



Department of Homeland Security Office of Inspector General

Improving FEMA's Disaster Purchase Card Program



Office of Inspector General

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



**Homeland
Security**

MAY 27 2010

Preface

The Department of Homeland Security (DHS) Office of Inspector General (OIG) was established by the *Homeland Security Act of 2002* (Public Law 107-296) by amendment to the *Inspector General Act of 1978*. This is one of a series of audit, inspection, and special reports prepared as part of our oversight responsibilities to promote economy, efficiency, and effectiveness within the department.

This report presents the results of the audit of the Federal Emergency Management Agency's (FEMA) disaster purchase card program. It is based on interviews with employees and officials of relevant agencies and institutions, direct observations, and a review of applicable documents. We performed the audit according to generally accepted government auditing standards. The report contains four recommendations for improving FEMA's disaster purchase card program.

The recommendations herein have been developed to the best knowledge available to our office, and have been discussed in draft with those responsible for implementation. Where appropriate, we plan to refer cardholders responsible for improper purchases to FEMA management for possible administrative action. We trust this report will result in more effective, efficient, and economical operations. We express our appreciation to all of those who contributed to the preparation of this report.

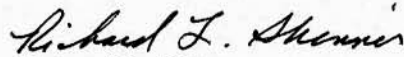

Richard L. Skinner
Inspector General

Table of Contents/Abbreviations

Executive Summary	1
Background	2
Results of Audit	5
Improving Disaster Purchase Card Guidance	5
Recommendation	7
Management Comments and OIG Analysis	7
Strengthening Disaster Purchase Card Internal Controls.....	8
Recommendations.....	11
Management Comments and OIG Analysis	12
Addressing GSA SmartPay [®] 2 and CCTMS Issues.....	12
Recommendation	13
Management Comments and OIG Analysis	13

Appendixes

Appendix A: Purpose, Scope, and Methodology.....	14
Appendix B: Management Comments to the Draft Report	15
Appendix C: Disaster Purchase Card Process Diagram	18
Appendix D: FEMA Regional Offices	19
Appendix E: Case Studies.....	20
Appendix F: Major Contributors to This Report	21
Appendix G: Report Distribution.....	22

Abbreviations

AO	Approving Official
CCTMS	Credit Card Transaction Management System
DHS	Department of Homeland Security
DISC	Disaster Information Systems Clearinghouse
FEMA	Federal Emergency Management Agency
GAO	Government Accountability Office
GPS	global positioning system
GSA	General Services Administration
MCC	Merchant Category Codes
OIG	Office of Inspector General
SOP	Standard Operating Procedure

OIG

*Department of Homeland Security
Office of Inspector General*

Executive Summary

The Federal Emergency Management Agency has improved its internal controls for the disaster purchase card program and addressed a number of prior audit recommendations. For example, cardholders have met initial purchase card training requirements, the span of control for approving officials is reasonable, and the results of monthly postpayment audits are being acted upon. However, internal control issues remain, and we identified more than \$247,100 of improper purchases.

The Federal Emergency Management Agency can improve its disaster purchase card program and related internal controls by:

- Consolidating, updating, and more effectively communicating policies and procedures;
- Taking better advantage of preventive controls to minimize risk exposure;
- Working with the Department of Homeland Security and JP Morgan Chase to ensure that states and merchants do not tax purchases at the point of sale;
- Establishing a multifaceted, strategic approach to monitoring and oversight; and
- Resolving issues with its transition to the General Services Administration SmartPay[®] 2 and the Credit Card Transaction Management System.

With proper controls in place, the Federal Emergency Management Agency will be in a position to (1) develop a stronger strategy on appropriate use and application of disaster purchase cards, and (2) maximize efficiencies and potential rebates.

Background

The Federal Emergency Management Agency (FEMA) purchase card is a centrally billed government charge card used to pay for goods and services in support of official government business. It streamlines traditional federal procurement and payment processes by eliminating the need for numerous purchase orders and payments. When well controlled, it provides FEMA with a flexible and efficient way of quickly obtaining commercial goods and services through over-the-counter purchases, phone orders, mail/catalog orders, and Internet purchases.

To improve accountability and oversight, FEMA has different purchase cards for regular operations and emergency disaster response activities. Disaster purchase cards can be used only for disaster needs, using disaster funding, and are the preferred method to pay for disaster-related micro-purchases.¹ Figure 1 is an example of a disaster purchase card.

Figure 1. Disaster Purchase Card



Source: OIG.

¹ The micro-purchase limit is \$3,000, but certain exceptions apply: (1) construction greater than \$2,000 is subject to the *Davis-Bacon Act*; (2) services greater than \$2,500 are subject to the *Service Contract Act*; and (3) under the *Stafford Act* or emergencies, the Department of Homeland Security's Chief Procurement Officer may authorize heads of the contracting activities to increase the micro-purchase thresholds for emergency procurements.

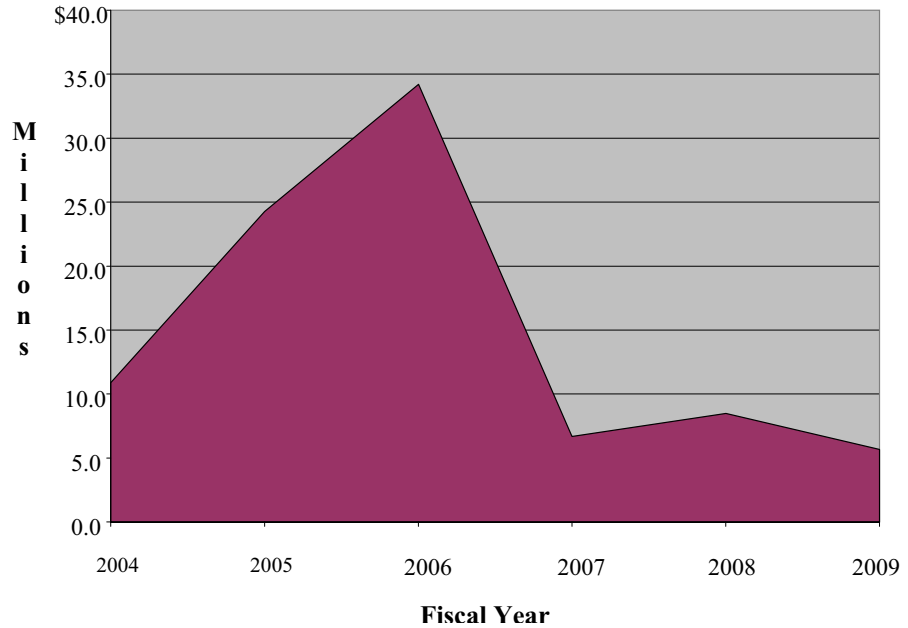
The FEMA Organization Program Coordinator, located within the FEMA Management Directorate, Acquisition Management Division, manages the FEMA disaster purchase card program and investigates questionable or inappropriate cardholder transactions. Approving Officials (AOs) provide approval, validation, oversight, and monitoring of purchase card activity within their span of control. Cardholders verify that funds are available prior to making each purchase with their card; make purchases with their card; notify local property officers of acquired accountable property; and reconcile and maintain all required transaction documentation. Appendix C illustrates FEMA's business process for carrying out the disaster purchase card program.

Most AOs are located at FEMA regional offices and usually do not deploy to disaster operations field offices. Cardholders, although assigned to FEMA regional offices, typically travel to disaster field offices throughout the country as needed. When deployed, cardholders commonly report to and receive performance appraisals from supervisors who are not their AOs. However, cardholders' purchases are still approved by their AOs, who often are not at the disaster site. See Appendix D for the locations of FEMA regional offices and the number of disaster purchase cardholders in each region.

Between October 2007 and June 2009, FEMA's 280 disaster purchase cardholders spent more than \$14.1 million. Office supplies, including printer cartridges, were the most commonly purchased items. Figure 2 shows disaster purchase card spending from October 2003 through June 2009.

Figure 2. FEMA Disaster Purchase Card Spending

Fiscal Year 2004 Through June 2009



Source: OIG analysis of FEMA and U.S. Bank data.²

In June 2009, the FEMA disaster purchase card program transitioned to a new service provider under the General Services Administration (GSA) SmartPay^{®2} purchase card program. The GSA SmartPay^{®2} program provides charge cards to U.S. government agencies through master contracts that are negotiated with major national banks. JP Morgan Chase is the service provider for the Department of Homeland Security (DHS) Purchase Card Program, of which the FEMA disaster purchase card program is a part.

² Until June 2009, U.S. Bank was the service provider for FEMA's disaster purchase card program.

Results of Audit

Improving Disaster Purchase Card Guidance

The FEMA Organization Program Coordinator is responsible for establishing disaster purchase card policies and procedures consistent with departmental policy. However, some regional offices and other FEMA activities have implemented their own guidance. This has resulted in a proliferation of conflicting and outdated guidance. For example, the *FEMA Disaster Plan for Purchase Card Usage* and *FEMA Disaster Contracting Desk Guide* provide different “standard operating procedures.” The *FEMA Disaster Plan for Purchase Card Usage* outlines specific procedures for the use of purchase cards during the operations phase and assistance phase of a disaster, whereas the *FEMA Disaster Contracting Desk Guide* makes no distinction between the phases. Figure 3 summarizes the stated purposes of the two documents and key differences.

Figure 3. Example of Different Standard Operating Procedures

<i>FEMA Disaster Plan for Purchase Card Usage</i>	<i>FEMA Disaster Contracting Desk Guide</i>
“...This Standard Operating Procedure (SOP) guidance establishes the Department of Homeland Security policy for ...use of the Government Purchase Card in response to or recovery from a disaster...This SOP applies to all FEMA employees...”	“...provides Standard Operating Procedures (SOP) regarding the acquisition of supplies, services, and equipment in support of declared disasters...The section on the Government purchase card covers the unique requirements relative to purchasing services and supplies at a disaster with the card...is applicable to all...”
“...During the disaster operations phase the following steps are taken...During the Disaster Assistance Phase the following steps are taken...”	“...The purchase card purchase process is similar to the acquisition process...”
“...Ensure written approval and Certification Form (Appendix A) is obtained from the designated on-site Comptroller in a timely manner prior to making purchases...”	“...Receive 60-1(s) [Requisition for Supplies, Equipment, and/or Services] from Logistics for Purchase(s)...”

Source: FEMA.

Figure 4 highlights some similarities and differences in FEMA disaster purchase card guidance.

Figure 4. FEMA Disaster Purchase Card Guidance Comparison

	<i>FEMA Disaster Plan for Purchase Card Usage (12/2007)</i>	<i>FEMA Disaster Contracting Desk Guide (05/2009)</i>	<i>FEMA Emergency Acquisition Field Guide (09/2007)</i>	<i>FEMA REGION VI Disaster Logistics Ordering Unit SOP (06/2009)</i>
Applies to all disaster cardholders.	√	√		
Lists distinct procedures for the disaster operations phase and the disaster assistance phase.	√			
Names the Comptroller as the on-site authorizing official.	√			
Identifies specific prohibited charges.	√		√	
Requires use of the Comptroller Certification Form.	√			
Requires a minimum of three quotes be sought and documented. ³	√			
Requires that a warranted contract specialist document and justify sole source selections.	√			
Requires a waiver for the purchase of bottled water.		√		√
Requires a written waiver for disaster information systems from the Disaster Information Systems Clearinghouse.		√		√
Requires that original receipts and support be maintained for 6.3 years.	√		√	

Source: OIG analysis of FEMA disaster purchase card guidance.

³ According to Federal Acquisition Regulation Subpart 13.202, micro-purchases may be awarded without soliciting competitive quotations if the price is considered reasonable.

There are gaps in the guidance as well. For example, neither the *FEMA Disaster Plan for Purchase Card Usage* nor *FEMA Disaster Contracting Desk Guide* clearly identifies how cardholders should handle store credits. Cardholders generally do not have a choice whether their card is credited or a store credit is issued. Merchants can choose to give cardholders a store credit when purchased items are returned or exchanged, paid orders are subsequently canceled, or overcharges are refunded. Between October 2007 and June 2009, FEMA canceled more than \$6,900 of disaster card purchases. FEMA needs to establish clear and consistent guidance regarding store credits.

Several cardholders told us that they would like to see clearer and more concise guidance. A cardholder with extensive disaster experience said that each FEMA region does things differently. When there are multiple sources of written guidance, cardholders can become confused as to which procedures they should follow and what constitutes an eligible purchase. Eighteen cardholders and AOs told us that they usually go to their colleagues or the FEMA Organization Program Coordinator for guidance, and a number of cardholders identified confusing guidance as an area needing improvement.

Recommendation

We recommend that the Federal Emergency Management Agency Organization Program Coordinator, in coordination with acquisition staff at Federal Emergency Management Agency headquarters and regional offices:

Recommendation #1: Consolidate, update, and more effectively communicate Federal Emergency Management Agency disaster purchase card program guidance. The guidance should be timely and address known gaps. There should only be one set of guidance for the Federal Emergency Management Agency disaster purchase card program.

Management Comments and OIG Analysis

FEMA concurred with the recommendation and said it is eradicating conflicting guidance and addressing known gaps within a single consolidated set of guidance. The anticipated date of completion is December 31, 2010. We consider FEMA's current actions responsive to the recommendation.

Strengthening Disaster Purchase Card Internal Controls

FEMA has improved its internal controls and addressed a number of prior audit recommendations.⁴ Senior leadership has clearly communicated its commitment to establishing a necessary level of financial stewardship and program accountability within FEMA. For example, in July 2009, the FEMA Administrator established an Internal Control Board of senior leadership to assess and govern internal controls across the organization, and to identify and implement improvements on a continuous basis. With respect to the disaster purchase card program, FEMA has ensured that:

- Cardholders have met initial purchase card training requirements;
- The span of control for approving officials is reasonable;
- Results of monthly postpayment audits are being acted upon;
- Purchase cards to be used only for disaster needs are specifically and clearly marked; and
- Disaster cards have appropriate per-purchase and monthly purchase limits.

FEMA also blocks purchases from merchants coded in certain categories using Merchant Category Codes (MCC). However, this action does not restrict what is purchased from merchants who have not identified themselves with the blocked MCCs. For example, disaster purchase cards may not be used to make purchases at businesses categorized as providing money orders, a prohibited item; however, they may be used at grocery stores that sell money orders.

To help address this gap, FEMA needs to use specialized reports of cardholder activity more effectively and develop a strategy for reviewing reports (i.e., who, what, and when). These reports are very useful for identifying, analyzing, and documenting problem areas. They can also be used to reveal trends in disaster purchase card use. Electronic reports make fraud or misuse far easier to detect than paper-based reports. When used proactively, the information can help FEMA (1) prevent

⁴ *Internal Controls in the FEMA Disaster Acquisition Process*, (OIG-09-32, February 2009) and *Purchase Cards: Control Weaknesses Leave DHS Highly Vulnerable to Fraudulent, Improper, and Abusive Activity*, (GAO-06-1117, September 2006).

fraud, waste, and abuse; and (2) identify potential strategic sourcing opportunities.

FEMA can further strengthen its controls through the use of data mining. Data mining is extracting useful information from a database using artificial intelligence and neural networks. Model patterns of purchase card misuse and fraud can be programmed into systems that automatically monitor cardholder activity for similar patterns. In order to develop accurate models, the patterns of cardholder misuse and fraud must be well documented and understood.

With more effective internal controls, FEMA could have prevented more than \$247,100 of improper purchases or detected them more quickly. An improper purchase is any purchase that should not have been made or that was made in an incorrect amount under statutory, contractual, or administrative requirements. An improper purchase can be incorrect, unauthorized, or fraudulent.

Incorrect purchases are mistakes caused by an unintentional error during the purchase process. For instance, when a purchase cardholder is asked to buy one type of printer but inadvertently purchases a different type, this is an incorrect purchase. Duplicate purchases and purchases for incorrect amounts, if made in error, are also examples of incorrect purchases. A series of ostensibly incorrect purchases may require investigation to determine whether they are actually unauthorized purchases.

Unauthorized purchases are items that are intentionally purchased outside of the cardholder's purchasing authority. Examples include purchases intentionally made (a) on the same day from the same vendor to circumvent cardholder single transaction limits; (b) for ineligible recipients; (c) for ineligible services; or (d) in the absence of available funding.

Fraudulent purchases include those that were unauthorized and intended for personal use; made using government charge cards or account numbers that had been compromised; and correctly charged to the charge card but that involve potentially fraudulent activity. For instance, using a government charge card to purchase a gift card for personal use is a fraudulent purchase.

If FEMA had more effective internal controls, the following improper purchases could have either been prevented or detected more quickly:

-
- More than \$5,800 of questionable and prohibited charges made by three different cardholders in two different FEMA regions. Had the FEMA Organization Program Coordinator used specialized reporting tools effectively, these purchases would have been quickly identified. The charges included two gift cards totaling \$4,318; a 3-year 24/7 hardware maintenance agreement for \$463; and 19 ceramic heaters, a personal convenience item, for \$1,098. See Appendix E for case studies.
 - At least \$78,000 in split purchases by three cardholders in one FEMA region. Items purchased included umbrellas, tents, telephones, and office supplies. All three cardholders should have forwarded the actions to warranted contract specialists rather than breaking up the requirements so that they were below the single purchase limit established for each cardholder. By acting as they did, these cardholders exceeded their authority and violated federal acquisition regulations.
 - More than \$158,600 of purchases, by 26 cardholders, using funds designated for other purposes. For example, cardholders bought more than \$20,400 of software, printers, facsimile machines, copiers, and scanners using funds designated for other commodities. By not using the correct categories of funds, these cardholders made it difficult for FEMA to know where money was actually needed and for what types of goods or services. Also, they increased FEMA's risk of making expenditures in excess of available funds and having unliquidated obligations that could be used for other needs.
 - More than \$2,800 of purchases that appeared to have been made by individuals other than the cardholders. This includes someone other than the cardholder signing the credit card receipt for a purchase. DHS and FEMA policies prohibit this, since procurement authority is granted only to the individual to whom the card has been issued. More effective cardholder training might have prevented this from occurring. Better oversight by the AOs should have detected it.

With respect to purchases with incorrect amounts, more than \$1,900 was charged for sales tax. Transactions against federal government accounts, directly paid by the government, are exempt from state and local taxes. Under the terms of the GSA SmartPay[®] 2 Master Contract, JP Morgan Chase is to work with state governments and merchants to ensure that states and merchants do not tax these transactions at the point of sale.

Additionally, JP Morgan Chase is to assist the government in the resolution of any other tax exemption issues that arise, as well as contact merchants at the government's request regarding tax exemption.

There was insufficient documentation that key purchase card internal controls were performed involving more than \$47,400 of accountable property. To avoid excess inventory or purchases of items that do not meet standard specifications, purchases of the following items must be approved in advance by the Disaster Information Systems Clearinghouse (DISC): facsimile machines; four-in-one office machines (print/fax/copy/scan); laptops; digital cameras; hubs; modems; and GPS units (global positioning system/navigation use). DISC approval should be in writing and included in a cardholder's backup documentation. Twelve cardholders did not have such documentation for purchases in this category.

Fraud, waste, and abuse of federal funds is a serious offense. According to the *DHS Purchase Card Manual*, "Abuse and/or fraud will result in immediate cancellation of the employee's purchase card. In addition, the CH [cardholder] 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...." Cardholders and AOs need to be mindful of the consequences for inappropriate or negligent behavior. Effective periodic training, coupled with swift action against violators, should help deter cardholders from making, and AOs from allowing, improper purchases.

Recommendations

We recommend that the Federal Emergency Management Agency Organization Program Coordinator:

Recommendation #2: Establish a multifaceted, strategic approach to monitoring and oversight. This includes (a) providing more effective training to cardholders and approving officials; (b) taking better advantage of preventive controls and data mining to minimize risk exposure; (c) developing and implementing a strategy for using specialized reports of cardholder activity; and (d) taking swift action against cardholders and approving officials for inappropriate or negligent behavior.

Recommendation #3: Continue to work with the Department of Homeland Security and JP Morgan Chase to ensure that states and merchants do not tax purchases at the point of sale.

Management Comments and OIG Analysis

FEMA generally concurred with the recommendations. With respect to recommendation #2, FEMA said it would take advantage of the robust monitoring tools available under the General Services Administration SmartPay^{®2} program. With respect to recommendation #3, FEMA said it would work with the Department of Homeland Security and the purchase card bank to ensure that States and merchants do not tax purchases at the point of sale. We consider FEMA's planned actions responsive to the recommendation.

Addressing GSA SmartPay^{®2} and CCTMS Issues

Since transitioning to GSA SmartPay^{®2} in June 2009, FEMA cardholders and AOs have had difficulty using their new accounts. Reported problems include authorized users not being able to log into the bank's Electronic Access System, view accounts or statements, and review or certify transactions. FEMA officials also identified the bank's customer service as needing improvement. Most troubling, the FEMA Organization Program Coordinator asserts that JP Morgan Chase had assigned a number of cardholders to the wrong AOs, resulting in unauthorized individuals being able to certify cardholder statements.

Issues with FEMA's Credit Card Transaction Management System (CCTMS)⁵ also plagued cardholders. Examples include cardholders not being able to access the system; critical report functions that stopped working; reports with incorrect data; duplicate transactions; and incorrect rejection or suspension of transactions. According to FEMA Finance Center officials, the contractor responsible for sustaining and improving the system is behind schedule in addressing these and other issues. Since May 2009, critical maintenance releases have not been deployed into production, and workarounds are needed to make the system work properly. However, while FEMA staff identified these

⁵ CCTMS is a custom-built, web-based application that FEMA's cardholders are required to use for (1) allocating expenses to the appropriate lines of accounting, and (2) entering descriptive information about their transactions into a purchase log.

problems to us, the responsible contracting officer stated that she had not been made aware of any performance issues.

FEMA, in partnership with its contractors and DHS, needs to identify the root causes of these issues and resolve them. Effective information technology management is vital to achieving useful, reliable, and continuous recording and communication of information. According to the *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, November 1999), “Information should be recorded and communicated to management and others within the entity who need it and in a form and within a time frame that enables them to carry out their internal control and other responsibilities.”

Recommendation

We recommend that the Federal Emergency Management Agency Associate Administrator, Mission Support:

Recommendation #4: Facilitate efforts to resolve issues with Federal Emergency Management Agency’s transition to the General Services Administration SmartPay[®] 2 program and the Credit Card Transaction Management System.

Management Comments and OIG Analysis

FEMA generally concurred with the recommendation and said it is working with its partners to resolve the issues. With respect to the Credit Card Transaction Management System, FEMA said that a root cause analysis has been completed and corrective actions are underway. We consider FEMA’s current and planned actions responsive to the recommendation.

Appendix A

Purpose, Scope, and Methodology

Our objective was to determine whether FEMA has adequate internal controls in place to deter and detect fraud, waste, and abuse in its disaster purchase card program. We assessed whether guidance was consistent, complete, accurate, and accessible; cardholders made proper purchases; and funding was properly obligated and deobligated.

Based on our assessment of risks, we judgmentally selected 756 transactions for detailed review. These transactions, totaling about \$506,100, occurred between October 2007 and June 2009. Factors we considered in making our selections included merchant category code blocks; frequency of certain transactions; sales tax paid; transactions associated with lost, stolen, or compromised cards; and historical knowledge and experience.

FEMA was not readily able to provide cardholder backup documentation for 46 transactions totaling about \$24,100. Missing documentation included approved requisition and funding documents, sales slips, and receiving reports.

We performed the audit at FEMA headquarters and facilities located in Denver, CO; Washington, DC; Atlanta, GA; Philadelphia, PA; Denton, TX; Texas City, TX; and Berryville, VA. We interviewed 51 FEMA disaster purchase card Approving Officials and cardholders, the FEMA Organization Program Coordinator, and other responsible officials. We reviewed applicable laws and regulations and prior audit reports. We analyzed disaster purchase card guidance, bank transaction data, cardholder backup documentation, and FEMA Organization Program Coordinator postpayment audit records. We validated the reliability of data by comparing them with source documents such as sales receipts, and we believe, within the scope of this audit, that we can reasonably rely on the data.

We conducted this performance audit between June and December 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.


Appendix B Management Comments to the Draft Report

U.S. Department of Homeland Security
500 C Street, SW
Washington, DC 20472



MAY 12 2010

MEMORANDUM FOR: Matt Jadacki
Deputy Inspector General
Office of Emergency Management Oversight
Office of Inspector General

FROM: 
David J. Kaufman
Director
Office of Policy and Program Analysis

SUBJECT: Comments on OIG Draft Report, *Improving FEMA's
Disaster Purchase Card Program*

Thank you for the opportunity to review and comment on the Office of Inspector General's (OIG's) subject draft audit report. As the Federal Emergency Management Agency (FEMA) works toward refining its programs, the OIG's independent analysis of program performance greatly benefits our ability to continuously improve our activities. Technical comments have been provided under separate cover.

FEMA concurs with the draft report's four recommendations. While we will be providing corrective action plans in our 90-day response, we provide the following information relative to the four recommendations:

Recommendation #1: Consolidate, update, and more effectively communicate Federal Emergency Management Agency disaster purchase card guidance. The guidance should be timely and address known gaps. There should only be one set of guidance for the Federal Emergency Management disaster purchase card program.

Response: FEMA concurs with the recommendation to consolidate, update, and more effectively communicate disaster purchase card guidance. As a result of additional support to the Purchase Card Program, efforts to eradicate conflicting guidance as well as address known gaps within a single consolidated set of guidance can be implemented more quickly. The anticipated date of completion is December 31, 2010.

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Appendix B

Management Comments to the Draft Report

Page 2

Recommendation #2: Establish a multifaceted, strategic approach to monitoring and oversight. This includes (a) providing more effective training to cardholders and approving officials; (b) taking better advantage of preventive controls and data mining to minimize risk exposure; (c) developing and implementing a strategy for using specialized reports of cardholder activity; and (d) taking swift action against cardholders and approving officials for inappropriate or negligent behavior.

Response: FEMA concurs in principal with the recommendation to establish a multifaceted, strategic approach to monitoring and conducting oversight functions in order to: (a) provide more effective training, (b) use data mining tools to minimize risk of abuse of the purchase card, (c) otherwise monitor card use, and (d) take swift action against those who violate policy and card use. FEMA will take advantage of the robust tools made available through GSA SmartPay2.

Recommendation #3: Continue to work with the Department of Homeland Security and JP Morgan Chase to ensure that states and merchants do not tax purchases at the point of sale.

Response: FEMA concurs with the recommendation and will work with the Department of Homeland Security (DHS) and the purchase card bank to ensure that states and merchants do not tax purchases at the point of sale. FEMA has informed purchase cardholders on numerous occasions that their purchases should not be taxed and to contact the Office of the Chief Procurement Officer if a merchant imposes an unauthorized tax. This will also be addressed in the guidance discussed under Recommendation #1 above.

Recommendation #4: Facilitate efforts to resolve issues with Federal Emergency Management Agency's transition to the General Services Administration SmartPay2 program and the Credit Card Transaction Management System

Response: FEMA concurs with this recommendation. FEMA will continue to partner with DHS to resolve issues with FEMA's transition to the SmartPay 2 Program with JP Morgan Chase. With respect to FEMA's Credit Card Transaction Management System (CCTMS), a collaborative team effort by multiple FEMA OCFO personnel and contractors has resulted in new business processes and reporting to correct functional issues in CCTMS, and expand the visibility of the contractor's performance to all concerned parties. In February/March 2010, the contractor performed an extensive root cause analysis of the system, which resulted in some fixes to reports and expanded several other end-user reports to the quarterly release, which had not been completed from March 2009. The quarterly release just completed the User Acceptance Testing (UAT) phase with a 67/33% pass/fail rate. Other data has been provided to the OCFO financial staff to analyze in order to address and fix other issues or look at possible workarounds. The root cause analysis identified other issues, which are in the

Appendix B

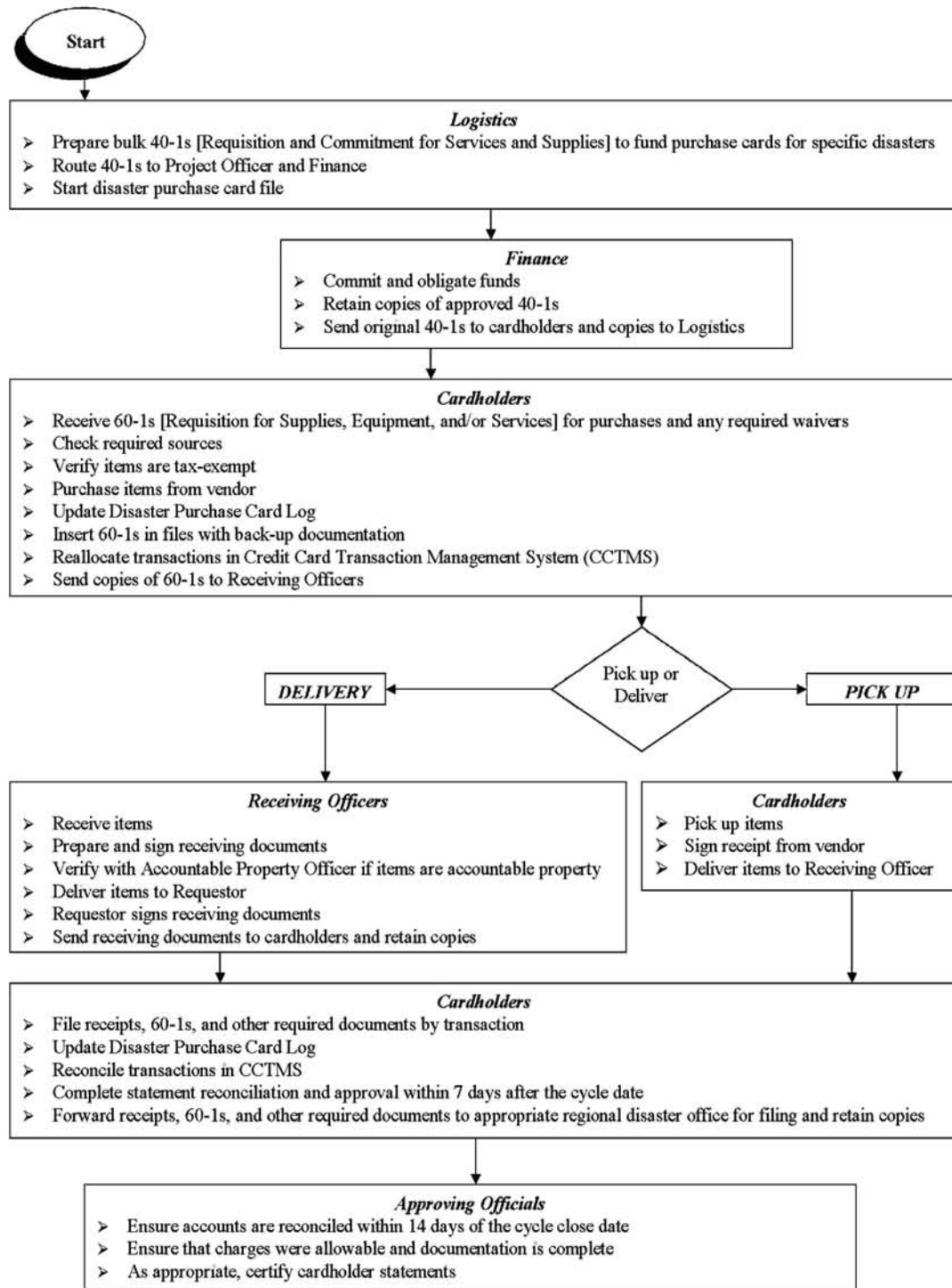
Management Comments to the Draft Report

Page 3

design/review stage and are part of the next quarterly release scheduled to roll out by the end of July 2010.

Thank you again for the opportunity to comment on this draft report and we look forward to working with you on other issues as we both strive to improve FEMA.

Appendix C Disaster Purchase Card Process Diagram



Source: OIG analysis of the business process for the FEMA disaster purchase card program.

**Appendix D
FEMA Regional Offices**



FEMA REGION	NUMBER OF CARDHOLDERS
I	10–20
II	10–20
III	>20
IV	>20
V	<10
VI	>20
VII	<10
VIII	10–20
IX	>20
X	10–20

Source: FEMA.

Appendix E Case Studies

The “Happy Birthday” Gift Cards

A cardholder purchased two “Happy Birthday” gift cards totaling \$4,318. Each card was for \$2,159, and they were bought within minutes of each other using funds for Hurricane Ike disaster relief operations in Texas. According to FEMA, the store charged two gift cards, using the cardholder’s purchase card and then cashed these two gift cards to pay for 120 cases of copy paper at a total cost of \$4,318.80. The cardholder states that he never received the gift cards and has no explanation for this. The receipts in the cardholder’s file for these transactions show that the purchase was for two “Happy Birthday” gift cards. The cardholder was able to provide copies of the FEMA request form for the paper, as well as copies of the order forms used by the store to order and have delivered the paper. FEMA has been unable to provide any receiving documents.

Personal Convenience Items – Ceramic Heaters

FEMA officials requested 40 portable ceramic heaters for staff at a regional office. These heaters were to be bought using funds that had been allocated for disaster relief efforts in Oklahoma. The cardholder purchased 19 heaters from an online retailer for about \$1,098. DHS prohibits cardholders from purchasing personal convenience items such as heaters. According to the *FEMA Emergency Acquisition Field Guide*, cardholders are not to buy items for their personal use or purchase items unrelated to the mission of their office. The cardholder should have rejected the purchase request and, if necessary, requested assistance from her AO and the FEMA Organization Program Coordinator.

The Golf Umbrellas

FEMA officials requested 360 golf umbrellas for Hurricane Ike disaster relief operations in Texas. The requisition was given to two cardholders who intentionally split the \$9,000 purchase in order to stay below their \$3,000 single purchase limits. Both cardholders purchased the umbrellas from a California-based company that normally sells computer and imaging supplies. This resulted in taxpayers paying \$25 for each umbrella, although similar ones were available via GSA for half the cost. At least 60 of the purchased umbrellas were never used. According to FEMA policy, all purchase requests greater than \$3,000 must be forwarded to warranted contract specialists. Neither cardholder was a warranted contract specialist.

Appendix F
Major Contributors to This Report

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Scott Wrightson, Forensics Specialist

Appendix G
Report Distribution

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- Email us at DHSOIGHOTLINE@dhs.gov; or
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