approvals prior to making the purchases in 33 of the 100 transactions sampled.

DHS components did not develop and implement effective oversight plans to ensure cardholders comply with DHS and component-level procedures. Although the DHS Purchase Card Program Office conducts monthly Post-Payment Audits, our results indicate that the Department and component's oversight was not sufficient to ensure compliance with the *DHS Purchase Card Manual*. For example, one component reviewed convenience checks, yet we identified a \$1,238 check for an invoice with line items that did not total correctly and did not include an invoice number or date. Additionally, the vendor's copy of the invoice showed that it rendered services prior to the dates of approval on supporting documentation.

The absence of clear procedures from components leads to cardholder and approving official inconsistencies when carrying out Department requirements for purchase card use. Without components documenting their purchase card procedures and strengthening oversight of transactions, the effectiveness decreases and the Department's risk of improper purchases increases.

### **Compliance with DHS Travel Card Manual**

The Department has established internal controls in the *DHS Travel Card Manual* to mitigate the risk for cardholders misusing the card and claiming reimbursement for improper transactions. However, three of the components we reviewed did not have adequate internal controls in place to detect misuse, particularly when a cardholder was not on official travel.

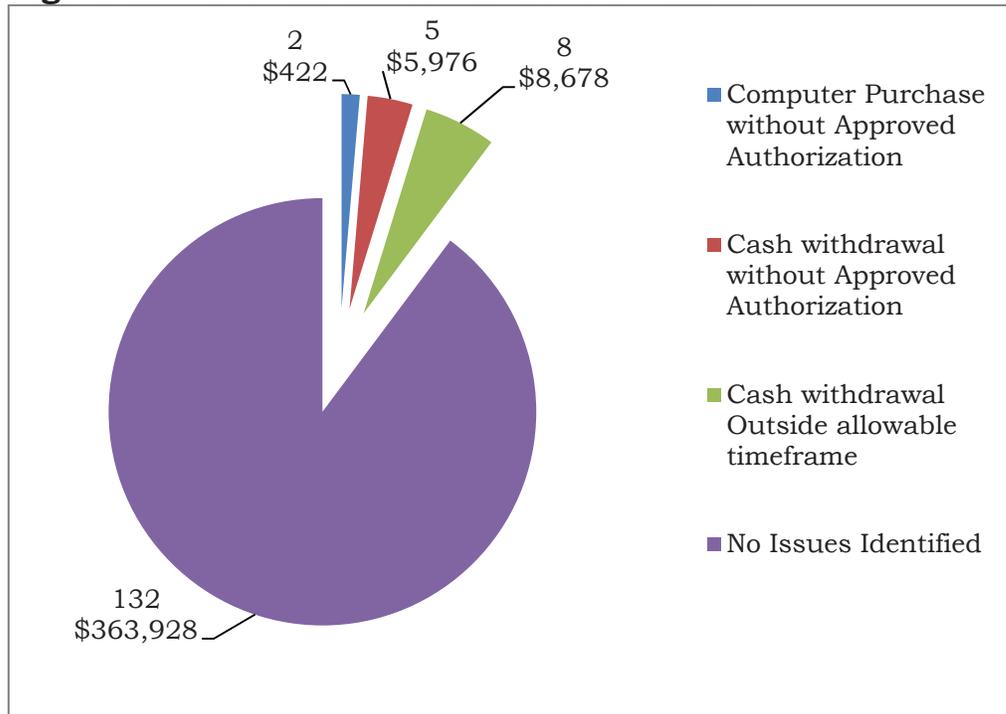
We identified a number of transactions that did not meet *DHS Travel Card Manual* requirements. Of the 147 total transactions valued at \$379,004 we reviewed, 15 transactions valued at \$15,076 did not comply with the *DHS Travel Card Manual*. Figure 3 shows the number and value of the different types of internal control issues identified.



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**Figure 3: Travel Card Internal Control Issues**



Source: OIG analysis of documentation provided by DHS components.

Our results indicate potential misuse in transactions not associated with official authorized travel. Cardholders could not provide documentation of approved travel for 7 (47 percent) of the 15 transactions we questioned. In these seven instances, the components were not aware of the charges or performed an investigation because the cardholders did not request reimbursement.

This occurred because the Department's policies and oversight procedures focus primarily on preventing fraudulent vouchers and payments of expenses that are not for official travel rather than detecting use of the card while not associated with official travel. As shown in the following examples, DHS needs more effective methods to detect improper use of the card when not on travel:

- An employee used his travel card to purchase computer equipment valued at \$417. This transaction was not associated with official travel.
- An employee took a cash advance from her government travel card. The employee told us that she had withdrawn the money in anticipation of upcoming travel. Upon further examination, the Component Travel Card Program Manager determined this employee had numerous charges on her travel card not associated with official travel. The component is conducting an investigation of the employee's use of her travel card.



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- An employee withdrew over \$1,300 cash 10 days prior to his scheduled departure, contrary to travel card policies. Further review of his account by the component identified travel card misuse resulting in the employee being fined and the closure of his government travel card account.

Use of the travel card when not on official travel is improper, even though the government is not responsible for those charges. Even though the three components we reviewed have disciplinary actions outlined in supplemental guidance, the strictest penalty for misuse of the government travel card in the *DHS Travel Card Manual* is loss of the card. Without stricter penalties in place, there is little disincentive to prevent employees from using the travel card inappropriately.

### **DHS Starbucks Freedom of Information Act Review**

As a result of concerns raised by members of Congress, we also reviewed DHS' purchase card transactions made during calendar year 2013 at Starbucks Coffee Company (Starbucks). The Department identified 66 transactions made at Starbucks totaling \$31,413 from four components, CBP, Immigration and Customs Enforcement (ICE), United States Citizenship and Immigration Services (USCIS), and Coast Guard.

Forty (61 percent) of the 66 transactions were supported, allowable, and reasonable. Sixteen (24 percent) of 66 transactions did not have sufficient supporting documentation. The remaining 10 transactions were fraudulent purchases made by unauthorized users and identified by the bank.<sup>5</sup> Although the majority of purchases from Starbucks were supported, allowable, and reasonable; one component made multiple purchases from Starbucks, without documented market research. This may give the appearance that cardholders are not seeking lower priced options based on personal preference.

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<sup>5</sup> The bank identified these fraudulent transactions and the Department was not responsible for payment.



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### Conclusion

The Department remains at a moderate level of risk for its purchase and travel card programs despite established internal controls. Components did not document specific business operations for purchase card transactions ensuring compliance with the *DHS Purchase Card Manual*. DHS also did not ensure components developed and implemented an oversight plan to ensure purchase cardholder compliance. As a result, the effectiveness of the *DHS Purchase Card Manual* decreases and the Department's risk of improper purchases are increased.

Although the DHS Travel Card Program places the financial "risk" on the individual traveler, the risk of misuse of the card when not on official travel remains a challenge to detect and deter. DHS needs to improve internal controls to better detect this misuse and implement a framework of disciplinary actions for travel card misuse.

### Recommendations

**Recommendation 1:** We recommend that the Assistant Director for Bankcard and Review, DHS Office of the Chief Financial Officer, require components to develop and implement purchase card procedures that outline roles, internal processes, and documentation requirements.

**Recommendation 2:** We recommend that the Assistant Director for Bankcard and Review, DHS Office of the Chief Financial Officer, require components to develop and implement a Department-approved oversight plan to ensure cardholder compliance with DHS and component-specific purchase card policies and procedures.

**Recommendation 3:** We recommend that the Assistant Director for Bankcard and Review, DHS Office of the Chief Financial Officer, develop and implement an oversight plan to strengthen existing internal controls to detect and deter misuse of the travel card.

**Recommendation 4:** We recommend that the Assistant Director for Bankcard and Review, DHS Office of the Chief Financial Officer, update the *DHS Travel Card Manual* to include disciplinary and adverse personnel actions for misuse of the travel card and ensure components enforce actions against employees who misuse the travel card.



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### Management Comments and OIG Analysis

DHS concurred with all recommendations. In its comments to the draft report, the DHS Deputy Under Secretary for Management and Chief Financial Officer was pleased to note OIG's positive recognition that the Department has established internal controls for both its purchase and travel card programs and did not find evidence of illegal, improper, or erroneous purchases or payments.

We have included a copy of the management comments in their entirety in appendix B. DHS also provided technical comments to this report. We made changes to this report to incorporate their comments, where appropriate.

**Recommendation #1: Concur.** The DHS Bankcard and Review Branch is updating both the Purchase and Travel Card manuals. Once the Department finalizes and publishes these manuals, DHS will require seven of the operational components, which generate more than 95 and 90 percent of Purchase Card and Travel Card expenditures, respectively, to implement component-specific procedures in compliance with the overall departmental policy. The remaining operational support components will continue to follow departmental policy. The Department's estimated completion date for this effort is December 31, 2015.

**OIG Analysis:** DHS' proposed actions are responsive to the recommendation. This recommendation is resolved, but will remain open until DHS provides updated department-wide manuals and component-specific procedures.

**Recommendation #2: Concur.** The DHS Bankcard and Review Branch is developing an enhanced oversight program that will automate the existing Post Payment Audit. This program will include a data-training platform using the VISA IntelliLink system to select transactions using a judgmental sampling methodology. As a part of the Department's oversight plan, components will be required to select transactions on a quarterly basis using a random sampling methodology. Both judgmental and randomly selected transactions will go through the same Post Payment Audit process. In addition, components will have the opportunity to target potentially questionable transactions that may have a specific impact on their component. The Department's estimated completion date for this effort is September 30, 2015.

**OIG Analysis:** Although the Department's response to this recommendation improves their oversight into potentially questionable transactions, it does not fully address the intent of the recommendation. Specifically, DHS does not provide details on approving component-specific oversight plans. This recommendation was developed to ensure components thoroughly and



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systematically monitor transactions for compliance with DHS and component-level policies. This recommendation will remain open and unresolved until DHS provides a more detailed response for ensuring components develop and implement a department-approved oversight plan.

**Recommendation #3: Concur.** The DHS Bankcard and Review Branch is developing an enhanced oversight program for travel card usage. This oversight plan will consist of a data-mining program using the VISA IntelliLink system. This enhancement will allow the Department to target potentially questionable transactions for review. Potentially questionable transactions include cash withdrawn with no associated travel, transactions on delinquent accounts, and transactions involving high-risk Merchant Category Codes. The Department's estimated completion date for this effort is September 30, 2015.

**OIG Analysis:** DHS' planned actions address the intent of the recommendation. This recommendation is resolved, but will remain open until DHS provides an approved oversight plan for travel card use.

**Recommendation #4: Concur.** The DHS Bankcard and Review Branch is currently updating the *DHS Travel Card Manual* to include language that will address disciplinary consequences of employee misuse of a travel card. Specifically, DHS plans to include the following language in the travel card manual: "Employees found to have misused a government-issued charge card may be subject to the full range of disciplinary actions in accordance with their component's disciplinary and adverse actions policies and/or practices." The Department's estimated completion date for this effort is September 30, 2015.

**OIG Analysis:** Although DHS' proposed update to the *DHS Travel Card Manual* includes disciplinary language for misuse, it is dependent on components having and using an approved disciplinary and adverse action policy. Additionally, the action plan does not provide details on how the Department will ensure components are consistently enforcing these policies. This is increasingly important when identifying repeated instances of misuse by a travel cardholder. This recommendation will remain open and unresolved until DHS provides evidence that the Department and its components have policies and procedures in place to enforce against employees who misuse the travel card.



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### **Appendix A** **Objective, Scope, and Methodology**

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.

The *Government Charge Card Abuse Prevention Act of 2012* requires all executive branch agencies to establish and maintain safeguards and internal controls for purchase cards, travel cards, and centrally billed accounts. Our review objective was to assess the level of risk associated with the design of internal controls implemented to prevent illegal, improper, or erroneous purchases and payments.

We performed this audit at DHS headquarters and U.S. Customs and Border Protection (CBP), U.S. Citizen and Immigration Services (USCIS), the Federal Emergency Management Agency (FEMA), Immigration and Customs Enforcement (ICE), and Coast Guard. We interviewed various officials in the DHS Office of the Chief Financial Officer, the Risk Management & Assurance Division, and the Bankcard Program Office, as well as components' purchase and travel card program coordinators.

We reviewed Federal, departmental, and component policies and procedures for purchase and travel cards. We tested a sample of transactions at the three components whose policies we reviewed in our FY 2013 Risk Assessment: CBP, FEMA, and Coast Guard. We requested transactional data starting from the fourth quarter of FY 2013 through the third quarter FY 2014 from the DHS CFO who obtained the data from JP Morgan Bank (the bankcard service provider). According to the data, CBP spent approximately \$69 million, FEMA \$9.8 million, and Coast Guard \$235 million in purchase cards. For travel cards, CBP spent approximately \$72 million, FEMA \$112 million, and Coast Guard \$85 million. We assessed the reliability of the data provided by JP Morgan by requesting the DHS card program coordinators to send transaction data for the same periods and compared the sum of their reports against the sum of universe data received from JP Morgan.

#### **Purchase Card Sample Selection**

We evaluated CBP, FEMA, and Coast Guard purchase card and convenience check internal controls by interviewing Department and component purchase



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card coordinators, reviewed applicable criteria, and tested a sample of transactions from each component. For purchase cards, we reviewed:

- transactions for all blocked merchant category codes in accordance with Appendix F of the *DHS Purchase Card Manual*;
- transactions for one merchant category code we deemed high risk due to the nature of items in that category—electronics sales (MCC 5732).
- convenience check transactions (MCC 9999) as check usage has few hard controls preventing misuse; and
- supporting documentation for each transaction from component points of contacts or personnel working in the components' bankcard program.

To select our purchase card sample for CBP and FEMA, we identified the two divisions within each component that had the highest total purchase card expenditures from July 1, 2013, through June 30, 2014. We then summarized the transactions by MCC codes to identify our universe and select our sample.

- Blocked Transactions: We reviewed the Mandatory Blocked codes listed in Appendix F of the *DHS Purchase Card Manual*. We also reviewed other component-specific blocked codes. This resulted in 128 transactions for review.
- Electronics Sales and Convenience Checks: For these categories we calculated the median transaction amount for the same two divisions identified in CBP and FEMA. We then randomly selected 25 transactions from each division. This resulted in 50 randomly selected transactions for electronic sales and 50 randomly selected convenience checks.

We selected the sample for the Coast Guard differently due to a larger quantity of transactional data which DHS provided in multiple electronic files. The difference in methodology does not affect the findings and conclusions in this report because we are not using our results to make inferences on DHS as a whole. The change in methodology only affects the odds of transactions being selected for review.

To select the Coast Guard purchase card sample, we followed the same steps used for CBP and FEMA with one exception. We included the whole universe in our random sampling process instead of limiting the selection to those above the median. Our sample size for blocked transactions was 9, and our sample size for electronic sales transactions and convenience check transactions was 50 transactions for each category. See table 2 for the purchase card universe for CBP, FEMA, Coast Guard and the sample of transactions tested during this review.



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**Table 2: Universe and Sample of Purchase Card Transactions**

Component	Universe by MCC		Sample	
	Transactions	Dollars	Transactions	Dollars
<b>CBP</b>	<b>2,083</b>	<b>\$2,502,905</b>	<b>178</b>	<b>\$158,017</b>
Blocked Codes	490	\$709,785	78	\$60,099
Electronics	602	\$706,715	50	\$51,361
Convenience Checks	991	\$1,086,405	50	\$46,557
<b>FEMA</b>	<b>428</b>	<b>\$386,924</b>	<b>100</b>	<b>\$132,031</b>
Blocked Codes	119	\$119,206	50	\$60,013
Electronics	309	\$267,718	50	\$72,018
Convenience Checks	0	\$0	0	\$0
<b>Coast Guard</b>	<b>1,140</b>	<b>\$535,360</b>	<b>109</b>	<b>\$105,560</b>
Blocked Codes	10	\$5,467	9	\$5,172
Electronics	972	\$390,819	50	\$50,763
Convenience Checks	158	\$139,074	50	\$49,625
<b>Total</b>	<b>3,651</b>	<b>\$3,425,189</b>	<b>387</b>	<b>\$395,608</b>

Note: Values in the table only represent the top two divisions within each component.

Source: OIG analysis of DHS CFO data.

## Travel Card Sample Selection

We evaluated CBP, FEMA, and Coast Guard travel card internal controls by interviewing Department and component travel card management, reviewed applicable criteria, and tested a limited sample of transactions from each of the components. For individually billed accounts, we reviewed:

- transactions for all blocked merchant category codes in accordance with the six merchant category codes that DHS identified as always blocked;
- transactions for one merchant category code we deemed high risk due to the category not being typically associated with travel expenditures—computer, computer peripherals (MCC Code 5045); and
- cash withdrawals due to the high risk of improper use of cash advances (MCC Codes 6010 and 6011).

To select our travel card sample, for CBP, FEMA, and Coast Guard, we identified the two divisions from each component who had the most individually billed account expenditures from July 1, 2013, through June 30, 2014. We did not identify any blocked transactions for the travel cards within those divisions. We reviewed all transactions in the category computer, computer peripherals due to the small number. For cash withdrawals, we



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selected the top 10 withdrawals from each category for each division reviewed within the components.

For centrally billed accounts, we reviewed the category of transaction with the highest dollar value, airfare. For each of the components, we selected the 10 largest transactions to review. We requested documentation from each component to support that the transaction was associated with official travel. Table 3 shows the number and value of travel card transactions we selected to test by component.

**Table 3: Travel Card Universe and Sample of Transactions**

Component	Universe by Transaction Type		Sample	
	Transactions	Dollars	Transactions	Dollars
<b>CBP</b>	11,007	\$4,416,937	87	\$242,615
Centrally Billed Accounts	5,414	\$2,887,209	10	\$66,298
IBA Computers	37	\$117,005	37	\$117,005
IBA Cash Withdrawals	5,556	\$1,412,723	40	\$59,312
<b>FEMA</b>	13,236	\$2,485,782	13	\$29,866
Centrally Billed Accounts	6,928	\$1,566,170	10	\$28,941
IBA Computers	4	\$422	2	\$422
IBA Cash Withdrawals	6,304	\$919,190	1	\$503
<b>Coast Guard</b>	56,732	\$15,507,994	47	\$106,523
Centrally Billed Accounts	49,534	\$14,603,004	10	\$76,245
IBA Computers	3	\$212	3	\$212
IBA Cash Withdrawals	7,195	\$904,778	34	\$30,066
<b>Total</b>	<b>80,975</b>	<b>\$22,410,713</b>	<b>147</b>	<b>\$379,004</b>

Note: IBA values in the table only represent the top two divisions within each component.

Source: OIG analysis of DHS CFO data.

Finally, we obtained and reviewed the *Freedom of Information Act* request dated January 1, 2014, for Department personnel transactions at Starbucks in calendar year 2013. We used the list of 66 transactions to request supporting documentation from CBP, ICE, USCIS, and Coast Guard purchase card program coordinators. We reviewed the documentation to determine whether the purchases were reasonable, allowable in accordance with Department and component criteria, and supported appropriately.

We conducted this performance audit between June 2014 and February 2015 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 believe that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objectives.



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### Appendix B DHS Comments to the Draft Report

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



**Homeland  
Security**

July 2, 2015

MEMORANDUM FOR: John Roth  
Inspector General

FROM: Jim H. Crumpacker, CIA, CFE   
Director  
Departmental GAO-OIG Liaison Office

SUBJECT: OIG Draft Report, "Fiscal Year 2014 Assessment of DHS  
Charge Card Program Indicates Moderate Risk Remains"  
(Project No. 14-140-AUD-CFO)

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 in planning and conducting its review and issuing this report.

The DHS Deputy Under Secretary for Management and Chief Financial Officer is pleased to note OIG's positive recognition that the Department has established internal controls for both its purchase and travel card programs. DHS also notes that OIG did not find any evidence of illegal, improper, or erroneous purchases or payments during this audit. DHS takes seriously its responsibility to ensure that all spending placed on government-issued charge cards is appropriate and only driven by requirements related to fulfilling the Department's vital mission of securing the nation from the many threats we face to keep America safe.

The Department takes a proactive approach to preventing government charge card waste fraud and abuse. Specifically, for every Purchase Card transaction, a federal employee conducts a review of that transaction, and another person separately approves it. In addition, audits are performed monthly to ensure that the transactions were appropriate, reasonable, and followed Departmental policy.

DHS also oversees the use of the Travel Card Program using VISA IntelliLink, technology to help the Department identify potential unauthorized personal use of travel cards. Additionally, DHS monitors cardholder delinquency rates, and in doing so has



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successfully been able to keep these rates well below the consumer average<sup>1</sup>. It is also important to note that individual cardholders are liable for purchases made against government-issued travel cards, not the Department.

The draft report contained four recommendations with which the Department concurs. Specifically, OIG recommended that the DHS Office of the Chief Financial Officer, Assistant Director for Bankcard and Review:

**Recommendation 1:** Require components to develop and implement purchase card procedures that outline roles, internal processes, and documentation requirements.

**Response:** Concur. The Bankcard and Review Branch is in the process of updating both the Purchase and Travel Card Manuals. Once these manuals are finalized and published, the Department will require the seven operational Components<sup>2</sup>, which generate more than 95 and 90 percent of Purchase Card and Travel Card expenditures, respectively, to implement Component-specific procedures in compliance with the overall Departmental policy. Operational support components will continue to follow Departmental policy. Estimated Completion Date (ECD): December 31, 2015.

**Recommendation 2:** Require components to develop and implement a Department-approved oversight plan to ensure cardholder compliance with DHS and component-specific purchase card policies and procedures.

**Response:** Concur. The Bankcard and Review Branch is in the process of developing an enhanced oversight program that will automate the existing Post Payment Audit. This program will include a robust data mining platform using the VISA IntelliLink system to select transactions using a judgmental sampling methodology. As a part of the Department's oversight plan, Components will be required to select transactions on a quarterly basis using a random sampling methodology. Both judgmental and randomly selected transactions will go through the same Post Payment Audit process. The combination of sampling methodologies will provide the Department with an enhanced oversight program in which potentially questionable transactions are being reviewed for appropriateness. In addition, Components will have the opportunity to target potentially questionable transactions that may have a specific impact on their Component. ECD: September 30, 2015.

**Recommendation 3:** Develop and implement an oversight plan to strengthen existing internal controls to detect and deter misuse of the travel card.

<sup>1</sup> According to the Federal Reserve, the central bank of the United States, the consumer credit card delinquency rate during the third quarter of calendar year 2014 was 2.21 percent. The travel card delinquency rate for DHS during the same time period was .56 percent.

<sup>2</sup> U.S. Citizenship and Immigration Services, U.S. Coast Guard, U.S. Customs and Border Protection, Federal Emergency Management Agency, U.S. Immigration and Customs Enforcement, U.S. Secret Service, and Transportation Security Administration.



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**Response:** Concur. The Bankcard and Review Branch is in the process of developing an enhanced oversight program. This oversight plan will consist of a robust data mining program using the VISA IntelliLink system. This enhancement will allow the Department to target potentially questionable transactions for review. Potentially questionable transactions will consist of cash withdrawn with no associated travel, transactions on delinquent accounts, transactions involving high risk Merchant Category Codes, etc. ECD: September 30, 2015.

**Recommendation 4:** Update the DHS Travel Card Manual to include disciplinary and adverse personnel actions for misuse of the travel card and ensure components enforce actions against employees who misuse the travel card.

**Response:** Concur. To deter potential travel card misuse, the Bankcard and Review Branch is currently updating the Travel Card Manual to include language that will address the disciplinary consequences of employee misuse of a travel card. Specifically, the following language will be inserted: "Employees found to have misused a government-issued charge card may be subject to the full range of disciplinary actions in accordance with their component's disciplinary and adverse actions policies and/or practices." ECD: September 30, 2015.

Again, we thank you for the opportunity to review and comment on this draft report. Technical comments were previously provided under separate cover. Please feel free to contact me if you have any questions. We look forward to working with you again in the future.



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### **Appendix C**

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