



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

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.

PURCHASE CARDS

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

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.