

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**THE INDIAN HEALTH SERVICE'S
CONTROLS WERE NOT EFFECTIVE IN
ENSURING THAT ITS PURCHASE CARD
PROGRAM COMPLIED WITH FEDERAL
REQUIREMENTS AND ITS OWN POLICY**

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Office of Inspector General

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

Report in Brief

Date: July 2018

Report No. A-07-16-05090

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL



Why OIG Did This Review

The Government Charge Card Abuse Prevention Act (Charge Card Act) requires agencies to establish and maintain safeguards and internal controls for their Government purchase card programs. Additionally, the HHS OIG is required to conduct annual risk assessments of purchase card programs to analyze the risks of illegal, improper, and erroneous purchases.

Under the provisions of the Charge Card Act, we performed a risk assessment of HHS's charge card program and identified the Indian Health Service (IHS) as having a high risk of inappropriate purchase card transactions. The Charge Card Act also requires that OIG conduct a further review of agency programs that have been assessed as high risk.

Our objective was to determine whether IHS's purchase card program complied with Federal requirements and IHS's own policy.

How OIG Did This Review

We reviewed and analyzed a stratified sample of 136 purchase card transactions incurred by IHS during Federal fiscal year (FY) 2015. We also reviewed the Charge Card Act, other relevant statutes and regulations, and HHS and IHS requirements and policy regarding the proper use of purchase cards. Additionally, we reviewed the policy and procedures that IHS had in place during FY 2015 to evaluate the effectiveness of IHS's controls over its purchase card program.

The Indian Health Service's Controls Were Not Effective in Ensuring That Its Purchase Card Program Complied With Federal Requirements and Its Own Policy

What OIG Found

IHS's purchase card program did not always comply with Federal requirements and IHS's own policy. We identified 25 transactions (out of the 136 sampled transactions we tested) that were in error because they did not comply with Federal requirements and IHS's policy either for proper purchase card use or for supporting documentation. These errors occurred because IHS's controls for the administration of its purchase card program—controls that included monitoring as well as educating cardholders—were not adequate to ensure that transactions complied with Federal requirements and IHS's policy.

On the basis of our sample results, we estimate that IHS cardholders may have incurred almost \$3 million in purchase card expenditures that either constituted misuse of the purchase card or were not documented.

What OIG Recommends

We recommend that IHS strengthen controls to ensure that purchase cardholders comply with Federal requirements and IHS's own policy by adequately monitoring purchase card usage and ensuring that all IHS purchase cardholders complete the HHS-required training on the use of the purchase card.

IHS concurred with both of our recommendations and described corrective actions that it planned to implement. Specifically, in response to our first recommendation, IHS stated that it would update guidance, launch an agency-wide analytic data tool, and require all current cardholders to complete a new cardholder agreement. IHS added that it would reinforce management accountability and streamline the purchase card requisition form.

In response to our second recommendation, IHS said that it would ensure that all active IHS cardholders complete refresher training; conduct quarterly training for new cardholders; and improve the review of IHS purchase cardholder training certificates, including taking corrective action for any significant deficiencies. IHS also stated that it would work with the contractor to enhance coordination with HHS's and IHS's training systems.

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INTRODUCTION

WHY WE DID THIS REVIEW

The Government Charge Card Abuse Prevention Act (Charge Card Act), enacted in October 2012, and implementing Federal guidance¹ require agencies to establish and maintain safeguards and internal controls for their Government charge card programs. Additionally, the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), is required to conduct annual risk assessments of (1) agency purchase card programs, (2) combined integrated card programs, and (3) travel card programs to analyze the risks of illegal, improper, and erroneous purchases.

Under the provisions of the Charge Card Act, we performed a risk assessment of HHS's charge card program for Federal fiscal year (FY) 2013² and identified the Indian Health Service (IHS) as having a high risk of inappropriate travel card and purchase card transactions. The Charge Card Act also requires that OIG conduct a further review of agency programs that have been assessed as high-risk. This report contains the results of our review of IHS's purchase card program. We are reporting separately on our review of IHS's travel card program.

OBJECTIVE

Our objective was to determine whether IHS's purchase card program complied with Federal requirements and IHS's own policy.

BACKGROUND

Indian Health Service

IHS is an agency within HHS that delivers clinical and preventive health services to American Indians and Alaska Natives. Indian health care services are provided in more than 630 IHS and tribal health care facilities, including hospitals and outpatient clinics. IHS provides a comprehensive health service delivery system for approximately 2.2 million American Indians and Alaska Natives who belong to 567 federally recognized tribes in 36 States.

¹ The Charge Card Act, P.L. No. 112-194 (enacted Oct. 5, 2012); Office of Management and Budget (OMB) Memorandum M-13-21, "Implementation of the Government Charge Card Abuse Prevention Act of 2012," Sep. 6, 2013.

² *Letter to Office of Management and Budget Director To Meet Requirements of Government Charge Card Abuse Prevention Act of 2012 Regarding Agency Progress Implementing Recommendations on Charge-Card-Related Findings (A-04-14-06175)*, Jan. 28, 2015.

Purchase Card Program Requirements and Department Policy

Federal Requirements

The Charge Card Act addresses Government purchase expenses within the broader framework of the requirements it levies on Government agencies to establish and maintain safeguards and controls for the administration of their charge card programs. The Charge Card Act also requires executive branch agencies to be aware of charge-card-related audit findings and to ensure that the findings are promptly resolved after completion of an audit.³

Federal regulations direct executive branch agencies that use purchase card programs to establish procedures for the use and control of purchase cards (48 CFR § 13.301(b)).⁴

OMB Memorandum M-13-21 provides Charge Card Act implementation guidance, including required safeguards and internal controls, reporting purchase card violations, and Inspector General requirements for conducting risk assessments and audits.

The General Services Administration (GSA), the Federal agency tasked with providing centralized procurement for the Federal Government and with administering supplies and providing workplaces for Federal employees, established the GSA SmartPay Program in calendar year 1998. This program allows Federal agencies to contract with major banks to obtain purchase cards to pay for goods and services up to the micro-purchase threshold (FAR § 13.301).⁵

Department Policy

The HHS Office of Grants and Acquisition Policy and Accountability (OGAPA) has the overall responsibility for managing the HHS purchase card program, ensuring that the program complies with Federal and departmental laws and regulations, and monitoring the program's effectiveness. Within OGAPA, the HHS Agency/Organization Program Coordinator, among

³ In addition, OMB Memorandum M-13-21 requires executive branch agencies to be aware of charge-card-related audit findings and to ensure that the findings are promptly resolved after the completion of an audit.

⁴ The same language appears in the Federal Acquisition Regulation (FAR) § 13.301(b), which consists of uniform policies and procedures that govern the acquisition process of Federal agencies and which is codified in chapter 1 of 48 CFR; for that reason legal citations are often identical. The FAR has the full force and effect of law. IHS and some other agencies have issued supplements to the FAR, which contain agency-specific regulations governing the implementation of the FAR for purposes of that agency's contracts. Where appropriate, then, this report likewise cites to the FAR.

⁵ For our audit period, the FAR established the micro-purchase threshold at \$3,000 (\$2,500 for services subject to the Service Contract Act and \$2,000 for construction). However, a cardholder's micro-purchase threshold can be increased if the increase is approved by the Agency/Organization Program Coordinators (A/OPCs; discussed below) with appropriate justification.

other duties, coordinates with IHS and the other HHS Operating Divisions (OPDIVs) regarding implementation at their level of the department-wide purchase card program. This coordination includes conducting periodic audits, assessing card usage, performing data mining, and approving OPDIV deviation requests and requests to modify policies set forth in the HHS *Purchase Card Program Guide* (Program Guide).

According to the Program Guide, the OPDIV-level A/OPCs are responsible for implementing the HHS purchase card program. The Program Guide also states that A/OPC responsibilities include establishing and terminating accounts, issuing cards and convenience check accounts,⁶ providing training and advice to cardholders and approving officials, ensuring that training records are complete, maintaining oversight of the card program by periodically auditing cardholder transactions, reporting improper card usage to the HHS Purchase Card Program Coordinator, monitoring card usage, and deactivating cards when appropriate.

At the local office level, Approving Officials (AOs) are, according to the Program Guide (and as elaborated on in IHS's *Indian Health Manual*) (IHS Manual), responsible for reviewing and approving cardholders' transactions under their purview to ensure that each transaction is legal, proper, mission-essential, and in accordance with purchase card policy.⁷

HOW WE CONDUCTED THIS REVIEW

This audit covered purchase card expenditures incurred by IHS during FY 2015 at 8 high-impact offices that included 46,266 transactions totaling \$39,798,823.⁸ Of these, we reviewed and analyzed 136 sampled purchase card transactions totaling \$297,891. Our sample consisted of two strata. Stratum 1 contained 36 transactions that we identified as high-risk⁹ for not meeting Federal requirements; Stratum 2 contained 100 transactions that we randomly selected from the remaining 46,230 transactions in our review. For this report we refer to Stratum 2 as the all-other-transactions stratum.

We also reviewed the Charge Card Act and the FAR, and HHS and IHS requirements and policy regarding the proper use of purchase cards. Additionally, we reviewed the policy and procedures that IHS had in place during FY 2015 to evaluate the effectiveness of IHS's controls over its purchase card program.

⁶ Convenience checks are payments issued by agencies to merchants that do not accept purchase cards and for other authorized purposes for which the purchase card is not accepted.

⁷ IHS Manual § 5-23.2(B)(6).

⁸ Of IHS's 14 Area Offices and its Headquarters, we identified 8 high-impact offices from which we sampled transactions. These offices were the IHS Headquarters and the Phoenix, Navajo, Aberdeen, Billings, Oklahoma City, Albuquerque, and California Area Offices.

⁹ Stratum 1, high-risk transactions, includes transactions with unallowable merchant category codes, potential split-billing transactions, convenience checks, purchases made while on leave, and purchases made on Federal Government holidays.

We conducted this performance audit 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 A contains details of our audit scope and methodology, Appendix B contains our statistical sampling methodology, and Appendix C contains our sample results and estimates.

FINDINGS

IHS’s purchase card program did not always comply with Federal requirements and IHS’s own policy. We identified 25 transactions (out of the 136 sampled transactions we tested) that were in error because they did not comply with Federal requirements and IHS’s policy either for proper purchase card use or for supporting documentation, as shown in Table 1.

These errors occurred because IHS’s controls for the administration of its purchase card program—controls that included monitoring as well as educating cardholders—were not adequate to ensure that transactions complied with Federal requirements and IHS’s policy.

Table 1: Total Errors

	Errors	Error Amount
Purchases Made Without Prior Approval	14	\$78,688
Multiple Transactions That Split Purchases From a Single Vendor	3	6,078
Undocumented Transactions	2	4,525
Purchases of Prohibited Items and Services	6	677
Total	25	\$89,968

Tables 2 and 3 on the following page break out the 25 noncompliant purchase card transactions by stratum. See also Appendix C.

Table 2: High-Risk Stratum

	Errors	Error Amount
Purchases Made Without Prior Approval	9	\$74,790
Multiple Transactions That Split Purchases From a Single Vendor	3	6,078
Undocumented Transactions	1	2,743
Purchases of Prohibited Items and Services	1	67
Total	14	\$83,678

Table 3: All-Other-Transactions Stratum

	Errors	Error Amount
Purchases Made Without Prior Approval	5	\$3,898
Multiple Transactions That Split Purchases From a Single Vendor	0	0
Undocumented Transactions	1	1,782
Purchases of Prohibited Items and Services	5	610
Total	11	\$6,290

On the basis of our sample results, we estimate that IHS cardholders may have incurred \$2,991,476 in purchase card expenditures that either constituted misuse of the purchase card or were not documented.

MONITORING AND TRAINING REQUIREMENTS

HHS and IHS Requirements Regarding Monitoring

The Program Guide states that AOs are responsible for ensuring that all of the correct approvals and documentation are in place for the approval of purchases made with the Government purchase card (§ IV.A.2). Cardholders must reconcile the monthly purchase card statements to match all of the actual purchases and transactions to the corresponding transactions on the purchase log.¹⁰ Cardholders must also follow their OPDIV's procedures for reconciling the transactions in a timely manner. Cardholders also are responsible for making authorized purchases, maintaining required documentation, reviewing the cardholder statements, and obtaining approvals of purchases when required.

¹⁰ Purchase logs document the purchase date, product or service description, merchant name, amount, convenience check number (if applicable), common accounting numbers and classifications, purchase card tracking number, and date received.

The IHS Manual states that the AO is responsible for day-to-day oversight of one or more purchase cardholders to ensure that each transaction is appropriate, legal, and properly documented (§ 5-23.2(B)(6)). This same subparagraph of the IHS Manual states that the specific responsibilities of the AO are described in the Program Guide.

HHS Requirements Regarding Training

According to the Program Guide, prospective and newly appointed purchase cardholders and AOs must complete basic purchase card training and yearly refresher purchase card training (§ III.A). All participants must certify after completing basic training or refresher training that they have read, understood, and will abide by the policies and procedures for using a Government purchase card.

IHS PURCHASE CARDHOLDERS DID NOT ALWAYS OBTAIN REQUIRED PRIOR APPROVAL FOR PURCHASE CARD TRANSACTIONS

HHS and IHS Policies Regarding Purchase Approval

The Program Guide (§ IV.A.2) and the IHS Manual (§§ 5-23.4 and 5-23.5) provide guidelines for cardholders making purchases. Before initiating a purchase transaction, the cardholder must obtain written and dated prior approval from a supervisor, AO, or higher authority. The cardholder must use a Purchase Card Request Form to obtain approval before each proposed transaction, and it must contain approval signatures from: (1) the requestor; (2) a recommending approval or office budget official to verify need and track against the office budget allocation; (3) the approver, who has delegated authority from the Office Director or Area Director to approve requisitions; and (4) a Finance Office official who certifies the availability of funds for the purchase. The cardholder must also comply with any OPDIV procedures for documenting the purchase request.

Purchase Card Transactions Made Without Prior Approval

Of the 136 sample items we reviewed, we identified 14 transactions (incurred by 11 purchase cardholders) totaling \$78,688 that did not comply with HHS and IHS purchase card policies and procedures for obtaining required prior approval of the purchases. Of the 14 noncompliant transactions, 9 totaling \$74,790 were in the high-risk stratum and 5 totaling \$3,898 were in the all-other-transactions stratum.

Example of Purchases Made Without Prior Approval

One transaction reviewed had a purchase request form totaling \$14,391 for office supplies, but the form did not have the required signatures indicating prior approval from the appropriate officials.

IHS PURCHASE CARDHOLDERS SPLIT PURCHASES MADE FROM A SINGLE VENDOR

Federal Requirements and IHS Policy Regarding Split Purchases

Split purchases occur when a cardholder makes two or more purchases from a single vendor on the same day to avoid micro-purchase limits placed on a purchase card.

Federal regulations (FAR subpart 2.1 and part 13; see also footnote 5) set the “simplified acquisition threshold” at \$150,000 and a “micro-purchase threshold” at \$3,000. This regulation also states:

Do not break down requirements aggregating more than the simplified acquisition threshold . . . or the micro-purchase threshold into separate purchases that are less than the applicable threshold merely to—

- (i) Permit use of simplified acquisition procedures; or
- (ii) Avoid any requirement that applies to purchases exceeding the micro-purchase threshold [FAR § 13.003(c)(2)].

The IHS Manual states:

The total of a single-purchase may be comprised of multiple items but cannot exceed the authorized single-purchase limit assigned to the [cardholder]. Purchases may not be split in order to stay under the authorized single-purchase limit. All purchases that exceed the limit must be purchased using alternate simplified acquisition procedures, through the respective contracting (Acquisition) office [§ 5-23.5(M)].

Split Purchases

Of the 136 sample items we reviewed, we identified 3 split purchases totaling \$6,078 that did not comply with Federal requirements and IHS policy. All three split purchases were in the high-risk stratum. We determined that these three transactions were split purchases because (1) the purchase cardholders made multiple other purchases from the same vendors on the same days and (2) the total of these purchases exceeded the cardholders’ micro-purchase limit.

Example of Split Purchase

For one transaction reviewed, an IHS purchase cardholder made a transaction that totaled \$2,383 with a purchase card that had a micro-purchase limit of \$3,000. The IHS purchase cardholder made 17 additional transactions totaling \$15,133 to the same vendor on the same day. So this purchase cardholder made a total of 18 transactions totaling \$17,496 on the same day to the same vendor using a purchase card with a limit of \$3,000.

IHS PURCHASE CARDHOLDERS DID NOT OBTAIN AND MAINTAIN SUPPORTING DOCUMENTATION FOR PURCHASE CARD TRANSACTIONS

Federal Requirements and HHS Policy Regarding Supporting Documentation

Federal statute states that an amount must be recorded as an obligation of the U.S. Government only when supported by documentary evidence (31 U.S.C. § 1501(a)).

The Program Guide (§ IV.A.17) and the IHS Manual (§ 5-23.8(B)) state that the cardholder must maintain a file of all original records and documents related to purchases made during the month. The documents include price quotes, receipts, invoices, telephone records, shipping documents, price justifications, and any other documents related to the purchases.

The cardholder's purchase card files must be retained for a total of 3 years after payment, following OPDIV procedures for on-site and off-site storage (Program Guide § IV.A.17, citing to the FAR § 4.805).

Undocumented Transactions

Of the 136 sample items we reviewed, we identified 2 transactions totaling \$4,525 for which IHS was not able to provide supporting documentation. In these two cases, IHS purchase cardholders did not maintain supporting documentation such as invoices or purchase requests. The purchase cardholders also did not retain documentation to support that IHS staff had completed timely reconciliations.

Example of Undocumented Transaction

For one transaction reviewed, an IHS cardholder charged \$2,743 to an office supply vendor on a purchase card. IHS could not provide a purchase request, an invoice, a delivery of asset, or any documentation that a timely reconciliation had occurred.

IHS PURCHASE CARDHOLDERS PURCHASED PROHIBITED ITEMS AND SERVICES

Federal Requirements and HHS Policy Regarding Prohibited Purchases

The Program Guide, Appendix C, lists the products and services that are strictly prohibited from being acquired using a purchase card. It also says that before requesting approval, the cardholder should review the prohibited items list.

Purchases of Prohibited Items and Services

Of the 136 sample items we reviewed, we identified 6 transactions totaling \$677 that did not comply with HHS and IHS purchase card policies regarding prohibited purchases. Of the six noncompliant purchases, one totaling \$67 was in the high-risk stratum and five totaling \$610 were in the all-other-transactions stratum. Specifically, cardholders purchased items and services that the Purchase Guide classifies as prohibited for purchase with the Government purchase card (Table 4).

Table 4: Prohibited Items

	Errors	Error Amount
Sales Tax	2	\$253*
Food	1	198
Membership/License Fees for Employees	1	125
Fuel for Vehicles	1	67
Consultant Travel	1	34**
Total	6	\$677

* Federal agencies are required to avoid paying sales tax on purchases unless States specifically require the tax be paid.

** The transaction reviewed totaled \$167, which included \$34 in unallowable consultant travel.

Example of Prohibited Purchase

For one transaction reviewed, we found that an IHS employee had used the purchase card to buy \$67 of gasoline for a rental truck. The purchase card should not have been used because Federal regulations state that the employee should have used a travel card in this situation.

INADEQUATE CONTROLS

The errors that we identified occurred because IHS's controls for the administration of its purchase card program were not adequate to ensure that transactions complied with Federal requirements and IHS's policy. Inadequate controls primarily involved monitoring and training.

Contrary to the provisions of the Program Guide (§ IV.A.2) (regarding written and dated prior approval from a supervisor, AO, or higher authority) and the IHS Manual (§ 5-23.2(B)(6)), IHS officials did not adequately monitor purchase card usage to ensure that each purchase card transaction was appropriate, legal, and properly documented and to identify errors. Inadequate monitoring was reflected in the facts that prior approval was not always obtained for all required transactions; multiple purchases from the same vendor on the same day were not always prohibited, thus circumventing spending limits; supporting documentation was not always obtained and maintained; and cardholders were not always prevented from purchasing prohibited items.

IHS did not give us any documentation supporting that IHS had identified any of the errors discussed in this report. During our review, IHS officials acknowledged that improvements were needed in vendor screenings and reconciliations and for other issues. These officials added that IHS would be working to implement policies to improve the overall efficiency of its purchase card program.

In addition, and contrary to the provisions of the Program Guide (§ III.A), 15 of the 22 cardholders with transactions in error did not complete the HHS-required training. IHS officials did not ensure these cardholders completed required training, which included certifying that they had read, understood, and would abide by the policies and procedures for using a Government purchase card. These policies and procedures included ensuring that cardholders (1) obtained prior approval for all required transactions, (2) did not make multiple purchases from the same vendor on the same day to circumvent spending limits, (3) maintained supporting documentation, and (4) did not purchase prohibited items with the Government purchase card. Table 5 depicts the number of IHS cardholders associated with each of the types of errors we identified who did not complete the required training.

Table 5: Training Not Completed

	Number of Transactions in Error	Number of Cardholders With Transactions in Error	Number of Cardholders With Transactions in Error Who Did Not Complete Required Training
Purchases Made Without Prior Approval	14	11	7
Multiple Transactions That Split Purchases From a Single Vendor	3	3	2
Undocumented Transactions	2	2	1
Purchases of Prohibited Items and Services	6	6	5
Total	25	22	15

EFFECT OF ERRORS

On the basis of our sample results (Appendix C), we estimate that IHS cardholders may have incurred \$2,991,476 in purchase card expenditures that either constituted misuse of the purchase card or were not documented.

RECOMMENDATIONS

We recommend that IHS strengthen controls to ensure that purchase cardholders comply with Federal requirements and IHS's own policy by:

- adequately monitoring purchase card usage and
- ensuring that all IHS purchase cardholders complete the HHS-required training on the use of the purchase card.

IHS COMMENTS

In written comments on our draft report, IHS concurred with both of our recommendations and described corrective actions that it planned to implement. Specifically, in response to our first recommendation, IHS stated that it would update guidance, launch an agency-wide analytic data tool whose reports will identify trends and possible anomalies in purchase card use, and require all current cardholders to complete a new cardholder agreement. IHS added that it would reinforce management accountability through monthly Area Office A/OPC calls and streamline the purchase card requisition form.

In response to our second recommendation, IHS said that it would ensure that all active IHS cardholders complete refresher training, conduct quarterly training for new cardholders, and improve the review of IHS purchase cardholder training certificates, including taking corrective action for any significant deficiencies. IHS also stated that it would coordinate with the new contractor for the GSA SmartPay Program¹¹ to interface with HHS's and IHS's training systems. IHS said that these efforts would provide easy access to training and an effective management of training records.

IHS's comments are included in their entirety as Appendix D.

¹¹ See "Purchase Card Program Requirements and Department Policy" earlier in this report for a discussion of this program.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

This audit covered purchase card expenditures incurred by IHS during FY 2015 that included 46,266 transactions totaling \$39,798,823. IHS incurred these purchase card expenditures at 8 high-impact offices (footnote 8). Of these, we reviewed and analyzed 136 sampled purchase card transactions totaling \$297,891. Our sample consisted of two strata. Stratum 1 contained 36 transactions that we identified as high-risk (footnote 9) for not meeting Federal requirements and Stratum 2 contained 100 transactions that we randomly selected from the remaining 46,230 transactions in our review (the all-other-transactions stratum).

We limited our review of internal controls to obtaining an understanding of IHS's process for monitoring purchase card usage and the submission of supporting documentation.

We performed our audit work from December 2015 to April 2018.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal laws and regulations, to include HHS and IHS requirements and policy regarding purchase card usage;
- held discussions with IHS officials to gain an understanding of IHS's policy, procedures, and guidance regarding purchase card usage and monitoring;
- evaluated the effectiveness of IHS's controls over its purchase card program based on our review of the applicable requirements, policy, and procedures;
- used computer matching, data mining, and other data analysis techniques to identify the types of transactions that were at high risk of being illegal, improper, or erroneous purchases (footnote 9);
- selected a stratified statistical sample of 136 purchase card transactions that cardholders incurred during FY 2015 and:
 - requested and received supporting documentation for each sampled purchase card transaction and
 - evaluated the supporting documentation to verify whether the sampled purchase card transactions complied with Federal requirements and with IHS policy;

- evaluated sampled transactions to identify any transactions for which:
 - the purchase cardholder had made multiple purchases from the same vendor on the same day and
 - the total of these transactions had exceeded the cardholder's micro-purchase limit;
- obtained training records from IHS to determine whether the purchase cardholders whose transactions we sampled had completed the HHS-required training;
- gave detailed information on 25 transactions in error that we identified to IHS officials on September 6, 2017; and
- discussed our findings with IHS officials on September 6, 2017.

We conducted this performance audit 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: STATISTICAL SAMPLING METHODOLOGY

TARGET POPULATION

The target population consisted of the purchase card transactions incurred by IHS employees using the Government purchase card during FY 2015.

SAMPLING FRAME

Our sample frame consisted of two strata that comprised 46,266 purchase card transactions totaling \$39,798,823 of expenditures incurred by IHS during FY 2015.

In determining our sample frame, we initially obtained 78,781 purchase card transactions totaling \$47,568,185 incurred by IHS employees at 15 offices during FY 2015. We limited our frame to eight high-impact offices and removed all centrally billed accounts from that frame. We determined an area office to be high-impact if the office's transactions made up a high percentage of total dollars in our scope or had a high per-transaction dollar amount. We thus removed 13,940 transactions totaling \$7,066,297 that either were centrally billed accounts or were incurred by non-high-impact IHS field offices. The resulting sampling frame was 64,841 transactions totaling \$40,501,888.

We separated the resulting sampling frame into two strata. Stratum 1 had 36 potentially high-risk transactions (footnote 9 and Appendix A) totaling \$207,148. Stratum 2 was all other transactions not selected for review in stratum 1 that had transactions of greater than \$100; stratum 2 was 46,230 transactions totaling \$39,591,675. Of the transactions in stratum 2, 18,575 totaling \$703,065 were removed as being for \$100 or less. From the remaining transactions, we randomly selected 100 to review.

Our statistical estimate was restricted to the 46,266 transactions, totaling \$39,798,823.

SAMPLE UNIT

The sample unit was one purchase card transaction.

SAMPLE DESIGN

We used a stratified statistical sample. We divided the sampling frame into two strata based on assessed risk areas. All transactions were unduplicated, which means that each transaction appeared in only one risk area and only once in the entire sampling frame. See Table 6 on the following page.

Table 6: Stratified Sample Design

Stratum	Risk Areas	Number of Transactions	Sample Size	Dollar Value of Frame Units
1	High-Risk Transactions ¹²	36	36	\$207,148
2	All Other Transactions	46,230	100	\$39,591,675
Totals		46,266	136	\$39,798,823

SAMPLE SIZE

We selected all of the 36 IHS purchase card transactions in stratum 1 and randomly selected 100 purchase card transactions from stratum 2. Thus, our total sample size was 136 purchase card transactions.

SOURCE OF RANDOM NUMBERS

The source of the random numbers was the OIG, Office of Audit Services (OAS), statistical software.

METHOD FOR SELECTING SAMPLE ITEMS

We selected all of the 36 IHS purchase card transactions in stratum 1. We consecutively numbered the sample units in stratum 2 from 1 to 46,230. We generated 100 random numbers for stratum 2 and selected the corresponding frame items for review.

ESTIMATION METHODOLOGY

We calculated the point estimate along with the 90-percent confidence interval for the dollar value of any purchase card transactions for FY 2015 that did not comply with Federal requirements and IHS policy. We used the OIG, OAS, statistical software to calculate the point estimate (Appendix C). We calculated the confidence interval for this estimate using the empirical likelihood approach, which we programmed using the Microsoft Excel software.

¹² See footnote 9.

APPENDIX C: SAMPLE RESULTS AND ESTIMATES

Table 7: Overall Sample Details and Results

Stratum	Number of Purchase Card Transactions in Frame	Value of Frame	Sample Size	Value of Sampled Purchase Card Transactions	Number of Purchase Card Transactions in Error	Value of Purchase Transactions in Error
High Risk	36	\$207,148	36	\$207,148	14	\$83,678
All-Other-Transactions	46,230	39,591,675	100	90,743	11	6,290
	46,266	\$39,798,823	136	\$297,891	25	\$89,968

Table 8: Overall Estimates

	Estimated Value of Purchase Card Transactions in Error
Point Estimate	\$2,991,476
Lower Limit	\$1,222,646
Upper Limit	\$6,822,864



TO: Gloria L. Jarmon
Deputy Inspector General for Audit Services

FROM: Acting Director

SUBJECT: IHS Comments on OIG Draft Report (A-07-16-05090) "The Indian Health Service's Controls Were Not Effective in Ensuring That Its Purchase Card Program Complied With Federal Requirements and Its Own Policy"

We appreciate the opportunity to review the draft OIG audit report titled, "The Indian Health Service's Controls Were Not Effective in Ensuring That Its Purchase Card Program Complied With Federal Requirements and Its Own Policy" (A-07-16-05090). IHS concurs with all of the OIG recommendations. Below you will find a description of the status of actions taken to date to implement the OIG recommendations and those planned in the near future.

General Comments by IHS

Recommendation 1: Adequately monitor purchase card usage.

IHS concurs with this recommendation.

Status of actions taken or planned to implement Recommendation 1:

IHS is adequately monitoring purchase card usage of the purchase card through the following actions:

- By September 30, 2018, IHS will issue in the *Indian Health Manual* a supplemental policy guide to the HHS Purchase Card Program Directive, which will clarify purchase card responsibilities for each identified role and address IHS-specific issues.
- By September 30, 2018, IHS will launch the use of an analytic data tool (Qlik) agency-wide to generate recurring data reports that identify buying trends and possible infractions/anomalies to better mitigate risk of improper use.
- By September 30, 2018, IHS will require all active cardholders to complete a new cardholder agreement to re-emphasize each cardholder's responsibility for usage and maintenance of their purchase card account;
- IHS will reinforce management accountability through monthly Area Office A/OPC calls to discuss policy and ensure understanding, identify training requirements and opportunities, and disseminate information;
- By September 30, 2018, IHS will streamline the purchase card requisition form to be used IHS-wide for consistency in processes, workflow, and management approval.

Recommendation 2: Ensure that all IHS purchase cardholders complete HHS required training.

IHS concurs with this recommendation.

Status of actions taken or planned to implement Recommendation 2:

- By September 30, 2018, IHS will ensure that all active IHS cardholders complete the required refresher computer-based purchase card training;
- By October 31, 2018, IHS will conduct quarterly webinar and instructor-led training for new cardholders to include a scenario-based question and answer session;
- By December 31, 2018, IHS will improve and increase recurring review of IHS purchase cardholder training certificates by developing a central purchase card training certificate repository (e.g., SharePoint). When cardholders do not complete required training, corrective action will be taken, including suspension of the cardholder's purchase card account;
- By January 1, 2019, IHS will request and coordinate with the new SmartPay3 contractor an interface with LMS, DAU, and HHS University to provide easy access to training and an effective management of training records.

Thank you for the opportunity to comment on this draft report. This feedback will be used to help IHS improve its overall management control systems. If you have any questions or concerns about the response, please contact Ms. Athena Elliott, Director, Office of Management Services, IHS, by telephone at (301) 443-5104.

/Michael D. Weahkee/

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