

INTRODUCTION

Good morning, Mr. Chairman and Members of the Subcommittee. I am Janet Rehnquist, Inspector General for the Department of Health and Human Services (HHS). The mission of the Office of Inspector General (OIG) is to identify ways to improve HHS programs and operations and protect them against fraud, waste and abuse. We do this by conducting independent and objective audits, evaluations and investigations, which provide timely, useful and reliable information and advice to Department officials, the administration, the Congress and the public. In carrying out our mission, we work with the Department and its operating divisions, the Department of Justice (DOJ), other federal and state agencies, and the Congress to bring about improvements in HHS programs and operations and prosecute and/or recover funds from those who defraud the government.

I appreciate the opportunity to be part of today's discussion on the oversight and management of the government purchase card program and to tell you about the ongoing work of the HHS-OIG in reviewing how these cards are being used by HHS employees.

BACKGROUND

Approximately five years ago, HHS began using International Merchant Purchase Authorization Cards (IMPAC) to eliminate the cumbersome and costly use of procuring small purchases with purchase orders. IMPAC use streamlined Government purchases,

reduced payment lead time, and reduced paperwork and administrative costs. The cardholders procure items for their respective components but are not personally billed. The credit card company is paid directly with the component's appropriated funds. HHS has approximately 7,500 IMPAC cardholders. A rough estimate is that \$151.7 million was spent using IMPAC cards during the six month period from January 2001 to June 2001.

OIG Work Involving IMPAC Cards

The day after it became public that the Department of Education found fraudulent use of IMPAC cards by its employees, my Office of Investigations (OI) initiated a project to ascertain whether the IMPAC system was being misused within the Department of Health and Human Services. This review began in late June of 2001. I consider this review to be an essential part of the OIG's duties and responsibilities to oversee Departmental spending, and Secretary Thompson has asked me to expedite our review and work with the Department to improve the management of this program. The project is twofold: 1) an ongoing review of the purchases made by Departmental IMPAC cardholders and 2) a review of the IMPAC systems and procedures utilized by the Department.

The first part of this review is already underway. We began by obtaining billing information directly from U.S. Bank, the bank that issues and processes the IMPAC purchase cards. In addition to the credit card, the bank also processes IMPAC checks that are associated with the card. Due to U.S. Banks' electronic storage limitation, only two years of transaction data could be obtained initially. Our database presently consists of 1.5 million individual

purchases, and OI continues to expand the material we are reviewing in that database with monthly data updates from U.S. Bank.

The electronic database currently includes all transactions made during the period from November 1999 through March 2002 by HHS employees with IMPAC cards. We are reviewing these transactions for unusual purchases made with the cards. Unusual transactions include purchases that do not appear to be business related or are for amounts much higher than the typical office expenditure.

The unusual transactions, along with a complete electronic copy of the cardholder's purchase history, are referred to the appropriate regional OI office for case development and investigation if appropriate. In many instances, the cases are referred back to the appropriate component to ask for supporting documentation before a further inquiry is made. To date, the OIG has made 24 referrals to its regional offices involving possible misuse of the IMPAC card by 43 employees. Twenty-one of these cases have been opened for further inquiry, and three have been closed administratively with no criminal activity uncovered.

RESULTS OF REVIEW

After approximately six months of review, we have found a number of procurement irregularities in the use of the IMPAC card within the Department. Purchases have been made at clothing stores, gas stations, transit authorities, cinemas, florists, toy stores, jewelry

stores, food establishments (primarily grocery stores and restaurants), and other business establishments. We are currently investigating these transactions for possible misuse.

The review has also revealed that some cards were misused by HHS employees with their supervisors' approval. For example, travel expenses were charged to the card when they should be charged to official travel cards. Fees for individual memberships in professional organizations were charged to the card when employees should have paid out-of-pocket for these memberships. The card is also used to purchase food items and bottled water for some offices. Misuses of these types will be referred to the Secretary of HHS for appropriate administrative action.

A review of the electronic data also included a review of the use of IMPAC checks by some components within the department. We found that only some of the components within the Department use the IMPAC checks. The sole purpose of using these checks is to provide a form of payment to vendors who will not accept the IMPAC card. U.S. Bank charges a fee of 1.5 percent of the amount of the check for each check written. IMPAC checks from November 1999 through March 2002 total over \$13 million.

Our findings also indicate that checks are being written when the IMPAC credit card should have been used. Because of the 1.5 percent transaction fee, this type of misuse can cause taxpayers additional unnecessary expenses. The review identified instances where the checks were being used where a credit card would have been accepted.

We have also identified several instances in which IMPAC checks were written out to fellow employees of the cardholder or, in some instances, the cardholder themselves. The dollar amount and use of these checks raised questions as to the validity of the purchase, i.e., whether the purchases were business related or whether they were personal purchases.

In some instances, the checks are written as reimbursement for appropriate business purchases made by fellow employees. Purchasing items in this manner is an inappropriate use of the card. For example, one component allowed its employees to purchase steel-toed shoes for wear at work with the card. Each employee bought their own shoes and gave the receipt to the cardholder who reimbursed the employee with an IMPAC check. Since the purchases were made in this manner, the Government paid the additional bank fee of 1.5 percent as well as tax. These fees would not have been charged if the credit card would have been used. It also negated a possible discount arrangement with the vendor for bulk item purchases which could have resulted in additional savings for the Government.

A troubling result of our ongoing review was the realization that HHS has no centralized policy or guidelines for the many components within the Department regarding the use of IMPAC purchases or the use of IMPAC checks. Consequently, purchase authorizations and oversight varies from component to component within the Department, thereby presenting greater opportunity for inappropriate use. We will be working with the Department to determine what steps are necessary to ensure better oversight of the IMPAC program.

RESULTS OF PRIOR INVESTIGATIONS

Prior to our current review initiated in June of 2001, our files indicated at least two OI investigations involving similar conduct. A brief summary of these cases follows:

- A former administrative technician with the National Institutes of Health was sentenced to 10 months in prison followed by 3 years probation, ordered to pay \$74,140 in restitution, and fined \$100 after pleading guilty to theft of Government property. The employee made unauthorized purchases for laptop computers, digital cameras, and other electronic equipment using her Government IMPAC card. She sold some items she purchased for cash and kept others for her personal use. In carrying out her scheme, the former employee altered invoices to disguise the purchases and forged the certifying official's signature on purchase requests and receiving reports.
- A former procurement clerk with the Indian Health Service was sentenced to 5 years probation, 50 hours of community service, and ordered to pay \$6,450 in restitution after pleading guilty to embezzling Government funds. The employee used her IMPAC card to rent a car for personal use.

CONCLUSION

While our reviews are ongoing, we found that the IMPAC purchases we have reviewed thus far appear to be appropriate. However, our reviews have also shown there is the potential for improper use of IMPAC accounts. Some purchases indicate misuse or possible fraudulent

actions, i.e., personal purchases, while others appear to violate the component's policies and guidelines.

We are pursuing allegations of fraudulent use of these cards for possible criminal prosecution. At the same time, we will be referring those that appear to be instances of mismanagement to the Secretary of HHS for review and appropriate administrative action. In order to continue to monitor this issue, we have incorporated these reviews into our workplan, and we will continue to obtain data updates from U.S. Bank on a monthly basis detailing all IMPAC expenditures.

Additionally, we found inconsistencies in the use of the IMPAC cards among Department components because of the lack of a centralized HHS policy with clear guidelines. Once both phases of our review are completed, we will be working with the Department to develop ways to improve, clarify and correct purchase procedures for the Department, and to help ensure these purchase tools are used properly.

My organization has been part of a broader review of this matter as a member of the President's Council on Integrity and Efficiency (PCIE) committee. We have had the opportunity to participate in the discussions and development of the guide currently under review by members of the Inspector General community, an important effort, which my colleague, Johnnie Frazier, is addressing today as part of this hearing.

At a time when there are increased demands on the Department's finite resources, ensuring precision in this method of Government procurement is vital. Resources not lost to waste, fraud and abuse enable the Department and its agencies to better serve the populations of our important programs for which they are intended as well as ensuring taxpayer dollars are well spent.

Again, I appreciate the opportunity to appear before you today to discuss our work in this important area. I look forward to continuing to work together with Secretary Thompson and the Congress to ensure the department's programs and operations serve the nation with integrity, efficiency and effectiveness.

I welcome your questions.