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CONCERNING

DHS PURCHASE CARDS

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Good morning Chairman Mica, Ranking Member Connolly, and Members of the Subcommittee. Thank you for inviting me here today to discuss our work related to the Department of Homeland Security's (DHS) Purchase Card Program.

My testimony today will focus on our efforts to assess and recommend ways to decrease the inherent risk of the Purchase Card Program, as well as DHS' progress in implementing controls while continuing to benefit from the positive aspects of its Purchase Card Program.

Background

With the creation of DHS in 2002, the management of thousands of purchase, travel, and fleet cards from 22 separate Federal agencies was combined under one umbrella program, the DHS Charge Card Program. This program office, which is managed by the DHS Chief Financial Officer, issued the *DHS Purchase Card Manual* (DHS manual) to establish purchase card policies and procedures. It also authorized certain components to maintain their own guidance and use the DHS manual as overarching policy. The Department program coordinator is responsible for the centralized DHS online purchase card payment process.

In fiscal year (FY) 2013, DHS authorized about 9,700 employees to use purchase cards, and cardholders made approximately 924,977 purchase card transactions valued at about \$439 million, ranking DHS among the top purchase card users in the Federal government. As shown in table 1, purchase card purchases dropped slightly from FY 2012 to FY 2013.

Table 1: DHS FY 2012 and FY 2013 Charge Card Total Expenditures

| Charge Card Program | FY 2012 Total | FY 2013 Total |
|---------------------|------------------------|------------------------|
| Purchase | \$480,886,557 | \$438,639,214 |
| Travel | \$668,145,729 | \$589,677,713 |
| Fleet | \$228,101,894 | \$198,433,965 |
| Total | \$1,377,134,180 | \$1,226,750,892 |

Source: DHS Office of Inspector General (OIG) compilation of DHS data

Benefits and Risks of Purchase Card Use

When used properly, purchase cards decrease administrative costs, increase procurement efficiency by streamlining the buying process, and provide an audit trail. Purchase cards are a low-cost procurement and payment mechanism that eliminate the need for paper purchase orders and expedite vendor payments. They are the preferred way to purchase goods and services under the "micropurchase" limit of \$3,000. At DHS, a component's head of contracting activity may also authorize purchases over the micropurchase limit.

Every transaction has inherent risk — the risk of purchase card misuse is greater because of the number of cardholders and the low-dollar, decentralized actions, which are subject to fewer reviews and controls. However, this increased risk was purposely chosen to reap the benefits — less cost and quicker response — of the simplified procurement process.

Over the last decade, particularly in the wake of Hurricane Katrina, our office and the Government Accountability Office (GAO) initiated a number of audits and investigations addressing DHS' use of purchase cards. In those audits, after analyzing thousands of transactions, reviewing policies and procedures, and interviewing numerous officials, we reported that a weak control environment and breakdowns in key controls exposed DHS to fraud and abuse in purchase card use. Inconsistent guidance led to DHS cardholders following various internal control procedures. Inadequate staffing, insufficient training, and ineffective monitoring also contributed to the weak control environment. GAO and DHS OIG identified numerous examples of potentially fraudulent, improper, and abusive or questionable transactions.

Legislative Changes and Guidance to Prevent Misuse

On October 5, 2012, the President signed into law the *Government Charge Card Abuse Prevention Act of 2012*, Public Law 112-194 (Charge Card Act), which reinforced the Administration's efforts to prevent waste, fraud, and abuse of government-wide charge card programs. Consistent with existing guidance in OMB Circular No. A-123, Appendix B, Revised, *Improving the Management of Government Charge Card Programs* and OMB Memorandum M-12-12, *Promoting Efficient Spending to Support Agency Operations*, the Charge Card Act requires all executive branch agencies to establish and maintain safeguards and internal controls for purchase, travel, and centrally billed accounts.

Recent OIG Audits of the Purchase Card Program

As required by the Charge Card Act and OMB Memorandum M-13-21, *Implementation of the Government Charge Card Abuse Prevention Act of 2012*, we conduct periodic risk assessments of agency purchase cards (including convenience checks), combined integrated card programs, and travel card programs to analyze the risks of illegal, improper, or erroneous purchases and payments. We use these risk assessments to determine the necessary scope, frequency, and number of program audits and reviews. We also report to the Director of OMB 120 days after the end of each fiscal year on the Department's progress in implementing our purchase card program audit recommendations.

Over the past 5 years, we have issued several reports related to DHS' internal controls over purchase card use. In our audits and reviews, we identified areas in which DHS needed to strengthen its processes and policies to minimize the risk of illegal, improper, and erroneous purchases and payments.

In a May 2010 report, *Improving FEMA's Disaster Purchase Card Program* (OIG-10-91), we determined that the Federal Emergency Management Agency (FEMA) needed to improve disaster purchase card guidance and strengthen disaster purchase card internal controls. We made four recommendations to improve FEMA's disaster purchase card program.

In our August 2011 report, *Use of DHS Purchase Cards* (OIG-11-101), we determined that the Department had generally developed an effective internal control framework, but needed to improve specific internal control procedures to mitigate the inherent risks of purchase card use.

Specifically, we reported that DHS needed to:

- Strengthen its post-payment audit process to ensure that component personnel complied with appropriate purchase card controls and ensure that the process identified and tested high-risk transactions.
- Ensure Department personnel verified the results of component reviews and effectively targeted high-risk transactions for review.
- Ensure transactions complied with the internal control elements based on OMB requirements.
- Update the *Purchase Card Manual* and ensure the manual and component guidance were used consistently.

We made three recommendations to improve the Department's internal controls and oversight of its purchase card program.

In April 2013, we issued *FEMA Can Improve Its Purchase Controls at Joint Field Offices* (OIG-13-77), in which we reported that FEMA did not have adequate internal controls over the acquisition process. This resulted in insufficient program oversight, the purchase of unnecessary items, and missed opportunities for cost savings. Some of the conditions might have been avoided if FEMA had implemented corrective actions that we previously identified. We made two recommendations to assist FEMA in its management and oversight of response and recovery operations.

In January 2014 (*Fiscal Year 2013 Risk Assessment of DHS Charge Card Abuse Prevention Program*, OIG-14-29), we reported that DHS had an adequate internal control framework to manage the purchase card program, but needed to ensure compliance with regulations and improve implementation of its internal controls. We determined there was a moderate level of risk that DHS' internal controls over the purchase card program would not prevent illegal, improper, or erroneous purchases. We made no recommendations.

We are currently conducting an FY 2014 purchase card audit, which is due January 31, 2015.

DHS' Progress in Minimizing Risk Through Internal Controls and Oversight

Minimizing the inherent risk of purchase card use requires consistent implementation of internal controls and vigilant oversight to ensure compliance with Federal requirements, as well as internal policies and procedures. Guidance needs to be consistently applied and fully communicated to employees, and cardholders must be trained on the proper use of purchase cards.

To this end, in the past 5 years, DHS has concurred with all recommendations and established and implemented internal controls to minimize the risk, including controls related to training, supervisory review, ensuring compliance with pre-purchase approval procedures, and improving the post-payment audit process. Specifically, DHS has:

- Taken a more active approach in ensuring that cardholders and approving officials are up to date on required training;
- Ensured that cardholders do not exceed their single purchase limits or monthly limits without appropriate justification;
- Ensured cardholders comply with purchase card documentation and approvals prior to making purchases;
- Improved the post-payment audit process to include more targeted reviews of questionable transactions, such as retail stores, automated teller machines, restaurants, and cash purchase transactions;
- Required review of all forced authorization transactions; and
- Emphasized accurate and timely review of all statements for reconciliation of transactions.

The purchase card program is also subject to periodic OIG and GAO audits, as well as internal DHS reviews. DHS created the Risk Management & Assurance Division (RM&A) under the Chief Financial Officer to help govern internal controls by conducting department-wide internal control assessments. RM&A collaborates with components to ensure they are conducting purchase card activity effectively and efficiently and adhering to DHS policies and OMB requirements. RM&A also conducts quarterly reviews of purchase card transactions to test for compliance with the *Purchase Card Manual* and OMB A-123.

Conclusion

DHS has worked to establish and implement strong internal controls and provide effective oversight of its purchase card program. Consistent application of controls and vigilant management oversight minimizes fraudulent, improper, abusive or questionable purchase card usage, but the inherent risks cannot be eliminated. Nevertheless, purchase cards give the Government flexibility in making purchases, and they save money on transaction processing. DHS' actions over the past 7 years helped maximize the value and benefit of purchase cards and provide reasonable assurance the Department is minimizing potential fraud, waste, and abuse.

Mr. Chairman, this concludes my prepared statement. I welcome any questions you or other Members of the Subcommittee may have.