

Fiscal Year 2015 Risk Assessment of the DHS Bank Card Program Indicates Moderate Risk





DHS OIG HIGHLIGHTS

Fiscal Year 2015 Risk Assessment of the DHS Bank Card Program Indicates Moderate Risk

September 2, 2016

Why We Did This Risk Assessment

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

What We Recommend

We made one recommendation to help DHS strengthen its oversight of components by ensuring the components implement procedures to supplement DHS policies.

For Further Information:

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

What We Found

In fiscal year 2015, the Department spent almost \$1 billion in purchase and travel card transactions.

Although the Department has established internal controls for its charge card programs, the components did not always follow DHS' required procedures for credit card use. In addition, they did not always have their own procedures in place to supplement those developed by DHS.

The Department remains at a moderate level of risk for its purchase and travel card programs. As a result, there remains a risk that DHS' internal controls will not prevent illegal, improper, or erroneous purchases and payments.

DHS Response

DHS concurred with the recommendation and has already begun updating its purchase card manual and oversight plans to ensure components develop procedures to supplement DHS policies.



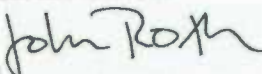
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Department of Homeland Security

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

September 2, 2016

MEMORANDUM FOR: The Honorable Chip Fulghum
Deputy Under Secretary for Management and
Chief Financial Officer

FROM: John Roth 
Inspector General

SUBJECT: *Fiscal Year 2015 Risk Assessment of the DHS Bank
Card Program Indicates Moderate Risk*

For your action is our final report, *Fiscal Year 2015 Risk Assessment of the DHS Bank Card Program Indicates Moderate Risk*. We incorporated the formal comments provided by your office.

The report contains one recommendation aimed at improving the DHS Bank Card Program. Your office concurred with the recommendation. Based on information provided in your response to the draft report, we consider the recommendation open and resolved. Once your office has fully implemented the recommendation, please submit a formal closeout letter to us within 30 days so that we may close the recommendation. The memorandum should be accompanied by evidence of completion of agreed-upon corrective actions and of the disposition of any monetary amounts.

Please send your closure request to OIGAuditsFollowup@oig.dhs.gov.

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

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



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Background

On October 5, 2012, the President signed into law the *Government Charge Card Abuse Prevention Act of 2012* (Charge Card Act or Act), Public Law 112-194, which reinforced the Administration's efforts to prevent waste, fraud, and abuse of government-wide charge card programs. Consistent with existing guidance in Office of Management and Budget (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 ("agencies") to establish and maintain safeguards and internal controls for purchase cards, travel cards, and centrally billed accounts.

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 (IG) of each executive agency is required to conduct periodic risk assessments of agency purchase cards (including convenience checks¹), combined integrated card programs, and travel card programs to analyze the risks of illegal, improper, or erroneous purchases and payments. IGs use these risk assessments to determine the necessary scope, frequency, and number of IG audits or reviews of these programs. This report satisfies the risk assessment reporting requirement for fiscal year 2015.

The Bank Card Program, within DHS' Office of the Chief Financial Officer, administers and oversees the purchase and travel card programs. Within the Bank Card Program, the travel and purchase charge cards provide the Department with an efficient mechanism 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 significantly streamlines traditional Federal procurement and payment processes. In addition, the Travel Card Program streamlines the payment and reimbursement processes for official travel expenses by reducing administrative costs, which saves taxpayers dollars. The Travel Card Program uses two types of accounts:

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

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



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The Travel Card Program IBA places the financial risk on the individual traveler. The Department is not responsible for charges to the travel card.

DHS conducts a large volume of its business through the use of Government charge cards. Table 1 shows the Department's total charge card spending for FY 2015.

Table 1: DHS Travel and Purchase Charge Card Programs and Totals

2015 Charge Card Programs	2015 Spending Totals
Purchase	\$420,460,198
Travel IBA	\$429,011,875
Travel CBA	\$114,523,557
Total	\$963,995,630

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

Our July 2015 report, *Fiscal Year 2014 Assessment of DHS Charge Card Program Indicates Moderate Risk Remains*,² stated that DHS did not ensure components established documented procedures to comply with DHS requirements on charge card use. In addition, DHS components did not have sufficient oversight plans to prevent improper use of charge cards. The report provided four recommendations: recommendations 1 and 4 remain open and resolved, while recommendations 2 and 3 are now closed.

Results of Risk Assessment

Although the Department has established internal controls for its charge card programs, the components did not always follow DHS' procedures, and they did not always have their own procedures in place to supplement those developed by DHS. Our testing results of purchase and travel card transactions indicate a moderate level of risk remains for the DHS Bank Card Program. As a result, there remains a risk that DHS' internal controls over its charge card programs will not prevent illegal, improper, or erroneous purchases and payments.

DHS Oversight

In response to our prior year recommendations, in March 2016, DHS implemented a department-wide oversight plan. This guidance should help ensure the most effective internal controls are in place to mitigate risk of fraud, waste, and abuse in the DHS Bank Card Program. The oversight plan provides a framework for components to establish proper internal control reviews and

² OIG-15-117
www.oig.dhs.gov



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risk assessments in their respective bank card programs. Components are required to perform monthly bank statement reviews and post-payment audits. The components are also required to establish and implement policies, procedures, and internal controls to prevent charge card fraud, waste, and abuse in accordance with OMB Circular No. A-123, Appendix B.

DHS also created a new oversight position whose role includes developing and implementing policies and corrective actions to enhance internal controls and mitigate risks associated with the DHS Bank Card Program.

Coast Guard Compliance with the DHS Purchase Card Manual

The United States Coast Guard (Coast Guard) did not always comply with the *DHS Purchase Card Manual*. Our purchase card transaction testing consisted of, but was not limited to, determining whether:

- the transaction Merchant Category Code (MCC) was a restricted code;³
- a convenience check was used, and whether there was appropriate justification for its use;
- the transaction charges were properly supported and agreed with receipts and invoices; and
- the DHS purchase card worksheet (Form 1501) was completed for each purchase and had proper approvals.

We reviewed 90 transactions valued at a total of \$35,387. Of those transactions, we identified 46 (51 percent) that did not comply with the *DHS Purchase Card Manual*. Specifically, we categorized the deficiencies of the 46 transactions that did not comply as listed in table 2.

³ According to the *DHS Purchase Card Manual*, an MCC is a four-digit code used to categorize the type of business the merchant conducts and the types of goods and services provided. The manual also provides a list of mandatory MCC restrictions.



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Table 2: Noncompliant Coast Guard Purchase Card Transaction Deficiencies

Transaction Deficiency	Number of Transactions
Improper use of the credit card	1
Segregation of duties waiver was approved after the purchase card transaction date	24
No segregation of duties waiver support for purchase card transactions	8
Cardholder was also listed as the Approving Official on the purchase request form	2
Purchase card request form did not have proper approval signatures	1
Inaccurate and incomplete records to support purchase card transactions	11
Total transactions	47*

Source: OIG analysis of DHS' data

*One transaction included two deficiencies.

In addition, the Coast Guard has not yet implemented purchase card procedures that supplement the *DHS Purchase Card Manual*. According to Coast Guard officials, its purchase card manual is still in draft and awaiting approval. Coast Guard management is responsible for establishing and maintaining sufficient policies and procedures to ensure the purchase card process operates efficiently. Without appropriate policies and procedures, management cannot ensure the process is operating effectively to minimize the risk of fraud, waste, and abuse in its charge card program.

FEMA Compliance with the DHS Travel Card Manual

FEMA did not always comply with *DHS Travel Card Manual*. Based upon requirements outlined in the manual, our travel card transaction testing consisted of, but was not limited to, verifying the following:

- the transactions were performed during official travel;
- the transaction charges agreed with the receipts;
- the travel card was not used for high dollar amounts other than airfare, lodging, or rental car; and



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- the travel voucher was submitted within the required 5 working days of the last day of travel.

We reviewed 90 transactions valued at a total of \$17,954. Of those transactions, we identified 18 travel vouchers (20 percent) that did not comply with the *DHS Travel Card Manual*. Specifically, 18 travelers did not submit travel vouchers within 5 business days of the last day of travel.

Conclusion

Although the Department has implemented some internal controls, it remains at a moderate level of risk for its purchase and travel card programs. Components did not always comply with the *DHS Purchase Card Manual*, and DHS did not ensure that components implement purchase card procedures that supplement the *DHS Purchase Card Manual*. Additionally, DHS has not fully implemented corrective actions to address deficiencies noted in our prior year report. As a result, there remains a risk that DHS' internal controls over its charge card programs may not prevent illegal, improper, or erroneous purchases and payments.

Recommendations

Recommendation 1: We recommend that the Assistant Director for Bankcard and Review, DHS Office of the Chief Financial Officer, ensure components implement Purchase Card procedures based on the *DHS Purchase Card Manual*.

Management Comments and OIG Analysis

DHS concurred with the recommendation. In its response to the draft report, DHS indicates that it makes every effort to ensure that all spending placed on government-issued charge cards is appropriate and that it takes a proactive approach to preventing government charge card waste, fraud, and abuse. A summary of the response and our analysis follows. We have included a copy of DHS' response in its entirety in appendix A. DHS also provided technical comments to the draft report. Where appropriate, we incorporated the technical comments into this final report.

Recommendation 1: Concur. The Bankcard and Review Branch is updating the *DHS Purchase Card Manual*. Once updated and finalized, DHS will require the components to incorporate the updates into their component-specific manuals within 6 months. DHS is also updating the charge card oversight plan



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to include compliance evaluation of the component-specific manuals. The estimated completion date is March 31, 2017.

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

Objective, Scope, and Methodology

The DHS Office of Inspector General was established by the *Homeland Security Act of 2002* (Public Law 107-296) by amendment to the *Inspector General Act of 1978*.

The *Government Charge Card Abuse Prevention Act of 2012* (Charge Card Act), Public Law 112-194, requires all executive branch agencies ("agencies") to establish and maintain safeguards and internal controls for purchase cards, travel cards, integrated cards, and centrally billed accounts. Our review objective was to assess the level of risk associated with the design of internal controls implemented to prevent illegal, improper, and erroneous purchases and payments.

We evaluated the DHS Office of the Chief Financial Officer's (OCFO) internal controls over the charge card program to identify the level of risk within the program. We conducted interviews with OCFO personnel directly involved with implementing and monitoring the charge card programs. We reviewed the OCFO's policies and operational procedures for the charge card program as well as any documents and reports that could assist us in answering our objective.

In addition, we tested a random sample of transactions from the Coast Guard Purchase Card and FEMA Travel Card programs for FY 2015. According to the *2015 DHS Spend Total Report*, the value of all transactions for the purchase card and travel card programs combined totaled almost \$1 billion (as referenced in table 1 of this report). The Coast Guard Purchase Card transactions were valued at approximately \$212 million (representing approximately 50 percent of all DHS purchase card transactions), and FEMA Travel Card transactions were valued at \$88 million (representing approximately 16 percent of all DHS travel card transactions). We validated the spending totals in the *DHS Spend Total Report* to detail data obtained from the JP Morgan Bank system, which was provided by DHS management.

We then identified and selected for testing the months with the highest and lowest purchase and travel card spending totals for fiscal year 2015. According



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to the spending report, the Coast Guard had the highest and lowest purchase card expenditures in November 2014 and September 2015, respectively. Also, FEMA had the highest and lowest travel card expenditures in August and January 2015, respectively.

We conducted this risk assessment between October 2015 and May 2016 pursuant to the *Inspector General Act of 1978*, as amended.

The Office of Audit's major contributors to this report are Sandra John, Director; Kendra Loper, Audit Manager; Carolyn Floyd, Auditor; Hope Franklin, Auditor; Gary Greer, Auditor; Adam Buro, Auditor; Elizabeth Argeris, Communications Analyst; and Elizabeth Finn, Independent Referencer.



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Appendix A
DHS Comments to the Draft Report

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



**Homeland
Security**

August 4, 2016

MEMORANDUM FOR: John Roth
Inspector General

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

SUBJECT: OIG Draft Report, "Fiscal Year 2015 Assessment of DHS
Charge Card Program Indicates Moderate Risk"
(Project No. 16-009-AUD-DHS)

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

The DHS Chief Financial Officer is pleased to note OIG's positive recognition that the Department has established internal controls for both its purchase and travel card programs, including recently issuing an oversight plan to enhance internal reviews and audits. DHS makes every effort to ensure that all spending placed on government-issued charge cards is appropriate and only driven by requirements related to fulfilling the Department's vital missions to ensure a homeland that is safe, secure, and resilient against terrorism and other hazards.

DHS takes a proactive approach to preventing government charge card waste, fraud, and abuse. Specifically, for every Purchase Card transaction a federal employee conducts a review of that transaction, and another person separately approves it. In addition, monthly audits are performed to ensure that completed transactions were appropriate, reasonable, and followed Departmental policy. For example, during FY 2014, the U.S. Coast Guard (USCG) began a concerted effort to improve its purchase card program by holding training with the DHS Bankcard program manager at east and west coast districts, increasing internal control measures to prevent policy violations, and increasing internal reviews of purchase card transactions. These improvements contributed to USCG monthly internal auditing performance moving from 80 to 98 percent compliance in FY 2015.

Furthermore, DHS oversees its Travel Card Program using VISA IntelliLink, sophisticated technology that helps identify potential unauthorized personal use of travel



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cards using graphical dashboards and standardized reports that transform transaction data into business intelligence. The Department closely tracks delinquent accounts in monthly reports distributed to Component heads for follow-up attention, as appropriate. It is also important to note that individual cardholders are liable for purchases made against government-issued travel cards, not the Department.

The draft report contained one recommendation with which the Department concurs. Please see the attached for our detailed response to the recommendation.

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



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Attachment: DHS Management Response to Recommendations Contained in OIG Draft Report (16-009-AUD-DHS)

OIG recommended that the Assistant Director for Bankcard and Review, DHS Office of the Chief Financial Officer:

Recommendation 1: Ensure Components implement Purchase Card procedures based on the DHS Purchase Card Manual.

Response: Concur. The Bankcard and Review Branch is updating the Purchase Card Manual. Once this update is finalized and published, the Department will require all Components with Component-specific purchase card manuals to incorporate the updates from the DHS manual within six months. All other Components will continue to directly follow DHS policy. In addition, the charge card oversight plan is being updated to evaluate Component compliance with the Purchase Card Manual. Estimated Completion Date: March 31, 2017.



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