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DEPARTMENT OF HOMELAND SECURITY PURCHASE CARDS: CREDIT WITHOUT ACCOUNTABILITY

HEARING

BEFORE THE

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

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DEPARTMENT OF HOMELAND SECURITY PURCHASE CARDS: CREDIT WITHOUT ACCOUNTABILITY

WEDNESDAY, JULY 19, 2006

U.S. SENATE,
COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 10 a.m., in room SD–342, Dirksen Senate Office Building, Hon. Susan M. Collins, Chairman of the Committee, presiding.

Present: Senators Collins, Coleman, and Lieberman.

OPENING STATEMENT OF CHAIRMAN COLLINS

Chairman COLLINS. The Committee will come to order. Good morning. Today, the Committee will examine the results of the joint investigation conducted by the Government Accountability Office and the Department of Homeland Security's Office of Inspector General into wasteful and potentially fraudulent uses of DHS' purchase cards. Government purchase cards are similar to the personal credit cards that many of us carry, but with a notable difference: The American taxpayer pays the bill.

The government is responsible for paying all charges by purchase cardholders regardless of what was purchased or whether the buyer got a fair price. When used properly, purchase cards allow agencies to streamline the acquisition process and reduce costs when buying goods and services or paying government contractors. When used improperly, purchase cards enable wasteful and even fraudulent transactions.

The American people expect the Federal Government to spend their tax dollars wisely, especially in this time of great fiscal pressures and a large budget deficit. That is why this Committee has undertaken so many investigations to expose and eliminate wasteful spending. Indeed, this is not our first hearing into the misuse of purchase cards. In 2004, this Committee investigated the purchase card program used by the Department of Defense. We heard from the same witnesses who are here before us today about a lack of oversight and internal controls at DOD. It is disturbing that we will hear again today about a similar lack of oversight and internal controls at the Department of Homeland Security.

Today's hearing will focus on spending associated with DHS purchase cards in the months both immediately preceding and following Hurricanes Katrina and Rita when DHS was given ex-

panded authority for using purchase cards. I opposed raising the micropurchase threshold to $250,000, fearing that hurried and wasteful spending might occur. GAO's investigation indicates that my fears were warranted.

The use of government purchase cards has soared from less than $1 billion in fiscal year 1994 to more than $17 billion in fiscal year 2004. In fiscal year 2005, DHS spent $430 million through the use of purchase cards issued to more than 9,000 cardholders. It is critical that agencies establish and enforce adequate internal controls to ensure that cardholders are using their purchase cards responsibly and are held accountable if they misuse them. This becomes more urgent as purchase cards increasingly are used not only for what are known as micropurchases—under $2,500—but also for making contract payments for much greater amounts, as happened in the aftermath of Hurricane Katrina.

DHS, however, failed to implement the basic controls and safeguards across the Department to prevent the misuse of purchase cards. Government purchase cards are to be used only for official purposes, and they are to be used responsibly. But the GAO and the IG discovered numerous instances in which cardholders entered into questionable and wasteful transactions on the taxpayers' dime.

For example, investigators found that FEMA purchased 200 laptop computers for the New Orleans Police Department. These were meant to be on loan to the police department while its own equipment was unusable. But when GAO and the DHS IG attempted to locate these computers, they could not find more than half of the computers, 22 printers, and two GPS units, translating into approximately $170,000 of lost property.

Another example involved the unwarranted purchase of eight high-definition televisions, including a 63-inch plasma TV purchased at a cost of nearly $8,000 at the end of the fiscal year. One cannot help but wonder if this was an example of hurry-up spending to deplete a budget at the close of the fiscal year. Until GAO inquired, these televisions had not been entered into the agency's inventory records. The GAO investigators were able to locate these televisions, but the plasma TV had not even been removed from its box 6 months after it had been purchased. Clearly, this was not a necessary purchase. The GAO also found other cases involving excessive prices, duplicative payments, and wasteful purchases.

I do want to note that at 7:52 this morning, DHS informed the Committee that it had miraculously found the missing boats and some of the missing computers, although they are "in the process of locating the printers." To me, this is just a further indictment of a lack of systems at the Department to account for property, and it shows a chaotic and completely unacceptable system when items worth hundreds of thousands of dollars are missing one day, found the next, and perhaps to be found in the future.

In addition to testimony from GAO, we will hear this morning from the Chief Financial Officer of DHS, David Norquist. The CFO's office is responsible for administering DHS' purchase card program. Now, Mr. Norquist has been in his new position for just under 2 months, so I do want to make clear that he was not responsible for the poor management of DHS' purchase card program during the time period that was the subject of this investigation.

But, nevertheless, he is the official responsible for ensuring better management and accountability in the future, and I hope it will not take a congressional hearing to prompt DHS to make the necessary reforms or to find missing equipment, which seems to have happened in this case.

Providing assurance to the American people that the Federal Government is shopping responsibly and honestly is absolutely essential. That is why several Members of this Committee—Senators Lieberman, Coleman, Levin, and Akaka—joined Senator Feingold and me in introducing the Purchase Card Waste Elimination Act last year in the wake of our DOD investigation. This legislation finally passed the Senate last month, and I cannot help but think if it had been signed into law last year, this audit may have produced different results.

The bill requires the Office of Management and Budget to issue guidelines to assist agencies in improving the management of purchase card programs. It requires the General Services Administration to identify additional opportunities to achieve savings. And it mandates that OMB report annually to Congress on the progress agencies are making on both of these fronts.

My hope is that this investigation, the latest GAO report, and our hearing will encourage prompt passage in the House of Representatives and enactment of this important bill.

I welcome all of our witnesses here today. We have worked very closely with this outstanding team of GAO investigators in the past. I look forward to hearing their views and the views of the Department as well as their recommendations to address waste, fraud, and abuse in DHS' purchase card program.

Senator Lieberman.

OPENING STATEMENT OF SENATOR LIEBERMAN

Senator LIEBERMAN. Thanks, Chairman Collins, for convening today's hearing to examine DHS' record on using government purchase cards.

Thanks to Mr. Kutz and Mr. Ryan for another first-rate job of investigation and analysis on behalf of Congress and the taxpayers. Your investigation has uncovered, what I would call, a number of inexcusable abuses of purchase cards, which are symptomatic of larger problems the Department has with management controls in financial oversight.

In the interest not just of our responsibility to the taxpayers, but in this case, in the interest of homeland security, these problems have to be fixed. Purchase cards obviously can save money for the taxpayer by streamlining acquisitions and reducing administrative costs, especially for small procurements. But absent agency controls, the flexibilities allowed by the use of purchase cards leave our government and taxpayers vulnerable to waste and abuse.

The GAO's findings make clear that such waste, abuse, and fraud have occurred and that better controls are urgently necessary. With over 10,000 purchase cardholders at the Department of Homeland Security, the potential for waste, fraud, and abuse is enormous. One question I want to ask is whether all 10 thousand purchase cardholders really ought to be issued purchase cards. That is a very large number.

GAO found that in some instances purchase cards encouraged hasty and sloppy spending in the response to Hurricane Katrina. Senator Collins has mentioned some of them. A few others: A FEMA purchase cardholder bought over 5,000 cases of MREs, meals-ready-to-eat, for Katrina relief from a vendor over the Internet at a cost of over $460,000. GAO reaches what certainly seems to be an immanently sensible conclusion that FEMA could have procured the MREs at far lower cost through the Defense Logistics Agency or an existing GSA vendor rather than going over the Internet.

Another example: FEMA entered into a $178,000 contract with a broker for the purchase of 20 boats at a cost that was 100 percent above retail price. The broker then used the card number to purchase boats and also made additional unauthorized purchases totaling $30,000 using the purchase card. That was done by the broker, not by the DHS employee. The FBI is actually investigating the vendor.

And then there were instances where DHS employees purchased items that, shall I say respectfully, seem unlikely to have had a legitimate government purpose, such as iPods. And an employee of the Coast Guard Academy apparently used a purchase card to pay $227 for a home brew beer kit to make beer for academy functions.

Overall, GAO finds, based on the statistical sample, that 45 percent of DHS' purchase card transactions were not properly authorized. Clearly, the Department needs to do a lot of work quickly to establish adequate procedures for keeping track of goods purchased with these cards. The Department has no formal guidance in place to instruct employees on proper card use, although, perhaps not coincidentally, yesterday evening DHS notified the Committee that it has finally finalized exactly such guidance.

We are going to hear today from the new Chief Financial Officer at DHS, David Norquist, and I hope that he will tell us about his plans to improve the tracking and control of purchased goods with these cards. Typically, the cards are used for purchases under $2,500, but as the GAO testimony will tell us, employees of the Department have used the cards for significantly larger transactions, including that $178,000 I talked about for the boat broker.

Because of the possibility of waste and abuse in the use of cards for larger purchases, I strongly opposed a provision added to one of the Katrina supplemental spending bills that would have increased from $2,500 to $250,000 the amount that could be charged to a Federal purchase card. Chairman Collins also strongly opposed that, and she and I successfully reported out a bill from this Committee that would have repealed the provision. Eventually, in fact, it was repealed through a separate amendment to a Transportation-Treasury appropriations bill.

DHS officials have assured us that while the $250,000 limit was in effect, the Department never implemented that special authority, but clearly, some of the Department's personnel relied on other procurement authorities to make large purchases, and we want to ask today how that happened.

In sum, government purchase cards can, in some circumstances and with adequate controls, bring speed and effectiveness to the procurement process, but they also raise special management chal-

lenges. The ease with which the cards may be used can also encourage Federal employees to purchase unnecessary items or to rush into spending decisions without spending enough time to get the best price for the taxpayers. Goods acquired with purchase cards escape the more rigorous inventory controls that accompany paper-based transactions that go through more levels of approval. And, of course, a card number in the hands of a dishonest vendor can result in fraudulent charges against the account. As our April 2004 hearing, which Chairman Collins has referred to, on purchase cards showed, inevitably a few Federal employees have fallen to temptation and have used the purchase cards to purchase personal items.

So our task now is to ensure that the Department of Homeland Security implements procedures to prevent the abuse of these cards and takes appropriate disciplinary or legal action against those who abuse the cards or use them fraudulently. The reputation of the Department and the confidence of Congress and the taxpayers in the Department depend on such action.

With that in mind, I look forward to the hearing. Again, I thank the GAO and you, Madam Chairman.

Chairman COLLINS. Thank you. Senator Coleman.

OPENING STATEMENT OF SENATOR COLEMAN

Senator COLEMAN. Thank you, Madam Chairman. I want to thank you and the Ranking Member for holding this important hearing. I am Chairman of the Permanent Subcommittee on Investigations. This issue of the use of purchase cards has been of great concern. We have looked at the DOD. We looked at Federal travel, premium class travel, a lot of which was done by purchase cards and was not authorized, and, again, working with a fabulous team here, we found that over $90 million in premium class travel was not authorized. So this has been a big issue. With the Chairman's leadership, we have recently passed the Purchase Card Waste Elimination Act of 2006, of which I was proud to be a cosponsor. So there is more accountability, but so much more work has to be done.

My issue or concern is not the number of cards in the system, but the question is the accountability, the training, and the controls in place. So it is not the number. My frustration at times is the government does not work as fast as the private sector. When we had our Hurricane Katrina hearings and were looking at trying to find lost inventory that was "lost in the pipeline," my question was: Why don't you call FedEx? I mean, people today expect government to work in a way in which in their lives they see it work, when they use their ATM cards, when they audit things, and there is a tracking system. To me, it is absolutely stunning that we sit here and we have what I called these 11th-hour epiphanies of now we have found lost goods. To me, one of the problems here has been the lack of a system, not having a basic implementation of a manual by which you would train people to say this is how you do it, this is how you do not do it.

My fear is that because of the abuse, we are going to make government slower, we are going to make it less responsive. We are going to put in place all sorts of controls that in the end may then

hinder the ability to do the important work that has to be done, but in part because we have not had a system in place of control. Literally, in my opening statement, I was going to rail about the lack of a manual. I am not going to rail about that because that has now apparently been put in place yesterday.

We simply need to do better. The Chairman used the phrase—and I wrote this down—"chaotic and completely unacceptable." And I second that. I think that is really what we looked at. We have to do better. We have a new team in place, but what we have seen has been unacceptable, and we have to take the steps to make sure that the agency is responsible without losing the ability for government to move quickly and to do the things that people expect it to do.

So that is our challenge, and, again, I want to thank the Chairman and the Ranking Member for their focus on this issue.

Chairman COLLINS. Thank you very much.

I am very pleased to welcome our first witnesses today to this Committee. They really need no introduction. Greg Kutz is the Managing Director of the Forensic Audits and Special Investigations Unit of the Government Accountability Office. He has been with GAO since 1991 and assumed his position as Managing Director in 2005. He is accompanied by Special Agent John Ryan, Assistant Director of the unit. So we are very pleased to have you return to the Committee, and I congratulate you for once again doing outstanding work.

Mr. Kutz, we will start with you.

TESTIMONY OF GREGORY D. KUTZ,[1] MANAGING DIRECTOR, FORENSIC AUDITS AND SPECIAL INVESTIGATIONS, U.S. GOVERNMENT ACCOUNTABILITY OFFICE, ACCOMPANIED BY JOHN J. RYAN, ASSISTANT DIRECTOR, FORENSIC AUDITS AND SPECIAL INVESTIGATIONS, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. KUTZ. Chairman Collins, Senator Lieberman, and Senator Coleman, thank you for the opportunity to discuss the Department of Homeland Security's purchase card program. DHS has about 9,000 cardholders and spent over $400 million using purchase cards in 2005. I also want to thank Inspector General Skinner and his staff, who, as you mentioned, Chairman Collins, worked with us jointly on this audit effort.

The bottom line of my testimony today is that weak internal controls leave DHS vulnerable to fraud, waste, and abuse in its purchase card program. My testimony has two parts: First, internal control weaknesses and second, examples of fraud, waste, and abuse.

First, we found a weak control environment related to the purchase card program. However, many of the problems that we identified are not strictly related to the purchase card program. We also found symptoms and other issues related to property accountability and procurement. With respect to the purchase card program and control environment, the first issue we found was the lack of leadership. As was mentioned here, evidence of that was that the DHS

[1] The prepared statement of Mr. Kutz appears in the Appendix on page 27.

purchase card policies and procedures manual had been in draft for over 2 years. Although these draft policies generally contain effective controls, we found inconsistent usage of them across the Department. Other control problems include inadequate staffing, monitoring, and training.

Our statistical sampling also revealed serious breakdowns in transaction-based controls. For example, an estimated 45 percent of transactions did not have written authorization. Further, 63 percent of transactions did not have documentation of independent receipt of goods and services. This contributed in part to the substantial problems with missing and stolen property.

Moving on to my second point, given the weak internal controls, it is not surprising that DHS is vulnerable to fraud, waste, and abuse. Our work was not designed to estimate the magnitude of fraud and abuse. However, we found, as you mentioned, numerous examples of fraud, waste, and abuse. Let me discuss several of these.

The first issue, as I mentioned, is property accountability. For example, 154 out of 433, or 36 percent, of the property that was bought with the purchase card was missing or stolen. For example, the posterboard shows a hotel conference room in the French Quarter where several hundred computers, printers, and GPS units were supposed to be.[1] However, when FEMA staff took us to this location in March 2006 where they thought the property was, we found this empty conference room. Ultimately, FEMA could not find 107 of the laptops, 22 of the printers, and two GPS units—although you said that they miraculously found them, I understand.

FEMA also could not account for the location of 20 flat-bottomed boats and motors that were purchased for body recovery operations in New Orleans. FEMA paid $208,000 for these boats, which was twice the retail price. The vendor who had purchased these from several retailers failed to pay for over half of the boats, which one of the retailers has reported are stolen. This vendor is under investigation by local law enforcement and the FBI.

One example of waste is FEMA's $68,000 purchase of 2,000 sets of canine boots. These boots were purchased by mistake for Hurricanes Katrina and Rita operations and were not used and are now in storage.

The posterboard shows a 63-inch Samsung plasma television that you mentioned,[1] Chairman Collins, that FEMA purchased in September 2005, costing about $8,000. This, too, was a waste of taxpayer dollars since auditors found the television unused in the original box 6 months after it was purchased.

The Meal-Ready-to-Eat (MRE) poster that I have in my hand is another example of waste. To support CBP's response to Hurricanes Katrina and Rita, they purchased MREs from an Internet vendor. However, we identified at least tens of thousands of these that are sitting in storage, unused, in El Paso, Texas.

And, finally, a Coast Guard purchase card was used to buy a beer-brewing kit and a Brewers' Bible. The posterboard shows some of the bottles of the Coast Guard's own home-brewed beer.[1] We considered this to be an abusive transaction and question the

[1] The posters referenced by Mr. Kutz appear in the Appendix on pages 69–71 respectively.

use of Homeland Security personnel and resources to brew its own beer.

In conclusion, the purchase card is a valuable tool that provides the government great flexibility and reduced transaction processing costs. The examples of fraud and abuse related to Hurricanes Katrina and Rita show that the government is particularly vulnerable when using purchase cards in times of disaster. Mr. Norquist appears to be taking a proactive approach to the challenges that I have described for you today. I look forward to working with him, the IG, and this Committee to see that DHS realizes the full benefits of using the purchase card.

Chairman Collins, that ends my statement. Special Agent Ryan and I look forward to your questions.

Chairman COLLINS. Thank you very much, for an excellent statement.

You have listed several egregious examples of purchases that were clearly wasteful, some outright fraud, and poor buying decisions that cost the taxpayers a great deal of money. Did you also find that there was a lack of care to make sure that the government was not being billed twice? For example, did you find examples of duplicative billing and a lack of reconciliation with the payments to make sure the property has been received?

What prompts me to ask that is when we all receive our personal credit card bills, we go through them very carefully to make sure that the charges are correct. If they are not, we act immediately. But as I understand the results of your audit, since it is somebody else's money, that same kind of care does not seem to be taken.

Mr. KUTZ. Yes, we found duplicate payments. There was one $153,000 charge, I believe, that the government first of all paid with the purchase card, and they paid in advance, which is not in accordance with policies at the Department; and then they paid them again using an EFT payment. And the Department was unaware it was a duplicate payment until we informed them of it, and then they were able to get a credit back from the vendor 6 or 8 months after the purchase was made. So that was an example of a duplicate payment.

We found a lot of evidence that people are not reviewing the monthly statement, and let me just explain how they do it at DHS. Normally, you and I would get our credit card bill and pay it monthly after reviewing the transactions. What DHS does is they pay every day, so they have a daily—it is called "pay and confirm," or in a bad scenario, it is "pay and chase." But what they do is they pay every day, and then they are supposed to take the monthly bill and go back and make sure that all the charges are correct. And that can work as long as the reconciliation is done timely because you have 60 days to file a dispute with the bank for charges that are not yours. But we found, again, breakdowns in the dispute process. We found people were not reviewing their monthly bill. And I will use the boats as an example. The individual that was the cardholder that purchased the boats, there were charges going through for purchases that the cardholder did not make that the government paid, and that is why you have the boats costing $208,000. The agreed-to price was $178,000, but $30,000 or so of those charges are for the vendor, who basically stole the govern-

ment's account number and used it to buy the boats that he then sold back to FEMA.

Chairman COLLINS. And in that case, are there indications that the FEMA employee gave the middleman the account number to use?

Mr. KUTZ. They gave them the account number to use in that case because they were going to have prepaid the purchase of the boats for $178,000. So, yes, they gave them the account number, but they did not authorize them to use the account number themselves to buy additional goods and services.

Chairman COLLINS. The purchase card program is intended to save money for the government and for the taxpayers ultimately, yet you found examples where government agencies within DHS actually paid more for goods and services than they should have. You gave several examples of that in your report.

Is competitive bidding curtailed when there is a purchase card transaction? How do we ensure we are getting the best price if we are using purchase cards?

Mr. KUTZ. Well, the hearing we had before your Committee here in 2004, we estimated hundreds of millions of dollars could be saved with better acquisition methods using the purchase card, and we found symptoms of some of the very same issues at DHS that we spoke to you about in 2004. And there is significant evidence here that they could have gotten millions of dollars of savings using their purchase card with better acquisition processes. So I believe that is another issue that Mr. Norquist needs to take a look at.

Chairman COLLINS. Mr. Ryan, were you surprised that DHS all of a sudden on the morning of the hearing was able to find a lot of the missing equipment, 74 out of the 107 missing computers?

Mr. RYAN. I think in this particular case, I am a little taken aback, quite honestly, because we have been working on this job for a while. They were aware that there were missing computers from the ballroom in New Orleans. They were aware that there was a problem with the boats. And I guess what I would ask is that if they are going to say they found these items, that they maybe cross-reference them against the serial numbers that we have that we are saying are missing and confirm that what we have is what they found. I think that would be the first step, and then obviously, as long as it is not a paper verification—because there is a problem with paper verifications as we had in other cases that we looked at. Numbers are put on a piece of paper, but no one touches the item. So I would ask them to touch the item and make sure that they are really testing the serial number that we have to what they found.

Mr. KUTZ. Senator, could I add something to that?

Chairman COLLINS. Mr. Kutz.

Mr. KUTZ. One issue is that if you do not put the property in the property book right after you buy it, and the serial number or a bar code, it is never going to be missing in the first place. And so a lot of what we found were things that they would have never found missing in the first place because it never actually made it to the property book.

Chairman COLLINS. Well, that is exactly what my follow-up question to you was going to be. If the Department told you that they could not find 12 of the boats and there were a hurricane tomorrow that required boats, it seems to me what is going to happen is the Department goes out and purchases what it already has but does not realize that it has.

Mr. KUTZ. You are exactly right. Waste is going to happen because they do not know what they have, they do not know where it is, and so they are going to say that they need more, and they are going to come back and ask you for more money.

Chairman COLLINS. Exactly. Senator Lieberman.

Senator LIEBERMAN. Thanks again, Madam Chairman.

Gentlemen, thank you. Let me ask a couple of the questions that I raised in my opening statement. The first is, although I know this is a large Department—my first reaction to there being 10,000 government credit cards out there in the hands of DHS employees is that is a large number. Did you reach a judgment on that in your work?

Mr. KUTZ. Yes, let me give you some other information that would help you with that. There were 2,468 cards that had no activity for 1 year, so right there I can make a pretty strong argument that you could reduce 2,500 of the cards.

Senator LIEBERMAN. Right.

Mr. KUTZ. So there is strong indications that they have too many cards.

Senator LIEBERMAN. OK. That is direct and helpful.

Second, as I mentioned, there is the question of the $2,500 limit as opposed to the $250,000. We repealed that limit by statute on an appropriations bill, but then the officials at the Department of Homeland Security assured us that even while the quarter of a million dollar limit was in effect, the Department never implemented the special authority. But, clearly, some of the personnel of the Department made purchases well beyond the $2,500, as we have documented, over $200,000 for the boats and other purchases as well.

How did that happen? Did they rely on some other procurement authority beyond the one we are talking about to make such large purchases by credit card?

Mr. KUTZ. Yes, they used what they called the "unusual and compelling urgency" provision of the Federal Acquisition Regulations (FAR) to make those purchases in emergency situations. And so that was what they represented was the reason.

Also, there are certain contracting officers that have the ability to use the purchase card as a payment card for ongoing contract payments during the year. So there are two things. But for most of the transactions you are speaking to, Senator, it was the unusual and compelling urgency provision, and it was mostly FEMA related.

Senator LIEBERMAN. So what about that? Is that a reasonable provision?

Mr. KUTZ. If well controlled. Again, this is all about management and controls.

Senator LIEBERMAN. Right.

Mr. KUTZ. It is not as if the situation is such that it cannot be done correctly. It is just a matter of a little bit of oversight, monitoring, and management. It is not as if they should not have that flexibility. I think as you said earlier, it probably makes perfect sense if controlled properly.

Senator LIEBERMAN. Yes. Let me build on that answer and put it in this context. That these abuses occurred in the aftermath of Hurricane Katrina is in one sense even more remarkable considering that GAO has produced a long line of reports and testimony over the last few years detailing what I would call ridiculous purchases made with government purchase cards. And in that sense, one would have hoped that DHS would have been on notice of the risks of waste and abuse.

So I want to ask you, as you continue your important work here, how do you explain why it is taking Federal agencies so long to get the message that these purchase cards, while necessary and cost-effective in many cases, also can be misused and that the agencies need to implement better oversight procedures?

Mr. KUTZ. Well, here I think it was kind of a little bit of a match between acquisition and CFO as to who was actually in charge, and it appeared no one was actually in charge the last several years, or you would have had policies sent out from the Secretary level that this is what people are supposed to do in the Department of Homeland Security. And you did not have that so you effectively had no real operating program office.

The actual policies and procedures as they are written—I read them in detail; Special Agent Ryan read them in detail—are actually pretty good, and if people had followed them, most of the issues that I talked about in my opening statement and that you have mentioned as examples could have been avoided.

Senator LIEBERMAN. Yes. Do you have plans, or does the DHS Inspector General, to do systematic reviews through audits and investigations to follow up on the findings that you have made in the report that you presented today?

Mr. KUTZ. We always do follow-up on our findings to make sure that recommendations are implemented, and they usually send us a response within 60 days as to how they are going to deal with things. But we are going to issue a subsequent report to this testimony that has a series of recommendations, and I will jointly sign that with either Rick Skinner or Matt Jadacki from the IG's office.

Senator LIEBERMAN. OK. That is excellent. Maybe the next question gets a little bit ahead of us, but if you are prepared, I was going to ask you what kind of oversight you think the Department should put in place to discourage the wasteful and unnecessary spending by government purchase cards that you have documented in this report?

Mr. KUTZ. The policies and procedures they have call for periodic audits of a random sample of transactions, and I think that would be effective if they did it. And I don't know how effectively that has been done. It also calls for periodic review by the Chief Financial Officer's staff of the entire program. So if they did some of those things from a management perspective, again, I believe they would be able to find the very same things that we had found here and

try to curtail those abuses and pricing issues and other things like that.

Senator LIEBERMAN. A related and final question. What is the exact cause, to the best of your knowledge, of the poor inventory controls that you have identified for goods procured with purchase cards?

Mr. KUTZ. Oftentimes with purchase cards, we have found that there is less control over property. Sometimes you are buying one and two or a dozen rather than a bigger procurement of computers that is done through the IT part of an organization. And so these are shipped—again, you mentioned 9,000 or 10,000 cardholders. If they are buying property, they may not be trained how to put a bar code on. They may not call the property people and get bar codes or serial numbers in. And I think the decentralized nature of using the purchase card subjects the property to less accountability, and that is what we found across the government.

Senator LIEBERMAN. Very good. Good work. Thank you.

Chairman COLLINS. Senator Coleman.

Senator COLEMAN. Thank you, Madam Chairman.

I want to second the comment about good work. You have done tremendous work, both on this and in other areas, and we really appreciate it.

Let me follow up on—when you walked into the hotel room, the conference room, and the computers were not there, what did the FEMA staff say, the folks you were with?

Mr. RYAN. The agent and the auditor who went there, when they opened up the door, the FEMA employee was surprised that they were not there and, quite honestly, said, "I don't know where they are at," and kind of like left. If it was not for the agent and the auditor, I am not so sure we would have found the 107.

Senator COLEMAN. My kind of just a human reaction, you walk in, you cannot find something that you are supposed to find, I would suspect that common sense would have said, OK, well, now let's go find it. And I am stunned that even as we sit here today, Madam Chairman, we have just found them this morning.

Mr. KUTZ. Well, there were supposed to be 200 items we tried to find. We actually, working with the Department, found 93 of them, and there were 100-some we could not find. So we worked proactively with them on it, and I guess subsequent to when we stopped looking, they continued and right up until this morning have found many of them, they are saying.

Senator COLEMAN. Talk a little bit about the system because I want to keep coming back to that system and review. Again, if you had a system of reviews of purchase card compliance, I would suspect you could at least on an annual basis kind of update—I think the figures you gave, about 20 percent of the purchase cards have not been used in a year. You would think that would raise a signal as to whether then those are needed. Is there any kind of review system in place to look at purchase card compliance within DHS?

Mr. KUTZ. On paper, there has been. In reality, it appears no.

Senator COLEMAN. And explain the difference between the paper and the reality. When you say paper, is there a manual or is there kind of a directive?

Mr. KUTZ. Yes, the draft manual I talked about had a lot of the provisions you are talking about. It just was not being exercised efficiently. And just because they say they are going to implement it as of today does not mean they are going to actually follow it. There still needs to be oversight and follow-up because there were certain components of the Department that were supposedly following this manual during our audit, and they had some of the very same problems. So that gets into actual implementation versus just the design of the program.

Senator COLEMAN. So what kind of system needs to be in place to ensure that you have adherence to policy, that you have reviews of controls in place and in effect? Is there an internal component to this and an external component?

Mr. KUTZ. Yes, mostly it would be an internal—again, I think this is a management function, not an auditor function. You want the auditors to check periodically to see that management is doing their job. But from a management perspective, I think systematic testing of controls on a sample basis, which is what the policies say that they are doing, along with some data mining for some of the unusual transactions we have talked about and some follow-up investigation would be the kind of oversight I would do.

Senator COLEMAN. Can I just briefly go to the vendor who did the boat deal and, in effect, used the purchase card to get some of the boats? This is fraud then by a vendor rather than a Federal employee.

Mr. RYAN. At this stage of the game, yes. We are referring to the Department the purchase cardholder.

Senator COLEMAN. I am trying to understand how the vendor got the number. Did the purchase cardholder actually give the number to the vendor with the assumption that the vendor would use the purchase card?

Mr. RYAN. Yes, someone told the cardholder to use this vendor. We have not been able to determine why. The vendor had no boats. He had no inventory. He took the card number from the cardholder, ran two transactions through a family member's night club, had—and, again, I might emphasize that the manual had a restricted Merchant Category Code (MCC). If that would have been in place, the transaction would not have taken place. So we paid for boats that the vendor did not have, and we paid for them before we even got them.

Senator COLEMAN. I presume there are titles to boats. Did you get titles to the boats?

Mr. RYAN. No. The government does not have titles to these boats simply because, one, the vendor who did take possession of some of the boats never transferred titles. With another vendor, he failed to pay that vendor. Since that vendor did not get paid, he went to the local police department and filed a stolen property report.

Senator COLEMAN. Was there a point in time before you looked at this where somebody in FEMA said we have boats to which we have no titles? And was that ever reported to anyone at a level above the employee involved in the transaction?

Mr. RYAN. I really do not know. The only thing I can tell you is that when I started to look at this transaction, I was told this was

a civil matter. And, quite honestly, because the cardholder failed to review his own card transactions, we discovered three additional transactions as unauthorized transactions because the cardholder never gave permission.

Senator COLEMAN. If the manual that is now apparently in place, was followed, if the procedures laid out in that manual were followed, would these kind of problems be avoided?

Mr. RYAN. I think a lot of the recommendations in the manual that talk about MCC codes, if they were put in place, I don't think you would be seeing two $80,000, $90,000 transactions running through a night club.

Senator COLEMAN. Thank you. Thank you, Madam Chairman.

Chairman COLLINS. Thank you, Senator Coleman.

Mr. Kutz, let me follow up on Senator Coleman's questions about the manual. You testified that there had been a draft manual for 2 years. Were you able to discover why that manual was not completed and issued as official policy?

Mr. KUTZ. We were told that it was a dispute between Acquisition and Chief Financial Officer, and Mr. Norquist can hopefully shed more light on that. But it appeared to be an internal dispute, and I do not really know what they were disputing because the policies and procedures actually were pretty good.

Chairman COLLINS. And they seemed to be the standard procedures that have been recommended by GAO in the past and by OMB. Is that correct?

Mr. KUTZ. Yes. There were a couple things that I think we would have added to them, but overall, they were well thought out and someone had spent some considerable time putting them together.

Chairman COLLINS. Well, that is why I conclude, as you do, that there was a failure of leadership here because whatever disputes there were should have been resolved at some point long before Hurricanes Katrina and Rita hit.

I want to go back to the issue of prior authorization for major purchases. It is my understanding that at least for purchases above a certain amount—and I would think that would have covered the $8,000 plasma TV—the cardholder is supposed to get prior authorization. Is that correct?

Mr. KUTZ. Yes. The draft manual requires prior authorization in writing, and it can be something as simple as an e-mail.

Chairman COLLINS. Is there any indication that the individual who purchased the television sets, including that particularly large and expensive one, received prior authorization?

Mr. KUTZ. They may have received it, but I do not believe it was in writing. And let me tell you what happens with that. Then we end up getting a lot of these interesting cases where there is no prior written authorization, and then what we get is a written authorization that happens 4 months after the transaction, where they are trying to rationalize why they spent taxpayer resources in a certain way. The iPods are an example of that. I think that some of the usage of conferences at some of these resort hotels, there was no documentation showing what they did, why they did it. If they had compared different alternatives that they had, they could have saved the government tens of thousands of dollars. So the authorizations are a very important control here.

Chairman COLLINS. And you did not come across any kind of justification for those expensive television sets?

Mr. KUTZ. No.

Chairman COLLINS. And I think the facts speak for themselves, that the 63-inch TV was still in the box when GAO discovered it.

Mr. KUTZ. Yes, the Inspector General's staff actually visited Mount Weather. That is where these were. And the one 63-inch was in storage. The seven 40-inchers were mounted, and they were being used to watch "CNN Headline News." And so, again, we do not know—we did not even go after that issue as to why did you need them in the first place. We were looking to see, first of all, if they had accountability, and that is another issue. They were not in the accountability records until the Inspector General's staff showed up at Mount Weather. So these had not been recorded in accountable property books either.

Chairman COLLINS. Did you find any indication of counseling or disciplinary action taken against employees who engaged in these wasteful transactions?

Mr. KUTZ. No, because management was not aware of any of our findings until we did it, so they had not found any of this as part of their own internal control systems. Now, Mr. Norquist has represented that he wants to take a look at administrative actions for the people who misused the card, and we are going to refer them to him for consideration.

Chairman COLLINS. But, indeed, if I were representing those employees, I would say there was no final manual for me to follow.

Mr. KUTZ. You could, yes. And, again, you may recall on the DOD we had thousands and thousands of cases of referral, whether it be for improper travel or misuse of purchase cards. We are not aware of two things: Any disciplinary action against any people, or anybody ever paying the money back. So there is no accountability in this kind of situation. Hopefully at the Department of Homeland Security, they will establish a system of accountability for people here.

Chairman COLLINS. Thank you. Senator Lieberman.

Senator LIEBERMAN. Thanks, Madam Chairman. Let me just pick up on that a bit.

As we mentioned, the new guidelines arrived yesterday at the Committee, and am I correct that GAO normally takes a look at the guidelines as they are being prepared so you have some general awareness of what is in them?

Mr. KUTZ. Sometimes agencies will ask us to look at drafts while they are being prepared, other times afterwards, but both Special Agent Ryan and I have read them cover to cover.

Senator LIEBERMAN. You have looked at them.

Mr. KUTZ. Absolutely.

Senator LIEBERMAN. OK, good. I will give you an opportunity first to say if you have not said everything you want already about what kind of job you think DHS has been doing in disciplining employees who abuse the cards. But the real question then is: Do you think the new guidelines, as you have looked at them, will improve the process for taking disciplinary actions?

Mr. KUTZ. Well, it is hard to discipline people when you do not know that they are committing abuse. They were not aware of any

of the cases that we came across, so there was, thus, no discipline of any of the people. There are general references in the draft policies, I believe, to disciplinary action for misuse of the cards, and how those will be actually applied would be a good question for the witness on the next panel.

Senator LIEBERMAN. Right. But your point is a good one, that the first necessity is to find out that abuse is occurring before you can discipline.

Mr. KUTZ. Yes.

Senator LIEBERMAN. OK. The second question about the guidelines: They will limit each approving official at the Department to overseeing only seven cardholders or 300 transactions per month. I wonder whether those ratios sound right to you and if you know how they compare to ratios at other Federal Government departments.

Mr. KUTZ. The 7:1 ratio is something OMB has supported. The Department of Defense, after we did all those audits and investigations there, uses the 7:1 as a maximum. And, again, that was something in our findings we had. The Coast Guard, I believe, had 170 approving officials that had greater than a 7:1 ratio, and that opens up the opportunity for cardholders sometimes that are unscrupulous to take advantage of that, and that is what we have seen in the past. So that is very important.

Senator LIEBERMAN. So 7:1 is a good ratio?

Mr. KUTZ. It is reasonable, yes.

Senator LIEBERMAN. And also the 300 transactions per month?

Mr. KUTZ. I am not sure. In what context are the 300 transactions?

Senator LIEBERMAN. Each approving official at the Department will be limited to overseeing seven cardholders maximum and 300 transactions per month.

Mr. KUTZ. I don't remember seeing that in the policies, but, again, assuming the person has enough time to do that—that is probably a several-hour-a-month job—that would be reasonable also.

Senator LIEBERMAN. OK. Thanks. No further questions.

Chairman COLLINS. Senator Coleman.

Senator COLEMAN. In regard to the cards that were unused for long periods of time, how do other agencies handle termination of cards, kind of culling back on cards? Are there procedures in place at other agencies that would provide guidance to DHS?

Mr. KUTZ. Yes, there are. I mean, there has to be justification of the card, and I will go back to the Defense Department. After we started taking a look at their use of the purchase card, they canceled over 100,000 cards. But when they went back and looked, do they have a real business need for 10 people in one unit to have purchase cards, they found that they did not. So they were able to cancel a large number. Senator Coleman, I think your point is probably the fewer cards, the better trained the people can be, and the better it is from an oversight standpoint to have a program.

Senator COLEMAN. And what about performance of trying to get procedures in place—I have not had a chance to look at the manual, but does it deal with monitoring—I presume it deals with employee performance. What about monitoring performance of the

contract, the remedies for non-performance, this issue about whether anything has ever been paid back?

Mr. KUTZ. I don't recall anything on that in the manual.

Senator COLEMAN. Are there procedures commonly used in other agencies to monitor performance that are particularly effective?

Mr. KUTZ. They may have other contractor oversight and performance guidance. I don't know.

Senator COLEMAN. But you are not sure what DHS does in this area?

Mr. KUTZ. No, we are not sure. There is nothing in the manual on that that we are aware of.

Senator COLEMAN. I would be interested in that, and perhaps we will follow up with the next witness on that. Again, thank you for your incredible work.

Thank you, Madam Chairman.

Chairman COLLINS. Thank you. Just one final question for you, Mr. Ryan. I was struck by the fact that the MREs that you cited were purchased on the Internet. Now, it seems to me that MREs are an example of a commodity that FEMA and the Department should already have purchased in advance of disasters, have a certain amount in storage. Could you tell us more about that particular transaction?

Mr. RYAN. In this particular case, FEMA had already a contract with DLA to provide MREs during Hurricanes Rita and Katrina. This transaction was specific to CBP.

What it was supposed to do was to provide MREs to their employees who were detailed to the area. Well, what happened was the cardholder failed to ask the necessary question: What are the requirements of an MRE for my employee?

This is considered a civilian MRE, which is different than a military MRE. We were told by people down in El Paso that for the Border Patrol people that were going out to do the work, these civilian MREs did not contain sufficient calories, that they would need to carry twice as many to be able to get the calories to do the job. So in thinking of that, what you have is a cardholder who purchased MREs that did not meet the requirements of their own employees; second of all, paid and purchased over the Internet, failed to check with DLA, and there was another civilian MRE contractor that was on the GSA schedule that they could have gotten a cheaper price and we would not have had to pay for shipping. And what we have are MREs sitting in El Paso, over 20,000 that I have been told, that just showed up and told them to store them. So the people in El Paso have basically tried to do something with them. I give them a lot of credit. They have told me that they have sent these civilian MREs to special units around the country so that when Border Patrol actually detains or arrests illegals, they can give these to them to feed them.

These MREs were bought with Hurricanes Rita and Katrina money. Now they are being used to feed the illegal aliens coming into the country. I mean, it is a good use. They are not sitting there going to waste.

Mr. KUTZ. Well, presumably they would have gotten money in their budget to do the other anyway. So it raises other questions, Senator.

Chairman COLLINS. Thank you. I wanted to end with that example because it is such an egregious and wasteful one. The agency failed to establish what was really needed. The agency paid excessively for the product. And there was a lack of coordination within the Department, not to mention the funding issues about whether the whole purchase was inappropriate.

It also is stunning to me that an individual in charge of procuring the MREs would not realize that there is a prescreened vendor for civilian MREs on the GSA schedule. That is just extraordinary.

Mr. RYAN. Yes.

Mr. KUTZ. It is symptomatic of stovepiped operations because FEMA was working with DLA and, as you may recall, at the time, DOD has a huge reserve stock of meals-ready-to-eat, and many of those were then used, redeployed to support the National Guard troops and to feed victims of Hurricane Katrina. So they had that going. This CBP group was operating kind of in a separate silo, was not aware of that, apparently, and went out and just did their own thing on the Internet.

Chairman COLLINS. It is a perfect example of a lack of coordination, training, knowledge, judgment, and preparation that wastes a great deal of taxpayer dollars. Actually, these civilian MREs would have been much more useful to feed people in the Superdome or in shelters. It is just another example of poor planning and wasteful spending.

Again, I want to thank you very much for your audit and your work. We really appreciate the great work that you do, and I hope the Department will also. It is important that the Department learn from your findings and recommendations. I am convinced that the boats and the computers would still be lost were it not for your investigation. So I thank you for your work.

Senator Coleman, do you have anything else?

Senator COLEMAN. No, thank you, Madam Chairman.

Chairman COLLINS. Thank you.

I would now like to call forward our second witness today. David Norquist was confirmed by the Senate on May 26 of this year as the Chief Financial Officer of the Department of Homeland Security. This is his first appearance before the Committee since he was confirmed for this position. I truly mean it when I say that I wish it were under better circumstances. And I do want to reiterate what I said in my opening remarks, that Mr. Norquist was not at the Department, he was not the Chief Financial Officer during the time in question. But he is the person that we are looking to for solutions to the problems that the GAO and the IG have identified.

So, Mr. Norquist, please proceed with your testimony.

TESTIMONY OF DAVID L. NORQUIST,[1] CHIEF FINANCIAL OFFICER, U.S. DEPARTMENT OF HOMELAND SECURITY

Mr. NORQUIST. Thank you very much. Good morning, Chairman Collins and Senator Coleman. Thank you for allowing me this opportunity to testify before you regarding the Department of Homeland Security's Government Purchase Card program. My name is

[1] The prepared statement of Mr. Norquist appears in the Appendix on page 73.

David Norquist, and I was sworn in as the Chief Financial Officer of the Department of Homeland Security on June 5, 2006.

DHS uses purchase cards as its preferred method for making small-dollar purchases, particularly those under $2,500. Using a purchase card saves the taxpayer's money because it provides a streamlined and automated purchasing and payment process that reduces administrative costs, and it provides refunds for the government, which saves money.

Another advantage of the purchase card program is that it provides the means for holding individuals accountable for their transactions. Purchases made with this card can be traced to a specific card assigned to a specific person used on a specific day at a specific store. If a cardholder misuses a purchase card, they can be held accountable, to include administrative action, being compelled to reimburse the government, or, when appropriate, criminal prosecution.

During its initial years of operation, the Department issued a policy directing all the components with existing purchase card programs to continue to use their established procedures. That policy is still in effect.

The testimony presented by the Government Accountability Office identified weaknesses in both the policies and the implementation of those policies by the various components in the Department. The Department shares those concerns.

In fact, prior to the GAO audit, the Department had drafted a Purchase Card Manual that would strengthen and standardize the internal controls and procedures for this program. It has been adopted by DHS headquarters.[1] That is the copy you have. We will be implementing it department-wide.

The manual makes a number of changes, but let me just highlight a few of the improvements. In addition to the GSA online training currently required before someone is given a card, it will require additional DHS training and annual refresher training. We will also require that records of that training be kept. One of GAO's concerns was they could not know whether or not people had had the training. The manual also will require written authorization before making a purchase, and it limits each approving official to overseeing only seven cardholders or no more than 300 transactions per month to ensure there is an adequate opportunity to do review.

GAO has reviewed this draft manual as part of its study. With the addition of requiring independent validation of receipt and acceptance of goods, which we intend to do, GAO has stated that when implemented department-wide, this manual will address the problems identified in their review. It is DHS' intention to issue this policy manual as soon as possible after making any additional changes in light of GAO's findings.

I was first briefed on the specific cases of GAO's findings last Thursday, so I have not had time to explore and resolve these issues. But I want you to understand that we take this issue very seriously. After GAO's briefing last week, I asked each of the com-

[1] Department of Homeland Security "Headquarters, Purchase Card Manual" appears in the Appendix on page 77.

ponents to look into these cases. In the few days that have passed, FEMA's field office reports that they have located 80 percent of the equipment that was reported missing by GAO. This includes 74 of the missing computers and all 12 of the missing boats.

But let me flag an important point because I completely agree with the GAO representative on this. Next week, Headquarters FEMA will be physically verifying that equipment, and we will use the serial numbers that GAO is talking about because verify, verify, verify.

GAO has committed to providing me the additional information, both in a case like this and in the other cases, to allow me to fully examine these issues. As we do with ones that arise during the course of our own internal reviews, we will examine these on a case-by-case basis to determine what administrative, disciplinary, or other actions are appropriate.

I am committed to strengthening the purchase card program at DHS as part of a broader effort to improve all internal controls across the Department.

Thank you for your leadership and your continued support of the Department of Homeland Security and its management programs. I look forward to working with the Committee on this issue, and I would be happy to answer any questions you may have.

Chairman COLLINS. Thank you, Mr. Norquist.

GAO noted in its testimony that the purchase card manual was in draft form and had been in draft form for 2 years due to disputes internally within the Department. When did you approve the manual?

Mr. NORQUIST. Let me be clear because I think there was some confusion when we transferred the manual to you. We had adopted this manual at the headquarters. It has not yet been fielded to the components as a requirement. They are still operating under the existing procedure, which says if you had a purchase card program with a set of controls, use that when you have merged with DHS. And so that is what you are seeing that the audit was of.

One of your staff during a meeting late last week asked for a copy of it, and so what I did was I made sure that we provided that to you as the manual used by the headquarters. It is the basis upon which we will implement it department-wide. But one of the things I want to make sure we do is GAO had one or two additional recommendations, particularly related to independent receipt and validation, which ties to the issue of inventory control. And before we issue this as a department-wide standard, I want to build those extra ones in. I mean, this is not a rush to get it done in 2 days. This is a rush to get this done correctly over the next period of time so we have this to the right standard.

Chairman COLLINS. Well, it is not 2 days. It is 2 years. And I realize that preceded your time in the Department. How long is it going to take to make sure that we have controls in place that apply to every agency within the Department that applies to every transaction?

Mr. NORQUIST. Well, I think the important thing here is that there are going to be several stages to this. We talked about this is not just a manual. This is the whole implementation. For exam-

ple, the first step is going to be adopting the manual as a department-wide policy.

Chairman COLLINS. Right, but when is that going to happen?

Mr. NORQUIST. I talked with the chief procurement officer, and I have told my staff to put in the changes GAO recommended. If the chief procurement officer is OK with it, we will send it out for a very short internal coordination to make sure we did not miss anything. It is my intent that before GAO's report becomes final with their recommendations, it will be able to talk about the things we have done, the implementation we have done, and not the things we intend to do.

Chairman COLLINS. I would like to ask you to give the Committee a timeline for implementation of the manual for training people, for fully implementing the kinds of internal controls that have been so lacking.

Do you have any insights of why it has taken so long for DHS to resolve this issue? Other departments have government-wide procedures for purchase cards. This is not an example where DHS has to come up with something new. The best practices are pretty widely available.

Mr. NORQUIST. DHS has a small number of people in my office who are responsible for financial management policies across a number of areas. They also have additional oversight responsibilities. So part of this was, prior to my getting there, simply a volume of work for them, and I know the Committee has been supportive on trying to help us address those concerns.

When I came in, my view on policy is that it is the basis upon which you train people; it is the standards by which you hold them accountable; it is the building block that will let you attack the roots of the problem rather than just the symptoms of the individual cases. So I told them early in the last 6 weeks that this was a priority for me. I asked them to give me a short list of the most urgent policies we need to move, even before the GAO folks had come to talk to me. This was on our short list, and there will be others as well, where I believe we need to break free enough people in time to move these policies into implementation so that we can do the training and the accountability that follows from having the stronger controls.

Chairman COLLINS. I want to follow up on that. Are you saying that prior to your finding out about the GAO report, you had already targeted this area for review and implementation of the draft manual?

Mr. NORQUIST. Absolutely.

Chairman COLLINS. Were you aware that the Department had serious problems in its purchase card program prior to the GAO and IG's work?

Mr. NORQUIST. I was aware that there were a number of areas where our policies were either simply the legacy policy of the components we had inherited or ones that were drafted in the early stages. And so while I was indirectly aware of the purchase card being one of them, my concern was the broader topic of the internal controls, which is why I pointed out to my staff that we need to start here. Other departments have entire manuals for financial regulations that people can reference. We have got individual poli-

cies. We need to start grouping them, finalizing them, and building this out because, fundamentally, that is how you stop the root cause of a lot of these problems rather than simply chasing the incidents of them.

Chairman COLLINS. GAO pointed out that the Department was completely unaware of the missing property prior to its investigation. And I do want to point out in the interest of the record that there is still missing property. I mean, some of the computers have been found, but some have not been. Correct?

Mr. NORQUIST. That is correct. And I do not know to what extent the components were aware of this before GAO came by, and I do not know to what extent they had done follow-up. I know when they got the outbriefing last Friday, my guidance to them was you need to investigate each of these because I am going to come by later on and talk about accountability. And so, whether they had been doing this already or whether they acted on it at that point, and so different components have been going through these, looking into them, and trying to give us the feedback on the underlying issue.

Chairman COLLINS. But I think Senator Coleman established in his questions that when the IG and GAO team went into the conference room expecting to see over 100 computers, printers, other equipment, they instead found a room that had been set up for a banquet. Yet the reaction seemed to be, by the FEMA people, Gee, what a surprise, wonder where that is, but that is it. There did not seem to be follow-up.

Does that disturb you?

Mr. NORQUIST. Well, I would be very concerned if, when anyone is presented with one of these findings, they do not take action to investigate and follow up. I mean, that was my initial reaction to each of these: Well, give me as many facts as you can, give me the background information, and let me dive into them.

I think in this case you have two potential issues. The first one was: Was there fraud? Did somebody buy them, steal them, and walk out the door? I am happy every time I learn when that is not a case, and I will be happier if I can see it verified physically with serial numbers. That does not address the fact that there is an inventory control issue, which is, Can you quickly identify what you have in inventory? And while that is not directly under the purchase card program, as GAO pointed out, it is one of those issues that comes up when you purchase things, put them into inventory, or they do not get properly logged into inventory. And that is an issue that needs to be addressed as well.

Chairman COLLINS. It certainly does. Our Hurricane Katrina investigation over the past 8 months showed clearly that a major problem with the Department was that it did not know what assets or what commodities it had.

Senator Coleman.

Senator COLEMAN. Just following up on the Chairman's last line of questioning, I would maintain, Mr. Norquist, that there are three issues regarding using the conference room and the absent equipment. One is fraud, whether it was committed, and clearly if you find all the material, that has not taken place. Second is inventory control. But I think what the Chairman was getting to and at

least what concerned me is that there is an attitude problem here. The third issue is: Is there a commitment to fix something when you see that it is broken? And, is it a sense, well, it is not my money? I mean, we give cards to folks, and ultimately the responsible party is not the cardholder, but it is the government. That is who is responsible. The cardholder does not have responsibility. What is it that has to be done to have an attitude that says when we identify that something is wrong, that something is out of place, that we are going to fix it, that we care about it?

Mr. NORQUIST. That is certainly something that people need to have. If you go into this profession, you should have the commitment to get the mission done and to protect the taxpayers' dollars. I do not know about this particular FEMA case, but on a cardholder, they are personally accountable. If your purchase card is used to make a purchase, you are accountable for reviewing those transactions to make sure it is not misused. If you bought it and brought it home, we are going after that individual for that misuse.

So I can force that level of accountability and focus that attention with the individual. The challenge becomes, as you pointed out, when it is inventory. And, at this point, I sort of defer to the procurement officers and others as to what they do there. But, in any case, someone who is presented with that challenge, their reaction should be to find the items.

Senator COLEMAN. In cases of improper use—because you talked about cardholders being accountable, including criminal prosecution, in regard to Hurricane Katrina, can you tell me about the actions that have been taken against individuals who improperly used cards, perhaps criminally used cards? What kind of disciplinary actions have been taken?

Mr. NORQUIST. Well, I do not have too many specifics, but in the first 6 months of this year, for example, the purchase card program, we used approximately 70 administrative and disciplinary actions. The No. 1 one there was suspending cards of people who are failing to maintain adequate documentation and do their review. That is one of the problems. If people do not do that, it complicates everything else.

I did not have a chance to gather the specifics below that, but certainly, as you pointed out, the purchase card is valuable because it is efficient. What we do not want to do is bog it down with layers of bureaucracy. I would rather focus on the accountability of the people involved because in the end some of these are just about good judgment on the individual with the card. And to the extent that you can address the problem there, it is a more efficient way of doing it.

Senator COLEMAN. Your testimony today is that the manual still has not been adopted. I was not clear about that. So we have a manual, but it has not yet been adopted.

Mr. NORQUIST. The manual is in use by the headquarters because the headquarters did not have a pre-existing manual. It adopted it. Components that had a pre-existing manual when they were merged with DHS had the choice to stay on the old manual or to go to the new. We are going to make it mandatory for everyone to switch to the new after we adjust it to incorporate GAO's recommendations.

Senator COLEMAN. Do you agree with the GAO that there is a lack of adequate resources managing the program?

Mr. NORQUIST. There are challenges in terms of managing it, and I have raised that with some of the components whose ratio of management to staff was not to the standard. For example, in this request that is before the Congress on the President's budget, there are additional personnel requested for my office, some of which are related to internal control improvement, including folks for this. So I think there are resource challenges. There are plans in place to address those. But, again, this is one of those things where you cannot always wait on the additional resources. You have to keep moving with improving the fixes and then bring those additional resources on board when they come.

Senator COLEMAN. In your testimony, I think you used the figure of seven cardholders, each approving official would approve seven cardholders, 300 transactions a month. Would this require DHS to hire more approving officials?

Mr. NORQUIST. No. I would think that this would be a matter of designating others in—what you are trying to do is get a segregation of responsibility. You want somebody else in the office who has the time to look over those transactions and can say, yes, those were legitimate, those are the ones the government needed. Part of this is complicating fraud. If somebody does something odd, the fact that somebody else is going to look at that document and review it discourages, deters, and helps you detect. What you need to do is ensure the volume of transactions is not so high that the reviewing official's review is cursory and not thorough. And so this is designed to focus that. I do not know if that would necessarily require additional people. It might at the program coordinator level where the person oversees the entire department's or in this case the Coast Guard or the FEMA program, and they are wanting to do individual investigations and random sampling. In that office you would want dedicated staff just to this mission, not doing it as a secondary duty.

Senator COLEMAN. And just finally, as you sit here today, are you satisfied that DHS is today sending a clear message about improper use of purchase cards will not be tolerated, violating DHS policy will be dealt with? Do you believe that the message today, as we sit here, has clearly been delivered to folks in DHS?

Mr. NORQUIST. It is being delivered. It is something I foot-stomp in these forums. This is a matter of our credibility and our use of taxpayer dollars, and that is what we are here to protect. And so I will continue to make that message clear.

Senator COLEMAN. My only comment would be I hope that—we need you to do that. The testimony of the folks from GAO at least leaves me with the sense that, even as we sit here up until recently, that is not the case. So I hope you take that into consideration as you move forward.

Thank you, Madam Chairman.

Chairman COLLINS. Thank you, Senator.

Mr. Norquist, I want to be very precise on the implementation of the manual, which both Senator Coleman and I have asked you about. You have stated that the manual now is in effect at head-

quarters. But headquarters is a relatively small part of the Department's operations, is it not?

Mr. NORQUIST. It is a relatively small part. Basically it is in effect to any organization that did not exist prior to DHS being formed. The others have the choice to switch over.

Chairman COLLINS. Right. But then what you are saying is the Coast Guard, Customs and Border Protection, ICE, other agencies within the Department, with thousands of employees making thousands of transactions with purchase cards are not yet under the uniform stronger new manual. Is that correct?

Mr. NORQUIST. That is correct. They are under the standard that they brought with them, which includes some——

Chairman COLLINS. Right, but that standard has been shown to be flawed and to not protect the taxpayers.

Mr. NORQUIST. That is correct. That is why I want to make sure that this manual becomes the standard across the Department. That is absolutely right.

Chairman COLLINS. But as of today, those agencies, which comprise the majority of DHS' employees, assets, and budget, are not covered by the new manual. Is that correct?

Mr. NORQUIST. That is correct.

Chairman COLLINS. OK. Again, I am going to repeat my request for a timeline for having implemented the manual across the Department. And I have to conclude with just one final statement. I am convinced that had the GAO not done its investigation and had this Committee not held this hearing, the manual would still be floating around unresolved, property would still be missing, duplicative payments still would not have been caught, and excessive payments would still be going on, and that really disturbs me. It should not take an audit by the GAO nor a congressional hearing to prompt the Department, which has such a vital mission, to have strong financial controls. And I am seeking from you today a strong commitment to be a better steward of the taxpayers' purse.

This Department has a budget of some $38 billion. It is vital to our security. And people in this country are rapidly losing confidence in the ability of the Department to carry out its mission and to do so in a way that safeguards the taxpayers' dollars.

The American people are generous. They want to help victims of natural disasters. They want to provide the money necessary to guard against future terrorist attacks. They are willing to pay those taxes. But they are not willing to pay that money to have it frittered away, and that appears to have happened in this case.

Mr. NORQUIST. As I have said before, I am committed to strengthen the internal controls, not just of this program but of others as well. As you pointed out, it should not take a hearing to get these things addressed, and it is not my intent to wait for you to call them on the other programs. My intent is to get those manuals done and then let you know about them in advance.

Chairman COLLINS. Thank you. We look forward to working very closely with you.

Senator Coleman, any final comments?

Senator COLEMAN. My only final comment, Madam Chairman, is to fully associate myself with your last statement. Thank you.

Chairman COLLINS. Thank you, and thank you so much for your participation today. I know you have done a great deal of work in this area as well.

Thank you, Mr. Norquist, for appearing. We look forward to following up with you on these issues, and I can assure you we will follow up with you on these issues.

I want to thank all of our witnesses for their testimony today. I think we have exposed serious flaws in the safeguards that are needed to ensure wise use of taxpayer dollars.

Chairman COLLINS. The hearing record will remain open for 15 days for the submission of any additional questions or materials.

This hearing is now adjourned.

[Whereupon, at 11:24 a.m., the Committee was adjourned.]

APPENDIX

United States Government Accountability Office

GAO

Testimony
Before the Senate Homeland Security and Governmental Affairs Committee

For Release on Delivery
Expected 10:00 a.m. EST
Wednesday, July 19, 2006

PURCHASE CARDS

Control Weaknesses Leave DHS Highly Vulnerable to Fraudulent, Improper and Abusive Activity

Statement of Gregory D. Kutz, Managing Director
Forensic Audits and Special Investigations

John J. Ryan, Assistant Director
Forensic Audits and Special Investigations

GAO
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GAO-06-957T

July 20, 2006

GAO
Accountability·Integrity·Reliability
Highlights

Highlights of GAO-06-957T, a testimony before the Committee on Homeland Security and Governmental Affairs, U.S. Senate,

PURCHASE CARDS

Control Weaknesses Leave DHS Highly Vulnerable to Fraudulent, Improper and Abusive Activity

Why GAO Did This Study

In the wake of the 2005 hurricanes in the Gulf Region, GAO and the Department of Homeland Security Office of Inspector General (DHS OIG) initiated a number of audits and investigations addressing the federal government's response to those events.

Department of Homeland Security (DHS) cardholders made thousands of transactions related to hurricane rescue and relief operations. GAO, working with DHS OIG, interviewed DHS personnel and reviewed purchase card policies and procedures to assess the control environment. GAO and DHS OIG conducted statistical tests from a random sample of transactions and performed data mining on all DHS purchase card transactions for a 5-month period beginning in June 2005. GAO and DHS OIG looked at all transactions in this period because the database did not distinguish hurricane related from routine purchases. GAO and DHS OIG used the testing results to determine the extent of control weaknesses and identify instances of fraud, waste, and abuse.

This testimony addresses whether (1) DHS's control environment and management of purchase card usage were effective; (2) DHS's key internal control activities operated effectively and provided reasonable assurance that purchase cards were used appropriately; and (3) indications existed of potentially fraudulent, improper, and abusive or questionable purchase card activity at DHS.

www.gao.gov/cgi-bin/getrpt?GAO-06-957T.

To view the full product, click on the link above. For more information, contact Gregory D. Kutz at (202) 512-7455 or kutz@gao.gov and Matthew A. Jadacki at (202) 254-5477 or matt.jadacki@dhs.gov.

What GAO Found

A weak control environment and breakdowns in key controls exposed DHS to fraud and abuse in its use of the purchase card. While DHS's draft *Purchase Card Manual* generally contained effective control procedures, it was not finalized due to a lack of leadership by the CFO in resolving disagreements over its implementation. This led to DHS cardholders not following the same procedures. Inadequate staffing, insufficient training, and ineffective monitoring also contributed to the weak control environment. The weak control environment and inconsistent purchase card policies contributed to breakdowns in specific key controls. GAO and DHS OIG found a lack of documentation that key purchase card internal controls were performed. Based on a statistical sample, GAO and DHS OIG estimated that 45 percent of DHS's purchase card transactions were not properly authorized, 63 percent did not have evidence that the goods or services were received, and 53 percent did not give priority to designated sources. GAO and DHS OIG also found cardholders who failed to dispute improper transactions, which resulted in losses to the federal government. Because of the urgent needs caused by the hurricanes, DHS made a number of noncompetitive purchase card acquisitions. GAO recognizes that DHS had the authority to make noncompetitive purchases; however, GAO found transactions where DHS cardholders could have exercised greater prudence without jeopardizing relief efforts.

The weak control environment and ineffective internal control activities allowed potentially fraudulent, improper, and abusive or questionable transactions to occur. Although this work was not designed to identify, and we cannot determine, the full extent of fraud, waste, and abuse, GAO and DHS OIG identified numerous examples of potentially fraudulent, improper, and abusive or questionable transactions. The table below lists the potentially fraudulent activity related to items acquired with DHS purchase cards. In addition, poor control over accountable property acquired with purchase cards may have resulted in lost or misappropriated assets.

Examples of Potential Fraud

Item Purchased	Description	Amount of Transaction
Lap Tops (FEMA)	Over 100 missing and presumed stolen	$300,000
Boats (FEMA)	Unauthorized use of card by a vendor	$208,000
Printers (FEMA)	Over 20 missing and presumed stolen	$84,000
Lap Tops (Coast Guard)	3 missing and reported stolen	$8,000

Source: GAO and DHS OIG investigation.

GAO and DHS OIG also found examples of improper use of the purchase card such as the use of convenience checks to pay $460,000 for pre-packaged meals. Further, they found instances of abusive or questionable transactions that included the purchase of a beer brewing kit, a 63" plasma television costing $8,000 which was found unused in its original box 6 months after being purchased, and tens of thousands of dollars for training at golf and tennis resorts. GAO intends to refer the cardholders responsible for many of these and other purchases to DHS management for administrative action.

Madam Chairman and Members of the Committee:

Thank you for the opportunity to discuss the results of the forensic audit and investigation of the Department of Homeland Security's (DHS) purchase card program, a joint audit by GAO and DHS's Office of Inspector General (DHS OIG). This joint audit is one among a number of audits and investigations that GAO and DHS OIG initiated in the wake of Hurricanes Katrina and Rita to review the effectiveness of the federal government's disaster response. A crucial tool DHS used to expedite the government's response to the two disasters was the SmartPay® purchase card program, a program implemented to provide federal agencies and their employees a more flexible and efficient way to purchase commercial goods and services. GAO and DHS OIG support the use of a well-controlled purchase card program, which our experience shows reduces transaction processing costs and provides agencies with flexibility to achieve their mission objectives. This testimony builds on GAO's substantial experience in identifying fraud, waste, and abuse in government purchase card programs (see app. I for previous audit reports) and DHS OIG's significant experience auditing one of our nation's largest federal agencies.

With the creation of DHS in 2002,[1] the management of thousands of purchase cardholders from 22 separate federal agencies was combined under one umbrella program, the DHS Purchase Card Program. The legacy agencies such as the Federal Emergency Management Agency (FEMA), the U.S. Coast Guard (Coast Guard), and the U.S. Customs and Border Protection (CBP) are now referred to as DHS organizational elements. During fiscal year 2005, these organizational elements accumulated more than $420 million in charges, ranking DHS among the top purchase card users in the federal government. In response to Hurricanes Katrina and Rita, DHS made thousands of purchase card transactions to buy goods and services for hurricane rescue and relief operations. For Katrina-related procurements, Congress authorized an increase to the

[1]The Homeland Security Act of 2002, Pub. L. No. 107-296, led to the creation in January 2003 of DHS—the most substantial reorganization of the federal government since the 1940s. The creation of DHS, which began operations in March 2003, represents the fusion of 22 federal agencies to coordinate and centralize the leadership of many homeland security activities under a single department.

micropurchase threshold from $2,500 to $250,000.[2] When making micropurchases, authorized cardholders are not required to solicit competitive bids if they consider the price to be reasonable. For further details on the DHS purchase card program, see appendix II.

Our testimony today addresses whether (1) DHS's control environment and management of the purchase card program were effective; (2) DHS's key control activities operated effectively and provided reasonable assurance that purchase cards were used appropriately; and (3) indications existed of potentially fraudulent, improper, and abusive or questionable activity related to items acquired with DHS purchase cards.[3] Following this testimony, we plan to issue a joint report with recommendations to DHS for improving internal controls over its purchase card activities.

The scope of our joint audit covered all DHS purchase card transactions from June 13, 2005, through November 12, 2005. We selected all transactions during this period because we could not distinguish between routine and hurricane-related purchases in the database provided by U.S. Bank (DHS's purchase card contractor). To assess the design and implementation of controls over purchase card transactions, we conducted interviews of purchase card administrators and compared DHS's purchase card policies and procedures to the Office of Management and Budget's (OMB) *Circular No. A-123*, GAO's *Standards for Internal Controls in the Federal Government* (*Standards for Internal Controls*) and to the best practices for purchase card programs outlined in GAO's *Audit Guide: Auditing and Investigating the Internal Control of Government Purchase Card Programs* (GAO's Audit Guide). Using purchase card data provided by U.S. Bank, we

[2]Second Emergency Supplemental Appropriations Act to Meet Immediate Needs Arising from the Consequences of Hurricane Katrina, 2005, Pub. L. No. 109-62, Sec. 101 (Sept. 8, 2005).

[3]We considered potentially fraudulent purchases to be those which were unauthorized and intended for personal use. The transactions we determined to be improper are those purchases intended for government use, but are not for a purpose that is permitted by law, regulation, or policy. We also identified as improper a number of purchases made on the same day from the same vendor, and which appeared to circumvent cardholder single transaction limits or bidding requirements. We defined abusive transactions as those that may be authorized, but the items purchased were at an excessive cost or were not needed by the government, or both. Questionable transactions could be improper or abusive but for which there is insufficient documentation to conclude either.

conducted statistical tests from a random sample of transactions and performed other audit work to evaluate the design and implementation of key internal control activities.

We also performed data mining on the transactions to determine whether there were potentially fraudulent, improper, abusive, or questionable activities related to the purchase card program. Our data mining efforts included reviewing and analyzing transactions to determine whether split payments occurred,[4] whether DHS maintained appropriate controls over property accountability, and whether DHS was able to leverage the hundreds of millions of dollars it spends with a purchase card to obtain favorable pricing from frequently used vendors, among others. We used forensic audit and investigative techniques to determine if the purchase card was used in a potentially fraudulent manner. Although we did identify some potentially fraudulent, improper, and abusive or questionable transactions, our work was not designed to identify, and we cannot determine, the extent of fraudulent, improper, and abusive or questionable transactions. See appendix III for further details on our scope and methodology. We conducted our audit work from November 2005 through June 2006 in accordance with U.S. generally accepted government auditing standards. We performed our investigative work in accordance with standards prescribed by the President's Council on Integrity and Efficiency. We briefed DHS on the details of our work, including our scope, and methodology and our findings.

Summary

A weak control environment and breakdowns in key internal controls exposed DHS to fraud, waste, and abuse in its purchase card program. Our review of DHS's draft *Purchase Card Manual* (draft manual) found that the draft manual generally incorporated well-designed internal controls for an agencywide purchase card program that were consistent with OMB's *Circular No. A-123*, GAO's *Standards for Internal Controls*, and

[4]A split payment occurs when a cardholder splits a transaction into more than one segment to circumvent the requirement to obtain competitive prices for purchases over the $2,500 micropurchase threshold (in the case of Hurricanes Katrina and Rita, a micropurchase threshold of up to $250,000) or to avoid other established credit limits.

the best practices for purchase card programs outlined in GAO's Audit Guide.[5] However, according to representatives from the Office of the Chief Financial Officer, the draft manual was not issued in its final format due to ongoing disagreements with DHS organizational elements over its implementation. Without a final policy, DHS organizational elements adopted inconsistent purchase card practices. Some organizational elements followed purchase card policies from their legacy agencies, others observed requirements from the draft DHS policy, and yet others relied on a combination. Overall, we found that a lack of leadership in finalizing the draft manual, inadequate resources devoted to the purchase card program, insufficient training, and ineffective monitoring and oversight each contributed to a weak control environment.

We also found weaknesses in specific key control activities over purchase card transactions. Specifically, we found a lack of documentation that required internal controls over purchase card transactions were performed. Based on our sample of DHS purchase card transactions, we estimated that 45 percent did not have prior written authorization, 8 percent did not provide required sales documentation, 63 percent did not have evidence that the goods or services were actually received, and 53 percent did not give priority to required or preferred vendors (designated sources). We also found instances where DHS cardholders failed to dispute improper transactions, resulting in losses to the federal government from improper and potentially fraudulent purchases. Further, DHS did not invoke the special authority provided to increase the threshold for micropurchases from $2,500 to $250,000. Instead, DHS invoked other clauses in the Federal Acquisition Regulations (FAR) to make noncompetitive purchases under existing procurement authority. While we recognize that DHS has authority to make such noncompetitive purchases under the FAR, we identified transactions where DHS cardholders could have obtained better pricing without jeopardizing relief efforts or where the purchase was unnecessary. Later in our testimony, we identify examples of

[5]Because we believe DHS's draft manual, *Department of Homeland Security Purchase Card Manual* (Washington, D.C.: Mar. 8, 2004) is largely consistent with GAO's *Audit Guide: Auditing and Investigating the Internal Control of Government Purchase Card Programs*, GAO-04-87G (Washington, D.C.: Nov. 1, 2003) and *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C. Nov. 1999), we generally used the draft manual as the criteria against which we tested internal controls.

poor pricing and unnecessary purchases, but also highlight instances where the cardholder acted prudently to obtain the best pricing.

The weak control environment and weak implementation of specific internal control activities allowed potentially fraudulent, improper, abusive, or questionable transactions to go undetected. In one potential fraud case, ineffective procurement practices resulted in DHS paying double the retail price for 20 flat-bottom boats. The vendor in this case improperly used the DHS purchase card number to purchase boats from retailers before reselling them to DHS. In another potentially fraudulent case, breakdowns in property accountability controls allowed a DHS employee to submit falsified records related to three stolen laptops. As an example of improper use of a purchase card, we identified a cardholder who used convenience checks to pay a vendor who normally accepted credit cards but who did not want to pay credit card transaction fees for a large purchase—in which case the cardholder violated DHS policy. As a result of this policy violation, the DHS incurred $8,000 in unnecessary processing fees related to the use of convenience checks.

Other cardholders abused their purchase card privileges or made questionable purchases. For example, one cardholder purchased a beer brewing kit and ingredients to brew beer for official parties. Another cardholder, based on questionable need, purchased a Samsung 63-inch plasma screen television for about $8,000 at the end of the fiscal year. We observed this large-screen television unused and in its original packaging 6 months after it was purchased. In cases where appropriate, we plan to refer cardholders responsible for these and other purchases to DHS management for possible administrative action. We also found instances where items acquired with a DHS purchase card highlight weaknesses in DHS's inventory control and procurement practices that led to potentially fraudulent and abusive or questionable activity. For example, over 100 laptops were lost or misappropriated when shipped to New Orleans as part of the relief efforts. The above examples of potential fraud, improper use of the purchase card, and abusive or questionable activity relating to items acquired with DHS purchases cards are further detailed below.

Weaknesses in DHS's Overall Control Environment Contributed to Ineffective Purchase Card Program Controls

DHS has not established an effective internal control environment to manage its government purchase card program. Specifically, for the last two years, DHS did not finalize its departmentwide purchase card policy that detailed the internal control policies and procedures that organizational elements must follow. As a result, cardholders did not consistently apply basic control procedures, which were necessary to provide reasonable assurance that acquisitions made with purchase cards adhered to governmentwide requirements. Inadequate staffing and training, and a weak postpayment audit function further contributed to a weak overall internal control environment and left DHS vulnerable to fraud, waste, and abuse.

Unimplemented Agencywide Manual Contributes to Inconsistency and Confusion

DHS's Chief Financial Officer (CFO) distributed the agency's most recent draft of the departmentwide purchase card policies and procedures in March 2004. Since then the draft manual has been out for agencywide comment twice. The internal control procedures described in that draft document were largely consistent with OMB Circular No. A-123, GAO's *Standards for Internal Controls*, and GAO's Audit Guide. According to the Office of the Chief Financial Officer, the draft policies were not accepted and implemented across DHS due to disputes with organizational elements over implementation of the draft manual. Further, officials within the Office of the Chief Financial Officer do not have a plan or timeline for resolving these disputes in order to finalize DHS's draft manual. Consequently, some organizational elements are following internal control policies that existed in their legacy environments prior to their absorption into DHS, while others adopted DHS's draft policies. Others are adhering to elements from both. We found that although some internal control policies from legacy agencies were consistent with GAO's *Standards for Internal Controls* and GAO's Audit Guide, others were not. For example, the Organizational Program Coordinator (OPC) for the Purchase Card Program at the Coast Guard stated that written authorization prior to

purchase is generally required. In contrast, CBP indicated that written authorization is not required prior to use by a CBP cardholder.

As a result of the unimplemented DHS draft manual, organizational elements were confused about and did not consistently apply purchase card policies and procedures, which negatively affected the control environment. As an example, the OPC at the Coast Guard, in charge of the largest purchase card program within DHS, informed us that some cardholders within Coast Guard followed the draft DHS manual, while others did not consider the manual applicable.

Insufficient Resources Committed to Purchase Card Program

DHS failed to assign sufficient resources to manage its purchase card program. As a result, we found many instances where approving officials had oversight responsibilities for an excessive number of cardholders. Additionally, we found that DHS lacked sufficient staffing to effectively manage and oversee the purchase card program.

GAO's Audit Guide and OMB *Circular No. A-123* emphasize the importance of establishing reasonable levels of responsibility for approving officials who are responsible for reviewing and certifying purchase card transactions. Assigning approving officials more cardholders than they can effectively supervise is a symptom of a weak control environment, as it is unreasonable to expect approving officials who have too many transactions to conduct a thorough and proper review of supporting documentation for each transaction. Basic fraud prevention concepts and our previous audits of purchase card programs have shown that opportunities for fraud and abuse arise if cardholders know that their purchases are not being properly reviewed.

We found that DHS's draft manual contained requirements for approving officials that are consistent with OMB *Circular A-123* and GAO's Audit Guide. Specifically, the proposed DHS policy stipulates that a single approving official may not oversee more than 7 cardholders. However, our work showed that DHS organizational elements did not adhere to this guidance. As shown in table 1, as of the end of fiscal year 2005, we

found that 176 DHS approving officials, out of approximately 3,300 approving officials departmentwide, had oversight responsibilities for more than 7 cardholders.[6] At the Coast Guard alone, 147 approving officials supervised more than 7 cardholders, with 3 individuals managing more than 30 cardholders. According to the OPC at the Coast Guard, insufficient staff to monitor and oversee the purchase card program is a primary cause for the large number of approving officials with excessive span of control. Having approving officials responsible for more than 7 cardholders is inconsistent with the DHS draft manual and is contrary to GAO's best practices guidance.

Table 1: Number of Approving Officials at DHS Organizational Elements with Excessive Span of Control

	Number of approving officials with excessive span of control, stratified by number of cardholders managed				
Organizational element	**8–10**	**11–20**	**21–30**	**> 30**	**Total**
U.S. Coast Guard	84	53	7	3	147
U.S. Customs and Border Protection	7	3	0	0	10
Federal Emergency Management Agency	5	3	0	0	8
U.S. Secret Service	3	2	0	2	7
DHS Science and Technology	1	0	0	0	1
Transportation Security Administration	0	1	0	0	1
U.S. Citizenship and Immigration Service	1	0	0	0	1
Federal Air Marshal Service	1	0	0	0	1
Total	**102**	**62**	**7**	**5**	**176**

Source: GAO analysis of U.S. Bank data.

Our analysis of purchase card data uncovered other fundamental breakdowns in controls. For example, we identified 6 cardholder accounts where the approving official and the cardholder were the same individual—a major conflict of interest. We also identified 2,468 open accounts—19 percent of DHS's purchase cards—that as of December 13, 2005, had not been used since before January 2005. According to OMB and the U.S. General Services Administration (GSA),[7] purchase cards should only be issued to individuals who have a documented need to acquire items for the government with the

[6]On an agencywide basis, 2,150 cardholders, or over 20 percent of DHS's over 9,000 cardholders, were managed by approving officials whose span of control exceeded the 7:1 cardholder to approving official internal control as contained in the DHS draft manual.

[7]Federal agency purchase card programs operate under a government wide GSA SmartPay® master contract. Agency purchase card programs must comply with the terms of the contract and task orders under which the agency placed its order for purchase card services.

purchase card. It is difficult to argue that the 2,468 individuals who have not made a single purchase in an entire year have such a need. Consequently, those accounts should have been closed to minimize the risk of fraud, waste, and abuse.

Furthermore, we found that at both the DHS level and organizational element level, there were inadequate resources to effectively manage the program. As stated in GAO's Audit Guide, it is vital for purchase card programs to be sufficiently staffed to manage the program. At the DHS agencywide level, the DHS Agency Program Coordinator (APC) is the sole person responsible for overseeing not only DHS's Purchase Card Program, one of the government's largest purchase card programs, but also DHS's Travel Charge Card Program and Fleet Charge Card Program.[8] In total, DHS spent nearly $1 billion on these three charge card programs during fiscal year 2005. Based on our assessment of the control environment and discussions with the APC, a lack of adequate resources caused insufficient management and oversight of the purchase card program at the DHS agencywide level.

At the organizational element level, we found a similar lack of staffing resources devoted to the management of the purchase card program. For example, as shown in table 2, the number of personnel assisting the OPC at the organizational element level is not consistent with the risk of exposure, as measured by expenditures. In fact, the largest organizational element, the Coast Guard, provides no additional staff to the OPC to assist in managing and overseeing the purchase card program. Based on our assessment of the control environment and discussions with the OPC at the Coast Guard, the Coast Guard did not have adequate resources to both administer the purchase card program and provide adequate compliance control.

[8]The GSA offers SmartPay®, a federal government charge card program that improves travel, purchase, and fleet payment services for federal employees by simplifying payments and cutting administrative costs.

Table 2: Employees Responsible for Management of the Purchase Card Program at Four of the Largest Organizational Elements within DHS

Organizational element	Staff devoted to purchase card	Fiscal year 2005 total purchase card dollars (millions)
U.S. Coast Guard	1 (OPC)	$ 227
Federal Emergency Management Agency	2 (1 OPC and 1 additional staff)	32
U.S. Immigration and Customs Enforcement	4 (1 OPC and 3 additional staff)	21
U.S. Customs and Border Protection	6 (1 OPC and 5 additional staff)	66

Source: DHS data.

Evidence Lacking that Most Cardholders Received Required Training

Evidence was not provided to show that DHS is providing the training necessary to obtain reasonable assurance that its cardholders understand the purchase card program's key controls. Adequate training is essential to ensuring that the cardholders and approving officials have the skills necessary to achieve organizational goals in an effective and efficient manner. OMB *Circular A-123* and DHS's draft manual require that all cardholders be trained prior to receiving a purchase card and receive annual refresher training. We found that for 60 of the 96 transactions in our statistical sample, the cardholder lacked documentation showing that they received either the required initial training or the refresher training.

Monitoring and Oversight Needs Improvement

Our review of the DHS purchase card program found that DHS had ineffective procedures to monitor and oversee cardholder's compliance with agencywide and governmentwide purchase card policies through postpayment audits. The purpose of the postpayment audit is to provide reasonable assurance that the purchases made by cardholders, and payments made to the bank, were valid and appropriate. However, our audit found that DHS did not conduct postpayment audits effectively. Specifically, we found that the organizational elements did not follow up with cardholders who failed to provide the required supporting documentation. We identified 10,339 transactions between December 2003 and February 2006 that were selected for audit, but which were not audited because cardholders did not submit the required supporting documentation. Many of the cardholders who failed to submit the required supporting documentation were nevertheless allowed to continue using their purchase cards. Failure to suspend

those cards and discipline users exposed DHS to fraud, waste, and abuse in its purchase card program.

Inconsistently Implemented Control Activities Leave DHS Vulnerable to Fraud, Waste, and Abuse

The results of our testing of key controls at DHS revealed significant failure rates that bring into question the efficacy of DHS's implementation of internal controls. Internal control activities associated with purchase card transactions occur at various levels within an agency. Activities include a wide range of diverse actions such as authorizations, verifications, reconciliations, certifications, and the production of records and documentation. However, our statistical tests of DHS purchase card transactions from June 13, 2005, through November 12, 2005, found that several key transaction-level controls were ineffective, with failure rates ranging from 8 percent to 63 percent. In addition, the high rates of failure associated with authorization and independent receipt and acceptance also led us to question the effectiveness of the DHS reconciliation and certification process. Specifically, DHS's automated systems and practices associated with reconciling and certifying purchase card transactions for payment were not effective to provide reasonable assurance that charges appearing on the cardholder's bank statements were valid. We also found instances where DHS lacked effective controls to ensure proper follow-through of disputed transactions, leaving DHS at an increased risk of fraud, waste, and abuse associated with the payment of purchase card transactions.

Finally, while DHS did not rely on its increased micropurchase threshold authority, DHS did activate certain FAR provisions to streamline the acquisition process for transactions made in response to the hurricane disaster in the Gulf Region. We are not questioning the authority on which DHS relied. However, we have identified examples where DHS did not exercise prudent pricing practices.

Statistical Tests Indicated Weak Internal Controls

Control activities we tested included whether (1) cardholders obtained written authorization prior to purchases, (2) invoices supporting the transactions existed, (3) independent receipt and acceptance of goods and services occurred, and (4) cardholders screened for required or preferred vendors (designated sources). As shown in table 3, the failure rates for the four attributes that we tested ranged from 8 percent to 63 percent. We looked for documented evidence that these control activities were followed; therefore, these rates may be higher than actual failures rates if control activities were followed but not documented.

Table 3: Results of Statistical Testing for Four Key Internal Controls (percent)

Internal control	Point estimate[a]	95-percent confidence interval[b]
Authorization	45	35–55
Sales documentation	8	4 – 16
Independent receipt and acceptance	63	53 – 73
Priority for designated sources	53	43–63

Source: GAO and DHS OIG testing and statistical analysis of DHS purchase card transactions provided by U.S. Bank.

[a]The numbers represent point estimates for the population based on our random sample rounded to the nearest percentage point.

[b]The numbers represent a 2-sided confidence interval assuming a 95 percent confidence level.

Lack of Written Authorization—In 45 percent of the sample transactions, the cardholders did not obtain written authorization prior to obtaining the items in question. Requiring the cardholder to obtain written authorization prior to using the purchase card is key to providing reasonable assurance that the purchase represents a legitimate government need. The draft manual addresses this fundamental internal control element by proposing to require written authorization prior to purchases. However, as indicated by the high rate of failure, cardholders did not consistently adhere to this internal control standard, thereby exposing DHS to misuse of the purchase card. For example, a cardholder from CBP acquired nearly $2,500 in rain jackets without written preauthorization. Had the cardholder been subject to DHS's requirement for written authorization prior to purchase, as outlined in the draft manual, this improper purchase may have been prevented.

Lack of Sales Documentation Supporting Purchases—We estimate that 8 percent of DHS cardholders failed to provide sales documentation, such as a receipt, for the items obtained with a purchase card. This is inconsistent with the draft manual, which would require cardholders to obtain and retain all sales documentation relevant to their transaction. Requiring cardholders to obtain and retain sales related documentation from the vendor is a basic internal control to reduce the risk of fraud, waste, and abuse. Without sales documentation, an approving official has no means of reasonably determining whether the item purchased represents a legitimate government need or is fraudulent, improper, or abusive.

Lack of Independent Receipt and Acceptance—We estimate that 63 percent of DHS transactions did not have independent receipt and acceptance. Receipt and acceptance of goods and services by someone other than the cardholder provides reasonable assurance that the organization actually received what it purchased. This internal control procedure segregates the duties involved in the acquisition of goods and services and thereby reduces the risk of fraud, waste, and abuse. According to GAO's Audit Guide, a properly documented independent receipt and acceptance must contain the signature of the independent individual, who should also document the date of receipt. Failure to adhere to proper receipt and acceptance procedures exposes agencies to increased risk of fraud, waste, and abuse. For example, a transaction we sampled involved the purchase of three laptop computers by a Coast Guard cardholder. However, independent receipt and acceptance was not performed, and the laptops were not recorded in the property records. Subsequently, the laptops could not be located and were later reported as stolen. If proper receipt and acceptance had been performed, theft of the laptops may have been prevented.

Failure to Give Priority to Designated Sources—We estimate that in 53 percent of the sampled transactions, the cardholder failed to document whether they gave priority to designated sources. In one example, a cardholder purchased 25 portable global positioning system (GPS) units at full retail price from Best Buy when the same units

could have been obtained through a GSA Advantage[9] vendor for 15 percent less. The DHS draft manual would require that cardholders use designated sources if the source is capable of providing the goods or services as needed. GSA Advantage is identified as a designated source in the draft manual. Generally, the goods and services provided by designated sources will be offered at reasonable prices.[10] In this case, the failure to consider designated source resulted in the cardholder paying Best Buy about $2,700 more than if the units were acquired through GSA Advantage. Although the cardholder was acquiring the GPS units for an emergency situation, we found that GSA Advantage can often deliver goods on an expedited basis. Alternatively, the cardholder could have obtained a special discount from Best Buy if he had opened a government account.

Online Reconciliation and Certification Processes Not Fully Effective

Effective reconciliation and certification are crucial in helping to provide reasonable assurance that all charges appearing on the cardholder's bank statement are valid. However, our review of the DHS purchase card systems found that the practices used by the Coast Guard, FEMA, CBP, and U.S. Immigration and Customs Enforcement (ICE) were not fully effective. Each of these organizational elements primarily relied upon online reconciliation and certification capabilities inherent in their respective purchase card systems, but none of these systems provided sufficient evidence to determine if a comprehensive reconciliation and certification was actually performed. While online processes can provide an efficient and effective means for accomplishing such tasks without the burden of a paper-laden environment, reliance upon online processes requires effective internal controls (e.g., sufficient audit trails, implementation of sound business practices) to gain reasonable assurance that the processes were properly performed. However, none of these DHS components had fully effective systems or practices to provide reasonable assurance that cardholders exercised due diligence in

[9]GSA Advantage, a program offered by the GSA, is a convenient one-stop shopping source to meet federal agencies' procurement needs by selecting and listing vendors who may offer the best value.
[10]Using designated sources results in the agency obtaining reasonable prices or purchasing goods and services that meet other policy objectives, such as creating jobs and training opportunities for people who are blind or have other severe disabilities.

reconciling their statements. One attribute lacking was notations, such as the ability to enter check marks indicating that transactions on the cardholder's monthly statements were individually reviewed and reconciled. In addition, these components did not demonstrate that they had fully effective systems or practices that would allow them to track the length of time a cardholder spent performing their reconciliation and an approving official spent certifying statements to rule out the possibility of merely "rubber stamping" monthly statements. Further, we found many instances where approving officials did not certify their respective cardholders' statements. DHS's draft manual requires approving officials to certify a cardholder's bill within 14 days of the close of billing cycle. Based on the results of our analysis, we identified 8,630 uncertified statements that were pending approving official certification as of February 12, 2006.

As previously discussed, given the insufficient resources committed to the purchase card program and the high rates of failure associated with the authorization and independent receipt and acceptance, comprehensive reconciliations and certifications are crucial in helping to provide reasonable assurance that all charges are valid. As a result of these internal control weaknesses, DHS's compliance with controls to prevent or detect fraudulent, improper, or abusive purchases is in question.

Pay and Confirm Environment Increased Risk of Fraud, Waste, and Abuse

We found instances where DHS cardholders failed to dispute unauthorized transactions. The dispute process is especially critical in DHS's pay and confirm environment, called SmartPay®. One feature of GSA's SmartPay® program is that, unlike a normal credit card monthly billing process, the agency pays charges daily. By agreeing to pay first and confirm later, agencies can reduce costs since the bank provides rebates[11] based on how quickly the charges are paid. However, the pay and confirm environment requires diligence on the part of cardholders to perform thorough and comprehensive reconciliations of their charges and to submit timely disputes of improper charges to the

[11]As part of GSA's SmartPay® program, contracting banks provide rebates (refunds) to agencies based on sales volume (payments) and payment timeliness.

bank for credit. Because agencies have already paid the bank for the potential unauthorized charges prior to receiving the monthly billing statement, the payment will not be reversed unless a dispute is submitted.

Because of weaknesses in the implementation of the dispute process in some instances, DHS did not identify and obtain credits for unauthorized transactions. In one instance, a cardholder appropriately initiated the dispute process when a vendor improperly charged the government $153,000 prior to completion of contracted services. However, the cardholder failed to perform appropriate follow-through and submit the required dispute documentation. Consequently, DHS made a second payment to the vendor when services were complete, resulting in a double payment of $153,000. FEMA was unaware of the double payment until we questioned the payments in May 2006. At that time, FEMA contacted the vendor and recovered the overpayment. In another example, discussed later in this testimony, a cardholder's failure to dispute $30,000 in unauthorized charges resulted in FEMA making payments for potentially fraudulent and improper charges for flat-bottom boats. In this case, the cardholder and the approving official failed to dispute the unauthorized charges.

Although the pay and confirm environment can bring economic benefits (i.e., rebates) to federal agencies, it requires the implementation of effective controls to detect and correct charges that should be disputed and reversed. The high rates of failure in our tests of key internal controls and the examples highlighted above bring into question whether DHS's pay and confirm process exposes DHS to unacceptable levels of risk for fraud, waste, and abuse.

DHS Used a Provision of the Federal Acquisitions Regulations to Avoid Obtaining Competitive Bids

To facilitate the government's response to hurricanes Katrina and Rita, Congress authorized an increase to the micropurchase threshold from $2,500 to $250,000. When making micropurchases, authorized cardholders need not solicit for competitive bids if they consider the price reasonable. Executive agencies such as DHS could have

extended this authority to certain cardholders directly supporting hurricane-related rescue and relief operations. However DHS told us that they did not implement the increased threshold because they had the flexibility they needed to make noncompetitive purchases under existing procurement authority. DHS cited their justification for other than full and open competition under the *Unusual and Compelling Urgency* provisions of the *Federal Acquisition Regulations*.[12] Under these provisions, cardholders had discretion to select contractors noncompetitively as long as the purchase was directly related to Hurricane Katrina response efforts.

Although DHS has authority to make purchases without competition, we highlight transactions where DHS cardholders failed to adopt prudent pricing practices and subsequently wasted government funds. Part of DHS's mission is to respond to emergency situations like Katrina and Rita and a reasonable person would expect DHS to be more prepared for relief and rescue operations than other agencies with routine functions. In this light, we question the propriety of several of the noncompetitive transactions that we investigated for potential fraud. In the next section we identify many examples of potential fraud, improper purchases, and abusive or questionable transactions. Some of the examples are multifaceted and touch on several issues including the pricing and requirements management issues discussed previously.

Potentially Fraudulent, Improper, Abusive, or Questionable Transactions

Our forensic audit and investigative work identified numerous transactions where DHS failed to prevent or detect potential fraudulent, improper, abusive, or questionable purchases. Many of these examples also show that the government could have obtained better pricing. However, our work was not designed to identify all instances of, or estimate the full extent of fraud, waste, and abuse. Therefore we did not determine, and make no representations regarding, the overall extent of fraudulent, improper, and abusive or questionable transactions.

[12]6.302-2 and 41 U.S.C. § 253(c)(2), state that "[a]n executive agency may use procedures other than competitive procedures only when . . . the executive agency's need for the property or services is of such an unusual and compelling urgency that the Government would be seriously injured unless the executive agency is permitted to limit the number of sources from which it solicits bids or proposals." See also 48 C.F.R. § 6.302-2, Unusual and compelling urgency.

Potentially Fraudulent and Improper Activity Related to Purchase Card Acquisitions

Our data mining work identified many instances of both potentially fraudulent and improper use of the purchase cards, and potentially fraudulent and improper activity related to items acquired with the purchase card. We considered potentially fraudulent purchases to be those which were unauthorized and intended for personal use. The transactions we determined to be improper are those intended for government use, but which are not for a purpose that is permitted by law, regulation, or policy.

Potentially Fraudulent Activity—Table 4 shows five cases of potential fraud involving both use of a DHS purchase card and weaknesses with DHS's accountable property[13] controls that led to potentially fraudulent misappropriation of government assets. Property that is unaccounted for may simply be misplaced; or it may be that the assets were misappropriated for a use other than that of the government. The misappropriation of government assets (theft) represents fraudulent activity. These five potentially fraudulent cases involve 154 missing items out of the 433 accountable property items that we tested. Because only a limited number of transactions in our statistical sample contained accountable or pilferable property, we did not attempt to estimate the extent to which DHS could not account for pilferable property.

[13]DHS's Personal Property Management Directive 565 defines accountable property as personal property with an initial acquisition cost at or above a specific threshold, and items designated as sensitive. These items are to be recorded in the organization's automated control system. DHS's *Capitalization and Inventory of Personal Property Management Directive 1120* establishes differing thresholds for tracking accountable property. Generally, DHS requires its organizational elements to track electronic communications equipment with a cost greater than or equal to $1,000, information technology equipment with memory at any cost, and other personal property with a cost greater than or equal to $5,000.

Table 4: Potentially Fraudulent Activity

Case	Items purchased	Organizational element	Vendor	Additional facts	Amount of transaction
1	Laptop computers	FEMA	CDW	107 of 200 not located	$300,000
2	Flat-bottom boats	FEMA	Banita Creek Hall	Unauthorized use of purchase card by a vendor, 12 of 20 boats not in property system	177,000
3	Printers	FEMA	CDW	22 of 100 not located	84,000
4	GPS units	FEMA	Best Buy	2 of 25 not located	18,000
5	Laptop computers	Coast Guard	Best Buy	3 of 3 reported as stolen	13,000

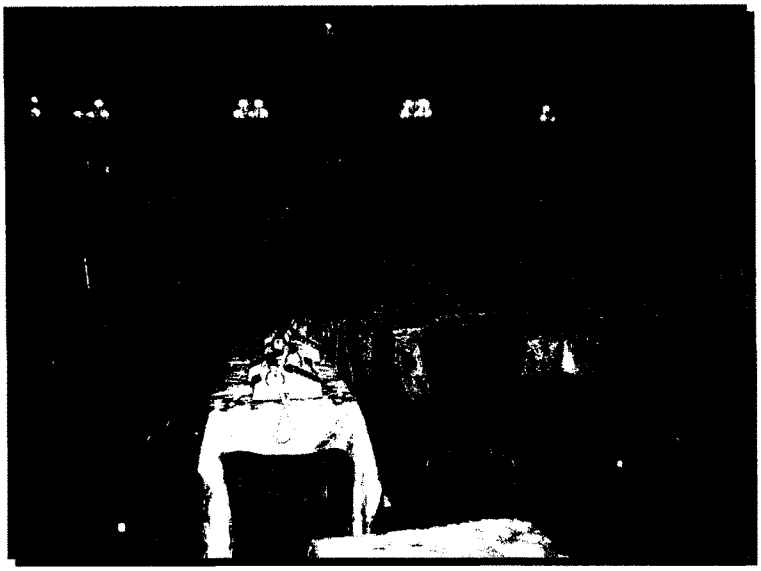
Source: GAO and DHS OIG investigation.

Our testing work for the above transactions included traveling to the location of the accountable property to observe the item and determine if the asset existed or was in possession of the government. More detailed information is as follows:

- In cases 1, 3, and 4, FEMA purchased 200 laptops, 100 printers, and 25 GPS units in five separate transactions totaling about $400,000. While FEMA documented independent receipt and acceptance for the laptops and the GPS units, it did not do so for the printers. Further, FEMA did not properly record and track some of the assets in its property records. As a result, FEMA could not locate the accountable property items when asked, and consequently was not able to account for 107 laptops, 22 printers, and 2 GPS units that cost about $170,000.

  Based on the information FEMA provided for the location of the assets in question, in March 2006 we traveled to the FEMA field offices in New Orleans and Baton Rouge to observe assets acquired using a purchase card. After arriving at these locations, however, FEMA gave us different location information. We were instead informed that the laptops were shipped directly to and currently located in a conference room at the Royal Sonesta Hotel in the French Quarter, which was serving as the Joint Command Post for the various federal, state, and local authorities. We were told that many of the laptops and printers were being used by the New Orleans Police Department (NOPD) at the Joint Command Post. However, as shown in figure 1, when FEMA's accountable property officer took us to the conference room, it was vacant and the laptops and printers were missing.

Figure 1. Hotel Conference Room Where FEMA Laptops and Printers Were Supposed to Be



Source: .GAO

We questioned NOPD to find the location of the laptops and printers and we were able to account for 28 laptops and 16 printers in the possession of NOPD personnel and 4 laptops in possession of the Louisiana District Attorneys Office (LADA). These assets were on loan to NOPD and LADA to assist them in their hurricane response efforts. We subsequently accounted for 61 laptops, 72 printers, and 23 GPS units at FEMA field offices in Baton Rouge and New Orleans. Despite substantial efforts to locate the property, neither FEMA, GAO, or DHS OIG was able to find all the accountable property at the time of our field testing. Ultimately, FEMA could not account for 107 laptops, 22 printers, and 2 GPS units with a total value of about $170,000.

Significantly, we found that FEMA failed to enter the laptops into their accountable property system until two months after delivery. In addition, when FEMA did add the laptops to the property system, they failed to accurately record who was in possession of the laptops. In February 2006, after we made inquiries regarding the laptops, FEMA made an effort to track down the laptops and properly record who was in possession of and accountable for the laptops. However, they were unable to do so for most of the laptops. The process for using a purchase card to obtain highly pilferable and expensive equipment such as laptops should include controls that ensure such property is accurately recorded and tracked in a property system. In this case, the absence of effective controls led to potential fraud and a substantial cost to the taxpayer.

- For case 2, FEMA paid a vendor $208,000, or twice the retail price, to deliver 20 flat-bottom boats (with motors and trailers) needed for relief operations in New Orleans. This vendor, a broker who did not possess any boats himself, used the FEMA purchase card account number to pay for the boats prior to delivery to FEMA. He also used the card number to make two unauthorized payments for 6 of the 20 boats totaling about $30,000. Although the vendor billed FEMA for all 20 of the boats, the vendor failed to pay one retailer who provided 11 of the 20 boats. This retailer provided the boats to the broker believing he was dealing with a FEMA representative, and therefore the retailer did not require payment up-front. The retailer has since reported the 11 boats as stolen and not provided title to the vendor. Further, FEMA only has 8 of the 20 boats in its property records and could not provide the location for the other 12 boats.

  Many issues surround the purchase of the 20 boats, but the most significant involve the vendor. We estimate that the vendor walked away with over $150,000, including the profit he made on the 11 boats that the vendor obtained without payment. We are coordinating our investigation with both local law enforcement and the Federal Bureau of Investigation. Key control breakdowns relating to this transaction include the cardholder not obtaining adequate receipt and acceptance as evidenced by the

fact that FEMA did not receive title to at least 11 boats, and the fact that neither the cardholder or the approving official flagged two unauthorized charges on the monthly purchase card statement.

- Case 3 involved one or more Coast Guard employees who submitted falsified records and provided false information pertaining to the theft of three laptop computers. Our investigative work found that a Coast Guard cardholder, accompanied by an Information Technology (IT) specialist, purchased 13 laptops from Best Buy using his government purchase card. The cardholder placed the laptops in an unsecured trailer, but did not immediately record the serial numbers so they could be entered into an accountable property system. According to the cardholder, 3 laptops went missing the next day. In an interview with our investigator and the Coast Guard Investigative Service, the cardholder admitted that he did not record the serial numbers immediately as instructed by his superior, and the property log was subsequently falsified to include fictitious serial numbers for the missing laptops. During separate interviews with the cardholder and the IT specialist, we noted inconsistencies in their explanations. We attempted to conduct a follow-up interview with the IT specialist, but after being notified to report for the scheduled interview, the IT specialist took actions that made himself unavailable. The Coast Guard Investigative Service is continuing to investigate the stolen laptops.

Improper Transactions—We identified numerous instances where cardholders used their purchase cards to make improper purchases. According to the FAR, purchase cards may be used only for purchases that are otherwise authorized by law, regulation, or organizational policy. Table 5 contains some examples of improper transactions.

Table 5. Examples of Improper Purchase Card Transactions

Case	Items purchased	Organizational element	Vendor	Amount of transaction
1	Meals ready to eat (MRE's)	CBP	MRE Foods.com	$465,000
2	Waste removal	FEMA	EMO Energy Solutions	153,000
3	Rain jackets	CBP	Helly Hansen	2,500
4	Men's clothing	ICE	Hecht's	430

Source: DHS data.

The following contains detailed information on some improper transactions shown in table 5:

- Case 1 related to the improper use of convenience checks, where a CBP cardholder improperly issued five convenience checks totaling about $465,000 to prepay for a 2 months' supply of meals-ready-to-eat (MRE), about $30,000 of which was for shipping. The MREs were sent to the Gulf Region for consumption by CBP employees who were deployed to assist in the response to the hurricanes. In general, DHS policies consider the use of convenience checks a tool of last resort, that is, to be used only after "maximum efforts" have been made to find alternate vendors who accept the government purchase card. However, we found that the CBP cardholder violated DHS policies related to use of convenience checks.

  In addition, the CBP employees who were sent to the Gulf Region were pulled out earlier than anticipated and almost half of the MREs purchased were delivered to a CBP training facility in El Paso, Texas. Because the cardholder prepaid for the MREs, the cardholder precluded the option of buying in increments as the fluid circumstances might have dictated. Because the demand did not materialize, thousands of MREs are sitting in a warehouse in El Paso, Texas.

  The cardholder in this instance relied on the *Unusual and Compelling Urgency* provisions of the *Federal Acquisition Regulations* to expedite the purchase and meet an apparent need. While we are not questioning the cardholder's reliance on these provisions, we identified actions taken by the cardholder that unnecessarily increased the cost to the taxpayer:

  - Instead of contracting with the Defense Logistics Agency[14] (DLA) to deliver MREs on an as-needed basis, the cardholder acquired about 62,000 MREs from a vendor on the internet. However, DLA informed us that it had a large supply

[14]DLA provides worldwide logistics support for the missions of the military departments and the Unified Combatant Commands under conditions of peace and war. It also provides logistics support to other DOD components and certain federal agencies such as DHS.

of MREs when Hurricane Katrina hit the Gulf Region and would have been able to meet CBP's demand for MREs and provide free shipping. Further, we found that a GSA Advantage vendor was selling similar MRE's at a substantially lower price than what the cardholder paid. The vendor selected by the cardholder was not a GSA Advantage vendor and the cardholder acknowledged that she did not contact this GSA Advantage vendor. Had the cardholder contacted the GSA Advantage vendor, she may have saved taxpayers over $100,000.

- The website of the vendor selected by the cardholder clearly shows that it accepts credit cards. However, according to the cardholder, the vendor did not want to incur a credit card processing fee on the large order. The cardholder therefore paid the vendor using convenience checks, which cost the government a 1.75 percent processing fee. Therefore, due to the cardholder's improper use of convenience checks, DHS paid $8,000 in processing fees unnecessarily.

- In case 3, a CBP cardholder improperly used his purchase card to acquire 37 black rain jackets from Helly Hansen for nearly $2,500 and obtained a government discount to the personal benefit of CBP employees. The purchase violated CBP's policy against using a purchase card to acquire clothing. The cardholder claimed the rain jackets were personal protective equipment (PPE) for which there is an exception. The cardholder explained that the black rain jackets are given to safety officials on the firing range and allow these officials to be readily identified. However, these officials are issued red shirts for safety and identification purposes and when it rains, the red shirts are covered by the rain jackets. Other individuals who are not safety officials also wear black rain jackets, making these other individuals indistinguishable from safety officials. Therefore, the rain jackets do not serve a safety purpose and are not PPE. The cardholder also admitted that when the rain is heavy, the firing range is normally shut down. Furthermore, the rain jackets were not kept on the firing range but were given to

range officials to keep, without any record of who was receiving the rain jackets. While safety of CBP employees should be a primary concern, the facts in this case indicate that cardholder obtained a government discount from the vendor to provide personal clothing to CBP employees and for which no safety related purpose was served.

Abusive and Questionable Transactions

We identified numerous examples of abusive and questionable items acquired with DHS purchase cards during our testing. We defined abusive transactions as those that were authorized, but the items purchased were at an excessive cost (unreasonable pricing) or were not needed by the government, or both. As an organization whose mandate is to deal with security and emergency needs, DHS and its employees should adopt prudent purchasing practices by implementing existing agreements with vendors to allow favorable pricing even in times of disaster. Questionable transactions are defined as transactions that appear to be improper or abusive but for which there is insufficient documentation on which to conclude.[15]

Obtaining reasonable pricing for goods or services includes not only avoiding excessive pricing, but also includes taking reasonable steps to obtain appropriate discounts. However, vendors often will not provide discounts unless the government cardholder asks if a discount is available. We found instances where it was likely a vendor discount could have been obtained but was not. However, we noted several occasions where cardholders obtained a point-of-sale discount. For example, an ICE cardholder obtained 60 sleeping bags and cots from Cabela's. The sleeping bags and cots were acquired to meet the needs of those affected by the hurricanes. The cardholder was able to obtain a 10 percent point-of-sale discount from the manager. By asking for the discount, the cardholder was able to save the taxpayer over $750. In another example, FEMA purchased over $600,000 in medical equipment and supplies from Medtronic Physio-

[15]GAO's *Guide for Evaluating and Testing Controls Over Sensitive Payments* (GAO/AFMD-8.1.2, May 1993) states: "Abuse is distinct from illegal acts (non-compliance). When abuse occurs, no law or regulation is violated. Rather, abuse occurs when the conduct of a government organization, program, activity, or function falls short of societal expectations of prudent behavior."

Control in three separate transactions in order to supply special medical response teams after the hurricanes. FEMA obtained almost $18,000 in point-of-sale discounts from this vendor.

In order to obtain the best pricing, it is often beneficial to make arrangements with vendors in advance of potential spikes in demand for goods or services. We noted numerous instances where we believe better pricing could have been obtained had various DHS organizational elements made arrangements with vendors in advance of the devastating hurricanes along the Gulf Region. If DHS does not anticipate its needs and get prearranged pricing from quality vendors, then it must often scramble to acquire the necessary goods and services during a crisis. Frequently, the emphasis shifts from efficiency to expediency when acquiring goods and services during a crisis, resulting in additional and unnecessary costs to the government. Table 6 lists some examples of abusive and questionable purchases that we identified at DHS.

Table 6: Abusive and Questionable Transactions

Transaction	Item purchased	Organizational element	Vendor	Nature of transaction	Amount
1	Shower units	CBP	MD Descant	Abusive	$71,000
2	Dog booties	FEMA	Backcountry Gear Limited	Abusive	$68,000
3	GPS units	FEMA	Best Buy	Abusive	$18,000
4	63" Plasma screen television	FEMA	Jan-Tronics	Abusive	$8,000
5	iPod Nanos and Shuffles	USSS	Apple	Questionable	$7,000
6	Training seminar	CBP	Sea Palms Golf and Tennis Resort	Abusive	$2,000
7	Leadership conference	CIS	Hyatt Golf Resort, Spa & Marina	Abusive	$2,000
8	Beer brewing kit	Coast Guard	Beer and Wine Hobby	Abusive	$230

Source: GAO and DHS OIG investigations of DHS data.

The following provides further details on a number of transactions listed above:

- The first case involved a CBP cardholder who paid for three 6-person portable shower units when less expensive units could have been rented. In this instance, CBP represented to us that they did not have time to obtain competing bids because of the need to prepare immediate shower units for CBP personnel in the Gulf Region responding to hurricanes. However, because CBP did not specify the need for hot water and sinks, the portable shower units did not come with this capability. In

contrast, a vendor in GSA Advantage could have rented two prefabricated 16-person mobile shower units with hot water capabilities and had them delivered in less time than it took the original vendor to deliver. The cost from the GSA Advantage vendor would have been approximately $45,000, or 36 percent less than the nearly $71,000 CBP paid.

- In case 2, a FEMA cardholder unnecessarily purchased over 2,000 sets of canine booties at a cost exceeding $68,000. Canine booties are used to protect the dog's paws in a debris laden environment. According to FEMA, after the terrorist attacks of 9-11 many donated dog booties were placed in storage facilities and were mistakenly placed on emergency provisioning lists. When the hurricanes struck the Gulf Region, FEMA acquired items on the provisioning lists including thousands of additional dog booties unnecessarily. However, we were informed by FEMA that since most of the search and rescue dogs in the Gulf Region were not accustomed to wearing booties, the canine booties continue to sit unused in FEMA storage facilities. The error of placing the booties on the emergency provisioning list resulted in a $68,000 unnecessary expenditure.

- In case 4, a FEMA cardholder abused a purchase card to acquire a Samsung 63 inch plasma screen television on September 16, 2005 for almost $8,000, lacking a government need. The plasma screen, which was not timely recorded in an accountable property system, was still unused and in its original box six months after its purchase. The fact that it was unused after such an extended period of time casts significant doubt as to whether there was a legitimate government need for acquiring the 63 inch plasma screen in the first place. In addition, as the cost of high-end electronic equipment can fall dramatically in a short period of time, we found that the same 63 inch plasma screen television could have been obtained for $1,200 less at the time we observed it in the box at FEMA. Considering the plasma screen was bought at the end of the fiscal year and that it was unused 6 months after the purchase, a concern arises regarding whether the purchase was made to use up remaining funds at the end of the fiscal year.

- In case 5, the U.S. Secret Service (USSS) spent over $7,000 to acquire 12 Apple iPod Nanos and 42 iPod Shuffles. This purchase is questionable because iPods are generally used to store and play music—not a legitimate government need. In addition the USSS did not enter the iPod shuffles into its accountable property system. After we questioned the validity of the purchase, USSS provided a memorandum justifying the purchase on the basis that the iPods were used for training and data storage. However, we found that other memory devices existed that were not primarily designed to play music but would have satisfied the need for data storage. USSS did not provide evidence to support its claim that the iPods were used in training. Further, USSS represented to us that they did not track the iPod shuffles because the iPods cost less than the $300 threshold required for accountable property. This is inconsistent with established DHS policy that requires all memory devices be tracked in a property system. Without appropriate substantiation, we could not obtain assurance that the iPods were used for legitimate government needs.

- Case 6 involved the abusive use of government funds to hold a CBP training seminar at the Sea Palms Resort at Saint Simons Island in Georgia. We identified a purchase card transaction related to this event for about $2,000 and performed additional audit work to determine the basis for selecting the resort. We found that the golf and tennis resort was used to train 32 newly hired attorneys when the nearby Federal Law Enforcement Training Center (FLETC) in Glynco, Georgia, could have been used with a savings of approximately $10,000. According to the CBP officials we interviewed, CBP had determined that the FLETC facility could not accommodate their training. However, CBP could not produce any documentation such as a request form indicating that CBP had contacted FLETC for determining availability. Further, a FLETC official in charge of scheduling informed us that FLETC did not receive a request from CBP and that had CBP given FLETC sufficient notice, it was more than likely that FLETC would have been able to accommodate CBP. While training is a necessary investment in human capital, cardholders and government officials need to

be careful stewards of taxpayer's funds. By not contacting FLETC and instead using the resort for training, CBP failed to act prudently with taxpayer dollars.

- In case 7, the U.S. Citizenship and Immigration Services (CIS) held its annual leadership conference at the Hyatt Regency Chesapeake Bay Golf Resort, Spa and Marina in Cambridge, MD, which cost the government about $40,000 in additional travel expenses. We initially selected this transaction because a CIS cardholder had paid the resort about $2,300 for materials used in a team building exercise. Irrespective of the merits of the team building exercise expenses, holding the annual leadership conference about 90 miles outside Washington, D.C. resulted in roughly 50 Washington, D.C. based staff incurring travel expenses for lodging, meals, and other expenses. About 110 CIS employees attended the July 2005 conference. According to a March 25, 2005, CIS memorandum documenting the CIS conference planning efforts, CIS officials only contacted resorts outside the Washington, D.C. normal commuting area. If CIS had held the annual conference within the Washington, D.C. commuting area, the 50 of the employees would not have incurred travel expenses and the savings to the government would have been about $40,000.

- In case 7, the U.S. Citizenship and Immigration Services (CIS) held its annual leadership conference at a golf resort outside the Washington D.C. area when a significant savings of approximately $40,000 may have been available if the conference had been held locally. Approximately 112 CIS employees attended CIS' annual leadership conference in July 2005 at the Hyatt Regency Chesapeake Bay Golf Resort, Spa and Marina in Cambridge, MD. According to CIS, 50 participants lived and worked in the Washington, D.C. area but stayed at the golf resort which was 90 miles from Washington, D.C. As a result, these Washington-based employees incurred about $40,000 in potentially unnecessary per diem travel expenses. CIS represented to us that they had made efforts to find hotels in the Washington, D.C. area. However, the procurement memorandum prepared on March 25, 2005, only a few months prior to the conference, indicated that CIS only contacted other resorts outside Washington, D.C. If CIS had planned their regular annual conference far enough in

advance to avoid booking issues and held the conference in Washington, D.C., a substantial per diem cost of about $40,000 would not have been incurred for the 50 CIS employees within the Washington, D.C. area.

- Case 8 involved a Coast Guard cardholder who abused his purchase card to obtain beer brewing equipment and ingredients, and wasted government resources by brewing alcohol while on duty. The cardholder, whose duties involved planning, procuring, and organizing social functions for the Coast Guard Academy, purchased a beer brewing kit for about $230 and additional ingredients. According to the Coast Guard, the beer kit provided the Academy with both a cost savings and a quality product for official parties attended by cadets, dignitaries, and other guests of the Superintendent. The Coast Guard also explained that the Coast Guard beer, with the custom Coast Guard themed labels, functioned as an "ice-breaker" for discussion at these official parties.

  Our subsequent work indicated that the Academy achieved no cost savings by brewing their own beer. From early August 2005 through March 2006, the Academy used an additional $800 on beer brewing ingredients[16] to brew 532 bottles of beer, or 12 batches. The Coast Guard estimated that it took two hours to brew, bottle, and label each batch of Coast Guard beer. Given a conservative approximate hourly labor rate of $15, it would cost over $13 for a six-pack of Coast Guard beer—considering the variable costs alone (ingredients and labor). The Coast Guard provided GAO with a detailed 5-year analysis showing a cost savings but the analysis failed to account for any labor costs. Absent the purported cost savings and the dubious need for the government to brew its own alcohol, the purchase of the kit and the beer brewing activity itself fall short of prudent use of taxpayer dollars and therefore exemplify purchase card abuse.

[16]According to Coast Guard finance personnel, funds from the Coast Guard Foundation, Inc. were used to purchase the beer brewing ingredients. The Foundation is a public nonprofit organization that provides annual funding to support the men and women of the U.S. Coast Guard and Coast Guard Academy. The Foundation's fundraising efforts address needs not met through traditional governmental and military funding sources. The Foundation supports such activities as a holiday calling-card program, capital improvements, and education grants. Although the ingredients were not purchased with appropriated funds, the resources provided by the Foundation could have been spent for other purposes, for example educational grants, had they not been used to brew beer.

Concluding Observations

The purchase card has proven to be a valuable tool that provides the government flexibility in making purchases and saves money on transaction processing. However, putting purchasing decisions in the hands of about 9,000 DHS employees with ineffective management oversight and control has allowed potentially fraudulent, improper, and abusive or questionable usage of these purchase cards to go undetected. Some of the examples highlighted in this testimony related to Hurricanes Katrina and Rita show that the government is particularly vulnerable when purchase cards are used during times of disaster. Taking immediate action to improve the processes and internal controls over its purchase card program will help DHS maximize the value and benefit of the purchase card and provide reasonable assurance that fraud, waste, and abuse are minimized.

Madam Chairman and Members of the Committee, this concludes our statement. We would be pleased to answer any questions that you or other members of the committee may have at this time.

Contacts and Acknowledgments

For further information about this testimony, please contact Gregory D. Kutz at (202) 512-7455 or kutzg@gao.gov at GAO or Matt A. Jadacki at (202) 254-5477 or matt.jadacki@dhs.gov at DHS OIG. GAO individuals making key contributions to this testimony included James Ashley, Kord Basnight, James Berry, Beverly Burke, Jennifer Costello, Danielle Free, Christine Hodakievic, Ryan Holden, Aaron Holling, John Kelly, Tram Le, John Ledford, Barbara Lewis, Jenny Li, John Ryan, Robert Sharpe, Bethany Smith, Tuyet-Quan Thai, Patrick Tobo, and Michael Zola. DHS OIG individuals making key contributions to this testimony included Modupe Akinsika, Andre Marseille, and Frank Parrott.

Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this testimony.

Appendix I: Prior GAO Purchase Card Audits

VHA Purchase Cards: Internal Controls Over the Purchase Card Program Need Improvement. GAO-04-737. Washington, D.C.: June 7, 2004.

Purchase Cards: Increased Management Oversight and Control Could Save Hundreds of Millions of Dollars. GAO-04-717T. Washington, D.C.: April 28, 2004.

Forest Service Purchase Cards: Internal Control Weaknesses Resulted in Instances of Improper, Wasteful, and Questionable Purchases. GAO-03-786. Washington, D.C.: August 11, 2003.

HUD Purchase Cards: Poor Internal Controls Resulted in Improper and Questionable Purchases. GAO-03-489. Washington, D.C.: April 11, 2003.

Purchase Cards: Steps Taken to Improve DOD Program Management, but Actions Needed to Address Misuse. GAO-04-156. Washington, D.C.: December 2, 2003.

FAA Purchase Cards: Weak Controls Resulted in Instances of Improper and Wasteful Purchases and Missing Assets. GAO-03-405. Washington, D.C.: March 21, 2003.

Purchase Cards: Control Weaknesses Leave the Air Force Vulnerable to Fraud, Waste, and Abuse. GAO-03-292. Washington, D.C.: December 20, 2002.

Purchase Cards: Navy is Vulnerable to Fraud and Abuse but Is Taking Action to Resolve Control Weaknesses. GAO-02-1041. Washington, D.C.: September 27, 2002.

Government Purchase Cards: Control Weaknesses Expose Agencies to Fraud and Abuse. GAO-02-676T. Washington, D.C.: May 1, 2002.

Purchase Cards: Control Weaknesses Leave Army Vulnerable to Fraud, Waste, and Abuse. GAO-02-732. Washington, D.C.: June 27, 2002.

Purchase Cards: Control Weaknesses Leave Two Navy Units Vulnerable to Fraud and Abuse. GAO-02-32. Washington, D.C.: November 30, 2001.

Appendix II: Background

The Department of Homeland Security's (DHS) purchase card program is part of the General Services Administration's (GSA) Smart Pay® program, which was established to streamline federal agency acquisition processes for eligible purchases by providing a low-cost, efficient vehicle for obtaining goods and services directly from vendors. Under the GSA blanket contract, DHS has contracted with U.S. Bank for its purchase card services.

To assist DHS organizational elements in carrying out their various missions, such as that of the U.S. Coast Guard (Coast Guard),[17] U.S. Customs and Border Protection (CBP),[18] Transportation Security Administration (TSA),[19] and the Federal Emergency Management Agency (FEMA),[20] DHS reported that it used purchase cards for more than 1.1 million transactions valued at more than $420 million in fiscal year 2005. According to DHS data, the purchase card activity for the Coast Guard, CBP, TSA, and FEMA accounted for $364 million or about 86 percent of the more than $420 million in fiscal year 2005 DHS purchase card payments. Table 1 identifies the number and dollar amount of purchase card transactions during fiscal year 2005 for these and other DHS components.

[17]The Coast Guard's mission is to protect the public, the environment, and U.S. economic interest in the nation's ports and waterways, along the coast, on international waters, or in any maritime region as required to support national security.
[18]CBP is responsible for protecting U.S. borders in order to prevent terrorists and terrorists' weapons from entering the U.S. while facilitating the flow of legitimate trade and travel.
[19]TSA's mission is to protect the nation's transportation systems to ensure freedom of movement for people and commerce.
[20]FEMA is responsible for preparing the nation for hazards, managing federal responses and recovery efforts following any national incidents or disasters, and administering the National Flood Insurance Program.

Table 7: Number and Amount of Fiscal Year 2005 Purchase Card Transactions

DHS Component	Number of transactions (in thousands)	Amount of transactions (in millions)	Percentage of DHS purchase card payments
Coast Guard	568	$227	54%
CBP	295	66	16
TSA	74	38	9
FEMA	31	32	8
Other DHS components	178	60	13
Total	**1,146**	**$423**	**100%**

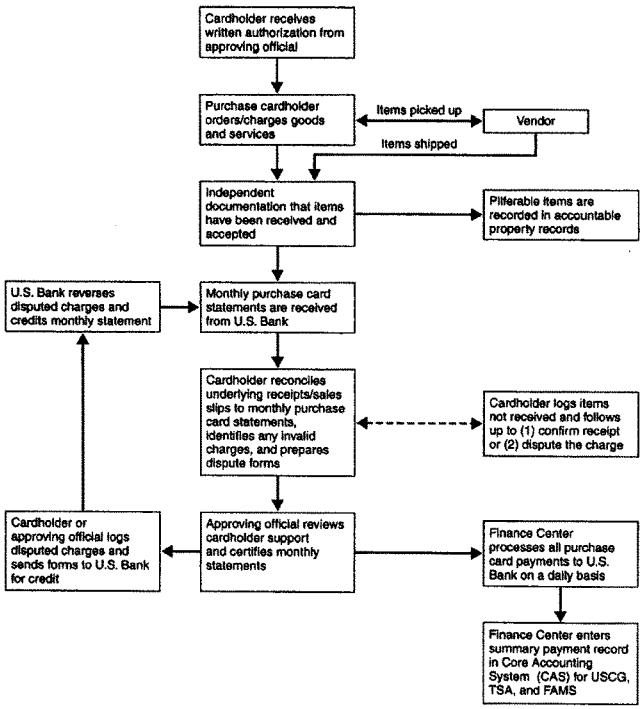
Source: GAO analysis of U.S. Coast Guard Finance Center's reports.

Management of the DHS Purchase Card Program

DHS's Purchase Card Program Management Office, which is within the office of the Under Secretary for Management—Chief Financial Officer (CFO), is responsible for the overall management of the DHS purchase card program. In carrying out its management responsibilities, the Purchase Card Program Management Office has a directive for use by all DHS components on the Government Purchase Card Program. In addition, the Office of the Chief Financial Officer developed a draft manual, which has been in draft since March 8, 2004. This draft manual describes the various roles and responsibilities of key program management functions and the overall business process for carrying out the purchase card program. Regarding key management functions, the Agency Program Coordinator has responsibility for managing the overall program and working through the CFO and Chief Procurement Officer on purchase card issues; developing, implementing, and updating the program policies, procedures, and guidelines; and ensuring the implementation of and compliance with adequate internal controls in the management of the program, as well as serve as the communication liaison between DHS and the U.S. Bank. Further, within each DHS component, an Organizational Program Coordinator(s) is designated to oversee the purchase card program within that component (e.g., Coast Guard). Their responsibilities include controlling issuance, revocation, and the closing of purchase cards; providing, monitoring, and maintaining training prior to issuance of the purchase card and annual refresher training for all cardholders and approving officials; and managing and conducting oversight of the

program (includes span of control and ongoing and annual reviews to ensure compliance with the program requirements). Figure 3 illustrates DHS's business process for carrying out the purchase card program.

Figure 3: DHS Purchase Card Program Flowchart



Source: GAO analysis of the business process for the DHS Purchase Card program.

Coast Guard Is a Steward for DHS's Purchase Card Program

Since February 2004, the U.S. Coast Guard Finance Center (Finance Center) has been operating under a Memorandum of Understanding with DHS to be the servicing agent providing centralized invoicing and payment of all DHS purchase card activity. The Finance Center has developed and implemented a system that supports the receipt of daily invoices from U.S. Bank for all DHS components, supports the payment of those invoices within one business day of receipt, and provides transmission of an electronic file containing transaction data to each component's accounting system. The intent of the daily payment is to maximize the performance rebates earned by the purchase card program.

On a daily basis, U.S. Bank's Customer Automation and Reporting Environment generates an invoice file containing transaction level data for all DHS purchase card activity posted on the previous day and submits the file to the Finance Center, where the file is loaded into the Finance Center's Consolidated Billing System. Among other things, this system is used to process all purchase card transactions and provide data to participating DHS components. Cardholders are responsible for identifying any discrepancies on their billing statements and contacting the merchant to resolve any disputed transactions. If the cardholder is unable to resolve the dispute with the merchant, he or she has up to 60 days from the statement date to file a dispute form with U.S. Bank and request a credit. Approving officials are responsible for (1) receiving and reviewing their assigned cardholders' monthly statement to ensure all charges were allowable and conducted within acquisition guidelines, (2) determining that the goods or services were received, and documentation is complete, and (3) verifying that the cardholder follows through in resolving any disputed transactions with the merchant and U.S. Bank. An approving official's certification of the monthly billing statement cannot occur until the cardholder, or in some cases, the approving official, performs and completes a reconciliation of all charges on the statement.

Appendix III: Scope and Methodology

To assess whether DHS's internal control policies and procedures are adequately designed to provide reasonable assurance that fraud, waste, and abuse are minimized and are operating effectively to prevent or detect potentially fraudulent, abusive, and improper purchase card use, we reviewed and tested key purchase card controls over purchase card use by DHS's major organizational elements.[21] Our review of purchase card controls covered:

- DHS's and its organizational elements' overall management control environment, including (1) management's role in establishing needed controls, (2) the numbers of cardholders, cardholder accounts, approving/billing officials, and program coordinators, (3) training provided for cardholders, (4) monitoring and audit of purchase card activity, and (5) effectiveness of purchase card infrastructure;

- attribute tests on a statistical sample of key controls over purchase card transactions made during the period from June 13, 2005 through November 12, 2005, including (1) proper written preauthorization of purchases, (2) maintenance of sales documentation, (3) documented performance of independent confirmation that items or services paid for with the purchase card were received, and (4) documentation that cardholders gave priority to designated sources; and

- data mining of the population of transactions made during the above mentioned test period to identify potentially fraudulent, improper, and abusive or questionable purchase card transactions.

[21]Major organizational elements include the U.S. Secret Service, U.S. Coast Guard, Transportation Security Administration, U.S. Customs and Border Protection, U.S. Citizenship and Immigration Services, U.S. Immigration and Customs Enforcement, Federal Emergency Management Agency, Federal Law Enforcement Training Center, and other headquarters-level entities.

Departmental and Organizational Element Control Environment

To assess the overall management control environment for DHS's purchase card program, we obtained an understanding of the processes utilized by DHS and its major organizational elements by interviewing officials involved in overseeing and managing the various purchase card activities, analyzing each entity's control procedures and processes, and performing walk-throughs of the detailed processes utilized at the major organizational elements to request, approve/authorize, make, document, and verify/certify transactions using purchase cards. We also analyzed the database of active cardholders to assess the ratios of approving/billing officials to assigned cardholders and cardholder accounts and assessed cardholder training. For these tests, we utilized the active member cardholder database provided by U.S. Bank covering the period from June 2005 through December 2005. We also visited and interviewed officials of the Coast Guard's Finance Center, Chesapeake, Virginia, DHS's purchase card paying agent, to discuss the payment and management oversight processes utilized to ensure the timely processing of payments and the reasonableness and appropriateness of transactions.

Statistical Sample of Internal Control Procedures

We obtained and reviewed the U.S. Bank-provided database of purchase card transactions covering the period from June 13, 2005, through November 12, 2005, and analyzed a random probability sample of these transactions to assess compliance with key internal controls. The sample design was a simple random probability sample of 96 transactions. The sample size was calculated to achieve a precision of any estimated internal control error rate for the category (except accountable property) to be +/- 10 percentage points or less. With this probability sample, each transaction in the population had a known, nonzero probability of being selected. Each selected transaction was subsequently weighted in the analysis to account statistically for all the transactions in the population, including those not selected.

Because we selected a sample of transactions, our results are estimates of a population of transactions and thus are subject to sample errors that are associated with samples of

this size and type. Our confidence in the precision of the results from this sample is expressed in 95-percent confidence intervals. The 95-percent confidence intervals are expected to include the actual results in 95 percent of the samples of this type. We calculated confidence intervals for this sample based on methods that are appropriate for a simple random probability sample.

To test compliance with internal controls, we applied procedures in GAO's *Audit Guide: Auditing and Investigating the Internal Control of Government Purchase Card Programs* (GAO-04-87G, Washington, D.C.: November 2003) and internal control standards included in the draft manual dated March 8, 2004. We utilized DHS's draft manual because we found that DHS had not issued an official standardized set of purchase card policies and procedures since the department was established by the Homeland Security Act in November 2002. Further, our review of the draft procedures showed that the procedures contained a reasonable set of standards that were generally consistent with good purchase card operating policies and procedures utilized by other governmental entities we had audited and covered in GAO's Audit Guide. We also reviewed (1) OMB Circular No. A-123, (2) Treasury Financial Manual Vol. 1 Part 4-4500 "Government Purchase Cards," (3) FAR, (4) organizational policies, including draft organizational policies, and (5) GAO's Standards for Internal Controls.

Data Mining

In addition to selecting statistically projectable samples of transactions to test specific internal controls, we also made nonrepresentative selections of transactions from these entities. We conducted separate analysis of transactions that appeared on the surface to be potentially fraudulent, improper, and abusive or questionable.

Our data mining for transactions was limited in scope. For this review, we scanned the population of transactions for vendor names and merchant codes that are likely to sell goods or services that are personal in nature, listed on DHS's restricted/prohibited lists, or are otherwise questionable. Our expectation was that transactions with certain vendors had a more likely chance of being fraudulent, improper, and abusive or questionable. We reviewed and made inquiries about 200 transactions with vendors that

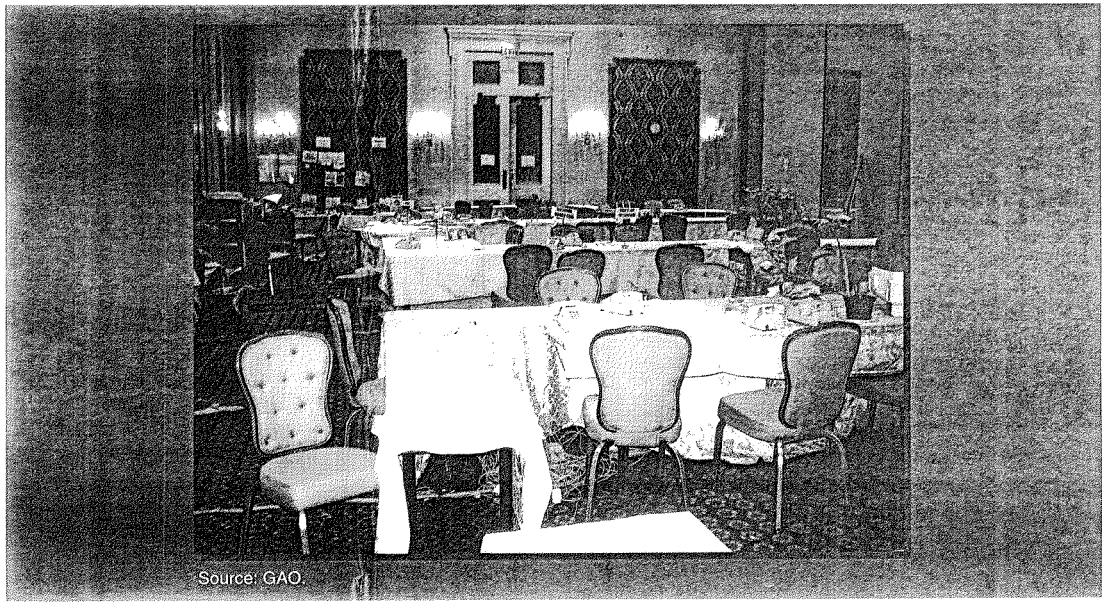
sold such items as sporting goods, sporting event tickets, groceries, clothing, jewelry, alcohol, entertainment, or were third-party payers, such as PayPal. Our inquiries also identified some purchases that turned out to be legitimate in terms of need but could have been obtained from vendors at significant price savings. We found other purchases were made during conditions of exigency that under normal operating conditions would not or should not have been made. While we identified, and performed limited inquiries about, some potentially fraudulent, improper, and abusive or questionable transactions, our work was not designed to identify, and we cannot determine, the extent of fraudulent, improper, and abusive or questionable transactions.

We briefed DHS on the details of our work, including our scope, and methodology and our findings. We conducted our audit work from October 2005 through June 2006 in accordance with U.S. generally accepted government auditing standards, and we performed our investigative work in accordance with standards prescribed by the President's Council on Integrity and Efficiency.

(192211)

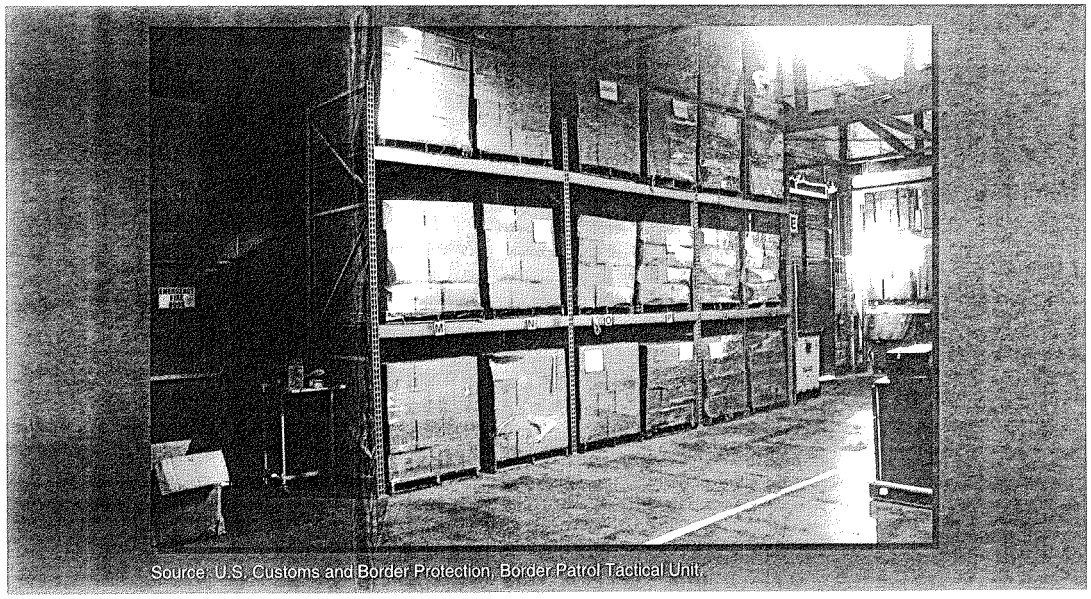
GAO
Accountability * Integrity * Reliability

Hotel Conference Room: Missing Laptops and Printers



Source: GAO.

Unused MRE's in El Paso, Texas



Source: U.S. Customs and Border Protection, Border Patrol Tactical Unit.

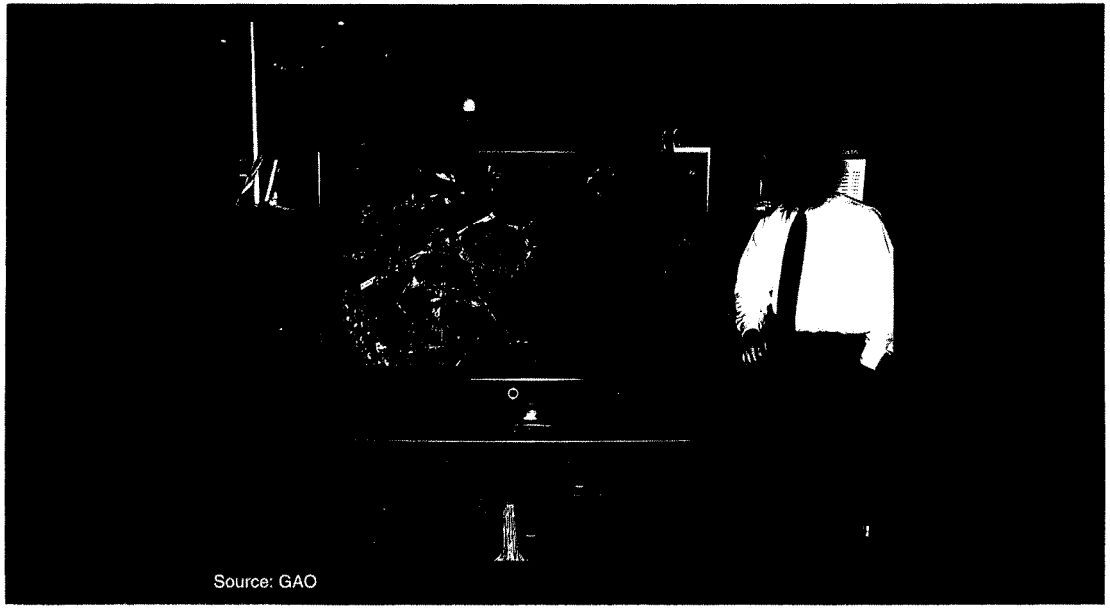
GAO
Accountability * Integrity * Reliability

United States Coast Guard Brewed Beer

Source: GAO

GAO
Accountability * Integrity * Reliability

63-inch Samsung Plasma Screen Television



Source: GAO

Statement by

David L. Norquist

Chief Financial Officer

Department of Homeland Security

Before the

Senate Committee on Homeland Security and

Governmental Affairs

Hearing on

Government Purchase Card Program

July 19, 2006

Thank you, Chairman Collins and the members of the Committee for allowing me this opportunity to testify before you regarding the Department of Homeland Security's (DHS) Government Purchase Card Program.

Benefits of the Purchase Card

DHS uses purchase cards as its preferred method for making small dollar purchases, particularly those under $2,500. Using a purchase card saves the taxpayer's money because:

- It provides a streamlined and automated purchasing and payment process that reduces administrative costs; and
- It provides refunds for the government, which further reduces the cost.

Another advantage of the purchase card is that it provides the means for holding individuals accountable for their transactions. Purchases made with this card can be traced to a specific card assigned to a specific person used on a specific day at a specific store. If a card holder misuses a purchase card they can be held accountable, to include administrative action, being compelled to reimburse the government or, when appropriate, criminal prosecution.

Strengthening the Purchase Card Program

During its initial years of operation, the Department issued a policy directing all the components with existing purchase card programs to continue to use their established procedures. That policy is still in effect.

The testimony presented by the Government Accountability Office identified weaknesses in both the policies and in the implementation of those policies by the various components in the Department. The Department shares those concerns.

In fact, prior to the GAO audit, the Department had drafted a purchase card policy manual that would strengthen and standardize the internal controls and procedures for this program. It has been adopted by DHS Headquarters, but it has not yet been implemented Department-wide.

The draft manual makes a number of changes, but let me just highlight a few of the improvements:

- In addition to the GSA on-line training currently required before someone is given a card, it will require additional DHS training and annual refresher training;
- The manual will require written authorization before making a purchase; and
- It limits each Approving Official to overseeing only 7 card holders or 300 transactions per month.

GAO has reviewed this draft manual as part of its study. With the inclusion of requiring independent validation of receipt and acceptance of goods, GAO has stated that when implemented Department-wide, this manual will address the problems identified in their review. It is DHS' intention to issue this revised policy manual as soon as possible after making any appropriate changes in light of GAO's findings.

At this point I cannot comment on the specific cases identified by GAO in their testimony. I was first briefed on these findings by GAO last Thursday, so I have not had time to explore and resolve these issues.

However, GAO has committed to providing me the information necessary to examine these cases. As we do with allegations that arise during the course of our own internal reviews, we will examine these allegations on a case by case basis to determine what administrative, disciplinary, or other actions are appropriate.

Conclusion

I am committed to strengthening the purchase card program at DHS as part of a broader effort to improve all internal controls across the Department.

Thank you for your leadership and your continued support of the Department of Homeland Security and its management programs. I would be happy to answer any questions you may have.

DEPARTMENT OF HOMELAND SECURITY

Headquarters
Purchase Card Manual

Purchase Card Manual

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1.2 Applicability
1.3 Policy
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Section 3 Operational Guidance and Procedures
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3.2 Use as a Method of Payment
3.3 Purchase Card Use by Dollar Value of Requirement
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Attachments:
A Purchase Card Ordering Log
B Use of Government Sources of Supply
C. Cardholder Agreement
D. Mandatory Merchant Category Code Blocks
E. Recommended Merchant Category Code Blocks

Section 1
Purchase Card Program Overview

1.1 PURPOSE

The goals of the Department of Homeland Security (DHS) purchase card program are: 1) improve mission support; 2) streamline the process for micro-purchases; 3) And thereby reduce administrative costs and paperwork while ensuring adherence to federal acquisition regulations, and statutes applicable to DHS.

This document provides guidance on the use of the DHS purchase card for all DHS organizational elements (OE), and it is in compliance with the General Services Administration's (GSA) SmartPay Program. This manual includes definitions, roles and responsibilities, and processes to address the operation of the purchase card program and describes the DHS relationship with the purchase card provider bank, hereafter referred to as "the bank".

The government-wide commercial purchase card provides an efficient, low-cost procurement and payment mechanism to acquire goods and services which significantly streamlines traditional federal procurement and payment processes. The purchase card eliminates the need for numerous purchase orders and numerous payments; expedites vendor payments; merchants receive payments within 24-48 hours which are deposited directly to their banks; and provides management with monthly reports for oversight and an audit trail of all purchases.

1.2 APPLICABILITY

The guidance provided in this document is effective for the DHS-wide Purchase Card Program only.

1.3 POLICY

The Government-wide commercial purchase card shall be the preferred method to purchase and to pay for micro-purchases. In general, the micro-purchase limit is $2,500, except in certain limited situations requiring specifically delegated authority or for purchase cardholders employed by the Transportation Security Agency (TSA). The micro-purchase limit for TSA is $10,000. Purchases and payments may also be made over the micro-purchase limit up to $100,000 when authorized in accordance with the guidance contained in Section 3.6, "Special Authorities."

Purchase cards must be used in accordance with the guidance contained in this document as well as any other DHS Acquisition and Financial Management policies which impact the conduct of purchases or making payments.

It is DHS policy that only one purchase card account is to be open for any one cardholder (a DHS Government employee) at any time. Exceptions to this policy must be justified to and approved by the DHS purchase card agency program coordinator (APC).

1.4 DEFINITIONS

Accountable Property – Non-consumable goods purchased for official use that fall under the dollar threshold for reporting to an inventory control system.

Approving Official (AO) – A DHS (government) employee who has a number of Cardholders (CH) under his/her purview and who determines if the CHs' purchases were made in accordance with applicable regulations, policies, and procedures. Responsibilities include nominating CHs, reviewing monthly statements, requesting increases in the single purchase limit and monthly limits, and ensuring the validity and allowability of transactions of CHs for whom he/she is responsible.

Cardholder (CH) – A DHS (government) employee to whom purchase authority has been delegated or who is a warranted contracting officer and has been given a purchase card. The CH may use the card to purchase goods and services and/or pay for official expenses in compliance with applicable regulations and guidance. CHs must be DHS (government) employees. The CH is legally and personally accountable for the proper use of the purchase card. Purchase cards may only be used by the named CH.

CH Account – An account established by the bank for an authorized employee to which official government charges can be made. The CH's name and account number appear on the purchase card issued to the CH.

Chief of the Contracting Office (COCO) – The individual responsible for managing the contracting office(s) within an organizational element (OE).

Convenience Check – A contractor-provided product and service which allows checks to be written on a purchase card account within established dollar limits.

Cycle Limit – The spending limit imposed on a CH's cumulative purchases in a given billing cycle. Cycle limits can be dollar amounts and/or transaction counts and should match the actual purchasing needs of the CH. Cycles run from the 13th day of a month through the12th day of the following month.

Declined Transaction – A transaction that has been refused by the bank's transaction authorization system. Declined transactions either exceed a single purchase limit, exceed

a cycle limit, are prohibited by a merchant category code (MCC) block, or the account is closed.

Dispute – A disagreement between the CH and vendor regarding a transaction on the CH's statement of account.

Federal Acquisition Regulation (FAR) – The primary federal regulation established to provide uniform policies and procedures for acquisition for most executive agencies.

Fiscal Year (FY) – The official government 12 month cycle. The FY begins October 1st and ends September 30th of the next calendar year.

Merchant Category Code (MCC) – A categorization of the type of business the merchant is engaged in and the kinds of goods and services provided. These codes are used as an authorized transaction type code on a card/account to identify those types of businesses who provide goods and/or services that are authorized. DHS has set mandatory MCC blocks at the corporate level and has provided a set of recommended MCC blocks. (See attachments D and E, respectively).

Micro-Purchase – An acquisition of supplies or services, the aggregate amount of which does not exceed the micro-purchase limit at FAR 2.101. The micro-purchase limit is currently set at $2,500 for goods and services, except for construction where the limit is $2,000. With specially delegated authority for certain circumstances, the micro-purchase limit may be $7,500. The micro-purchase limit for TSA is $10,000.

Personal Property – Non-consumable goods purchased for official use that meet or exceed the dollar threshold for reporting to an inventory control system.

Program Coordinator – DHS identifies program coordinators at two levels and assigns specific roles and responsibilities. Multiple levels of program coordinators are anticipated within different hierarchies or at different hierarchical levels within the program for each DHS elemental organization or component.

Agency Program Coordinator (APC) – DHS employee designated by the Chief Financial Officer (CFO) to have overall responsibility for the Purchase Card Program. The APC will perform as the agency liaison with the bank; promulgate program policy; and with the assistance of the DHS Chief Procurement Officer, manage contract associated issues, and monitor and audit program performance.

Organizational Program Coordinator (OPC) – DHS employee designated at the organizational element or component level to oversee the purchase card program within that organization. The OPC will perform functions to include account management; training; maintaining accurate lists of CHs and hierarchies; resolving technical problems between CHs and the bank; and performing ongoing review of card usage and formal transaction audits.

Purchase Card (P-Card) – Card issued to authorized CHs to make and/or pay for official government purchases.

Simplified Acquisition – An acquisition of supplies or services conducted using simplified procurement procedures. See FAR 2.101 for dollar limits and procedures. Currently simplified acquisition techniques may not be used for purchases in excess of $100,000 without special circumstances and authorization.

Purchase Limits – Limits systemically assigned to the specific CH's account to govern the use of the account. Limit categories include; single purchase limits, monthly purchase limits, and transaction limits. These limits can be implemented as transaction dollar limits and/or transaction count limits. Stratified single purchase and monthly purchase limits should be established by each organizational element to ensure that limits minimize financial risk to the organization. Purchase limits should be assigned to match the CH's use requirements. All accounts must be set up with both single purchase dollar limits and monthly transaction dollar limits. Suggested single purchase dollar limits are $500 and $1,500. (See sample stratified purchase limit matrix on page 17.)

Splitting Requirements – Breaking up a larger or higher value requirement so it "fits" under the single purchase limit established for the CH. For example, a single requirement for $2,600 for supplies may not be divided into two requirements at $1,300 each to reduce the value to fit under a CH's $2,500 single purchase limit. This practice is specifically prohibited by statute and by the FAR.

Statement of Account (SOA) – Monthly statement received by the CH from the bank showing purchases, payments, and/or credits for a specific cycle, i.e., the billing period. The statement of account must be reconciled by the CH within seven days of cycle close and approved by the AO within 14 days of cycle close.

1.5 ROLES AND RESPONSIBILITIES

A. The **Under Secretary for Management** shall be responsible for all aspects of the DHS Purchase Card Program.

B. The **Chief Financial Officer (CFO)** shall:

1. Establish procedures and guidelines with adequate internal controls to ensure effective, efficient, and correct use of the purchase card;
2. Monitor the activities of all DHS organizational elements and components to ensure compliance with this directive; and
3. Appoint an Agency Program Coordinator (APC) who will serve as the liaison to the bank and GSA, with assistance of the Contracting Officer, on issues dealing with the program.

C. The **Chief Procurement Officer (CPO)** shall coordinate with the CFO to develop procedures and guidelines outlining the proper use of the purchase card.

D. The Chief of the Contracting Office (COCO) shall:

1. Coordinate with the OE CFO to develop procedures and guidelines outlining the proper use of the purchase card.
2. Delegate procurement authority appropriate to the CH's use of the card and in accordance with the required training and experience levels.
3. Assist in program oversight.

E. The **Chief Human Capital Officer (CHCO)** shall establish and assure implementation of procedures and guidelines outlining appropriate disciplinary action or misuse/abuse of the purchase card.

F. The Agency Program Coordinator (APC) shall:

1. Manage the overall program and work through the CFO and CPO on purchase card issues.
2. Develop, implement, and update the program policies, procedures and guidelines.
3. Ensure the implementation of and compliance with adequate internal controls in the management of the program.

G. The **Organization Program Coordinator(s) (OPC)** shall:

1. Control issuance and revocation of cards;
2. Provide initial training and a policy and procedures manual for CHs and AOs prior to issuance of the purchase card and provide refresher training at least annually; maintain copies of training certificates for all cardholders and approving officials in the OE;
3. Manage and conduct oversight of the program to promote efficient use and guard against waste, fraud and abuse. This includes both on-going and annual reviews to ensure compliance with the program requirements;
4. Review all purchase card applications for accuracy, completeness, and necessary approvals prior to establishing the account electronically with the bank;
5. Review the CH roster at least every six (6) months, or more often if necessary, to identify accounts requiring maintenance, and ensure that accounts are closed properly and timely and finalized when CHs and AOs leave DHS or when accounts otherwise need to be closed.

H. **Immediate Supervisor** shall:

1. Determine the number of AOs, purchase cards and CHs for their organization;
2. Nominate trustworthy and responsible AO(s) and CH(s) in their organization;
3. Co-sign the Cardholder Agreement (Attachment C) with the cardholder nominee and approve and forward card application packages to the OPC;
4. Conduct required reviews of CH activity in their organization: and
5. Participate in any disciplinary action levied against the CH for purchase card abuse or misuse.

I. **Approving Official (AO)** shall provide oversight and monitoring of designated CHs compliance with DHS regulations and procedures. The AO is responsible for ensuring that all purchases made by the CH within his/her cognizance are appropriate and the charges are accurate. Statement approval by the AO also indicates independent verification that the goods or services charged to the account were inspected and accepted by the government. The AO should be the supervisor to whom the CH reports, if this requirement is not practicable, the AO must be at a supervisory level higher than the CH. A CH may not be their own AO, nor may subordinates be AOs for their supervisors. A single individual may not be an AO for more than 7 CHs.

AOs shall:

1. Attend required initial and refresher purchase card training.
2. Request appropriate purchase limits for prospective CHs as part of the nomination process.
3. Request increases or decreases in CH purchase limits when appropriate.
4. Ensure CHs immediately report missing, lost and/or stolen purchase cards to the bank as appropriate.
5. Ensure accurate records regarding the purchases made with the purchase card are maintained in accordance with the agency records retention requirements or appropriate TSA regulation for TSA transactions.
6. Ensure CHs perform the following: complete and reconcile purchase card ordering logs and 'Statements of Account' before approving the statement as acceptable within seven days of cycle close; review object class and accounting codes.
7. Review, validate, and electronically approve every CH transaction within 14 days of cycle close date. Report any purchase card misuse to the OPC.
8. Appoint an alternate AO to act in his/her absence. When an alternate AO approves a statement, a memo from the AO shall be filed by the CH with a copy of the statement to show that the alternate has been authorized by the AO. If the AO is unavailable, the memorandum may be written by the AO's supervisor. Alternate AOs are subject to the same training requirements as primary AOs. Exceptions to the training requirement for the alternate may be granted by the CFO in exceptional circumstances, for a limited period of time as determined by the CFO.

9. Ensure that personal property acquired using the purchase card is reported into an appropriate inventory (or comparable) system so that periodic inventory of the items can be taken. See DHS Management Directive 1120 "Capitalization and Inventory of Personal Property". Special care should be taken to safeguard accountable items such as Blackberries, PDAs, and digital cameras.
10. Work with Administrative Officers and Finance offices, as appropriate, to ensure that end-of-fiscal-year accruals are performed for purchase card purchases/payments to document unexpended funds in a timely manner.
11. Monitor resolution of disputes.
12. If the CH is unavailable, perform the verification and approval of the CH statement; when the CH is available, he/she will verify and close out the statement.
13. AOs must be DHS (government) employees.

J. The **Office of Inspector General (OIG)** The DHS Office of the Inspector General (OIG) shall retain all audit and investigation authorities. The OIG will have access to an electronic access system to monitor program operations and transactions on an ongoing basis. Currently, it is expected that the OIG Office of Audits will use statistical sampling and data mining techniques to review charge card data on a monthly basis. Cases of misuse or fraud will be referred to the OIG Office of Investigation and will be subject to administrative sanctions and/or criminal investigation and prosecution, as appropriate. The OIG reserves the right to increase the frequency, should they determine that increased sampling is warranted.

K. The **Payment Center** The U. S. Coast Guard Finance Center (FINCEN) serves as the DHS paying agent for all of the DHS purchase card programs except for the Office of the Inspector General (OIG). (The OIG uses the Bureau of Public Debt as its financial institution for processing purchase card payments.) FINCEN will develop and implement a system that will support the receipt of daily invoices from the bank for all DHS OEs, assure payment of those invoices within one business day of receipt, and provide transmission of an electronic file containing transaction data to each OE's accounting system. This system will be based upon the following processes and assumptions:

1. **Payment Process**

- On a daily basis, the bank will transmit to the FINCEN an invoice file that will contain all purchase card transactions processed by the bank on that day for all OEs within DHS.
- The FINCEN will load the invoice file into its Consolidated Billing System (CBS). CBS is used to process all transactions, maintains a database of information, provides data to participating OEs and is used to automate the audit process.
- The CG Finance Center will make a separate payment to the bank for each DHS OE by the next business day after receipt of the invoice file. Each payment will be made either by using the Agency Location Code (ALC) assigned to the OE or against the FINCEN's ALC with a corresponding IPAC on a frequency determined by the OE.
- On a frequency to be determined by each OE (daily/weekly/monthly), the FINCEN will transmit all purchase card transactions to the entity's accounting system.

2. **Payment Audit and Merchant Category Code Review**

- In order to provide assurance to its Authorized Certifying Officials (ACO) of the validity of each payment to the bank, the FINCEN will conduct a post-payment audit of the purchase card transactions for all DHS OEs after each billing cycle.
- The FINCEN will audit all transactions greater than or equal to $2,500 and a random sample of those under $2,500. The percentage of transactions audited that are below $2,500 in amount can vary between each DHS OE and between the billing cycles within the same OE. Factors that can affect the percentage used in the random sample include, but are not limited to, the size of the organization, the number of transactions in a billing cycle, the average transaction size, and specific requests made by an OE or DHS.
- Within five (5) days after the cycle date, the FINCEN will inform each OE of the transactions that have been selected for audit by sending an email to the appropriate audit point of contact for each OE, and to the approving official if requested by the OE. Upon receipt of this email, the audit point of contact or approving official and/or cardholder will be required to submit to the FINCEN the supporting documentation for each transaction selected for audit. Documentation will include copies of sales receipts or invoices that adequately describe the item purchased. The OE shall submit this documentation within 10 days of notification.
- The documents requested for audit will be reviewed for the following:
    - For charges greater than or equal to $2,500 – does the cardholder have procurement authority to make the purchase?

- Do the amounts on the receipts/documents reconcile with the amounts on the statement?
- Were taxes or freight paid? If freight was paid and it exceeded $100.00, was a copy of the carrier's invoice included?
- Were the purchases made in accordance with Federal Appropriations Law?
- Was the transaction a part of a split purchase?
- Were any specific authorizations required?

. In addition to the payment audit, the FINCEN will perform a review of any transactions that are assigned to a Merchant Category Code (MCC) that is deemed questionable. Each OE will supply to the FINCEN a listing of those MCCs that it requires to be included in this review. For those entities that choose not to supply a list, the standard list used for the Coast Guard will be used. If any supporting documentation is needed for this review, the FINCEN will contact the OE.

. For any purchases found to be improper, unnecessary, or not for official use, it is the OE's responsibility to pursue and collect these funds for deposit to their appropriation(s). The OE will ensure that the item(s) has been returned and credit received, or that the responsible cardholder has fully repaid the government. The FINCEN should be notified when these items are collected in order to document its audit files.

. Each OE must provide a copy of their Purchase Card Program procedures to the FINCEN, as well as any OE specific authorizations/restrictions on purchase card purchases.

. Each OE must provide to FINCEN a one-time statement outlining its procedures for following up on lost/stolen cards, disputes, and any improper charges.

. Each OE must provide to FINCEN a quarterly report listing all cardholders who have procurement authority above $2,500.

L. **Cardholders (CH)** shall:

1. Read and understand the policies and procedures associated with the use of the purchase card;
2. Complete initial and refresher training;
3. Verify that funds are available prior to each purchase made with the purchase card;
4. Use their purchase card only for official, authorized, governmental purposes in accordance with written prior approval for each transaction. Prior approval may be as informal as an e-mail or as formal as a requisition;
5. Verify all transactions posted to their account within seven days of cycle close; file and resolve disputes with the bank as necessary;
6. Adhere to the requirements of DHS acquisition rules and regulations;

7. Exercise good business judgment;
8. Never use the purchase card for personal items;
9. Respond to OIG, FINCEN, OE audit point of contact or OPC requests for documentation in a timely manner. CHs must keep the OPC apprised of information/documentation provided to the OIG or FINCEN;
10. Acquire goods and services (commodities) that are described in Management Directive 0730 using the department-wide contracts and procedures provided in Management Directive 0730;
11. DHS CHs must be DHS (government) employees.

1.6 LIABILITIES

The GSA SmartPay master contract clearly defines liability for purchase card transactions. Financial liability for authorized transactions made by authorized cardholders rests with the government. If an authorized cardholder uses the purchase card to make an unauthorized purchase, the government is liable for payment and the agency is responsible for taking appropriate action against the cardholder. Use of the purchase card by a person other than the cardholder, who does not have actual, implied, or apparent authority for such use and for which the government receives no benefit, is not the liability of the government.

Purchase card abuse, misuse or suspected fraud must be addressed immediately.

Section 2
Obtaining and Maintaining a Purchase Card Account

2.1 OBTAINING A PURCHASE CARD

A. In accordance with P. L. 108-199, Section 638, DHS must evaluate the creditworthiness of any employee to whom a charge card is issued.

B. Training Requirements for Cardholders and Approving Officials

1. All CH nominees and all AO nominees must complete approved purchase card training prior to issuance of the purchase card or designation as an AO. Nomination packages are sent by the nominee's supervisor to the appropriate OPC for action.

2. Mandatory purchase card training for all DHS CHs and all AOs will include completion of the GSA on-line purchase card training program. This training must be supplemented by DHS-specific training including but not limited to environmental buying requirements and Section 508 of the Rehabilitation Act-compliant buying requirements. Annual refresher training must be completed by all CHs and AOs. It is strongly suggested that the refresher training be provided by the OEs every year starting in January, 2005.

3. In addition to training requirements of B.1 and B.2 above, specific training is required for CHs and AOs with purchase card authority above the micro-purchase authority up to the simplified acquisition threshold of $100,000. This training will include directions for CHs with delegated authority to use the purchase card as a payment mechanism against established contracts.

CHs with Single Purchase Limits over the micro-purchase limit and their AOs
See Section 3.6 – Special Authorities

2.2 APPROVAL AND DELEGATIONS

All DHS CHs must be current (government) employees.

A. Nomination and Selection of CHs

1. CH Nomination Process:
2. A supervisor or appropriate senior official must approve nominations for prospective CHs and AOs. Nominations and approvals must be performed through a memorandum or other type of written documentation, addressed to the Organization Program Coordinator (OPC) and included with the application package.

. A complete application package must be submitted to the cognizant OPC.

A complete application package includes:

0. A centrally-billed account set up form completed by the CH
0. Approved nomination documentation for CH and AO
0. Copy of CH and AO certificates of training
0. Signed copy of the Purchase Cardholder Agreement (Attachment C)

3. Officials should approve and forward requests only from individuals who have demonstrated they are responsible and possess the required business acumen to be entrusted with a DHS purchase card.

4. If there is a requirement for convenience checks, contact the APC. See section 3.7 for additional requirements.

2.3 DELEGATION OF AUTHORITY

A. Every CH shall have delegated procurement authority. If the delegated authority is limited to purchases less than the micro-purchase limit the authority is conveyed through approval of the purchase card application. Authority to use the purchase card for purchases above the micro-purchase limit requires specific written delegation of procurement authority issued by the appropriate Chief of the Contracting Office (COCO). The COCO will set training and experience standards and specify a process through which CHs will request delegated procurement authority in excess of micro-purchase limits.

B. Single purchase limits and monthly limits shall reflect the actual needs of the CH's position.

C. Cardholder accounts will be set up with specific merchant category code (MCC) blocks. All cards will be issued with the DHS mandatory blocks in effect. (See Attachment D). All OEs will also consider the recommended MCC blocks (See Attachment E) for implementation as a safeguard against questionable transactions. OPCs are authorized to override temporarily MCC blocks with proper justification.

D. Each OE should establish a stratified single and monthly purchase limit matrix and assign each CH spending limits consistent with his/her experience or position requirements to mitigate financial risk to the government. The OPC may increase the single purchase limit with proper justification. Limits higher than the micro-purchase level require specifically documented delegated procurement authority or a contracting officer warrant.

SAMPLE STRATIFIED AND SINGLE PURCHASE LIMIT MATRIX

Cardholder Category	Single Purchase Limit	Monthly Purchase Limit
Supplies	$500	$2,000
Supplies and Training	$1,500	$10,000
Expanded Use (non-procurement)	$1,500	$20,000
Procurement Personnel	$100,000	Unlimited

2.4 NOTIFICATION OF APPROVAL AND CARD DELIVERY

Once the CH's application for a purchase card is approved, the OPC will process the application through the bank's electronic access system and the purchase card will be mailed directly to the CH at the business address specified in the nomination package. If security requirements prevent the direct delivery to the business address, the OPC must make special arrangements with the bank for delivery. The CH must follow the bank's instructions to activate the card.

2.5 MAINTAINING THE PURCHASE CARD

A. Account Security

Proper use and safeguarding of purchase cards is the responsibility of each CH. Accordingly, CHs should take appropriate precautions comparable to those that they would take to secure their personal credit cards or cash. In addition, the CH must never allow anyone else to use his/her purchase card.

B. Lost or Stolen Cards or Convenience Checks

If a purchase card or convenience check(s) are lost or stolen, the CH must immediately report the lost or stolen cards or checks to the appropriate OPC and to the bank. Lost and stolen cards or checks can be reported twenty four hours a day and seven days a week. If unauthorized charges appear on the statement for a card that has been reported as lost or stolen, those charges must be resolved through the dispute process.

Convenience checks must be stored securely.

2.6 UNAUTHORIZED USE/ MISUSE AND PENALTIES

The following discussion pertains to the Department's civilian employees. Members of the military service, employed by the United States Coast Guard, are subject to the Uniform Code of Military Justice and/or other appropriate administrative policies, rules, regulations or policies which are tailored and applicable to military personnel.

Supervisors are responsible, and will be held accountable, for failing to monitor purchase card usage consistent with applicable law, rules, and procedures. Additionally, the DHS Office of the Chief Financial Officer and the DHS Office of the Inspector General (OIG) have and will exercise the right to monitor purchase card transactions on a constant basis. The OIG retains all audit and investigation authorities. The OIG and the CFO have access to an electronic system to monitor program operations and transactions on an ongoing basis.

When using the purchase card, a CH must comply with all applicable statutory and regulatory provisions and federal and DHS prohibitions, controls, limitations, and approval requirements, with special attention to section 3.4 of this issuance (which contains examples of appropriate purchases) and section 3.8 (which covers use). Examples of unauthorized use or misuse include, but are not limited to, the following:

- Using or authorizing the use of the purchase card, for other than official government business;
- Violating purchase card policies ;
- Making purchases that do not meet the needs of the Government;
- Making false statements, submitting altered or false documents, or knowingly permitting such behavior in relation to the use of a Government purchase card; or,
- Negligence in performing official duties related to the use or approval of Government purchase cards.

Each of these actions may be considered acts of abuse and attempts to commit fraud against the government, or other types of unacceptable conduct, or misconduct. Abuse and/or fraud will result in immediate cancellation of the employee's purchase card. In addition, the CH may be subject to disciplinary action up to and including termination of employment. An employee also may be personally liable to the Government for the amount of any unauthorized transaction and may be subject to criminal prosecution.

NOTE: In all situations where disciplinary action may be warranted, before any action is imposed, the servicing Employee Relations office must be consulted, along with the appropriate legal counsel's office, and, in some cases, the Office of the Inspector General (OIG) to ensure consistency and fairness, that facts have been established, and that employees are given proper due process.

2.7 SEPARATION OF A CARDHOLDER/ EXIT PROCEDURES

CHs who will be separating from or transferring within their organization hierarchy or agency must notify the OPC so that the purchase card account can be closed. This is a required action as part of the Checkout/Exiting process.

Section 3
Operational Guidance and Procedures

3.1 USE OF THE PURCHASE CARD – GENERAL

A. Official Use Only

DHS encourages the use of the purchase card for all appropriate transactions. Operating units must ensure that all supplies and services acquired with the purchase card are for official DHS purposes only and must establish administrative controls to prevent unauthorized use of the purchase card. The card may be used only for purchases that are authorized by law or regulation and necessary to accomplish the DHS mission. CHs must ensure that funds are available for the purchase prior to placing an order.

B. Forum

The purchase card may be used for over-the-counter purchases, phone orders, mail/catalog orders and Internet purchases. CHs must exercise discretion in selecting Internet merchants that are reputable in order to minimize the possibility of fraud. Before entering the purchase card number onto an Internet website, the CH should ensure that the site is secure. To identify whether an internet website supports secure transmissions, the URL identifying the current page will always begin with "https://" in lieu of the normal "http://", and a secure symbol (solid key or closed yellow lock) will be displayed in the icon tray on your Internet browser. Internet transactions should not be made using PayPal or other third party payers.

C. Government Sources of Supply

CHs must adhere to the requirements of Attachment B of this document "Use of Government Sources of Supply", which requires acquisition of supplies and services from designated sources if they are capable of providing them at a competitive price and as needed, and represent the best value to the government. CHs must consider the government sources of supply in Attachment B prior to placing an order with a commercial vendor. CHs should contact the OPC or designated procurement contact if they need assistance in determining whether their requirement can be satisfied by a required source of supply.

D. Strategic Sourcing Sources of Supply

CHs are to review Management Directive 0730. Purchases of the commodities listed in Management Directive 0730 are to be purchased from the sources contained in Management Directive 0730. Exceptions to acquiring commodities in accordance with procedures provided in Management Directive 0730 may only be granted by the Strategic Sourcing Group. CHs requesting a waiver shall provide a description of the requirement(s) along with a detailed explanation and rational justifying why a wavier is necessary. Waiver requests shall be submitted in writing and addressed to the Chief Procurement Officer. The CH must consider the

government sources of supply contained in Attachment B and Buying Green in Section 3.1D below in conjunction with purchasing from a source listed in Management Directive 0730.

E Environmental Contracting

Buying Green --The Resource Conservation and Recovery Act, Executive Order (E.O. 13101), "Greening the Government Through Waste Prevention, Recycling, and Federal Acquisition", and the FAR require buying recycled content products and services for purchase card purchases, including those under $2,500. See Attachment B for additional information regarding the environmental products considerations appropriate to purchase card use.

> **It is recommended that CHs and AOs review the website listed below to further understand the requirement to buy environmentally friendly products. http://www.epa.gov/opptintr/epp/creditcard.htm)**

F. Section 508 of the Rehabilitation Act

In 1998, Congress amended the Rehabilitation Act to require Federal agencies to make their electronic and information technology accessible to people with disabilities. The law applies to all Federal agencies when they develop, procure, maintain, or use electronic and information technology. The Center for Information Technology Accommodation (CITA), at the General Services Administration's Office of Government-wide Policy has been charged to educate federal employees and build the infrastructure necessary to support Section 508 implementation. Section 508 was enacted to eliminate barriers in information technology, to make available new opportunities for people with disabilities, and to encourage development of technologies that will help achieve these goals. Under Section 508 (29 U.S.C. 794 d), agencies must give disabled employees and members of the public access to information that is comparable to the access available to others. There is a micro-purchase exception to this requirement. The exception expires on October 1, 2004.

> **It is recommended that CHs and AOs review the website listed below to further understand Section 508 and how to support implementation. http://www.section508.gov/**

3.2 USE AS A METHOD OF PAYMENT

The purchase card is authorized for use as a method of payment. CHs are encouraged to use the purchase card to place orders and to pay for orders against government sources of supply in MD 0730 and Attachment B and to place orders and/or make payment under other contractual instruments, when agreed to by the contractor. However, payment by a purchase card may also be made under a contract that does not contain the clause to the extent the contractor agrees to accept that method of payment. CHs may use the purchase card for payments up to their single purchase limit.

Reminder: Only the named CH may use the purchase card.

3.3 PURCHASE CARD USE BY DOLLAR VALUE OF REQUIREMENT

A. Use under the Micro-Purchase Threshold

The purchase card is the preferred method of making micro-purchases. If a CH suspects that the proposed price for a micro-purchase is not reasonable, or the best value to the government, the CH should take action to verify the price reasonableness or obtain multiple quotes. DHS encourages the use of small businesses to meet its requirements when using the purchase card.

B. Use over the Micro-Purchase Threshold

DHS will use the purchase card and electronic purchasing techniques to the maximum extent practicable in conducting simplified acquisitions (acquisitions $100,000 or less). Orders over the micro-purchase limit placed on the purchase card must be specifically authorized to the CH in their delegation of procurement authority. (See Section 3.6 – Special Authorities, Paragraph A, for further guidance.)

3.4 ALLOWABLE PURCHASES

A. The purchase card may be used to purchase many commercial supplies and commercial services. The following list includes but is not limited to the types of purchases allowable with the purchase card:

- Office supplies and equipment, i.e., paper, pencils, diskettes, pencil sharpeners, etc.
- Local public transportation fare (for staff traveling to local meetings, conferences, and/or training)
- One time repair service (copiers, fax, other equipment)
- Local conference registration fees (Note: Conference registration fees sometimes include meals or light refreshments. These expenses are allowable to the extent that the meal or refreshment is included in the conference registration fee and is not a separate charge, and the conference is hosted by a non-government organization.) (Refer to Principles of Appropriations Law, Volume I, Chapter 4, Section C 5(b) (2) for more information.)
- Rent (on short term basis, meeting and conference rooms—less than a 60 day period) (for requirements greater than 60 days, contact the APC).
- Low cost consumable type peripheral desktop items such as surge protectors/suppressors, external storage Zip Drives, external recording CD/RW drives, cables, and cell phone batteries/accessories.

Restrictions on Purchase Card Use

A. **GSA restricted purchases**: The purchase card may not be used for the following:

- Long term rental or lease of land or buildings. Long term leasing of parking spaces exceeding $2,500 per year.
- Telephone services under GSA authority (This does not include cell phones or pagers.)
- Cash advances/transactions, unless specifically allowed by the OE.
- Personal purchases, including but not limited to:
- Air purifiers, fans and heaters
- Greeting Cards and related postage
- Gifts
- Meals, beverages, lodging, vehicle rentals/leases, airline/bus/train/boat tickets or other travel expenses incurred while traveling under official government orders. The cardholder should use their Government travel card for these expenses.
- Maintenance/alteration of buildings/equipment not owned by the government.

Representation funds may be expended via the purchase card with appropriate documentation and approval.

B. **DHS restricted purchases**: The supplies and services listed below may require a special approval or authorization prior to purchase. Refer to the CH's OE policy or procedures for securing appropriate approval. The CH must maintain documented approvals in the purchase card files. CHs and AOs are responsible for ensuring that only authorized purchases are made with the purchase card.

- Advertisements for personnel recruitment
- Ammunition
- Business cards – See DHS Management Directive 0570
- Conference or meeting room rentals. Although allowed, rental of conference or meeting rooms in a hotel will require coordination with the OE OPC for a temporary hotel MCC override.
- Envelopes, printing or copying services must be procured via the Government Printing Office. If they cannot provide the services needed, a waiver must be obtained in advance from the GPO or OE Printing Officer to go to a commercial printer.
- Furniture, including installation/reinstallation.
- Gasoline, oil, and vehicle maintenance for department owned or commercially leased vehicles should be purchased using the government fleet card.
- Gasoline, oil, repairs, tires, or other attachments/equipment for motor vehicles in the GSA Fleet Management Program should be purchased using the GSA vehicle card.
- Information technology (IT) - Cardholders shall consult with their local Information Resource Management personnel before using the purchase card to purchase IT resources.
- Legal or other professional services
- Memberships
- Photographs/photographers

- Private sector temporary employees
- Real estate services
- Training requirements that are more complex than the purchase of one training instance for one employee

3.5 USE OF FUNDS ISSUES:

The following information is provided on selected expense topics that have been the subject of previous Comptroller General decisions or policy discussions within DHS. This list however is not all-inclusive and additional guidance should be sought when questions or uncertainty arise.

- Awards and Recognition - DHS provides recognition in a variety of circumstances, both internal and external to DHS. The use of appropriated funds is authorized for the formal or informal presentations of medals, plaques, certificates, pins, etc., as long as the purchase and presentation are accomplished in compliance with published directives. If the purchase card account is used for personnel compensation or recognition appropriate tax information must be captured and retained.

- Bottled Water - Bottled or potable water cannot be purchased using appropriated funds unless a local health official determines the water is unfit due to medical or sanitary reasons. The local health official must be a government health department laboratory (non-Coast Guard). Tainted, discolored and odorous water is not a basis for authorizing the purchase of bottled water. As stated in the GAO's decision (B-147622 12/7/61), bottled water may be purchased with appropriated funds only on the grounds of necessity which include:

    - No potable water is available within 200 feet of the place where people normally work.
    - Water is contaminated.
    - There is an urgent need for water that could not otherwise be met.

- Decorative Items: The Federal Property Management Regulations (41 CFR 101-26.103-2) permits the purchase of pictures, objects of art, plants, flowers (both artificial and real) and other similar items as decorative items when furnishing federal buildings. Such items may be purchased for general use areas and may not be purchased solely for the personal convenience or to satisfy the personal desire of an employee. The current cap on this type of purchase is set at $5,000.

- Entertainment, Food, Beverages: The general rule of appropriation law is that entertainment is not authorized and appropriated funds are not available to provide "free food" to employees. There are a few exceptions (with restrictions) as in the case of award ceremonies, cultural awareness programs, training instances, etc., or if "Representational Funding" is used. Please see GAO Principles of Federal Appropriations Law, Vol. 1, Chapter 4, Section C, Subsection 5 for more information.

The appropriate CFO and legal office should be consulted and approvals must be documented in the CH's files.

- Flowers: Floral centerpieces may be purchased for traditional ceremonies. Traditional ceremonies include ground breaking, change of command, change of homeport, building dedications, graduation, vessel commissioning or decommissioning, and wreath laying for National Veteran Commemorations. Receptions held in conjunction with traditional ceremonies are separate events and representational or personal funds must be used to fund most items for them. Flowers used as decoration at a reception held in conjunction with a traditional ceremony or flowers given to participants or their family members are not allowed.

- Luggage: In most instances the purchase of luggage, brief cases, etc. are considered personal purchases and cannot be charged against appropriated funds. If "luggage" is for transporting government owned property only and remains the property of the government, it may be allowed. Contact the local property manager.

- Memberships: Memberships must be in the name of the DHS Organizational Element and not in the name of an individual. If, as a condition of employment, employees are required to be members of a particular professional organization, the employer will reimburse employees for their dues, subject to the availability of funds.

- Mementos or giveaway items: Generally mementos or give-aways are not allowed. However, if these items are found to be necessary to carry out the purpose of the OE's appropriation (as in the case of recruiters, etc.), they may be allowable. See GAO Principles of Federal Appropriations Law, Vol. 1, Chapter 4, Section C, Subsection 8 for more information.

- Purchases from government employees or their firms: See FAR 3.6 for guidance

- Organizational Elements within DHS may impose further restrictions, which must be followed by the respective CHs.

- Exceptions may be made by the CFO if there is a specific appropriation for the purchase or if, after review of appropriations law and/or consultation with the appropriate legal office, the CFO determines that the expense is allowable.

3.6 SPECIAL AUTHORITIES

A. The Chief of the Contracting Office (COCO) may grant special privileges to CHs based on circumstances deemed necessary by the CFO.

B. Increases to Single Purchase Limit CHs may request temporary or permanent increases in their purchase limits from the COCO through their AO. For temporary increases, the bank must be notified each time that a CH will be receiving an increase over their established limits. The

bank and OPC will maintain a record of each notification. The OPC must report each such transaction to FINCEN. Single purchase limits may not be permanently increased to exceed $2,500 unless the CH and his/her AO have completed the DHS simplified acquisition training requirement as stipulated in DHS Management Directive 0740.2 and specialized authority has been given by the CPO or subordinate procurement authority. Temporary and/or permanent increases over $2,500 must be adequately justified and require review and approval by the COCO. All purchases over $2,500 must comply with DHS's simplified acquisition policy and procedures.

3.7 USE OF CONVENIENCE CHECKS

If there is a requirement for convenience checks, contact the APC.

Organizational Elements may only use convenience checks as a method of payment for transactions in cases in which the vendor will not accept the purchase card. As convenience checks are associated with the purchase card account to which they are issued, single purchase and monthly purchase limits are identical to the limits for the use of the PC.

At the point of sale there is no pre-authorization process for convenience checks because convenience check transactions are not validated by approvals based on MCC blocks or single purchase limits. Organizational elements shall have a dollar limit imprinted on the check but there is no automated process to pre-approve the amount of the purchase. Due to the nature of this product, additional care should be taken in managing these accounts.

Checks should be secured at all times to ensure against physical theft. Checks are negotiable instruments and are to be stored in a locked container, such as a safe or metal filing cabinet. Checks must be accounted for appropriately to prevent loss, theft or potential forgery. Care must be taken to destroy unused convenience checks when the associated purchase card account is closed.

Points to Remember

- The number of convenience check accounts should be limited to reduce risk. It is strongly recommended that no more than 5% of an OE's purchase card accounts have associated convenience checks.
- The number of checks on hand should be limited to reduce risk. Supply will be limited to enough checks for 30-60 days.
- Merchant Category Codes (MCC) and spend limits cannot be blocked.
- The agency bears the responsibility for paying all check fees and 1099 tax reporting.
- Before a check is issued, every reasonable effort should be made to use the purchase card. Maximum efforts should be made to find and use vendors that accept the purchase card. OEs are required to document that the vendor does not accept purchase cards for each convenience check transaction. Due to the cost associated with convenience checks, the number of checks written should be kept to a minimum.

- There is a special service charge levied on each convenience check processed by the bank.

The GSA master contract requires that the banks operate a convenience check writing system that allows agencies to make purchases and payments using checks in lieu of cash. The bank will:

- Provide a supply of checks to the designated convenience check account holder;
- Process and pay the checks as they are presented through the bank check clearing system for payment within established single purchase limits established by the A/OPC for each individual; and
- Provide a listing of the checks cleared on the monthly CH statement. Hard copies of checks are available upon request.

In compliance with DHS policy, the OPC is responsible for the implementation of the appropriate internal controls and oversight of convenience check activity, including ensuring that all checks issued are for official government business only and that supplies of checks are stored in a secured location. The CH and AO must verify that each check issued was both necessary and in compliance with the OE's convenience check procedures and policy.

The CH must record convenience check transaction in the transaction log in the bank's electronic access system. Failure to record convenience checks in the bank's electronic access system will result in revocation of the privilege of using convenience checks.

The bank will not issue convenience checks to any cardholder without prior approval from the APC. The APC will approve only after CFO approval of the OE's request to issue convenience checks.

The use of PayPal or other third party payers to facilitate on-line transactions should be avoided.

3.8 PROCEDURES FOR PURCHASE CARD USE

A. Placing Orders

1. Purchase/Account Assessment
   - Prior to placing an order, the CH must:
     - Review the list of restricted purchases and purchases requiring approvals (Section 3.3, 3.4) to ensure that the purchase is allowable. Obtain any required approvals and/or complete required documentation.
     - Review Management Directive 731 for definitions of commodities that have been strategically sourced.

- Review the Government Sources of Supply (See Attachment B, to determine if the item is reasonably available from a Source of Supply).

- Receive written authorization from his/her AO to make the prospective purchase. Written authorization may be via an e-mail message however, a hard copy must be printed and maintained with the purchase documentation. This authorization will also serve as notice of funds availability. See 3.8 B for records retention requirements.

2. When placing an order with vendor, the CH must:

- Verify the quantity and quality of the items or service agreement with the merchant.
- Inform the merchant that the purchase is for Official U.S. Government purposes and, therefore, is exempt from State or local sales taxes. If a vendor objects to the tax-exempt status of the card locate and order from a vendor that does not charge tax.
- Ensure that the vendor will deliver all items purchased within the 30-day billing cycle.
- When telephone and mail order methods are used, ask the merchant for the total including any shipping and handling charges at FOB destination (this means the merchant is responsible for loss of or damage to the shipment during transit to the delivery point). Also request that a copy of the charge slip be delivered with merchandise.
- Record the purchase in the purchase log.

Partial orders should be avoided to assure consistent characteristics, delivery, and internal controls.

3. Before completing an order, the CH must ensure that:

- The purchase is within the CH's single purchase limit;
- The CH is not "splitting requirements" or making a "split purchase." This is strictly prohibited. A split purchase occurs when a CH places two or more separate orders for a supply/service to avoid exceeding the CH's single purchase or competition threshold.
- The purchase will not result in the CH exceeding the monthly cycle limit.

4. Merchant Requirements

- The CH must verify the following with the merchant:

  - Total charges, including shipping and handling costs if applicable, are provided at the time of purchase;

- A packing slip will be included if the order is shipped;
- The order's shipping label will include:
  - 0. CH's name,
  - 0. Office billing address
  - 0. Office telephone number
  - 0. The term "Government Purchase Card"

CAUTION: The purchase card account number should not be shown on the label under any circumstances;

- No billing for the merchandise will occur before shipping (except for training and subscriptions);
- All Government purchases using the purchase card are tax-exempt; (Status of each State's Tax exemption acceptance is available on the DHS Intranet on the Bankcard Program homepage. If the proposed tax is $10.00 or less, ask if the merchant will grant a tax exemption without requiring a tax exemption letter. If not, call the OPC or finance office.)
- Is a small business, unless use of a small business vendor is not practicable.

Purchase Authorization by Merchant

Merchants are required to obtain authorization from the bank each time the CH uses the Purchase Card. The bank's authorization system will check each purchase limit and the merchant category code (MCC) of the merchant for approved usage. (See attachments D and E for DHS mandatory and suggested MCC blocks).

Rejection of the Card

If the purchase is declined, contact the bank for assistance. An attempted purchase card transaction that exceeds the CH's purchase limit or is in conflict with the MCCs established for the card will result in a declined transaction. With proper justification the OPC can temporarily lift either an MCC block or an account financial restriction. Any action taken by the OPC to temporarily lift a restriction must be documented by the OPC and the CH in the purchase log and reported to FINCEN.

Keeping Records

1. **Purchase Card Ordering Log**

   - The CH must maintain a purchase card ordering log in the bank's electronic access system with justifications for all transactions made (purchases, payments, returns or merchandise, credits, etc.). See Attachment A if electronic log is not available.

2. CH Retention of Transaction Documentation

The CH or a designated alternate central repository must retain all original sales slips, shipping receipts, and all other required transaction documentation to include purchase authorization and verification of funds availability. Sales slips, shipping receipts and all other transaction documentation should be provided to the AO for review during monthly reconciliation of the Statement of Account. The AO shall return all sales slips, shipping receipts and transaction documentation to the CH to be retained with the purchase card files either by the CH or other central depository and a signed copy Statement of Account for 3 years after the end of the FY in which the transaction occurred per federal record keeping requirements. Documents pertaining to purchase card transactions exceeding the simplified acquisition threshold must be retained for 6 years and 3 months after final payment in accordance with FAR 4.805.

3. Receiving Supplies/Services

Inspection and Acceptance

- The CH must examine all supplies and services received to ensure that the order is complete and that the items or service was delivered in the quality and quantity ordered.

- If a merchant delivers supplies to a central receiving area, the CH should arrange with the receiving area to inspect the supplies immediately. If someone other than the CH signs a delivery receipt for the items purchased, the CH must determine when the goods were received and note the date of government receipt and inspection of items on the purchase card ordering log.

4. **Incomplete Delivery/Damaged Items/Returns**

Partial Deliveries
CHs are encouraged to order from vendors who can fill the entire order. If partial deliveries, e.g., backorders, occur, the CH must contact the merchant to determine the status on the remainder of the shipment. The CH should follow up with the merchant as necessary and make every effort to resolve the partial delivery before contacting the bank or filing a dispute. If after every effort to resolve the issue with the merchant fails and the partial delivery then becomes a dispute, contact the bank or the OPC for assistance. If delivery of the remaining supplies or services will take more than 30 days, the CH must ask the merchant to credit the account. If the merchant will not credit the account or if negotiations with the merchant are unresolved, the CH must complete a "Government CH Dispute Form" and submit it to the bank with any supporting documentation.

Damaged or Unacceptable Supplies
CHs should return promptly any damaged or unacceptable supplies or request a credit for undelivered or deficient services. If the merchant agrees to replace the item and the new item is acceptable, the CH should authorize payment on the "Statement of Account" in accordance with normal procedures. If the merchant refuses to replace the item, the CH should follow the instructions below.

5. **Returning Supplies to Merchant**

The CH should, whenever possible, obtain a credit voucher from the merchant when returning supplies and attach a copy of the voucher to the "Statement of Account" on which the credit appears. If the merchant is unwilling to issue a credit voucher, the CH should note the returned purchase(s) on the "Statement of Account" and attach a postal or shipping receipt indicating that the item was returned. The CH should also complete a "Government CH Dispute Form" and submit the Dispute Form and shipping receipt to the bank within 30 days of the date of the invoice.

Receiving and Reconciling Statement of Account

1. **Receipt of Monthly Statement of Account**

The bank provides an electronic "Statement of Account" to the CH at the end of each monthly billing cycle. The Statement of Account lists purchases and transactions made in the previous billing cycle. The bank also sends FINCEN a daily invoice that lists all DHS account transactions. FINCEN will make payments to the bank on a regular basis and complete transaction audits at the rate agreed to with DHS.

2. **The billing cycle closing date for DHS CHs is the 12th of each month.**

3. If a CH knows in advance that he/she will be absent and not available to reconcile the Statement of Account in a timely manner, the CH must forward all appropriate documentation (sales receipts, credit vouchers, etc.) to the AO. The AO should reconcile, sign and maintain a printed copy of the statement until the return of the CH. When the CH returns, he/she should sign the printed statement and file it with the transaction records for that monthly cycle. Even in the absence of the CH, the entire reconciliation process will not exceed 14 calendar days.

Reconciliation of the Account

1. Reconciliation is a process that involves verification that charges from the bank and ensuring that accounting data strings are correctly represented. DHS requires that all accounts are reconciled through an electronic method.

2. **OEs not using the bank's electronic access system account reconciliation functions will duplicate, to the maximum practicable extent, the processes instituted to electronically manage the purchase card program, and must meet the 14 day account reconciliation requirement. OE specific card management systems must allow for Department level transaction management and review and provide processes that assure integrity of the payment system. FINCEN transaction audits must be an integral element in every DHS OE purchase card program.**

CH Responsibilities:

1. Statement of Account - To reconcile the statement, the CH must:
   - Review all information for accuracy, ensuring there are no additional charges.
   - Certify that expenses are correct.
   - Contact the merchant and attempt to resolve any disputed transactions. If resolution is unsuccessful, the CH will file a dispute with the bank. This filing should take place immediately after discovery of the disputed transaction and the unsuccessful resolution with the merchant. There is a sixty day limit to timely dispute filing.
   - Approve the transaction in the bank's electronic access system, attesting that all transactions are valid and were for official business of the DEPARTMENT OF HOMELAND SECURITY (unless there are disputed items). If a dispute has been filed note the disputed transaction and attach a copy of the dispute form with the transaction documentation provided to the AO.
   - Forward the statement to the AO for his/her review and signature. Be sure to include all receipts, approvals, and other documentation for each transaction.
   - Retain the reviewed and approved statement and supporting documents.
   - Complete statement reconciliation and approval within 7 days after the cycle date.

2. The CH is required to log onto the bank's electronic access system (EAS) within seven days of cycle close to approve the transactions shown. Complete instructions for

accessing and working in the EAS are provided to CHs and AOs when the purchase card is issued

3. Use of the EAS: Monthly account reconciliation and monitoring will be conducted by CHs using the EAS. The system may be accessed from any Internet browser in a direct connection to the bank. CHs are responsible for re-allocating all card purchases to the proper accounting codes within the constraints established by the CFO. This reallocation should be conducted as specified in DHS policy during the monthly account reconciliation process. AOs are required to approve the monthly bill account statement in the EAS within 14 days of cycle close.

Review Process: The EAS shall be used for financial reviews and audits of the purchase card program in general or for ad hoc reports on identifiable expenditures.

Purchase Card Accounting Requirements

Default Line of Accounting Each OE's purchase card program must provide suitable lines of accounting to activate the CH accounts in compliance with the bank's data entry and payment processing to meet DHS daily payment requirements.

AO Responsibilities:

1. **Statement of Account**

   - Receive and review CH's monthly statement to ensure all charges were allowable, conducted within acquisition guidelines that the goods or services were received, and documentation is complete; follow-up with the CH regarding any questionable items.

   - Certify the statement electronically indicating that all purchases were approved, properly conducted, for official business, and documentation is complete.

   - Ensure that CH follows through in resolving disputed items with merchant and bank.

2. **EAS Reconciliation**

   - AO will be required to access the EAS to ensure that all accounts within their purview are reconciled and charges are allocated appropriately within 14 days of the cycle close date.

   - Reporting Personal Property/Safeguarding Accountable Property

     - Ensure that personal property acquired using the purchase card is reported into an appropriate inventory (or comparable) system so that periodic

inventory of the items can be taken. See DHS Management Directive 1120 "Capitalization and Inventory of Personal Property".

- Special care should be taken to safeguard accountable items such as Blackberries, PDAs, and digital cameras.

Account set-up, maintenance, and closure:

OPCs will use the bank's EAS to set up, maintain, and close purchase card accounts as needed.

Assistance

All questions regarding DHS Purchase Card policy or procedures should be referred to the APC, anna.dixon@dhs.gov, jim.lucas@dhs.gov or marylou.alderman@dhs.gov.

Section 4
Program Review

4.1 Annual Program Review

The DHS CFO reviews the purchase card program following the close of each fiscal year to ensure that CHs and AOs are adhering to the program policies and procedures. Review teams will be comprised of CFO and CPO personnel and team members selected from the card program management offices throughout the DHS OEs.

The means and methods used to perform the annual review are at the discretion of the CFO, based on the tools and resources available. The CFO may use electronic data and reports of purchases and/or on-site visits. Reviews may be conducted one time following the close of the fiscal year and or conducted periodically throughout the year.

CHs and AO found to be in violation of authorized use of the purchase card account are subject to the disciplinary process described in Section 2.6 of this manual.

4.2 Organizational Reviews

The OPC must at least monthly run reports to review and monitor for compliance the transactions made by CHs under their purview. The OPC may determine the need to ask questions or review receipts, source documents or to see the purchased item. If such a request occurs, the CH must comply.

4.3 Primary References

A. Federal Acquisition Regulation (FAR) Parts 2, 3, 8, 13 and 32 should be consulted as a secondary source. (Internet site: http://www.acqnet.gov/)

B. General Services Administration (GSA) Government-wide Commercial Credit Card Service Contract GS-23F-98006 sees http://www.gsa.gov/Portal/content/offerings

C. GAO Principles of Appropriations Law
see http://www.gao.gov/special.pubs/vol1.pdf)

D. DHS Bankcard Program Management Office Intranet web site.

E. DHS Management Directive 0769 "Government Purchase Card Program".

F. DHS Management Directive 0570 "Business Cards"

G. DHS Management Directive 0730 "Strategic Sourcing Group Operations"

ATTACHMENT A

PURCHASE CARD ORDERING LOG – SAMPLE USE ONLY if electronic version is not available

Name			Office			FY			
Log #	Order Date	Date Rec'd	Description	Merchant Name	Accounting Code	Order Total $	Cum. Order Totals for Cycle (NTE Cycle Limit)	Object Class	Property I.D. No.

I certify that I have purchased the above supplies or services in accordance with DHS Purchase Card Procedures. I certify that, to the best of my knowledge and belief, all of my statements are true, correct, and complete, made in good faith, and are subject to Title 18 U.S. Code, Section 1001.

CH's Signature_____ Date_____

ATTACHMENT B

USE OF GOVERNMENT SOURCES OF SUPPLY

CHs should to adhere to the requirements of federal regulations and statute, which require agencies to acquire supplies and services from designated sources if they are capable of providing them at a competitive cost and in the time required. CHs must review the required sources of supply below before placing an order with a commercial vendor. CHs should contact the DHS Office of Procurement if they need assistance in determining whether their requirement can be satisfied by a Government source of supply.

(1) Supplies

DHS shall consider acquiring supplies from the following sources, which are listed in descending order of priority. This order of priority applies to all purchases, including those made via the Purchase Card.

(a) Agency inventories (e.g., excess property)

(b) Excess property from other agencies

(c) Federal Prison Industries, Inc. ("UNICOR")
General Information: http://www.unicor.gov/
Listing of Products: http://www.unicor.gov/

(d) Committee for Purchase from the Persons Who are Blind or Severely Disabled (NIB/NISH/JWOD) General Information: http://www.jwod.gov/
Listing of Products: http://www.jwod.gov/jwod/p_and_s/p_and_s.htm

(e) Wholesale supply sources such as stock programs of GSA, the Defense Logistics Agency or the Department of Veterans Affairs General Information on GSA stock program: https://www.gsaadvantage.gov/advgsa/main_pages/start_page.jsp

(f) Mandatory Federal Supply Schedules (FSS)
Mandatory Schedules: http://pub.fss.gsa.gov/schedules/sched- nm.cfm
Refer to the GSA website above for current listings.

(g) Optional use Federal Supply Schedules
Listing of Schedules & Products: http://pub.fss.gsa.gov/schedules/
(Click on 'Schedules E-Library', then 'Schedules e-Library' again)

NOTE: GSA operates an electronic ordering system, GSA ADVANTAGE (https://www.gsaadvantage.gov/advgsa/main_pages/start_page.jsp), which simplifies the ordering from GSA sources and Federal Supply Schedules ((e) through (g) above.)

While GSA Advantage does contain some items manufactured by UNICOR or NIB/NISH/JWOD, the GSA site reminds CHs to check those two supply sources before placing an order on GSA Advantage.

(2) Services

DHS should consider acquiring services from the following sources, when they can provide the service required at a competitive price in the time required listed in descending order of priority. This order of priority applies to all DHS orders, including those made via the Purchase Card.

(a) Services available from Committee for Purchase from the Persons Who are Blind or Severely Disabled (NIB/NISH)
General information: http://www.jwod.gov/
Listing of Products: http://www.jwod.gov/jwod/p_and_s/p_and_s.htm

(b) Mandatory Federal Supply Schedules
Mandatory Schedules: http://pub.fss.gsa.gov/schedules/sched-nm.cfm
Refer to the GSA website above for current listings.

(c) Optional use Federal Supply Schedules
Listing of Schedules & Products: http://pub.fss.gsa.gov/schedules/
(Click on 'Schedules E-Library', then 'Schedules e-Library' again).

ENVIRONMENTAL CONTRACTING

Why purchase environmentally friendly products?

The U.S. Federal Government is the single largest consumer of goods and services in the U.S., and probably in the world - spending more than $200 billion annually on goods and services. The Federal Government also spends an additional $240 billion a year, indirectly, through grant disbursements.

Recognizing the global influence of the United States and in particular the U.S. Government in the world economy, buyers can make a difference by simply using their purchase card to "buy green". DHS CHs make this difference by influencing what products and services are produced with the tremendous purchasing power of the U.S. Government.

The Environmental Protection Agency (EPA) has designated the following as products to buy with recovered material where practicable:

Paper and Paper Products, such as:

Printing and writing paper*	Copier paper	Envelopes
Recycled paperboard	Tissue products	Packaging

*Executive Order 13101 requires 30% recycled material if reasonably available; otherwise, 20% recycled.

Non-paper office products, such as:

Office recycling containers	Plastic trash bags	Binders
Office waste receptacles	Toner cartridges	Plastic desk accessories

Vehicular products, such as:

Engine coolants	Retread tires	Re-refined lubricating oils

Construction products, such as:

Structural fiberboard	Carpet	Patio blocks
Floor tiles	Laminated paperboard	Building insulation products

Cement or concrete (coal fly ash or ground granulated blast furnace slag)

Landscaping products, such as:

Hydraulic mulch	Yard trimmings & compost

Transportation products, such as:

Traffic control cones	Traffic barricades

Park and recreation products, such as:

Playground surfaces	Running tracks

What to Look for When "Buying Green"

Product Content: The Environmental Protection Agency designates recycled content products that Government agencies must buy. For products which have been designated by EPA, the Cardholder must purchase those which contain recycled content as long as they are available, meet your performance needs, and are cost-competitive. EPA recommends the required minimum percentage of recycled content that the products should contain.

Reduced Packaging: Packaging is a significant solid waste problem. According to EPA, packaging alone accounted for 23.7% of the volume and 19.4% of the weight of the material that went to municipal landfills in 1996. Examples of ways you can help minimize this problem is to purchase pads of paper not wrapped in plastic or buy in a larger quantity packaged in a single box rather than smaller quantities in multiple boxes.

Energy Efficiency: When buying products that use energy (computers, copiers, fax machines, document scanners, refrigerators, etc.), look for the "Energy Star Label", which tells you that the product is energy efficient. Check EPA's Energy Start Products web site or call the Department of Energy's Federal Energy Management Program for the latest recommended levels of energy efficiency for different products.

Hazardous Materials or Toxic Chemicals: Ask if the product contains hazardous materials or toxic chemicals. Examples include: cleaning products containing petroleum-based solvents or acids. Remember to buy batteries that can be recycled. GSA's "Environmental Products Guide" includes information provided by vendors to help you choose more environmentally preferable alternatives to many products containing hazardous materials or toxic chemicals. GSA Advantage! flags products that are environmentally friendly and energy efficient such as products that contain the "Energy Star" label, products containing recycled content and products that are energy efficient or environmentally friendly.

ATTACHMENT C

CARDHOLDER AGREEMENT
DHS AUTHORIZED PURCHASE CHARGE CARD

1. As a purchase cardholder, I am cognizant that the card is to be used for official purchases only. Use of the card for other than official government business is improper and may be subject to disciplinary action to include removal from government service.

2. I understand that I will complete initial and annual refresher training to keep the card active.

3. I understand that I may not exceed my single purchase and monthly spending limits.

4. I will validate purchases within seven days in accordance with DHS policy.

5. I understand that I may not "split" purchases into smaller amounts to avoid the single purchase limit associated with the card.

6. I understand that I must safeguard the card and report to the issuing bank immediately if the card is lost or stolen.

I hereby acknowledge that I have read and understand the above and agree to the terms of the Cardholder Agreement and to abide by DHS policy.

_____ _____
Cardholder Signature Date

The application for the above to have a purchase card is approved for processing.

_____ _____
Immediate Supervisor Date

ATTACHMENT D

MANDATORY BLOCKS

MCC	Name of MCC
4829	Wire Transfers-Money Orders
5681	Furriers and Fur Shops
5932	Antique Shops
5933	Pawn Shops
5937	Antique Reproductions
5944	Jewelry Stores
5690	Direct Market Insurance
6010	Financial Institutions Manual Cash Advance
6011	Financial Institutions Automated Cash Advance
6051	Non-Financial Institutions-Foreign Currency, Money Orders, Travelers Checks
6211	Security Brokers/Dealers
6760	Savings Bonds
7012	Timeshares
7273	Dating and Escort Services
7297	Massage Parlors
7995	Betting Casino Gaming Chips, Off=Track Betting
8651	Political Organizations
9211	Court Costs, Alimony, Child Support
9222	Fines
9223	Bail and Bond Payments
9311	Tax Payments
9700	Automated Referral Service

ATTACHMENT E

RECOMMENDED BLOCKS

Name	Description	Code	Description
		4723	OTHER TRAVEL/PKG TOUR OPERATORS GERMANY ONLY
MCCG6	Other Travel I	4411	STEAMSHIP/CRUISE LINES
		4457	BOAT RENTALS & LEASES
		5541	SERVICE STATIONS
MCCG08		5542	AUTOMATED GAS DISPENSERS
		5531	AUTO/HOME SUPPLY STORES
		5532	AUTOMOTIVE TIRE STORES
		5533	AUTOMOTIVE PARTS STORES
		7519	MOTOR HOME/RV RENTALS
		7535	AUTO PAINT SHOPS
		8011	DOCTORS
		8021	DENTISTS/ORTHODONTIST
		8031	OSTEOPATHS
		8041	CHIROPRACTORS
		8042	OPTOMETRISTS/OPTHALMOLOGIST
		8043	OPTICIANS
		8044	OPTICAL GOODS & GLASSES
		8049	CHIROPODISTS PODIATRISTS
		8050	NURSING/PERSONAL CARE FAC
		8062	HOSPITALS
		8071	MEDICAL/DENTAL LABS
		8099	MED/HEALTH SERVICES
MCCG14	Misc. Services	5697	
		5698	WIG AND TOUPEE STORES
		7230	BARBER/BEAUTY SHOPS
		7296	CLOTHING/RENT/COSTUME/UNIFO
MCCG15	Entertainment	4468	MARINAS, SERVICE & SUPPLY
		7832	MOTION PICTURE THEATRES
		7841	VIDEO TAPE RENTAL STORES
		7911	DANCE HALLS/STUDIOS/SCHOOLS
		7922	THEATRICAL PRODUCERS
		7929	BANDS/ORCHESTRAS/ENTERTAIN
MCCG15		7932	BILLIARD/POOL ESTABLISHMENT
		7933	BOWLING ALLEYS
		7941	COMMERICAL/PRO SPORTS
		7991	TOURIST ATTRACTIONS AND XHB
		7992	PUBLIC GOLF COURSES

	Entertainment (con't)	7993	VIDEO AMUSEMENT GAME SUPPLY
		7994	VIDEO GAME ARCADES/ESTABLIS
		7996	AMUSEMENT PARKS/CIRCUS
		7998	AQUARIUMS/REC SERV
		7999	AMUSEMENT/REC SERV
MCCG16	Florists & Greeting Cards	5193	FLORIST & NURSERY SUPPLIES
MCCG17	Variety Stores	5977	COSMETIC STORES
MCCG18	Charitable Orgs, Schools	9402	POSTAGE STAMPS
		8211	ELEMENTARY/SECONDARY SCHOOLS
		8220	COLLEGES/UNIV/JC/PROFESSION
		8241	CORRESPONDENCE SCHOOLS
		8299	SCHOOLS - DEFAULT
		8699	MEMBER ORGANIZATIONS
MCCG21	Auto Dealers, Parts and Services Stations	5511	AUTO DEALERS/NEW AND USED
MCCG22	Other Transportation Dealers	5521	AUTO DEALERS USED ONLY
		5551	BOAT DEALERS
		5561	TRAILER CAMPER DEALERS
MCCG22	Other Transportation Dealers (Cont'd)	5571	MOTORCYCLE DEALERS
		5592	MOTOR HOME DEALERS
		5598	SNOWMOBILE DEALERS
		5599	MISC AUTO DEALERS
MCCG24	Telecomm Services and Utilities	5940	BICYCLE SHOPS/SALES/SERVICE
		4899	CABLE TV SERVICES
MCCG25	Misc Financial Services	4900	UTILITIES/ELEC/GAS/H2O/SANITATION
		6300	INSURANCE SALES/UNDERWRITE
		7032	SPORT/RECREATIONAL CAMPS
		7033	TRAILER PARKS/CAMP SITES
		7261	FUNERAL SERVICE/CREMATORIES
		7276	TAX PREPARATION SERVICE

		7277	COUNSELING SERVICE - ALL
		8351	CHILD DAY CARE SERVICES
		7321	CONSUMER CR REPORTING AGEN
		7393	DETECTIVE/PROTECTIVE AGEN
MCCG29	Professional Services	8111	LEGAL SERVICES ATTORNEYS
		8911	ARCHITECTURAL/ENG/SURVEY
		8931	ACCOUNTANTS/AUDITORS/BOOKPR
MCCG31	Home Furnishings and Improvements	5271	MOBILE HOME DEALERS
		5713	FLOOR COVERING STORES
		5718	FIREPLACES & ACCESSORIES
		5719	MISC HOME FURNISHING
MCCG32	Household Appliances	5722	HOUSEHOLD APPLIANCE STORES
		5963	DIRECT SELL/DOOR-TO-DOOR
MCCG33	Mail Order, Catalog Order, Telemktg	5912	DRUG STORES & PHARMACIES
		5945	HOBBY, TOY & GAME SHOPS
MCCG35	Grocery and Convenience Stores	5422	FREEZER/MEAT LOCKERS
MCCG36	Misc. and Specialty Retail I	5948	LUGGAGE/LEATHER STORES
		5950	GLASSWARE/CRYSTAL STORES
MCCG37	Misc. and Specialty Retail II	5973	RELIGIOUS GOODS STORES
		5975	HEARING AID/SALES/SERVICE
		5976	ORTHOPEDIC GOODS
		5993	CIGAR STORES/STANDS
		5995	PET STORES/FOOD & SUPPLY
		5996	SWIMMING POOLS/SALES/SERV
MCCG38	Wholesale Trade	5122	DRUGS, DRUGGIST SUNDRIES
		5137	COMMERCIAL CLOTHING
		5139	COMMERCIAL FOOTWEAR
		5094	PRECIOUS STONES & METALS
		5310	DISCOUNT STORES
		5411	GROCERY STORES
		5732	RADIO TV & STEREO STORES

		5735	COMPUTER
		5946	RECORD SH
		5964	CAMERA &
MCCG39	High Risk I (Continued)	5965	CATALOG M
		5969	COMBINATI
		7298	OTHER DIR
		7622	HEALTH & B
		7629	RADIO/TV/S
		7631	SMALL APP
MCCG40	High Risk II	5311	WATCH/CL
		5611	DEPARTMEN
		5621	MEN/BOYS
		5631	WOMENS R
		5641	WOMENS A
		5651	CHILDREN/I
		5651	FAMILY CL
		5661	SPORTS/RID
		5661	SHOE STOR
		5691	MENS/WOM

		5735	COMPUTER SOFTWARE/ RECORD STORES
		5946	RECORD SHOPS
		5964	CAMERA & PHOTO SUPPLY STORE
MCCG39	High Risk I (Continued)	5965	CATALOG MERCHANT
		5969	COMBINATION MAIL/RETAIL
		7298	OTHER DIRECT MARKETERS
		7622	HEALTH & BEAUTY SPAS
		7629	RADIO/TV/STEREO REPAIR SHOP
		7631	SMALL APPLIANCE REPAIR
MCCG40	High Risk II	5311	WATCH/CLOCK/JEWELRY REPAIR
		5611	DEPARTMENT STORES
		5621	MEN/BOYS CLOTHING/ACC STORE
		5631	WOMENS READY TO WEAR STORES
		5641	WOMENS ACCESS/SPECIALTY
		5651	CHILDREN/INFANTS WEAR STORE
		5651	FAMILY CLOTHING STORES
		5661	SPORTS/RIDING APPAREL STORE
		5661	SHOE STORES
		5691	MENS/WOMENS CLOTHING STORES