



DEPARTMENT OF HEALTH AND HUMAN SERVICES

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**OFFICE OF INSPECTOR GENERAL**

WASHINGTON, DC 20201



January 30, 2014

Sylvia Mathews Burwell  
Director  
Office of Management and Budget  
725 17<sup>th</sup> Street NW  
Washington, DC 20503

Dear Ms. Burwell:

This letter describes the progress that the Department of Health and Human Services (HHS) has made in implementing previous purchase and travel card audit recommendations and the status of the HHS, Office of Inspector General (HHS OIG) annual risk assessment. This letter is being issued to meet the requirements of the Government Charge Card Abuse Prevention Act of 2012 (P.L. No. 112-194) (Charge Card Act): to report to the Director of the Office of Management and Budget (OMB) on agency progress in the implementation of recommendations on charge-card-related findings. In addition, while not required for this report, we also explain how we intend to conduct required annual risk assessments of agency purchase cards.

First, the Charge Card Act requires executive-branch agencies (agencies) to be aware of charge-card-related audit findings and to ensure that the findings are promptly resolved after completion of an audit. The Charge Card Act requires that Offices of Inspector General (OIGs) report to the Director of OMB no more than 120 days after the end of each fiscal year (FY) on their agencies' progress to implement audit recommendations, beginning with the FY 2013 submission, due by January 31, 2014. HHS OIG did not perform any evaluations or audits related to HHS's charge card program for FY 2013.<sup>1</sup> To fulfill the mandate in the Charge Card Act for FY 2013, pursuant to OMB guidance (M-13-21), we are reporting on the implementation of recommendations made in our two most recent reviews related to HHS's purchase and travel card programs (FYs 2007 and 2009). These reviews illustrate our past work regarding HHS's charge card program and compliance with Federal laws and departmental guidance. We also summarize HHS's actions to address our recommendations to improve operations regarding its charge card activities.

Second, the Charge Card Act requires agencies to establish and maintain safeguards and internal controls for purchase cards, travel cards, integrated cards, and centrally billed accounts.<sup>2</sup> OIGs

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<sup>1</sup> The charge card program includes purchase, travel, integrated, and centrally billed Government credit cards.

<sup>2</sup> The Charge Card Act also includes provisions that agencies and OIGs are responsible for beyond what is addressed in this report. For example, the agency head and the OIG are required to prepare a semiannual Joint Purchase and Integrated Card Violation Report due on January 31, 2014, and July 31, 2014. OMB issued memorandum M-13-21, *Implementation of the Government Charge Card Abuse and Prevention Act of 2012* (September 6, 2013), to provide an overview of the Charge Card Act related to required safeguards and internal controls, reports of purchase card violations, and all OIG risk assessments and audits.

are required to conduct annual risk assessments of agency purchase cards (including convenience checks<sup>3</sup>), combined integrated card programs, and travel card programs to analyze the risks of illegal, improper, and erroneous purchases. OIGs are required to report to the heads of their agencies on the results of their analyses. Further, for agencies with more than \$10,000,000 in travel card spending, OIGs are required to conduct periodic audits or reviews of travel card programs to analyze risks of illegal, improper, or erroneous purchases and payments. OIGs are required to report to the Director of OMB and to Congress the findings of those audits or reviews, along with recommendations to prevent improper use of travel cards. Subsequent to issuance of OMB M-13-21, dated September 6, 2013, as required, HHS OIG took steps to plan its first risk assessment under the Charge Card Act. The first risk assessment will cover FY 2013 HHS charge card program transactions.<sup>4</sup> HHS OIG will use its annual risk assessments to determine the necessary scope, frequency, and number of audits or reviews of HHS's various charge card programs.

### **Audit Recommendations Status Report**

Since 2007, we have issued the following two reports related to HHS's purchase and travel cards:

- *Emergency Response to Hurricane Katrina: Use of the Government Purchase Card*, OEI-07-06-00150, May 2007.
- *Department of Health and Human Services Employee Travel Cards: Usage and Internal Controls*, OEI-07-07-00480, April 2009.

We describe each report (including the reported findings), the recommendations we made, and the actions HHS has taken to address our recommendations below:

#### *Emergency Response to Hurricane Katrina: Use of the Government Purchase Card* (OEI-07-06-00150)

We reviewed HHS's use of purchase cards in response to Hurricane Katrina for the period August 28 to December 14, 2005. We found that 15 percent of purchases did not comply with selected purchase card requirements, cardholders had concerns regarding the legality and complexity of some purchases, and purchase data contained inaccuracies. We recommended that HHS (1) provide additional written guidance on emergency purchasing procedures, (2) require training on emergency purchasing procedures, and (3) develop a tracking system for monitoring Government purchase card transactions during emergency situations.

In response to recommendations one and three, HHS issued guidance on using the purchase card for emergency situations and added a requirement to keep a log of all Government purchase card

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<sup>3</sup> Convenience checks are used in the purchase card program to make purchases from merchants who do not accept purchase cards.

<sup>4</sup> The Charge Card Act was signed into law on October 5, 2012. As such, it was determined that HHS OIG's first risk assessment would cover FY 2013.

transactions during emergency situations (*Purchase Card Guide*, version 4.0, July 2007). In response to the second recommendation, HHS improved its existing purchase card training, including mock scenarios and roles and responsibilities designed specifically for emergency situations. We determined that HHS's actions were sufficient and closed these recommendations.

*Department of Health and Human Services Employee Travel Cards: Usage and Internal Controls* (OEI-07-07-00480)

We reviewed HHS's usage and internal controls over its travel card program for calendar year 2007. Our review covered a simple random sample of 220 transactions from a population of 346,441 unique travel card transactions. We estimated that 6 percent of travel card transactions constituted misuse:<sup>5</sup> 4 percent for personal purchases while the cardholders were not on official travel, 1 percent for personal purchases while the cardholders were on official travel, and 1 percent for local travel expenses. From the 346,441 unique travel card transactions, we identified a subset population of 53,504 transactions that did not match electronic vouchers. From this population, we reviewed a stratified random sample of 213 transactions. We estimated that 27 percent of these transactions constituted misuse: 21 percent for personal purchases, 2 percent for local travel expenses, 2 percent for conference registration, and 1 percent for travel-related expenses of persons other than cardholders.<sup>6</sup> In addition, we found that training requirements were not met and program guidance was insufficient in some areas. Specifically:

- Guidance did not address whether the following types of transactions are considered misuse:
  - (1) a purchase of a passport photo,
  - (2) purchases of meals on the first or last day of travel in the employee's office location,
  - (3) paying for another traveler's meals,
  - (4) purchases of gasoline for personal vehicles,
  - (5) cost of mailing materials to an employee's office, and
  - (6) conference registration.
- Guidance did not describe specific followup actions and penalties for travel card misuse.

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<sup>5</sup> We defined "misuse" as the use of a Federal charge card for other than the official Government purpose for which it was intended.

<sup>6</sup> Because of rounding, the percentages do not add to 27.

Furthermore, HHS took followup action on less than one-third of the sampled transactions that constituted misuse.<sup>7</sup> We recommended that HHS improve (1) travel card program guidance and training and (2) methods to identify misuse. In response to these recommendations, HHS took the following corrective actions, which we determined were sufficient to close the recommendations:

- HHS updated the HHS *Travel Manual* in May 2008, published a pamphlet entitled “Travel Card Do’s and Don’ts for Employees” in September 2008, and updated memoranda to cardholders and cardholder supervisors in February 2009.
- HHS issued Instruction 752 as part of the HHS *Human Resources Manual* that provided specific department wide guidance regarding disciplinary penalties for first and subsequent offenses related to travel card misuse and abuse.
- HHS issued a memorandum entitled “Travel Card Program Zero Tolerance and Disciplinary Policy” for monitoring and reporting misuse/abuse of the Government travel card (June 2, 2009).
- HHS required all agency/organization program coordinators to take an online course and training seminar.
- HHS trained appropriate personnel in the use of Visa’s IntelliLink<sup>8</sup> tool that reports on and analyzes travel card transactions by setting rules for tracking certain transaction types and identifying transactions that may need further investigation.
- HHS also implemented an internal data mining tool to identify potential misuses.

### **Annual Risk Assessment**

Although OIGs are not required to report on their annual risk assessments to OMB, for this year, we have elected to report on actions we will take to conduct our first risk assessment under the Charge Card Act for FY 2013. To assess HHS’s ability to manage internal controls for and risk in its charge card program, we are using the Enterprise Risk Management–Integrated Framework (ERM) developed by the Committee of Sponsoring Organizations of the Treadway Commission.<sup>9</sup> The ERM consists of eight interrelated components that are derived from the way management runs an organization. These components are internal environment, objective

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<sup>7</sup> We considered followup actions as occurring when cardholders received verbal counseling or disciplinary action before this review’s fieldwork.

<sup>8</sup> Visa IntelliLink is an information management tool available to HHS. It provides a complete reporting and full-featured expense management tool. Two of the twelve HHS operating divisions use Visa IntelliLink to analyze purchase card expenses.

<sup>9</sup> The Committee of Sponsoring Organizations of the Treadway Commission is a joint initiative of five private sector organizations dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal controls, and fraud deterrence designed to improve organizational performance and governance and to reduce the extent of fraud in organizations.

setting, event identification, risk assessment, risk response, control activities, information and communication, and monitoring. Our risk-assessment tool is based on ERM concepts. We have used this approach in our prior audit work, most notably our work based on the American Recovery and Reinvestment Act of 2009. The ERM provides a common language, concepts, and principles that facilitate targeting the riskiest organizations and transactions to audit, study, and investigate.

As part of our assessment, we will identify the controls, procedures, and practices that, if present and functioning properly, indicate that associated risk is at an acceptable level. We will evaluate the likelihood of a risk event occurring and the magnitude of the impact. We will use the results of the risk assessment to identify high-risk and high-impact areas warranting an audit,<sup>10</sup> study, or investigation.

### **Summary**

Over the past 7 years, we have performed two reviews of HHS purchase and travel cards. We have followed up and closed the recommendations from those reviews and have developed a tool for conducting risk assessments that will meet the requirements of the Charge Card Act. By using this tool, we will target our audit resources to facilitate the comprehensive measurement of risk for HHS's Operating Divisions.

If you have any questions or concerns regarding this letter, please contact me or your staff may contact Gloria Jarmon, Deputy Inspector General for Audit Services, at 202-619-3155 or through email at [Gloria.Jarmon@oig.hhs.gov](mailto:Gloria.Jarmon@oig.hhs.gov). Please refer to number A-04-14-06173 in all correspondence.

Sincerely,

/Joanne Chiedi/  
Principal Deputy Inspector General

cc:  
Norman Dong  
Deputy Controller  
Office of Management and Budget

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<sup>10</sup> HHS met the \$10 million threshold in travel card spending to have periodic audits or reviews conducted of its travel card program. HHS spent approximately \$73 million and \$59 million, respectively, in FYs 2012 and 2013 for travel card purchases.