

OFFICE OF INSPECTOR GENERAL

Audit of DHS Fiscal Year 2017 Purchase and Travel Card Programs



Homeland
Security

November 21, 2019

OIG-20-04



DHS OIG HIGHLIGHTS

Audit of DHS Fiscal Year 2017 Purchase and Travel Card Programs

November 21, 2019

Why We Did This Audit

The *Government Charge Card Abuse Prevention Act of 2012* and OMB Memorandum M-13-21, *Implementation of the Government Charge Card Abuse Prevention Act*, require OIG to conduct periodic risk assessments of agency Purchase and Travel Card Programs. The audit objective was to determine whether DHS Purchase and Travel Card transactions for FY 2017 were appropriate and complied with relevant laws and regulations. To help fulfill our audit responsibilities, we contracted with the independent public accounting firm of CohnReznick.

What We Recommend

We made 12 recommendations which, when implemented, should ensure that Purchase and Travel Card transactions are appropriate and comply with relevant laws and regulations.

For Further Information:

Contact our Office of Public Affairs at (202) 981-6000, or our email: DHSOIG.OfficePublicAffairs@oig.dhs.gov

What We Found

CohnReznick LLP completed an audit of Department of Homeland Security Purchase and Travel Card Programs for fiscal year 2017. Except for identified questioned costs, reported DHS Purchase and Travel Card transactions for FY 2017 were appropriate and complied with relevant laws and regulations. CohnReznick identified 17 control deficiencies within DHS Purchase and Travel Card Programs related to:

DHS Purchase Card Program

- Maintenance of purchase documentation
- Application of required procurement policies
- Price reasonableness determinations, price quotes/competitive bids, required sourcing
- Tax exemptions
- Split purchases

DHS Travel Card Program

- Maintenance of travel documentation
- Allowability of transactions per regulations
- Credit balance refunds
- The prudent traveler standard
- Improper use of a travel card

These deficiencies occurred because DHS did not always ensure compliance with internal controls for its Purchase and Travel Card Programs. As a result, DHS may not have detected potentially fraudulent or wasteful Purchase and Travel Card transactions. For FY 2017, we identified \$43,508 in questioned costs out of \$7.9 million in Purchase and Travel Card transactions tested (from a universe of \$1.1 billion).

DHS Response

The DHS Office of the Chief Financial Officer concurred with recommendations 1, 2, 3, 4, 9, 12 and non-concurred with recommendations 5, 6, 7, 8, 10, and 11.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

November 21, 2019

MEMORANDUM FOR: Stacy Marcott
Acting Chief Financial Officer
Department of Homeland Security

FROM: Sondra F. McCauley 
Assistant Inspector General for Audits

SUBJECT: *Audit of DHS Fiscal Year 2017 Purchase
and Travel Card Programs*

Attached for your action is our final report, *Audit of DHS Fiscal Year 2017 Purchase and Travel Card Programs*. We incorporated the formal comments provided by your office.

The report contains 12 recommendations which when implemented, should ensure that Purchase and Travel Card transactions are appropriate and comply with relevant laws and regulations. Your office concurred with recommendations 1, 2, 3, 4, 9, 12 and non-concurred with recommendations 5, 6, 7, 8, 10, and 11. Based on information provided in your response to the draft report, we consider recommendations 5, 6, 7, 8, 10, and 11 open and unresolved. As prescribed by the Department of Homeland Security Directive 077-01, *Follow-Up and Resolution for the 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 recommendations. Until your response is received and evaluated, the recommendations will be considered open and unresolved.

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) 981-6000, or your staff may contact Maureen Duddy, Deputy Assistant Inspector General for Audits, at (617)-565-8723.

Attachment

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ABBREVIATIONS

CBP	U.S. Customs and Border Protection
CFO	Chief Financial Officer
ECD	Estimated Completion Date
FAR	Federal Acquisition Regulation
FEMA	Federal Emergency Management Agency
ICE	U.S. Immigration and Customs Enforcement
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
Our/We	CohnReznick LLP
SAM	System for Award Management
SAP	Simplified Acquisition Procedure
USCG	United States Coast Guard

November 20, 2019

Ms. Sondra F. McCauley
Assistant Inspector General for Audits
Department of Homeland Security
Office of Inspector General
395 E Street, SW
Washington, DC 20024

Dear Ms. McCauley,

Enclosed please find our report presenting the results of the performance audit of *Department of Homeland Security's (DHS) Fiscal Year 2017 Purchase and Travel Card Programs*. Our audit objectives were to evaluate whether Purchase and Travel Card transactions are appropriate and comply with relevant laws and regulations.

We conducted this performance audit in accordance with *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 on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Except for questioned costs identified through our audit, DHS reported Purchase and Travel Card transactions are appropriate and comply with relevant laws and regulations. In addition, we identified deficiencies in internal controls within DHS Components that should be remedied. We have presented our findings and recommendations in this report.

This report is for the purpose of concluding on the audit objectives described above. Accordingly, this report is not suitable for any other purpose. We greatly appreciate DHS OIG's and DHS Headquarters' assistance with the DHS Components throughout this audit.



CohnReznick LLP

BACKGROUND

On October 5, 2012, the President signed into law the *Government Charge Card Abuse Prevention Act of 2012*, Public Law No. 112-194 (Charge Card Act), which reinforced the Administration's efforts to prevent fraud, waste, and abuse of government-wide charge card programs. The Charge Card Act requires all executive branch agencies to establish and maintain safeguards and internal controls for purchase cards, travel cards, and centrally billed accounts.

The Charge Card Act establishes additional reporting and audit requirements, consistent with existing statutory responsibilities to avoid improper payments and protect privacy, among other things. Because government charge card program oversight involves multiple agency functions, successful implementation of the Charge Card Act requires collaboration across agency charge card management and human capital components, and the OIG.

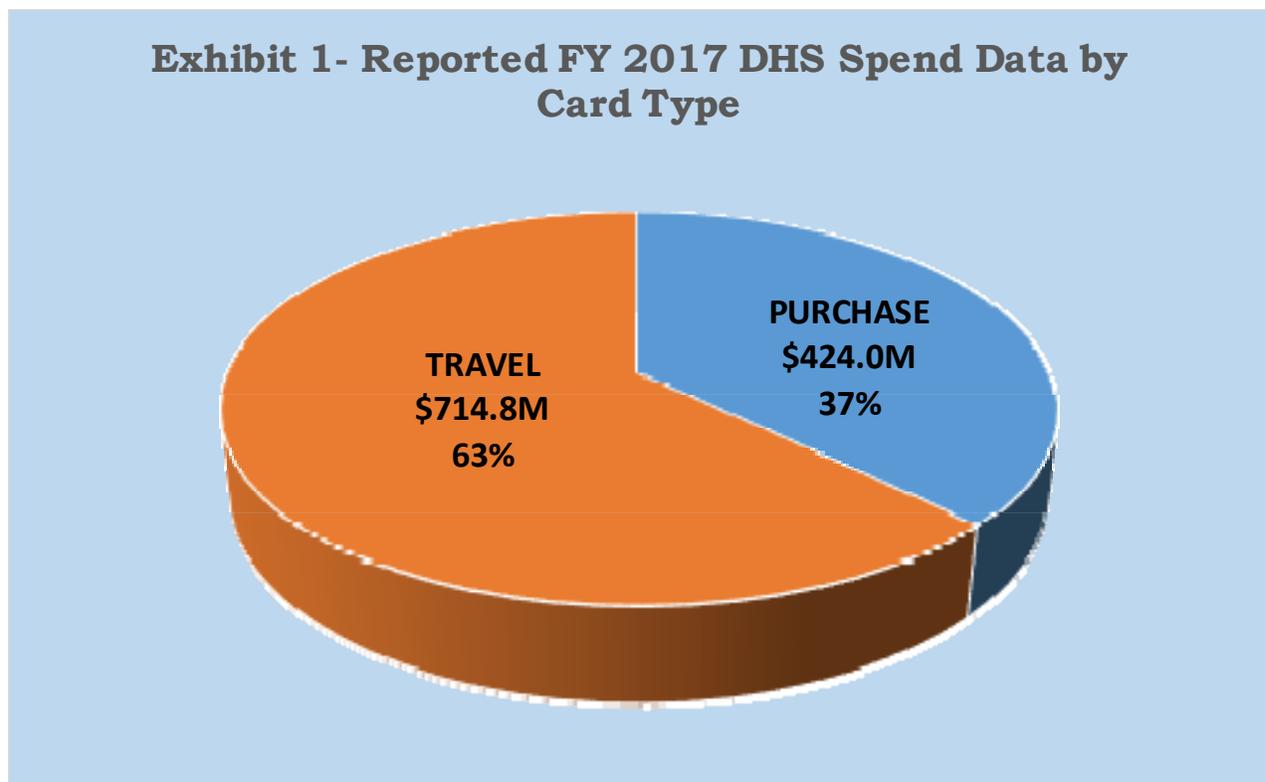
Under the Charge Card Act and OMB Memorandum M-13-21, *Implementation of the Government Charge Card Abuse Prevention Act of 2012*, the Inspector General of each executive agency is required to conduct periodic risk assessments of agency purchase cards. These assessments include the review of convenience checks, combined integrated card programs, and travel card programs to analyze the risks of illegal, improper, or erroneous purchases and payments. Offices of Inspector General (OIG) use these risk assessments to determine the necessary scope, frequency, and number of OIG audits or reviews of these programs. This report satisfies the periodic audit and annual risk assessment for fiscal year 2017.

The Bankcard Program, within Department of Homeland Security's (DHS) Office of the Chief Financial Officer, administers and oversees DHS Purchase and Travel Card Programs. These card programs provide DHS with an efficient method for making small purchases, as well as other numerous benefits. For example, the Purchase Card Program provides an efficient, low-cost procurement and payment mechanism to acquire goods and services, which streamlines traditional Federal procurement and payment processes. Similarly, the Travel Card Program streamlines payment and reimbursement processes for official travel expenses by reducing administrative costs, which saves taxpayers dollars. The Travel Card Program Individually Billed Accounts place financial risk on the individual cardholder, because DHS is not responsible for charges.

The Travel Card Program uses two types of accounts:

- Individually Billed Account: Employees with individually billed cards are responsible for all charges incurred on their monthly credit card statements.
- Centrally Billed Account: DHS Components establish centrally billed accounts to purchase transportation tickets for individuals who do not have Individually Billed Accounts.

Exhibit 1 below presents reported FY 2017 DHS Purchase and Travel Card Program spend data by program.



Source: Derived from DHS FY 2017 Purchase and Travel Card Program spend data

AUDIT RESULTS AND FINDINGS

We conducted this audit in accordance with 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 on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

An audit involves performing procedures to obtain audit evidence about the amounts reported by each of DHS' Purchase and Travel Card Programs. The procedures performed depend on the auditor's judgment, including the assessment of risks of material misstatement, whether due to fraud or error. In conducting those risk assessments, the auditor considers internal control relevant to the agency's administration of Purchase and Travel Card Programs to design audit procedures that are appropriate in the circumstances.

The audit results and recommendations are presented below.

During FY 2017, DHS reported spending approximately \$1.1 billion in purchase and travel card transactions. We generally found that DHS Components have designed and documented internal controls over both the Purchase and Travel Card Programs. However, through our audit we identified significant internal control weaknesses in the implementation and operating effectiveness of those controls. We are reporting eight purchase card and nine travel card findings for FY 2017, which resulted from more than 260 and more than 170 instances of internal control weaknesses, respectively. These internal control weaknesses resulted in questioned costs of \$43,508 (1% of costs selected for sample testing and >1% percent of the universe sampled).

Our review of 242 purchase card transactions identified weaknesses in the DHS Purchase Card Program related to:

- Completion and maintenance of purchase documentation (authorizations, separation of duties waivers, third-party documentation, receiving documents);
- Application of required procurement policies (System for Award Management (SAM) checks); and
- Price reasonableness determinations/price quotes/competitive bids, required sourcing, tax exemptions, and split purchases.

These 242 purchase card transactions comprise 73 U.S. Customs and Border Protection (CBP) transactions and 169 United States Coast Guard (USCG) transactions.

Further, through our review of 291 travel card transactions we identified weaknesses in the DHS Travel Card Program related to the completion and maintenance of travel documentation,¹; the allowability of transactions per government regulations and DHS policies; credit balance refunds; the prudent traveler standard; official travel; emergency food and lodging; and improper use of the travel card. These 291 travel card transactions comprise 73 CBP transactions, 51 USCG transactions, 107 Federal Emergency Management Agency (FEMA) transactions, and 60 U.S. Immigration and Customs Enforcement (ICE) transactions.

Our findings, discussed in detail below, affected all DHS Components tested, as shown in the Executive Summary of Questioned Costs and Internal Control Deficiencies (appendix B). Findings 1 to 8 relate to the DHS Purchase Card Program and findings 9 through 17 relate to the DHS Travel Card Program.

DHS PURCHASE CARD PROGRAM FINDINGS

Finding 1: Form 1501 Completion and Approval

DHS Components did not fully document purchase card transactions. Specifically, of the 242 purchase card transactions selected for review, we found 200 transactions for which DHS Components did not properly complete Form 1501.² DHS Components did not maintain all documentation in support of the purchase for 162 transactions or obtain the required approvals for 38 transactions. As noted below, DHS Components did not consistently and adequately complete DHS Forms 1501 or maintain required documentation in support of expenditures.

- For 27 (26 CBP, 1 USCG) of the 242 selected transactions, DHS Forms 1501 did not accurately reflect, in detail, the items purchased and/or the quantities requested;

¹ Authorizations, vouchers, third-party documentation: documents prepared and provided by a third-party such as vendor receipts and invoices.

² DHS uses Form 1501 to document key information related to each purchase card procurement, such as the name of the requester and cardholder, item description and quantity requested, cost of items, source vendor information, and relevant approvals.

- For 119 (2 CBP, 117 USCG) of the 242 selected transactions, the section of DHS Form 1501 relating to required sources was left blank, had all boxes checked, or was erroneously completed;
- For 12 (8 CBP, 4 USCG) of the 242 selected transactions, the detailed justification for purpose lacked detail;
- For 4 (USCG) of the 242 selected transactions, the Component failed to complete, maintain, and/or provide DHS Form 1501 (completed or incomplete); and
- For 38 (27 CBP, 11 USCG) of the 242 transactions, one individual acted in multiple roles (cardholder, Funding Official, and/or Approving Official) and a Separation of Duties Waiver executed prior to the purchase was not maintained and/or could not be provided.

The *DHS Purchase Card Manual* requires that cardholders complete DHS Form 1501 when using the purchase card. The *CBP Basic Purchase Card Manual* and the *USCG SAP Guidebook* agree with the *DHS Purchase Card Manual* and Federal Acquisition Regulation (FAR) Part 4.805. OMB Circular A-123, Appendix B, requires that no one individual should control more than one key aspect of a transaction, but officials may grant waivers in situations that do not allow for separation of duties. The *DHS Purchase Card Manual*, the *CBP Basic Purchase Card Manual*, and the *USCG SAP Guidebook* agree with OMB Circular A-123.

This occurred because DHS Components did not monitor cardholder activities to ensure that they completed DHS Forms 1501 accurately and maintain documentation to support the transaction. Approving officials did not perform an adequate review of the Form 1501, allowing the errors to go undetected and uncorrected prior to initiating purchases. Further, the controls in place requiring independent cardholder, approving official and funding official approvals, witnessed by signatures on the Form 1501, and an executed Separation of Duties waiver for situations where proper separation is not reasonably feasible, did not operate as designed. The reason why the controls failed to operate as designed could not be determined based on audit evidence available. DHS Components may reimburse unallowable, inaccurate, fraudulent and/or wasteful costs due to inadequate reviews and proper segregation of duties.

Finding 2: Lack of Adequate Supporting Documentation

DHS Components did not consistently provide adequate supporting documentation to substantiate costs incurred and reported for purchase card transactions. Specifically, of the 242 purchase card transactions tested, we

found 8 (4 CBP, 4 USCG) purchase card transactions that were not adequately supported, as presented below:

- For 7 (3 CBP, 4 USCG) of the 242 selected transactions, DHS Components failed to provide sufficient third-party evidence (e.g. receipts, invoices) to verify the actual costs incurred; and
- For 1 (CBP) of the 242 selected transactions, supporting documentation provided by the Component did not support the full amount of the transaction.

According to the *DHS Purchase Card Manual*, the cardholder must provide transaction documentation to the approving official to complete the review and approval process. The approving official must then return the documents to the cardholder to keep with the purchase card files. The *CBP Basic Purchase Card Manual*, *CBP \$10K Purchase Card Manual*, and *USCG SAP Guidebook* agree with the *DHS Purchase Card Manual* in this regard.

DHS Components did not obtain, maintain, and/or provide sufficient third-party supporting documents (e.g., receipts, invoices) in accordance with their policies and procedures. In addition, supporting documentation was not adequately reconciled to the amounts requested for reimbursement. The controls in place requiring the cardholder to provide supporting documentation to the approving official and retain such documentation for the stated retention period failed to operate as designed. The reason why the controls failed to operate as designed could not be determined based on audit evidence available. DHS Components incurred and paid for \$37,089 of unallowable costs. As a result of this deficiency, we questioned these costs (\$4,489 CBP, \$32,600 USCG).

Finding 3: Independent Third-Party Receipt

For 6 (USCG) of the 242 purchase card transactions selected for testing, the Component failed to provide sufficient evidence of receipt and acceptance by an independent third party of goods and/or services.

The *DHS Purchase Card Manual* requires evidence of receipt by an independent third party who is neither the cardholder nor the approving official. The *USCG SAP Guidebook* agrees with the *DHS Purchase Card Manual* on this requirement.

The DHS Component did not always ensure that a third party certified the receipt and acceptance of goods and services. The controls requiring evidence of third-party receipt and acceptance, witnessed by signature on the Form 1501 or

other acceptable receiving documents, did not operate as outlined in the purchase card manual. The reason why the controls failed to operate as designed could not be determined based on audit evidence available. The control deficiency may allow purchase card transactions that are fraudulent or wasteful to go undetected. Cardholders may purchase and receive goods and/or services in quantities varying from those that are approved. In addition, the cardholder could receive and pay for damaged goods. Payment could be made for goods and services that were never received or are not for legitimate government use.

Finding 4: Systems for Award Management

For 21 (14 CBP, 7 USCG) of the 242 purchase card transactions selected, DHS Components failed to provide evidence that a SAM check had been performed prior to the purchases. A USCG official stated during testing that the component's *USCG SAP Guidebook* was being revised and under review at the end of audit fieldwork. However, the *USCG SAP Guidebook* in effect throughout FY 2017 required that SAM checks be performed for transactions over the micro-purchase threshold of \$3,500 and did not note exceptions to this requirement.

FAR Part 32.1108 requires contracting officers to verify vendors through the SAM for all purchases over the micro-purchase threshold. The *CBP \$10k Purchase Card Manual* and *USCG Simplified Acquisitions Procedures Guidebook* agree with FAR Part 32.1108 regarding the need for verification.

However, DHS Components did not always initiate SAM checks for non-micro-purchases, as required. The controls requiring evidence of a SAM check performed prior to purchases above the micro-purchase threshold did not operate effectively. The reason why the controls failed to operate as designed could not be determined based on audit evidence available. The control deficiency may allow purchase card transactions that are fraudulent or wasteful to go undetected as well as purchases from a suspended or debarred vendor.

Finding 5: Price Quotes

DHS Components did not always perform price comparisons for non-micro-purchases, as required. We found that, for 18 (6 CBP, 12 USCG) of the 242 purchase card transactions selected, the Components did not have documentation for price comparisons involving non-micro-purchases.

FAR Part 13 requires that the contracting officer seek out supplies and sources from the source whose offer is the most advantageous to the government by soliciting quotes from sources within the local area. *The CBP \$10k Purchase*

Card Manual and the *USCG SAP Guidebook* agree with FAR Part 13 in this regard.

The requirement for price quotes/reasonableness determinations for purchases above the micro-purchase threshold were not met, and the controls requiring review and approval of those purchases for price reasonableness did not operate effectively. The reason why the controls failed to operate as designed could not be determined based on audit evidence available. The control deficiency may allow purchase card transactions that are fraudulent or wasteful to go undetected. In addition, purchases may have been made that are not the most advantageous option to the government.

Finding 6: Subsistence Prime Vendors

USCG did not maximize and monitor the use of Prime Vendors for subsistence procurements. We found that for 8 (USCG) of the 242 purchase card transactions selected, the Component had authorized and made subsistence procurements but failed to maintain evidence that they were meeting the required minimum amount of procurements from Prime Vendors for subsistence provisions and were monitoring the activities.

The *USCG SAP Guidebook* requires that all dining facilities aboard Icebreakers, High Endurance Cutters, Medium Endurance Cutters, Maritime Security – Large ships, USCG Braque Eagle and Training Center Petaluma use Prime Vendors for 70% of all subsistence procurements where available.

However, USCG internal controls for subsistence procurements are not sufficient because they do not provide clear direction on documenting and monitoring compliance with the requirements. This control deficiency may allow purchase card transactions that are fraudulent or wasteful to go undetected. In addition, cardholders may initiate purchases that do not represent the most cost advantageous options to the government.

Finding 7: Tax Exempt Status

CBP used a purchase card to pay for taxes, a type of cost not allowed under the *DHS Purchase Card Manual*. We found that, for 1 (CBP) of the 242 purchase card transactions selected, the Component paid for taxes.

The *DHS Purchase Card Manual* requires that if a vendor does not recognize the tax-exempt status of the government, the cardholder should purchase from a different vendor that recognizes the tax-exempt status.

This noncompliance resulted in unallowable expenses incurred and paid for by the government. The controls requiring approving official review and approval failed to identify the unallowable tax charged to the government. CBP and DHS Headquarters representatives stated their position was that the taxes incurred were allowable because the constitutional immunity for government buyers, under the Arizona Transaction Privilege Tax Ruling, does not apply. However, the *DHS Purchase Card Manual* clearly requires that the buyer locate and order from a merchant that does not charge tax in instances in which the vendor does not recognize the government's tax exemption. As such, the Component could have ordered from a vendor outside of Arizona. The government paid \$579 in taxes from which it is exempt. We therefore questioned \$579 of CBP purchase card costs related to this deficiency.

Finding 8: Split Purchases

To remain at or below the micro-purchase threshold of \$3,500, a CBP cardholder split purchases — a practice that is prohibited in the *DHS Purchase Card Manual*. For example, the cardholder prepared a Form 1501 that showed an initial authorization of supplies for \$3,500 for the fourth fiscal quarter in 2017. This form appears to have been subsequently altered to reduce the dollar amount of the transaction to remain just below the micro-purchase threshold. We found another identical transaction of \$3,499.99 on the same day, for a total of two micro-purchase transactions totaling \$6,999.98.

We searched the purchase card spend data on the cardholder for similar transactions during the fiscal quarter (Q4, FY 2017) and found the following additional expenditures totaling \$13,782.44 in split purchases that the cardholder initiated with vendors for supplies (Vendor A & B):

- One transaction 21 days later for \$3,499.79 from a similar vendor (Vendor B) for similar products;
- Two transactions 35 days later, each for \$3,499.99, also from Vendor A;
- Four transactions 44 days later, each for \$2,039.09, also from Vendor A; and
- Five transactions within the same fiscal quarter, for a total of \$4,743.57, from Vendor A.

The *DHS Purchase Card Manual* defines a split purchase as a transaction broken down into multiple payments to avoid exceeding the single purchase limit or

competition threshold. The *CBP Basic Purchase Manual* agrees with the *DHS Purchase Card Manual* that this practice is prohibited.

The controls requiring approving officials to review for and consider the existence of split purchases did not operate effectively. The reason why the controls failed to operate as designed could not be determined based on audit evidence available. Because additional requirements apply to procurements over the micro-purchase threshold and splitting these purchases avoids the additional procurement requirements (e.g., price quotes, SAM checks), the government may pay and not detect unallowable, unreasonable, fraudulent, or wasteful costs.

DHS TRAVEL CARD PROGRAM FINDINGS

Finding 9: Travel Authorizations

DHS Components did not appropriately complete travel authorizations for certain reported travel card transactions. Specifically, we found that for 20 of the 291 travel card transactions selected, the transactions were not adequately supported, as presented below:

- For 11 (1 CBP, 5 FEMA, 4 ICE, 1 USCG) of the 291 selected transactions, DHS Components failed to maintain and/or provide the related travel authorizations;
- For 2 (ICE) of the 291 transactions, authorization forms showed no evidence of approval;
- For 3 (1 CBP, 1 ICE, 1 USCG) of the 291 selected transactions, DHS Components approved the authorizations after travel expenses were incurred; and
- For 4 (2 ICE, 2 USCG) of the 291 selected transactions, DHS Components failed to maintain and/or provide authorization for costs incurred that had subsequently been refunded.

The *DHS Travel Card Manual* requires the use of the travel card to cover the cost of official travel approved with a travel authorization. The *CBP Travel Handbook*, *FEMA Travel Policy Manual*, *ICE Travel Policy Handbook*, and *USCG Government Travel Charge Card* program policies and procedures agree with the *DHS Travel Card Manual* on this requirement. The *DHS Travel Card Manual* also requires that documents supporting travel card charges be retained for 6 years and 3 months after final payment to the card account.

DHS travel card controls for ensuring completion and approval of authorizations prior to initiating travel and document retention did not operate as designed. The reason why the controls failed to operate as designed could not be determined based on audit evidence available. These control deficiencies may allow unauthorized, fraudulent, or wasteful charges to travel cards without being detected. Further, failure to maintain adequate documentation to support travel costs, such as completed and approved authorizations, increases the risk of improper reimbursements to travelers and prevents the auditability of transactions.

Finding 10: Travel Vouchers

DHS Components did not correctly complete travel vouchers for certain reported travel card transactions. Specifically, for 35 of the 291 travel card transactions selected, the DHS Components had travel voucher violations, as presented below:

- For 29 (14 FEMA, 11 ICE, 4 USCG) of the 291 selected transactions, travel vouchers were not submitted by the cardholder within the required timeframes;
- For 5 (1 FEMA, 3 ICE, 1 USCG) of the 291 selected transactions, DHS Components failed to maintain and/or provide the related travel vouchers; and
- For 1 (USCG) of the 291 selected transactions, the voucher provided was not properly approved.

The *DHS Travel Card Manual* requires travelers to submit vouchers within 5 business days of the end of a trip or every 30 days if on continuous travel, along with appropriate documentation to support the costs on the voucher. The *FEMA Travel Policy Manual* and the *ICE Travel Policy Handbook* agree with the *DHS Travel Card Manual* on this requirement. CBP does not maintain a Component-level travel manual. USCG Government Travel Charge Card program policies and procedures state that travelers must submit vouchers within 3 business days of the end of a trip. USCG ALCGPSC 061/17 Government Travel Charge Card *Program Updates and Personnel Service Center Season Reminders* requires travelers to submit vouchers every 15 days if on continuous travel. The *DHS Travel Card Manual* further requires DHS Components to retain travel card documents for 6 years and 3 months after final payment to the card account.

The controls requiring timely submission of travel vouchers and/or the controls requiring retention of those vouchers failed to operate as designed. The reason

why the controls failed to operate as designed could not be determined based on audit evidence available. DHS Components may have reimbursed unallowable, inaccurate, fraudulent and/or wasteful costs due to a lack of proper review and approval, and/or proper maintenance of supporting documentation. Failure to maintain supporting documentation (completed and approved vouchers, reviewed and approved transaction receipts, invoices, etc.) prevented the auditability of transactions. Further, late submission of vouchers for review and approval increases the risk of delayed reimbursements and payments to employee credit card accounts.

Finding 11: Lack of Adequate Supporting Documentation

DHS Components did not consistently retain adequate supporting documentation to substantiate costs incurred and reported for travel card transactions. Specifically, we found that, for 10 of the 291 travel card transactions selected, DHS Components failed to maintain adequate support, as presented below:

- For 6 (2 ICE, 4 USCG) of the 291 selected transactions, DHS Components failed to provide sufficient third-party evidence (e.g. receipts, invoices, etc.) to verify the actual costs incurred; and
- For 4 (1 CBP, 3 ICE) of the 291 selected transactions, supporting documentation provided by DHS Components did not agree with the full amounts of the transactions.

The *DHS Travel Card Manual* requires that cardholders must include appropriate documentation and receipts, for reimbursement of expenses while on official travel, when preparing their travel vouchers. The *ICE Travel Policy Handbook* and USCG Government Travel Charge Card Program and Policies agree with the *DHS Travel Card Manual* on this requirement. CBP does not maintain a Component-level travel manual. The *DHS Travel Card Manual* also requires that DHS Components retain documentation of travel card transactions for 6 years and 3 months after final payment to each card account.

The controls requiring DHS Components to obtain and retain receipts, invoices, and/or other such supporting documentation for travel transactions did not operate as designed. The reason why the controls failed to operate as designed could not be determined based on audit evidence available. The control deficiencies may allow reimbursement of unallowable, inaccurate, fraudulent, or wasteful card transactions to go undetected. We questioned a total of \$2,464

(\$454 for CBP, \$395 for ICE, \$1,615 for USCG) in travel card costs related to this deficiency.

Finding 12: Unallowable Transactions

CBP did not ensure that one Automatic Teller Machine (ATM) withdrawal was within established limitations. We found that, for 1 of the 291 travel card transactions selected, a CBP cardholder withdrew \$994 in cash from an ATM — an amount exceeding the allowable limit for a 7-day period. CBP lacked supporting documentation showing justification for the withdrawal. The cardholder also did not comply with the allowable cash withdrawal limit or maintain supporting documentation to justify the cash withdrawal, in accordance with DHS policies.

Additionally, during our testing of FEMA's travel card costs, we found that a cardholder purchased a business class train fare for \$383 that did not include proper approval as an exception to purchasing coach class fare. The cardholder also did not document the reason why he/she purchased business class fare or obtain approval needed to make this an allowable expense.

According to the *DHS Travel Card Manual*, the maximum ATM/teller withdrawal amount for domestic travel is \$400 per each 7-day period. The *DHS Travel Card Manual* also requires that cardholders obtain special authorization for purchasing anything above coach class fare.

The controls in place to prevent withdrawals in excess of the allowable 7-day maximum did not operate effectively. The controls requiring review and approval of travel transactions failed to identify the unallowable withdrawal and failed to ensure obtaining/maintaining justification for the withdrawal as required by DHS policies and procedures. The controls requiring additional justification and documentation for purchasing business class fare also failed to operate as designed. The reason why the controls failed to operate as designed could not be determined based on audit evidence available. The control deficiency may allow the reimbursement or payment of unallowable, inaccurate, fraudulent, or wasteful travel card, or cash, transactions to go undetected. We questioned the difference of \$105 between the \$383 the FEMA official improperly charged for potentially wasteful and inappropriate business travel and the amount of a coach class fare.

Collectively, we questioned a total of \$1,099 (\$994 for CBP, \$105 for FEMA) in travel card costs card costs related to this deficiency.

Finding 13: Credit Balance Refunds

We found 6 (5 CBP, 1 ICE) of the 291 travel card transactions selected represented credit balance refunds. For the 6 transactions, DHS Components failed to maintain sufficient documentation to allow reconciliation of the credit balance refunds to the original transactions and to the related refunds. Components refunded these credit balances in full to the addresses on file without reconciling to the underlying transactions and amounts to ensure refunds were received by the appropriate parties.

The *DHS Travel Card Manual* requires that the Agency Program Coordinator reconcile and approve quarterly refunds for all DHS Components. The control requiring the Agency Program Coordinator to reconcile refunds did not operate as designed. The reason why the controls failed to operate as designed could not be determined based on audit evidence available. The control deficiency could result in incorrect recording of credit balance refunds and could lead to misappropriation of related funds. The government or individual may receive refunds that should be reimbursed to another party. The value of credit balance refund selected during testing was \$71,935 for CBP and \$60,545 for ICE. The overall credit balance refunds questioned for FY 2017 travel card costs total \$477,695 (\$343,545 for CBP, \$134,150 for ICE).

Finding 14: Prudent Traveler Standard

We found that for 2 (1 FEMA, 1 ICE) of the 291 travel card transactions selected, the DHS Components did not ensure that travelers met the “prudent traveler” standard. The FEMA prudent traveler transaction related to a rental car transaction. FEMA allowed a monthly car rental at \$687/month, although the cardholder only used the car for 10 days per the rental receipt. The ICE transaction related to valet parking costs. The cardholder paid \$53/day for valet parking rather than utilizing nearby self-park garages. At the time of testing, online parking-finder websites showed a self-park garage one block away from the hotel for \$32/day and other such garages in the vicinity for an average of \$37/day.

The *DHS Travel Card Manual* requires that the use of the travel card does not relieve the employee of responsibility for prudent travel practices. The *FEMA Travel Policy Manual* and the *ICE Travel Handbook* agree with the *DHS Travel Card Manual* requirement.

The controls requiring review and approval of travel transactions failed to identify transactions that did not meet the “prudent traveler” standard required

by DHS and DHS Component travel policies because officials did not perform a proper supervisory review. The reason why such reviews were not conducted could not be determined based on the audit evidence available. The control deficiency allowed \$292 in potentially wasteful costs to go undetected. We questioned a total of \$292 (\$229 for FEMA, \$63 for ICE) for travel card costs in excess of what we consider sufficient to meet the prudent traveler standard.

Finding 15: Official Travel

FEMA did not maintain documentation to adequately support travel costs or the purpose of travel. We identified 92 instances out of the 291 travel card transactions selected, in which FEMA did not fully document the purpose for travel.

Specifically, FEMA did not maintain:

- Documentation to support that travel costs were justified. The stated purpose of travel per the Authorization and Voucher was broad and vague (e.g. “MISSION (OPERATIONAL)” or “Meeting”); and
- Copies of the voucher, authorization, or other documentation to support the purpose of travel.

In all instances, we found that FEMA did not maintain detailed documentation to show that the approving official had full knowledge of the traveler’s activities and verified that the travel expenses were justified, or the stated purpose of travel was accurate.

The *FEMA Travel Policy Manual* requires that the approving official verify that travel expenses are justified and for official government business. It also requires that the approving official have full knowledge of the traveler’s activities.

FEMA did not comply with these requirements. FEMA did not perform proper supervisory review of the reimbursement requests for travel to ensure that travel costs were justified, approved, and supported with adequate documentation. The reason why FEMA did not conduct such reviews could not be determined based on the audit evidence available. The government could incur and pay unallowable, fraudulent, or wasteful travel costs (for unofficial travel or other than least costly means necessary to accomplish the mission) when DHS Components do not properly review travel documentation.

Finding 16: Emergency Food and Lodging

During our testing, we found that for 8 FEMA transactions of the 291 travel card transactions selected, there were discrepancies between the individuals included on the emergency food and lodging invoices and those who appeared on the approved invitational traveler letters.

The *FEMA Travel Policy Manual* requires that the Issuing Official review and reassess all authorizations pertaining to emergency food and lodging every 24 hours. It also requires that the traveler obtain approval of the FEMA Form 123-1-1 before incurring lodging expenses and that the Issuing Official submit a report to the Assistant Administrator for Response and the Chief Financial Officer within 30 days of authorizing emergency food and lodging.

The Issuing Official did not perform the required daily reviews to ensure that the invitational travel letter was accurate. The controls requiring documentation of authorized travelers in relation to invitational travel did not operate as designed. The reason why the controls failed to operate as designed could not be determined based on the audit evidence available. The control deficiency may allow potentially fraudulent or wasteful travel card transactions to go undetected. The government incurred and paid \$1,985 in unallowable costs. We questioned \$1,985 in reported FEMA travel card costs related to this deficiency.

Finding 17: Improper Use of Travel Card

ICE paid for the issuance of travel documents for nonresident aliens, a type of cost not allowed per the *DHS Travel Card Manual*. We found that, for 2 of the 291 travel card transactions selected, ICE used centrally billed accounts to pay for fees incurred to issue travel documents for nonresident aliens. These documents are business-related expenses that do not represent costs incurred for a cardholder on official travel. We identified 6 additional ICE transactions directly related to these costs that were not in the originally selected 291 transactions tested.

The *DHS Travel Card Manual* requires that cardholders use the travel card only for authorized DHS travel expenses incurred while on official travel. Cardholders may not use the card for non-travel expenses even if such expenses are business-related.

In the 8 instances, ICE did not adequately review the travel costs and failed to identify and prevent the use of the travel card for unallowable expenses. The

reason why the controls failed to operate as designed could not be determined based on the audit evidence available. The Component incurred \$1,009,147 in unallowable costs per DHS policies and procedures for the 8 transactions. The control deficiency allowed \$1,009,147 in costs to be paid using the travel card, which may not have met the procurement requirements for appropriate payment method.

RECOMMENDATIONS

The Department of Homeland Security Office of Inspector General recommends that the Department of Homeland Security, Chief Financial Officer:

Recommendation 1: Require cardholders to accurately complete Form 1501 with detail sufficient to allow for meaningful reviews and audit.

In addition, the DHS OIG recommends that the DHS CFO require enforcement of controls to ensure proper review and approval of purchases; appropriate separation of duties in accordance with OMB A-123, Appendix B; and maintenance of Form 1501 for the full retention period required by FAR and Component policies and procedures. (Finding 1).

OCFO Comments

Response: Concur. OCFO will strengthen guidance in the *DHS Financial Management Policy Manual*, *DHS Purchase Card Manual*, and will automate DHS Form 1501 where possible. OCFO noted that for situations in which automation is not practical, purchase card training will be conducted to reinforce the cardholders' responsibility to accurately and sufficiently complete DHS Form 1501. Additionally, OCFO will update the *DHS Purchase Card Manual* to remove the separation of duties waiver and add additional penalties for cardholders and approving officials that fail to conduct proper reviews and approvals of purchases. **Estimated Completion Date (ECD) September 30, 2020.**

OIG Analysis

OCFO's proposed corrective actions are responsive to the recommendation. This recommendation will remain resolved and open until we receive evidence of the automation of Form 1501 or training where automation is not practical. Additionally, OCFO should provide the updated *DHS Purchase Card Manual*, which removes the waiver and adds penalties for cardholders and approving officials who fail to conduct proper reviews and approvals of purchases.

Recommendation 2: Maintain supporting documentation, including documentation of all reviews and approvals, in accordance with relevant laws regulations, policies, and procedures. The DHS CFO should determine the allowability of the questioned costs identified in Findings 2 and 11 and collect any amount determined to be unallowable. (Findings 2, 9, 10, 11, 15, and 17).

OCFO Comments

Response: Concur. OCFO will strengthen guidance in the *DHS Purchase Card Manual*, *DHS Travel Card Manual*, and Temporary Duty Travel policy. The OCFO will also update the purchase and travel card manuals and training to address the need to maintain all supporting documentation and to properly complete the review and approval of all purchases. OCFO will place additional penalties on cardholders and approving officials that do not comply. OCFO will review the questioned cost and associated transactions in Findings 2 and 11 to determine their allowability. If transactions are determined to be unallowable, OCFO will work with Components to recoup any inappropriate spending. **ECD June 30, 2020.**

OIG Analysis

OCFO's proposed corrective actions are responsive to the recommendation. This recommendation will remain resolved and open until we receive: (1) the updated purchase and travel card manuals (including the updated Temporary Duty Travel policy); (2) evidence that OCFO has placed additional penalties on cardholders and approving officials who do not comply; and (3) OCFO's determination of the allowability of the questioned costs.

Recommendation 3: Require enforcement of existing controls to ensure payments are only made for goods and services that have been delivered and are in acceptable condition. (Finding 3).

OCFO Comments

Response: Concur. OCFO will strengthen guidance within the *DHS Purchase Card Manual* and update purchase card training to reinforce the need for receipt and acceptance by an independent third party. OCFO will place additional penalties on cardholders and approving officials who do not comply with third-party receipt and acceptance. OCFO will also revise the monthly purchase card testing plan to identify third-party receipt as a key component of a proper transaction. **ECD September 30, 2020.**

OIG Analysis

OCFO's proposed corrective actions are responsive to the recommendation. This recommendation will remain resolved and open until we receive evidence that: (1) purchase card training has been strengthened and documented in the Purchase Card Manual; (2) OCFO has developed and implemented procedures for placing

additional penalties on cardholders and approving officials who do not comply with third-party receipt and acceptance corrective actions; and (3) OCFO has revised monthly purchase card testing plans to identify third-party receipts to properly support transactions.

Recommendation 4: Require enforcement of existing policies and controls to ensure that purchases are not made from vendors with active exclusions in the SAM. (Finding 4).

OCFO Comments

Response: Concur. OCFO will update training guidance and include specific language in the *DHS Purchase Card Manual* requiring cardholders to conduct a SAM check when making a transaction above the micro purchase transaction limit (currently \$10,000). OCFO will also coordinate with the DHS Chief Procurement Officer on a communication to Contracting Officers that will reinforce the requirement for a SAM check and the need to maintain documentation of a SAM check with the procurement file. **ECD March 31, 2020.**

OIG Analysis

OCFO's proposed corrective actions are responsive to the recommendation. This recommendation will remain resolved and open until we have received and reviewed the updated *DHS Purchase Card Manual* with specific training guidance and evidence that OCFO has coordinated with the DHS Chief Procurement Officer on communication with Contracting Officers on the requirement for SAM checks and the maintenance of documentation in the procurement files.

Recommendation 5: Require DHS Components obtain price competition for all goods and services in excess of the micro-purchase threshold, in accordance with relevant laws, regulations, policies, and procedures. (Finding 5).

OCFO Comments

Response: Non-Concur. OCFO contends the transactions identified in Finding 5 are not subject to FAR 13.104. OCFO noted these transactions were either payments on existing contracts, from required sources of supply, or made during emergency situations; thus, when making payments on existing contracts, the price competition happened at the time the contract was awarded. OCFO noted there are sufficient controls in place for this FAR

requirement. OCFO requested that the OIG consider this recommendation resolved and closed, as implemented.

OIG Analysis

OCFO is non-responsive to the recommendation. OCFO claimed that some of the sample selections in question were for payments on existing contracts from required sources of supply; thus, the price competition would have happened at the time the contract was awarded. Although OCFO claimed that price competition previously occurred, the documentation to support that the payments were against existing contracts, which were competitively awarded, was not provided to us.

OCFO also claimed that some of the purchases were made during emergencies and, therefore, were not subject to the cited FAR requirements. The FAR provides certain flexibilities related to emergency procurements, such as agencies being allowed to limit the number of sources for contracting actions involving urgent requirements; however, agencies must still comply with certain requirements prior to making emergency procurements.

For instance, if limiting the number of sources in a contracting action involving urgent requirements, there must be an unusual and compelling urgency that precludes full and open competition. In such a situation, the contract period of performance may not exceed the time necessary to meet the unusual and compelling requirement of the work to be performed, and the time necessary to enter into another contract for the required goods and services through the use of competitive procedures.

OCFO has not provided support to document that circumstances presented were unusual and of compelling urgency. Additionally, OCFO has not provided support to show that any purchases made with reduced requirements under emergency procurements were for a period of performance that did not exceed the requirements of FAR as described above. Finally, OCFO has not provided any alternate regulation references stating that the purchases in question were exempt from price reasonableness determinations.

Therefore, the recommendation will remain unresolved and open until we have received and reviewed the supporting documentation that demonstrates that the purchases were for unusual and compelling urgency or an alternate regulation stating that the purchases were exempt from the reasonableness determinations.

Recommendation 6: Require that USCG maintain documentation of each subsistence procurement request showing procurements made against each subsistence authorization and that Prime Vendor purchasing thresholds have been reached, when applicable. (Finding 6).

OCFO Comments

Response: Non-Concur. OCFO noted the USCG's mission requirement and limited purchasing scope does not always allow cardholders to meet the minimum purchasing requirement set forth by the Defense Logistics Agency contracted vendors agreement. OCFO further noted the USCG released ALCOAST 548/13 eliminating the target percentage referenced in the USCG Food Service Manual. According to OCFO, there is no requirement to track Prime Vendors when making subsistence procurements. OCFO requested that the OIG consider this recommendation resolved and closed, as implemented.

OIG Analysis

OCFO is non-responsive to the recommendation. OCFO cites USCG document ALCOAST 548/13 as having eliminated the target percentages referenced in the USCG Food Service Manual. However, we found no language within ALCOAST 548/13 removing the target requirements for the use of Prime Vendors. This document discusses, under the heading *Defense Logistics Agency Troop Support, Subsistence Prime Vendor, Stores Web Account*, the need to maintain an up-to-date Stores Web account, the need to use a government source for procuring food items to the maximum extent possible, and that not all Coast Guard Dining Facilities have the capability to utilize a government source of supply. None of these items address the target percentages of Prime Vendor use.

We noted no other references to Prime Vendors within ALCOAST 548/13. We maintain our finding that the referenced target percentages of Prime Vendor use were in place and effective at the time of these purchases and that no supporting documentation was available to show whether those targets were being met.

Therefore, the recommendation will remain unresolved and open until we have received and reviewed the supporting documentation demonstrating that the subsistence procurement request, showing procurements made against each subsistence authorization, and the Prime Vendor purchasing thresholds have been reached.

Recommendation 7: Require CBP enforce existing controls to ensure that taxes are not paid and that the DHS CFO determines the allowability of \$579 in questioned costs, collecting any amount determined to be unallowable. (Finding 7).

OCFO Comments

Response: Non-Concur. OCFO noted this expenditure was labeled as a tax on the purchase receipt. OCFO claimed that Arizona is a tax-exempt state with the exception of the Arizona Transaction Privilege tax, which is a tax on the vendor for the privilege of doing business in the state. OCFO also noted that Arizona issued a ruling that stated sales to the United States Government count towards the vendor's sales base. OCFO considered the amount paid was a fee collected from the cardholder that the vendor passed on to the cardholder as a cost of doing business. OCFO contends this transaction complies with DHS policy requirements. OCFO requested that the OIG consider this recommendation resolved and closed, as implemented.

OIG Analysis

OCFO is non-responsive to the recommendation. We do not agree with the OCFO's determination about the Arizona Transaction Privilege Tax. We consider the Arizona Transaction Privilege Tax to be a tax, as it is clearly defined as such by the Arizona Department of Revenue. Specifically, the Arizona Department of Revenue website states "the Arizona transaction privilege tax is actually a tax on a vendor for the privilege of doing business in the state." It would not matter what the tax is for, what it was applied to, or whether it was a pass-through from the vendor to the Federal Government because it would still be a tax as defined by the Arizona Department of Revenue. There is no reason to accept it as a payable by the Federal government.

Therefore, the recommendation will remain unresolved and open until we have received and reviewed evidence that the OCFO has made a determination about the allowability of the \$579 in questioned costs.

Recommendation 8: Require approving officials review cardholder purchase requests to determine whether split purchases are made and deny requests for reimbursement when split purchases are identified. (Finding 8).

OCFO Comments

Response: Non-Concur. OCFO noted that the examples in this finding do not fit the DHS, General Services Administration, or CBP definitions of split purchases. For additional details see Appendix C in CFO response. OCFO noted cardholders can make multiple purchases with the same vendor on the same day as long as the requirement for each purchase is different. The transactions referenced do not fit the description of a split purchase as they were made for either multiple requirements or were 21 to 44 days apart.

Regarding the CBP transaction, OCFO noted that the cardholder made one purchase during a 3-week period. When the order was filled the vendor made two shipments, one for \$2,811.46 and the other for \$688.53, thus the total equals \$3,499.99. This amount (\$3,499.99) is less than minimum requirement of \$3,500 to be considered a split purchase. OCFO requested that the OIG consider this recommendation resolved and closed, as implemented.

OIG Analysis

OCFO is non-responsive to the recommendation. OCFO cites the *DHS Purchase Card Manual* definition of a split purchase. This definition is part of the criteria cited in the finding. The purchase selected was originally prepared for \$3,500.00, as seen on the purchase request provided to us during the audit. That purchase request showed that prior to final approval of the purchase, the approved purchase amount was reduced to \$3,499.99. We consider this evidence that the purchase was intentionally reduced to fall as close to the micro purchase threshold without meeting or exceeding it. The OCFO also cites the GSA purchase card training definition of a split purchase. We agree on the cited definition of a split purchase and believe it supports our position.

The OCFO further cites language from the *CBP Purchase Card Manual* regarding “the most common indicator of a split transaction.” This is not the only indicator of a split purchase and should not be applied as such. All of the additional purchases in question are for office supplies. Many of the additional purchases in question are from a single vendor. Three of the additional purchases in question fall within 35 days off the initial split transaction identified and fall less than one dollar below the micro purchase threshold (two of which were for \$3,499.99, which is one cent less than the micro purchase threshold). We maintain that these transactions represent parts of a split-purchase.

Finally, the OCFO cites the *DHS Financial Management Policy Manual*, which states that a split purchase is based on the requirement, not the vendor. Although we have provided information in the condition of our finding regarding

the vendor, it was not the only criteria which was applied. The identification of the vendors, such as Staples, was provided to help support that these purchases were for similar products (office supplies). However, independent of the consideration of the vendor(s), many of these purchases were made in the amount of \$3,499.99, which independently suggests that these purchases were made in amounts specifically meant to stay below the micro purchase threshold of \$3,500.00. This scenario depicts the definition of a split purchase.

Therefore, the recommendation will remain unresolved and open until we have received and reviewed evidence that the OCFO has made a determination about whether split purchases were made and its denial of any requests for reimbursement when split purchases are identified.

Recommendation 9: Require enforcement of controls designed to ensure cardholders comply with requirements surrounding approvals, limitations on cash withdrawals, and maintenance of documentation regarding inability to use the travel card. Determine the allowability of the \$1,099 in questioned costs and collect any amount determined to be unallowable. (Finding 12).

OCFO Comments

Response: Concur. OCFO noted that the corrective control for ATM limits was completed by CBP in January 2018. Additionally, OCFO will require all Components to set these limits in the bank's system. DHS will include ATM withdrawal transactions in monthly post-payment audits to randomly sample ATM withdrawals and correct any cardholder who may be using cash when the card would be accepted.

OCFO requested that FEMA personnel determine the feasibility of recouping from the traveler the amount reimbursed over a coach fare. OCFO personnel are also working with the travel system program management office to ensure any controls available to prevent unauthorized premium class travel are in place.

ECD December 31, 2019.

OIG Analysis

OCFO's proposed corrective actions are responsive to the recommendation. This recommendation will remain resolved and open until we have received and reviewed evidence that DHS has included ATM withdrawals in its post-payment audits and controls are established to prevent unauthorized premium class travel.

Recommendation 10: Require DHS Components (including those not selected for FY 2017 testing) implement additional procedures and controls to ensure refunds are properly reconciled and that funds are disbursed to the appropriate parties. (Finding 13).

OCFO Comments

Response: Non-concur. OCFO contended that the OIG misunderstood the Department's travel card policy requiring the review of "refunds" or "rebates" the contracting bank pays the Department for using charge cards. OCFO noted the credit balance refunds involved a travel card holder having a negative balance on a monthly charge card statement, due to overpayment, and as a result the bank owes the cardholder money upon the cardholder's request or 90 days of inactivity. OCFO stated that credit balances on individually billed accounts, like balances due, are the responsibility of the individual cardholder. OCFO requested that the OIG consider this recommendation resolved and closed, as implemented.

OIG Analysis

OCFO is non-responsive to the recommendation. OCFO claimed that if a cardholder is overpaid due to an accounting or procedure error, any overpayment will be recouped by the Government from the cardholder. Although we agree this should be the procedure, we see no way for the Department to ensure this is happening, without review and reconciliation of the credit balance refunds. We noted that no policy or procedure is in place over credit balance refunds to determine whether the amount refunded by the credit card issuer to the cardholder was for an expense or overpayment for which the cardholder was previously reimbursed by the Government.

Therefore, the recommendation will remain unresolved and open until we have received and reviewed evidence that OCFO has developed and implemented additional procedures and controls to ensure refunds are properly reconciled and that refunds are disbursed to the appropriate parties.

Recommendation 11: Require that cardholders spend authorized government funds prudently and only request reimbursement for reasonable travel expenses incurred. The DHS CFO should evaluate whether additional training is necessary to educate travelers on the prudent traveler standard and determine the allowability of \$292 in questioned costs, collecting any amount that is determined to be unallowable. (Finding 14).

OCFO Comments

Response: Non-concur. OCFO noted that the draft report included two FEMA transactions for rental cars that took place during disaster response deployments. OCFO noted that FEMA does not require travelers to conduct price analyses of rental car company quotes before renting. OCFO further noted that FEMA uses the travel system CONCUR to facilitate its travel bookings. When booking a rental car in CONCUR the rental rates are renegotiated using a government-wide contract. OCFO contends as long as the rental car meets the size criteria, using the contracted price found in CONCUR is reasonable.

OCFO also noted that the third transaction in the draft report involved an ICE traveler who used available parking at the traveler's hotel although a less expensive parking garage was one-block away. OCFO takes a proactive approach with the prudent travel standard, reminding travelers to make travel decisions as if they were using their own funds. OCFO contends the subjectivity used by OIG to question this transaction could as easily be used to determine it allowable and reasonable. In this case, both the traveler and the travel-approving official determined the amount of time saved using the hotel's available parking was appropriate. OCFO requests that the OIG consider this recommendation resolved and closed, as implemented.

OIG Analysis

OCFO is non-responsive to the recommendation. The fact that FEMA is responding to an emergency does not in and of itself remove all requirements for price reasonableness and the prudent traveler standard. FAR requirements are relaxed or altered, but are not removed in perpetuity. We do not agree with OCFO that making emergency procurements removes the requirements to consider price reasonableness and the prudence of travel purchases.

The OCFO continues its response related to the questioned FEMA rental car transactions by stating that FEMA uses the CONCUR Travel System to facilitate its travel bookings, which uses contracts negotiated by the Defense Travel Management Office. We have considered the system design and controls and removed the portion of the finding and questioned costs directly related to the car rental, for which we originally reported a lack of price reasonableness consideration.

However, the second rental car transaction cited was not questioned due to a lack of price reasonableness related to the daily/weekly/monthly rate for the rental. The second car rental was specifically questioned for prudence because

the Component paid for a 1-month rental when the supporting evidence showed the car was only rented/held for 10 days. This portion of the finding has been maintained because no additional response or documentation has been provided to support that the car was needed for the full month or that a refund for the additional portion of the month was received.

The next transaction involved an ICE traveler who used valet parking available at the traveler's hotel although a less expensive parking garage was one-block away. The Department stated that both the traveler and the travel-approving official determined that the amount of time saved using the hotel's valet was appropriate. We disagree that the additional time to use a garage in such close vicinity to the accommodations justified the 40 percent additional cost of the service.

Therefore, the recommendation will remain unresolved and open until we have received and reviewed evidence that the OCFO has evaluated whether additional training is necessary to educate travelers on the prudent traveler standard and determine the allowability of the \$292 in questioned costs.

Recommendation 12: Require strengthening of controls to ensure the Issuing Official reconciles the list of approved travelers to the pre-approved list of travelers, and reviews actual costs for reasonableness and allowability. Determine the allowability of \$1,985 in questioned costs and collect any amount determined to be unallowable. (Finding 16).

OCFO Comments

Response: Concur. OCFO will develop a process that ensures only pre-approved travelers are allowed emergency food and lodging services and will review subsequent invoices for reasonableness, allowability, and accuracy. This process will also ensure guidance in the *FEMA Travel Policy Manual*, which requires daily reviews of all authorizations pertaining to emergency food and lodging, is followed. **ECD March 31, 2020.**

OIG Analysis

OCFO's proposed corrective actions are responsive to the recommendation. This recommendation will remain resolved and open until we receive evidence that OCFO has developed a process to ensure that only pre-approved travelers are allowed emergency food and lodging services and will review subsequent invoices for reasonableness, allowability, and accuracy, as well as FEMA's daily reviews of authorization for emergency food and lodging.

APPENDIX A: OBJECTIVES, SCOPE AND METHODOLOGY

The audit objective was to determine whether DHS Purchase and Travel Card transactions for FY 2017 were appropriate and complied with relevant laws and regulations.

We conducted our audit of DHS' Purchase and Travel Card Programs in accordance with 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 conclusion based on our audit objectives. The scope of this audit included:

- Obtaining an understanding of DHS' and DHS Components' internal controls, assessing control risk, and determining the extent of testing needed based on the control risk assessment;
- Examining, on a test basis, evidence supporting Purchase and Travel Card transactions;
- Identifying and analyzing:
 - The number, type, purpose, source, and value of purchase card or convenience check transactions;
 - Potentially illegal, improper, or erroneous purchases and payments;
 - Any pattern of illegal improper, or erroneous purchases and payments; and
 - Categories of purchases that could be made by means other than purchase cards to better aggregate purchases and lower prices;
- Assessing compliance with relevant laws and regulations; and
- Evaluating the overall data and records presentation.

We evaluated DHS Purchase and Travel Card Programs using applicable requirements contained in the *Government Charge Card Abuse Prevention Act of 2012*; OMB M-13-21 *Implementation of the Government Charge Card Abuse Prevention Act of 2012*; OMB Circular A-123, Appendix B, *Improving the Management of Government Charge Card Programs*; FAR; and OMB Circular A-50, Audit Follow-up.

The scope of our audit reflects our assessment of control risk and includes those tests of compliance with applicable laws, regulations, and agreements that are significant within the context of the audit objectives.

Our audit methodology included the following:

- Conducting walkthroughs of the various Purchase and Travel Card Programs to gain an understanding of the design of their manual and systemic internal control environments, including the nature and existence of applicable policies and procedures;
- Conducting preliminary risk assessments;
- Reconciling the FY 2017 purchase and travel card spending data reported by DHS to DHS Components' transactional detail;
- Selecting Component programs for current year testing based on the results of preliminary risk assessments performed. This considered factors such as, but not limited to the size of the Component, the types and volume of purchases made (qualitative and quantitative), and prior audit results;
- Applying a combination of monetary unit and judgmental sampling techniques to transaction populations to select samples.
 - The monetary unit sampling approach is a method of statistical sampling that takes into account variables such as the dollar value of account balance being tested, the auditors' level of assessed risk for the account balance, the materiality thresholds established, and whether other procedures are being performed on the same account balance.
 - These sampling methodologies resulted in 242 and 291 total transactions selected for testing for the Purchase and Travel Card Programs, respectively, during this audit.
- Performing dual-purpose testing procedures (control and substantive tests using a single sample) to determine the adequacy of the internal control environment, and whether reported purchase and travel card costs are reasonable, allocable, and allowable in accordance with relevant laws, regulations, and policies. Our testing procedures included the following:
 - Observation and analysis;
 - Review of documentary evidence to verify that certain controls (e.g., reconciliations, approvals) were performed and reviewed by management; and
 - Review of documentary evidence to verify that Purchase and Travel Card Program costs were reasonable, allocable, and allowable.

- Performing other analytical procedures in various areas to determine if any other areas require further analysis or transactional testing; and
- Conducting an exit conference with DHS Components to discuss the criteria, conditions, and causes for our findings.

**APPENDIX B: EXECUTIVE SUMMARY OF QUESTIONED COSTS AND
INTERNAL CONTROL DEFICIENCIES**

During FY 2017, DHS reported spending approximately \$1.1 billion in Purchase and Travel Card transactions. CohnReznick’s audit of DHS Purchase and Travel Card Programs for FY 2017 identified questioned costs and internal control deficiencies. The questioned costs are summarized by DHS Component and program in the tables below:

Executive Summary DHS FY 2017 Purchase Card Program				
Component	Reported Costs	Questioned Costs	Adjusted Costs	Control Deficiency (Findings)
USCG	\$ 209,834,518	\$ 32,600	\$ 209,801,918	1, 2, 3, 4, 5, 6
CBP	90,776,433	5,068	90,771,365	1, 2, 4, 5, 7, 8
Total Cost Tested	300,610,951	37,668	300,573,283	
Other*	123,432,127	-	123,432,127	
Total	\$ 424,043,078	\$ 37,668	\$ 424,005,410	

* These components were not selected for testing.

Executive Summary DHS FY 2017 Travel Card Program				
Component	Reported Costs	Questioned Costs	Adjusted Costs	Control Deficiency (Findings)
FEMA	\$ 200,815,019	\$ 2,319	\$ 200,812,700	9, 10, 12, 14, 15, 16
CBP	112,098,524	1,448	112,097,076	9, 11, 12, 13
USCG	95,133,086	1,615	95,131,471	9, 10, 11
ICE	86,012,817	458	86,012,359	9, 10, 11, 13, 14, 17
Total Cost Tested	494,059,446	5,840	494,053,606	
Other*	220,721,958	-	220,721,958	
Total	\$ 714,781,404	\$ 5,840	\$ 714,775,564	

* These components were not selected for testing.

Source: Reported costs derived from DHS FY 2017 Purchase and Travel Card Program spend data

Based on the procedures performed, we identified 17 significant deficiencies in DHS’ internal controls, as described in this report.

APPENDIX C: DHS MANAGEMENT RESPONSE

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



**Homeland
Security**

September 13, 2019

MEMORANDUM FOR: Sondra F. McCauley
Assistant Inspector General for Audits
Office of the Inspector General

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

SUBJECT: Management Response to Draft Report: "Audit of DHS Fiscal
Year 2017 Purchase and Travel Card Programs"
(Project No. OIG-18-014-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 work of the Office of Inspector General (OIG) in planning and conducting its review and issuing this report.

DHS's senior leadership is pleased to note that of the Department's Fiscal Year (FY) 2017 charge card spend of \$1.3 billion, the OIG (1) did not identify any fraudulent activity, (2) found that the programs complied with all relevant laws and regulations, and (3) identified only approximately \$49,000 (0.0038%) in questioned costs. However, leadership is concerned that the audit teams' apparent misunderstanding of the criteria involved with this audit resulted in several inaccurate findings and conclusions. In addition, leadership believes that OIG's report and recommendations would have been much more impactful had they been more timely.

DHS takes a proactive approach to preventing government charge card waste, fraud, and abuse. For example, DHS oversees the Bankcard program using VISA IntelliLink, technology that helps identify potential unauthorized use of the Department's charge cards. Using this technology, DHS conducts monthly audits to ensure that charge card transactions were appropriate, reasonable, and compliant with Departmental policy.

In addition, for every Purchase and Fleet card transaction, a federal government employee (employee) conducts a review of that transaction, and another employee approves it. This "review and approve" function is a key control the Department uses in its effort to monitor these two programs. The Department also closely tracks delinquent

individually billed account travel card accounts, using monthly reports which are distributed to Components for follow-up attention. DHS makes every effort to ensure that all spending placed on government-issued charge cards is appropriate and driven by requirements related to fulfilling the Department's highest priority, which is to protect the American people from threats to their security.

Inaccurate Findings and Conclusions

DHS nonconcurrent with 6 of 12 recommendations (50 percent) primarily because the recommendations were based on findings that resulted from audit team misunderstandings of the criteria involved for the issue being reviewed. It is important to note that DHS Office of the Chief Financial Officer's (OCFO's) Financial Management Division (FM), Bankcard and Review Branch staff discussed these concerns with the OIG on multiple occasions, as far back as the Notification of Findings and Recommendations Conference meeting on November 15, 2018. Examples include:

- Finding 5, "Price Quotes," the OIG identified several purchase card transactions above the micro-purchase limit (currently \$10,000) where the cardholder did not obtain price quotes from multiple vendors. However the transactions the OIG identified in its sampling did not meet the criteria for this price quote requirement. Specifically, these transactions were either payments on existing contracts, from required sources of supply, or made during emergency situations and therefore, were not subject to the cited Federal Acquisition Regulation requirement.
- Finding 13, "Credit Balance Refunds," The OIG erroneously applied the Department's travel card policy requiring the review of refunds or rebates the contracting bank pays the Department for using their charge card, similar to "cash back" rewards offered by some credit cards and their issuing banks. The credit balance refunds to which the OIG referred occur when a travel card holder has a negative balance on his or her monthly charge card statement due to an overpayment and as a result the bank owes the cardholder money. These funds are legally the property of the traveler and DHS does not have the authority to review a traveler's claim to these funds prior to the bank paying these back to the traveler.

Timeliness of Recommendations

The OIG announced this audit of DHS' FY 2017 purchase and travel card programs on November 6, 2017, nearly two years ago. Making recommendations related to FY 2017 transactions at the end of FY 2019 does not allow for timely corrective actions to be taken for any deficiencies cited. Thus, one must be mindful that the OIG could document similar findings for FY 2018 and FY 2019 transactions should these be audited because corrective actions cannot be fully implemented until FY 2020.

The Department concurs with six and nonconcur with six of the 12 recommendations in the draft report. Attached find our detailed response to each recommendation. Technical comments have been provided previously under separate cover.

Again, thank you for the opportunity to review and comment on this draft report. Please feel free to contact me if you have any questions.

Attachment

**Attachment: Management Response to Recommendations
Contained in Project No. OIG 18-014**

The OIG recommended that the DHS Chief Financial Officer:

Recommendation 1: Require cardholders accurately complete Form 1501 with detail sufficient to allow for meaningful reviews and audit.

In addition, the DHS OIG recommends that the DHS CFO require enforcement of controls to ensure proper review and approval of purchases; appropriate separation of duties in accordance with OMB A-123, Appendix B; and maintenance of Form 1501 for the full retention period required by FAR and Component policies and procedures. (Finding 1).

Response: Concur. The DHS OCFO's FM, Bankcard and Review Branch will strengthen guidance in the Financial Management Policy Manual (FMPM) Section 3.2 Part 3.2.2, Purchase Card Manual, and will automate DHS Form 1501 where possible. For situations in which automation is not practical, purchase card training will be conducted to reinforce the cardholder's responsibility to accurately and sufficiently complete DHS Form 1501. Additionally, DHS OCFO will update the Purchase Card Manual to remove the separation of duties waiver and add additional penalties for cardholders and approving officials that fail to conduct a proper review and approval of a purchase. Estimated Completion Date (ECD): September 30, 2020.

Recommendation 2: Maintain supporting documentation, including documentation of all reviews and approvals, in accordance with relevant laws, regulations, policies, and procedures. The DHS CFO should determine the allowability of the questioned costs identified in Findings 2 and 11 and collect any amount determined to be unallowable. (Findings 2, 9, 10, 11, 15, and 17).

Response: Concur. The DHS OCFO's FM Bankcard and Review Branch will strengthen guidance in the Purchase Card Manual, Travel Card Manual, and Temporary Duty Travel policy and update purchase and travel card training to address the need to maintain all supporting documentation. DHS OCFO will also strengthen the Purchase Card Manual and training to address the need to properly complete the review and approval of all purchases. DHS OCFO will place additional penalties on cardholders and approving officials that do not comply. The DHS OCFO will review the questioned cost and associated transactions in Findings 2 and 11 to determine their allowability. If transactions are determined to be unallowable, the DHS OCFO will work with Components to recoup any inappropriate spending. ECD: June 30, 2020.

Recommendation 3: Require enforcement of existing controls to ensure payments are only made for goods and services that have been delivered and are in acceptable condition. (Finding 3).

Response: Concur. The DHS OCFO's FM Bankcard and Review Branch will strengthen guidance within the Purchase Card Manual and update purchase card training to reinforce the need for receipt and acceptance by an independent third party. DHS OCFO will place additional penalties on cardholders and approving officials that do not comply with third-party receipt and acceptance. Also, the Bankcard and Review Branch, in coordination with OCFO's Risk Management and Assurance Division, will revise the monthly purchase card testing plan to identify third party receipt as a key component of a proper transaction. ECD: September 30, 2020.

Recommendation 4: Require enforcement of existing policies and controls to ensure that purchases are not made from vendors with active exclusions in the SAM [System for Award Management]. (Finding 4).

Response: Concur. The DHS OCFO's Bankcard and Review Branch will update training guidance and include specific language in the Purchase Card Manual requiring cardholders to conduct a SAM check when making a transaction above the micro-purchase transaction limit (currently \$10,000). The DHS OCFO will also coordinate with the DHS Chief Procurement Officer on a communication to Contracting Officers that will reinforce the requirement for a SAM check and the need to maintain documentation of a SAM check with the procurement file. ECD: March 31, 2020.

Recommendation 5: Require DHS Components obtain price competition for all goods and services in excess of the micro-purchase threshold, in accordance with relevant laws, regulations, policies, and procedures. (Finding 5).

Response: Non-Concur. The transactions OIG identified in "Finding 5: Price Quotes" are not subject to FAR 13.104 — "Promoting Competition." Specifically, these transactions were either payments on existing contracts, from required sources of supply, or made during emergency situations. When making payments on existing contracts the price competition happened at the time the contract was awarded. The Department has sufficient controls in place for this FAR requirement. We request that the OIG consider this recommendation resolved and closed, as implemented.

Recommendation 6: Require that USCG maintain documentation of each subsistence procurement request showing procurements made against each subsistence authorization and that Prime Vendor purchasing thresholds have been reached, when applicable. (Finding 6).

Response: Non-Concur. The USCG's mission requirement (e.g., being deployed to various locations throughout the world) and limited purchasing scope (e.g., limited food service vendors at ports of call) does not always allow cardholders to meet the minimum purchasing requirement set forth by the Defense Logistics Agency contracted vendors agreement. Therefore, in 2013 the USCG released ALCOAST 548/13 (effective January 1, 2014), eliminating the target percentage referenced in the USCG Food Service Manual, dated March 2009. There is no requirement to track Prime Vendors when making subsistence procurements. However, it is important to recognize that the Force Readiness Command deploys an assessment team on a triennial basis to review unit monthly reports and help ensure compliance with procedural requirements. These reports are provided to the USCG Finance Center for financial examination and development of recommendations for improvement, as appropriate. We request that the OIG consider this recommendation resolved and closed, as implemented.

Recommendation 7: Require CBP enforce existing controls to ensure that taxes are not paid and that the DHS CFO determines the allowability of \$579 in questioned costs, collecting any amount determined to be unallowable. (Finding 7).

Response: Non-Concur. This finding refers to a purchase made with an Arizona vendor that charged an amount labeled as a tax on the purchase receipt. However, the State of Arizona is a tax-exempt state with the exception of the Arizona Transaction Privilege tax (TPT) which is a tax on the vendor for the privilege of doing business in the state. The State of Arizona issued Arizona TPT Ruling TPR 99-1 on December 1, 1999, stating that sales to the United States Government count towards the vendor's sales base. Because the State of Arizona imposes taxes on vendors and not on purchases, the amount paid was a fee collected from the cardholder that the vendor passed on to the cardholder as a cost of doing business. Therefore, this transaction complies with DHS policy requirements. We request that the OIG consider this recommendation resolved and closed, as implemented.

Recommendation 8: Require approving officials review cardholder purchase requests to determine whether split purchases are made and deny requests for reimbursement when split purchases are identified. (Finding 8).

Response: Non-Concur. The examples OIG cited in this finding do not fit the General Services Administration (GSA) or the DHS definition of split purchases. More specifically:

- The DHS Purchase Card Manual, page 60, states "a split purchase occurs when a cardholder intentionally breaks down a known requirement into two or more separate orders for a supply/service to avoid exceeding their single purchase limit or competition threshold."

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- The Customs and Border Protection (CBP) Purchase Card Manual, page 55, states “The most common indicator of a split transaction is multiple transactions with the same vendor for the same items on the same day (or within a period of a few days).”
 - The GSA purchase card training defines split purchases as “breaking a single transaction down to two or more smaller transactions to circumvent the cardholder’s single transaction limit or to stay under the micro purchase threshold.”
 - The DHS Financial Management Policy Manual Part 3.2.2 Section 11.c.8, identifies that a split purchase is based on the requirement and not the vendor.

Therefore, DHS Component cardholders can make multiple purchases with the same vendor on the same day as long as the requirement for the purchase is different. The transactions referenced do not fit the description of a split purchase as they were made for either multiple requirements or were between 21 and 44 days apart.

Specifically, the transaction for CBP Air & Marine in El Centro, CA was an appropriate purchase of printer toner that the Department would consider a model for documentation and required approvals. Furthermore, a search of this purchase cardholder’s transactions disclosed that the cardholder only made this one purchase during a three-week period. When the order was filled the vendor made two shipments, one for \$2,811.46 and the other for \$688.53. The total of the two transactions equals \$3,499.99. The minimum requirement for a purchase to be considered “split” is that it needs to exceed the micro purchase threshold of \$3,500.

We request that the OIG consider this recommendation resolved and closed, as implemented.

Recommendation 9: Require enforcement of controls designed to ensure cardholders comply with requirements surrounding approvals, limitations on cash withdrawals, and maintenance of documentation regarding inability to use the travel card. Determine the allowability of the \$1,099 in questioned costs and collect any amount determined to be unallowable. (Finding 12).

Response: Concur. The draft report includes two transactions for which cardholders did not follow travel policy while using their travel card. In one case a CBP traveler made an excessive Automatic Teller Machine (ATM) withdrawal from the bank for which the cardholder is liable and must pay either through travel per diem reimbursement or personal funds. As a corrective control for unauthorized ATM withdrawals, the bank’s online access system may be set up so that cardholders may not withdraw more than the weekly limit. CBP completed this action in January 2018. The DHS OCFO’s FM Bankcard and Review Branch will require all Components to set these limits in the bank’s system. As a corrective control to maintain documentation regarding inability to

use the travel card, DHS includes ATM withdrawal transactions in monthly post-payment audits to randomly sample ATM withdrawals and correct any cardholder who may be using cash when the card could be accepted.

The other transaction refers to a Federal Emergency Management Agency (FEMA) traveler who purchased a business-class train fare without authorization. DHS OCFO's FM Bankcard and Review Branch requested that FEMA OCFO personnel determine the feasibility of recouping from the traveler the amount reimbursed to the traveler over a coach fare. Bankcard and Review Branch personnel are also working with the travel system program management office to ensure any controls available to prevent unauthorized premium class travel are in place.

ECD: December 31, 2019.

Recommendation 10: Require DHS Components (including those not selected for FY 2017 testing) implement additional procedures and controls to ensure refunds are properly reconciled and that funds are disbursed to the appropriate parties. (Finding 13).

Response: Non-concur. The OIG's misunderstanding of the Department's travel card policy requiring the review of "refunds" or "rebates" the contracting bank pays the Department for using their charge card, similar to "cash back" rewards offered by some credit cards and their issuing banks. The credit balance refunds referred to in this recommendation involve a travel card holder having a negative balance on their monthly charge card statement, due to overpayment, and as a result the bank owes the cardholder money upon the cardholder's request or 90 days of inactivity. Credit balances on individually billed accounts, like balances due, are the responsibility of the individual cardholder. If a cardholder is overpaid due to an accounting or procedure error, any overpayment will be recouped by the Government from the cardholder, per 5 U.S.C. § 5584, "Claims for overpayments of pay and allowances and of travel, transportation and relocation expenses and allowances." We request that the OIG consider this recommendation resolved and closed, as implemented.

Recommendation 11: Require that cardholders spend authorized government funds prudently and only request reimbursement for reasonable travel expenses incurred. The DHS CFO should evaluate whether additional training is necessary to educate travelers on the prudent traveler standard and determine the allowability of \$1,271 in questioned costs, collecting any amount that is determined to be unallowable. (Finding 14).

Response: Non-concur. The draft report includes two FEMA transactions for rental cars that took place during disaster response deployments. FEMA does not require travelers to conduct price analyses of rental car company quotes before renting. FEMA uses the travel system CONCUR to facilitate its travel bookings; when booking a rental car in CONCUR the rental rates are renegotiated using a government-wide contract managed by

the Defense Travel Management Office. As long as the rental car meets the size criteria, using the contracted price found in CONCUR is reasonable and the charge is a reimbursable expense.

The third transaction included in the draft report involved an Immigration and Customs Enforcement (ICE) traveler who used the available parking at the traveler's hotel when—according to the draft report—a less expensive parking garage one-block away was available. The Department takes a proactive approach with the prudent travel standard, reminding travelers to make travel decisions as if they were using their own funds, conducting comparisons between parking at an airport and taking a taxi cab, and comparing the cost of renting a vehicle and driving a privately-owned vehicle.

In addition, DHS FMPM, Section 7.2, "Temporary Duty Travel" provides, "Travel approving officials are responsible for exercising good judgment and prudence in approving travel requests and travel related expenses. Only those travel expenses that are necessary and/or incidental to official travel should be authorized and approved. Excess expenses, luxury accommodations and services should not be approved. Travel approving officials are also responsible for verifying travel expenses and reviewing appropriate documents, including travel receipts. After conferring with the traveling employee, any unreasonable expense, travel route, travel delay, accommodation, or service claimed by an employee while on official travel must be disallowed." The subjectivity used by OIG to question this transaction could as easily be used to determine it allowable and reasonable. In this case both the traveler and the travel approving official, determined the amount of time saved using the hotel's available parking was appropriate.

We request that the OIG consider this recommendation resolved and closed, as implemented.

Recommendation 12: Require strengthening of controls to ensure the Issuing Official reconciles the list of approved travelers to the pre-approved list of travelers, and reviews actual costs for reasonableness and allowability. Determine the allowability of \$1,985 in questioned costs and collect any amount determined to be unallowable. (Finding 16).

Response: Concur. FEMA's Office of the Chief Financial Officer and the Office of Response and Recovery (ORR) will develop a process which ensures only pre-approved travelers are allowed emergency food and lodging services and will review subsequent invoices for reasonableness, allowability, and accuracy. This process will also ensure ORR follows the guidance in the FEMA Travel Policy Manual which requires daily reviews of all authorizations pertaining to emergency food and lodging. ECD: March 31, 2020.

APPENDIX D: COHNREZNICK RESPONSE TO MANAGEMENT RESPONSE

Inaccurate Findings and Conclusions

Finding 5 “Price Quotes”

We disagree with the Agency.

The Agency has stated that the audit team incorrectly identified the applicable micro-purchase threshold and therefore that many transactions in question were not subject to the price quote requirements in question. The Agency has stated that the current micro-purchase threshold is \$10,000.

The current micro-purchase threshold is irrelevant. The micro-purchase threshold in effect at the time these purchases were made is the relevant threshold. The micro purchase threshold was \$3,500 at the time of the purchases in question (FY 2017). FAR Part 2 defined the micro-purchase threshold as \$3,500, unless a specific exception applied (*FAC Number 2005_91* effective 9/30/2016 and *FAC Number 2005-94, 2005-95* effective 1/19/2017 through 11/6/2017). The purchases in question did not meet those exceptions and the \$3,500 micro-purchase threshold was applicable these purchases exceeded that threshold and therefore are subject to price reasonableness determinations, which at a minimum requires obtaining price quotes. At higher thresholds, the requirements for price reasonableness determinations exceed obtaining price quotes (e.g. fully competitive bidding).

The Agency has also claimed that some of the selections in question were payments on existing contracts, from required sources of supply. This statement is true; however, it is not a valid reason not to conduct price reasonableness determinations. At a minimum, this would require obtaining and documenting several price quotes. When the purchase was made from a required source, it was still available from multiple providers with varying prices. Further, if a selection was only one payment against a larger contract, then the purchase as a whole is actually larger than the selection in question. In these instances, there is no circumstance in which the requirements for price reasonableness determinations would be reduced or eliminated; requirements would be the same or would increase (e.g. from obtaining quotes to fully competitive bidding).

The Agency has claimed that some of the purchases were made during emergencies and, therefore, were not subject to the cited Federal

Acquisition Regulation requirements. The Federal Acquisition Regulation provides certain flexibilities related to emergency procurements, such as agencies being allowed to limit the number of sources for contracting actions involving urgent requirements; however, agencies must still comply with certain requirements prior to making emergency procurements.

For instance, if limiting the number of sources in a contracting action involving urgent requirements, there must be an unusual and compelling urgency that precludes full and open competition (FAR Part 6.302-2). In such a situation, the contract period of performance may not exceed the time necessary to meet the unusual and compelling requirement of the work to be performed (FAR Part 6.302-2(d)(1)(i)(A)) and the time necessary to enter into another contract for the required goods and services through the use of competitive procedures (FAR Part 6.302-2(d)(1)(i)(B)).

The Agency has not provided any support to document that circumstances presented unusual and compelling urgency.

The Agency has not provided any support to show that any purchases made with reduced requirements under emergency procurements were for a period of performance which did not exceed the requirements of FAR Part 6.302-2(d)(1)(i) as described above.

The Agency has not provided any alternate regulation references which state that the purchases in question were exempt from price reasonableness determinations.

In the response to Recommendation 5, which is directly related to this finding, the Agency states, “When making payments on existing contracts the price competition happened at the time the contract was awarded.” We did not take exception to this practice. However, we requested, but were not provided with, documentation of the procurement analysis for these purchases, which would evidence price reasonableness determinations. Therefore, we could not remove the related finding and recommendations.

Finding 13 “Credit Balance Refunds”

We disagree with the Agency.

The Agency claimed that the credit balance refunds to which we have referred occur when a travel card holder has a negative balance on his or her monthly charge card statement due to an overpayment and as a result the bank owes the cardholder money. We generally agree with this statement, adding that the negative balance could be a result of a refund issued by the vendor in addition to circumstances where there was an overpayment.

The Agency's response then claimed that the credit balance refunds are legally the property of the traveler and DHS does not have the authority to review a traveler's claim to these funds prior to the bank paying these back to the traveler. We have not made a claim that the review needs to occur prior to the issuance of the refund. We take exception to the fact that no reconciliation is performed to determine whether those refunds issued to the traveler related to charges initially paid for/reimbursed to the traveler by the Government.

Without reconciliation and review of the credit balance refunds, there is no way for the Agency to know whether the refund/overpayment was related to a charge paid for by the Government (whether directly or through reimbursement to the traveler).

Nonconcurrence with six recommendations

The Agency did not concur with six of the twelve recommendations that have been made as a result of this audit. See the Response to Recommendations section for our response to each of the Agency's responses to the recommendations.

Timeliness of Recommendations

We acknowledge that the scope of this audit was Fiscal Year 2017 and that at the time this report is being issued it is Fiscal Year 2020. We concur that any corrective actions resulting from this audit would have no effect on fiscal years prior to Fiscal Year 2020.

Response to Recommendations

Recommendation 1

Agency concurs - No additional response from CohnReznick.

Recommendation 2

Agency concurs - No additional response from CohnReznick.

Recommendation 3

Agency concurs - No additional response from CohnReznick.

Recommendation 4

Agency concurs - No additional response from CohnReznick.

Recommendation 5

This recommendation relates to Finding 5. The Agency did not concur with Finding 5 in its response to Recommendation 5. See our response to Finding 5 above. In summary, we do not agree with the Agency that the Federal Acquisition Regulation requirements were not applicable. In addition to its response to Finding 5, the Agency states that when making payments on existing contracts the price competition occurred at the time the contract was awarded. We requested supporting documentation of the initial contract award during fieldwork and received no such supporting documentation from the Agency. No additional supporting documentation for these purchases was provided with the Agency's response to the draft report.

Recommendation 6

This recommendation relates to Finding 6. The Agency did not concur with Finding 6 in its response to Recommendation 6. The Agency cites USCG document ALCOAST 548/13 as having eliminated the target percentages referenced in the USCG Food Service Manual. Our review of ALCOAST 548/13 resulted in a different opinion than that of the Agency. We found no language within ALCOAST 548/13 removing the target requirements for the use of Prime Vendors.

Instead, this document discusses under the heading *Defense Logistics Agency Troop Support (DLATS), Subsistence Prime Vendor, Stores Web Account*, the need to maintain an up-to-date Stores Web account, the need to use a government source of procuring food items to the maximum extent possible, and that not all Coast Guard Dining Facilities have the capability to utilize a government source of supply. None of these items address the target percentages of Prime Vendor use.

We noted no other references to Prime Vendors within ALCOAST 548/13. We maintain our finding that the referenced target percentages of Prime Vendor use were in place and effective at the time of these purchases and

that no supporting documentation was available to show whether those targets were being met.

Recommendation 7

This recommendation relates to Finding 7. The Agency did not concur with Finding 7 in its response to Recommendation 7 on its determination that the Arizona Transaction Privilege Tax is not a tax and instead should be considered “a fee collected from the cardholder that the vendor passed on to the cardholder as a cost of doing business.” We disagree with this determination and consider the Arizona Transaction Privilege Tax to be a tax. As such, the stated criteria still apply and this still represents noncompliance with DHS policy requirements.

Recommendation 8

This recommendation relates to Finding 8. The Agency did not concur with Finding 8 in its response to Recommendation 8. In its response, the Agency cites the DHS Purchase Card Manual definition of a split purchase as “a split purchase occurs when a cardholder intentionally breaks down a known requirement into two or more separate orders for a supply/service to avoid exceeding their single purchase limit or competition threshold.” We agree on the cited definition. This definition is part of the criteria cited in the finding. The purchase selected was originally prepared for \$3,500.00, as seen per the purchase request provided to us during the audit. That purchase request showed that prior to approval of the purchase, the approved purchase amount was reduced to \$3,499.99. We consider this evidence that the purchase was intentionally reduced to fall as close to the micro purchase threshold without meeting or exceeding it.

The Agency cites the GSA purchase card training definition of a split purchase as, “breaking a single transaction down to two or more smaller transaction to circumvent the cardholder’s single transaction limit or to stay under the micro purchase threshold.” We agree on the cited definition of a split purchase and believe it supports our position.

The Agency cites language from the CBP Purchase Card Manual, which regarding “the most common indicator of a split transaction.” This is not the only indicator of a split purchase and should not be applied as such. All of the additional purchases in question are for office supplies. Many of the additional purchases in question are from a single vendor. Three of the additional purchases in question fall within 35 days off the initial split transaction identified and fall less than one dollar below the micro purchase threshold (two of which were for \$3,499.99, which is one cent

less than the micro purchase threshold). We maintain that these transactions represent parts of a split-purchase.

The Agency cites the *DHS Financial Management Policy Manual*, which states that a split purchase is based on the requirement, not the vendor. While we have provided information in the condition of our finding regarding the vendor, it was not the only criteria which was applied. The identification of the Vendors, such as Staples, was provided to help support that these purchases were for similar products (office supplies). However, independent of the consideration of the vendor(s), many of these purchases were made in the amount of \$3,499.99, which independently suggests that these purchases were made in amounts specifically meant to stay below the micro purchase threshold of \$3,500.00. This scenario depicts the definition of a split purchase.

Recommendation 9

Agency concurs - No additional response from CohnReznick.

Recommendation 10

This recommendation relates to Finding 13. The Agency responded to Finding 13 in its response to Recommendation 10. In addition to the response that was provided for Finding 13 above, the Agency claimed that if a cardholder is overpaid due to an accounting or procedure error, any overpayment will be recouped by the Government from the cardholder. While we agree that this should be the procedure, we see no way for the Agency to ensure that is happening without review and reconciliation of the credit balance refunds. We noted no policy or procedure in place over the credit balance refunds to determine whether the amount refunded by the credit card issuer to the cardholder was for an expense or overpayment that the cardholder was reimbursed for by the Government. We continue to recommend that additional procedures and controls be implemented to ensure the credit balance refunds are disbursed to the appropriate parties.

Recommendation 11

This recommendation relates to Finding 14. The Agency has responded to Finding 14 in its response to recommendation 11.

The first part of this finding questioned purchases made by FEMA employees for rental cars. The Agency's response begins by stating that the purchases occurred during disaster response deployments. As discussed in our response to Finding 5 regarding price quotes, the fact that the Agency is responding to an emergency does not in and of itself

remove all requirements for price reasonableness and the prudent traveler standard. The Federal Acquisition Regulation requirements often are relaxed or altered but are not removed in perpetuity. We do not agree with the Agency that making emergency procurements removes the requirements to consider price reasonableness and the prudence of travel purchases.

The Agency continues its response related to the questioned FEMA rental car transactions by stating that FEMA uses the Concur Travel System to facilitate its travel bookings, which utilizes contracts negotiated by the Defense Travel Management Office. We have considered the system design and controls and removed the portion of the finding and questioned costs directly related to the car rental, for which we originally reported a lack of price reasonableness consideration.

However, the second rental car transaction cited was not questioned due to a lack of price reasonableness related to the daily/weekly/monthly rate for the rental. The second car rental was specifically questioned for prudence as the Agency paid for a month of rental when the support evidenced that the car was only rented/held for 10 days. This portion of the finding has been maintained, as no additional response or support has been provided to show that the car was needed for the full month or that a refund for the additional portion of the month was received.

The remainder of the Agency's response focuses on a purchase for valet parking that was made by an ICE traveler. The response states that the Agency reminds travelers to make travel decisions as if they were using their own funds, which exemplifies the Prudent Traveler standard). The response continues by citing the *DHS Financial Management Policy Manual*, which includes the statement "Excess expenses, luxury accommodations and services should not be approved." It is in accordance with this policy that we questioned these costs. In our opinion, the use of valet parking rather than using a nearby garage within one block of the hotel can be supported by online research conducted during the audit showing the use of luxury services which should not have been approved. At the time of testing, use of the garage one block from the hotel would have reduced the costs in question by 40%. The Agency has stated in its response that both the traveler and the travel-approving official determined that the amount of time saved using the hotel's valet was appropriate. We disagree that the additional time to use a garage in such close vicinity to the accommodations justified the additional cost of the service.

Recommendation 12

Agency concurs - No additional response from CohnReznick.

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