



U.S. Department of Housing and Urban Development, Washington, DC

Government Purchase Cards

**Office of Audit, Region 7
Kansas City, KS**

**Audit Report Number: 2020-KC-0001
January 31, 2020**



To: Ronald C. Flom
Chief Procurement Officer, N

From: //signed//
Ronald J. Hosking
Regional Inspector General for Audit, 7AGA

Subject: HUD's Purchase Card Program Had Inaccurate Records, Untimely Training, and Improper Purchases

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of HUD's compliance with the purchase card program requirements.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, appendix 8M, requires that OIG post its reports on the OIG website. Accordingly, this report will be posted at <https://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 913-551-5870.



Audit Report Number: 2020-KC-0001

Date: January 31, 2020

HUD's Purchase Card Program Had Inaccurate Records, Untimely Training, and Improper Purchases

Highlights

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) purchase cards for fiscal years 2017 and 2018, based on our annual risk assessment, as required by the Government Charge Card Abuse Prevention Act of 2012, Public Law 112-194, and Office of Management and Budget Memorandum M-13-21. The risk assessment (2019-KC-0801) found that there was a moderate risk of illegal, improper, or erroneous purchases and payments occurring in HUD's purchase card program. Our audit objective was to determine whether HUD maintained accurate records of cardholders and transactions; HUD employees took purchase card training when required; and HUD purchase cards were used for illegal, improper, or erroneous transactions.

What We Found

HUD did not have accurate and complete records of cardholders and transactions, including errors in cardholder closure dates, errors in training dates, inadequate tracking of merchant category code (MCC) overrides, and incomplete transactional data. In addition, purchase cardholders and approving officials did not always take purchase card training when required. Further, we identified 10 instances in which HUD purchase cards were used for improper purchases and incurred improper interest charges totaling \$29,423.

What We Recommend

We recommend that the Chief Procurement Officer (1) implement processes to periodically audit or reconcile the shared service provider's records, (2) review hierarchies, (3) ensure that training is taken when required, (4) suspend cardholders or approving officials who fail to take training or repeatedly cause HUD to pay interest, and (5) research the incomplete monthly transactional data and identify a solution. In addition, we recommend that the Chief Procurement Officer (1) enhance the process to periodically analyze data for split transactions or improper MCCs, (2) improve notifications to employees, and (3) follow up on any potential issues identified.

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Background and Objective

On October 5, 2012, the Government Charge Card Abuse Prevention Act of 2012, Public Law 112-194, was signed into law. The Charge Card Act was designed to prevent abuse in government charge card programs. This law required all executive branch agencies to establish and maintain safeguards and internal controls for their use of purchase cards. Further, it required offices of inspector general to (1) conduct periodic risk assessments of the agency purchase card program to identify and analyze risks of illegal, improper, or erroneous purchases; (2) perform analysis or audits, as necessary, of purchase card transactions to identify potentially illegal, improper, or erroneous use of purchase cards, any pattern of such uses, and categories of purchases that could be made by means other than purchase cards; (3) report to the head of the executive agency concerned on the results; and (4) report to the Director of the Office of Management and Budget (OMB) on the implementation of recommendations.

The General Services Administration (GSA) administers the government charge card program, also known as the SmartPay program. This program provides purchase cards to agencies or departments throughout the Federal Government. GSA designed purchase cards to streamline transaction processing; increase accountability; and provide a more efficient and effective means to monitor transactions and identify fraud, waste, and abuse.

The U.S. Department of Housing and Urban Development (HUD) uses Citibank as its purchase card provider. HUD contracted with the Administrative Resource Center (ARC) within the Bureau of the Fiscal Service, U.S. Department of the Treasury, to provide supportive services to the HUD purchase card programs. ARC assists with the opening and closing of Citibank card accounts, placing and removing purchasing blocks for HUD-restricted merchant category codes (MCC), generating regular monitoring reports, and tracking required purchase card training. Citibank uses MCCs to identify transactions by merchant or by type of good or service purchased.

HUD's Office of the Chief Procurement Officer (OCPO) administers the HUD purchase card program with the assistance of the Office of Chief Human Capital Officer (OCHCO). OCPO established purchase card policies issued in compliance with the Federal Acquisition Regulation (FAR), the Housing and Urban Development Acquisition Regulation, appendix B of Office of Management and Budget Circular A-123, and the GSA SmartPay2 Program. OCHCO manages the day-to-day operations, including monitoring purchase card use. In addition, the Office of Public and Indian Housing, Real Estate Assessment Center (REAC), Reverse Auction Program, has a process for securing property inspection services for HUD-assisted housing. When a contractor completed its inspection and the inspection was approved by HUD, the contractor billed using Citibank purchase card accounts.

The table below shows the total number of transactions and their total dollar amounts during fiscal years 2017 and 2018 for the HUD purchase card program.

	Number of transactions*	Total amount spent
Fiscal year 2017	17,010	\$9,238,941
Fiscal year 2018	9,480	5,669,535
Totals	26,490	14,908,476

* In addition, there were 644 adjustments totaling \$5,007 and 652 refunds totaling \$275,286.

Our audit objective was to determine whether HUD maintained accurate records of cardholders and transactions; HUD employees took purchase card training when required; and HUD purchase cards were used for illegal, improper, or erroneous transactions.

Results of Audit

Finding 1: HUD Did Not Have Accurate and Complete Records, and Employees Did Not Take Purchase Card Training

HUD did not have accurate and complete records of cardholders and transactions, and employees did not always take purchase card training when required. This condition occurred because HUD did not have adequate controls to ensure that its shared service provider, ARC, provided accurate and timely information and to ensure compliance with training and span-of-control requirements. As a result, HUD did not have accurate information to use for monitoring purposes and faced an increased risk of improper purchase card transactions.

Inadequate Records and Training

HUD did not have accurate and complete records of cardholders and transactions, and employees did not always take purchase card training when required.

Inaccurate and Incomplete Cardholder Records

HUD did not have accurate and complete records of cardholders. There were 182 cardholders with transactions during the audit period. ARC maintained the official list of closed and open cardholders. The official list was inaccurate. It showed account closure dates for two cardholders before our audit period, although the account holders made purchases during the audit period and had their accounts closed only recently. In addition, ARC maintained records tracking HUD purchase card training. ARC's official lists of purchase card training contained inaccurate training completion dates. Based on the inaccurate dates, six cardholders appeared to have been late on their training when they were not.

HUD's records were incomplete as they did not include a summary of each purchase card hierarchy to document each approving official's span of control. The cardholder's hierarchy refers to the division they fall under within HUD. Because the records did not include a count of how many cardholders were assigned to each approving official, HUD was not aware that two hierarchies exceeded the ratio of approving officials to purchase cardholders, known as the span-of-control requirement. The Government Purchase Card (GPC) program policy guide limited approving officials to a maximum of seven cardholders (appendix C). However, out of 50 hierarchies, we found 2 that were out of compliance with 8 cardholders per approving official during the audit period.

Inaccurate and Incomplete Records of Transactions

HUD did not have accurate and complete records of transactions. HUD restricted its purchase cards from use with certain MCCs it identified as risky or outside HUD's usual operations. HUD allowed cardholders to submit a written request to OCHCO for a temporary lift in special situations. ARC tracked OCHCO's approval of these lifts. ARC provided two versions of its official tracking lists during our audit, but there were discrepancies between them. ARC's original list was developed from a master spreadsheet, which is a comprehensive tracking list

and includes all actions performed, not just MCC lifts. The second list was created from a new spreadsheet with a separate workbook just to track MCCs. ARC missed MCC lifts on the original list when it pieced together multiple tracking sheets to develop an MCC report. In addition, some approved lifts were missing from the lists. We sampled 25 transactions made at MCC-restricted merchants without a corresponding lift shown on either version of the list totaling \$43,383. Documentation showed that although HUD approved a lift for 19 of the 25 transactions, that lift was not recorded on the official tracking document.

Further, the ARC-provided monthly transmission of purchase card transactions did not include all transactions. OCPO used this spreadsheet to monitor for improper transactions, such as split purchases. OCPO was unaware that this monthly transmission was incomplete until we brought it to OCPO's attention during this audit. OCPO was unsure how long this monthly transmission had been incomplete.

Late Training

Thirty-three cardholders and approving officials did not take purchase card training when required. OMB Circular A-123, appendix B revised, provides that at a minimum, all program participants must take refresher training every 3 years (appendix C). Twenty-seven of those cardholders and approving officials completed the training between a few days and more than a year late. Six of those employees are no longer active cardholders or approving officials. In addition, none of the REAC cardholders completed purchase card training. However, all REAC cards are now closed so no corrective action is needed.

Inadequate Controls Over Records and Training

HUD did not have adequate controls to ensure that ARC provided accurate and timely information and to ensure compliance with training and span-of-control requirements.

HUD did not periodically reconcile or audit ARC's records. During our audit, ARC provided two different versions of the MCC list of approved lifts, purchase card training lists, and closed cardholder lists. HUD kept its own lists of many of these items as well but did not reconcile or audit ARC's lists to its own lists. HUD could have identified much of the inaccurate or incomplete information if it had done so.

HUD did not have adequate controls to detect hierarchies that exceeded its span-of-control requirement in a timely manner. HUD checked ratios periodically as well as when cardholders or approving officials retired, separated, moved program offices, or left the agency. However, it did not have a process for reviewing hierarchies more regularly to ensure that it met the span-of-control requirement.

HUD did not have a process for detecting that ARC provided incomplete monthly transactional data. HUD assumed that since it paid ARC to provide these data, the data would be complete and accurate. HUD was unsure why the monthly transactional data from ARC were incomplete and inaccurate and was unsure how long it had been receiving incorrect data.

HUD did not have a control to ensure that ARC notified cardholders and approving officials before purchase card training became due. ARC provided HUD with a listing of cardholders and approving officials who were due for purchase card training so HUD could email those

employees. However, ARC did not always send the training due notifications in a timely manner to allow cardholders and approving officials to complete training on time. Some notifications were sent after the training was due, and HUD did not follow up with the employee for 6 months.

HUD did not have adequate controls to prevent continued spending once purchase card training had lapsed. The GPC program policy guide states that failure to complete required refresher training may lead to the suspension of accounts and revocation of duties until training is successfully completed (appendix C). However, HUD stated that this policy was not enforced and there were no specific consequences for late training. In addition, HUD allowed cardholders to continue making purchases and approving officials to continue approving purchases after their training had lapsed.

Increased Risk of Improper Purchases

HUD did not have accurate information for monitoring purposes and faced an increased risk of improper purchase card transactions.

HUD did not have accurate records for monitoring purposes. The GPC program policy guide states that ARC is required to maintain a centralized list that captures the training of all cardholders and approving officials, including refresher training for auditing purposes (appendix C). This list was incomplete and inaccurate and did not allow HUD to properly monitor the purchase card training of its employees. In addition, the MCC list of approved lifts maintained by ARC did not allow HUD to have accurate information to monitor the lifts. Lastly, the monthly transactional data transmission from ARC was missing purchase card transactions, which affected monitoring for split and improper purchases.

HUD faced increased risk of improper purchase card transactions. HUD's purchase card program was exposed to increased risk from the 12 cardholders and approving officials with expired training who made purchases or approved transactions totaling \$652,542 in fiscal year 2018. These 12 cardholders and approving officials made or approved 952 transactions after their training lapsed. In addition, as an approving official's span of control and monthly transaction review increased, the risk of failure to identify improper purchase transactions increased.

Conclusion

HUD had inaccurate and incomplete records, and employees did not always take purchase card training. This condition occurred because HUD did not have adequate controls to ensure that ARC provided accurate and timely information relating to MCC lifts, open and closed cardholder lists, and monthly transactional data and to ensure compliance with training and span-of-control requirements. By implementing our recommendations, HUD will lower its risk of improper purchase card transactions.

Recommendations

We recommend that the Chief Procurement Officer

- 1A. Implement a process to periodically audit or reconcile ARC's records.

- 1B. Implement a process to periodically review approving officials' span of control to ensure that the requirement is not exceeded.
- 1C. Implement a process with ARC to ensure that cardholders and approving officials are notified before purchase card training is due to allow training to be completed in a timely manner.
- 1D. Implement a process to ensure that purchase cards are suspended when a cardholder or approving official fails to complete training.
- 1E. Research why ARC provided incomplete monthly transactional data and identify a solution to ensure the completeness of future transmissions.

Finding 2: HUD Purchase Cards Were Used for Improper Purchases

HUD purchase cards were used for 10 improper purchases and incurred improper interest charges. This condition occurred because HUD did not have effective controls to prevent or detect split purchases, improper purchases from vendors with agency-restricted MCCs, and untimely reconciliation of cardholder statements. As a result, HUD lacked assurance that government purchase cards were used properly for \$29,423 in transactions.

Improper Purchases

HUD purchase cardholders made two purchases that in total exceeded the micropurchase threshold and two purchases that lacked supporting documentation. We reviewed 54 occasions totaling \$303,291 comprised of multiple purchases to the same vendor on the same day, which in total exceeded the applicable micropurchase threshold. Federal procurement regulations require contracting procedures above the micropurchase threshold and prohibit splitting transactions to avoid contracting procedures. The GPC program policy guide gives examples of situations that would not constitute splitting, such as when the items are charged to different funding sources (appendix C). Two of the items reviewed constituted split transactions: two orders for disaster apparel on the same day totaling \$14,718 and two payments for a court reporter for a 2-day deposition totaling \$3,861. Of the 54 purchases, 40 were not considered split transactions based on HUD's Acquisition Policy and Procedures, which allowed training costing up to \$25,000 to be acquired using the Standard Form (SF) 182 (appendix C). The remaining 12 items reviewed were not split transactions based on the timing and purposes of the orders. However, of the 40 training purchases, one cardholder was unable to provide documentation to support \$809 of one transaction, and another cardholder was unable to support why she failed to receive a refund of \$998, for a total of \$1,807.

HUD purchase cardholders made six purchases from restricted MCCs without requesting an unblocking of the code restriction. As discussed in finding 1, we sampled 25 transactions made at MCC-restricted merchants without a corresponding lift shown on the official tracking log. The GPC program policy guide requires cardholders to request from the field coordinator and ARC that the MCC be overridden before making the purchase (appendix C). While the documentation showed that the cardholder's management approved the specific purchases, it did not show that the cardholder received a separate override approval to purchase from the merchant with the blocked MCC for these six purchases totaling \$8,322. Each of these cardholders had the restricted MCC codes unblocked for a previous purchase, and it appeared that the override was not removed after that purchase. For example, one cardholder had an approved override in February 2017 for \$2,470, but after making that purchase, she made three additional purchases from March through July 2017 totaling \$4,657 without additional approvals.

HUD paid a small amount of improper interest for purchase card statements that were not reconciled and paid on time. The Act requires that payments on purchase card accounts be made promptly within prescribed deadlines to avoid interest penalties (appendix C). HUD paid for 316 transactions late, resulting in \$715 in interest to Citibank during the audit period. HUD's 2018 Charge Card Management Plan states that cardholders and approving officials must ensure that

statements are promptly reconciled electronically through the servicing bank (appendix C). The approving officials did not approve statements so they autoclosed in the CitiDirect System without payment. The GPC program policy guide states that when an autoclose occurs, an interest penalty is required because the payment was not timely (appendix C).

HUD's Internal Controls Over Purchase Cards Were Not Effective

HUD did not have effective controls to prevent or detect split purchases, improper purchases from vendors with agency-restricted MCCs, and untimely reconciliation of cardholder statements.

HUD did not have effective controls to prevent or detect split purchases. As stated in finding 1, HUD did not know that ARC provided incomplete monthly transactional data used for detecting split purchases. HUD's process did not catch the incomplete monthly transactional data that HUD used. The process needs to be enhanced to ensure that the information HUD uses for prevention and detection of split purchases is complete. In addition, HUD's review for split purchases needs to be enhanced and documented.

HUD did not have effective controls to prevent or detect improper purchases from vendors with agency-restricted MCCs. ARC managed the unblocking and blocking of MCCs but did not provide HUD assurance that HUD-requested overrides were removed after the purchase. ARC did not adequately track the status of HUD-approved override requests. The log did not track the date of the removal of the MCC override, the amount of the approved override, or the staff responsible for approving or removing the override. The process to request an MCC override was completely manual, requiring input from the cardholder, his or her approving official, the field coordinator, and ARC. In addition, several HUD and ARC employees were able to approve and process an override request, resulting in multiple employees updating the tracking list.

HUD did not have effective controls to prevent or detect the untimely reconciliation of cardholder statements. HUD cardholders and approving officials did not get autonotifications from the CitiDirect System, showing that statements were available for review, needed to be certified, were nearing due dates, or were about to autoclose. The system sent out notifications only if the cardholder or approving official set it up to receive them. In addition, HUD did not have a process for suspending cardholders or approving officials who repeatedly caused HUD to pay interest. One approving official was responsible for 65 of the late transactions HUD paid interest on.

Noncompliance With the Act

As a result of the issues noted above, HUD lacked assurance that government purchase cards were used properly for the ten purchases and interest totaling \$29,423. The Government Charge Card Act of 2012 required HUD to establish internal controls to identify improper purchases. The Act further required that all purchase card payments be made promptly and within prescribed deadlines (appendix C). However, for the items identified in this finding, HUD could not accomplish either of these requirements.

Conclusion

HUD purchase cardholders made several improper purchases and caused HUD to pay improper interest charges. For the items discussed in this finding, no repayment is necessary except for the

two instances that lacked supporting documentation. HUD's controls could be strengthened in these areas. By implementing our recommendations, HUD should ensure future compliance with the Act.

Recommendations

We recommend that the Chief Procurement Officer

- 2A. Enhance the process to periodically analyze data for split transactions or improper MCCs and follow up on any potential issues identified.
- 2B. Require ARC to update its MCC tracking log, to include the amount, the date of MCC override removal, and staff assigned, to ensure that an override is removed after the approved purchase is made.
- 2C. Implement a process with Citibank and ARC to provide global notifications to cardholders and approving officials before autoclosures of credit card statements.
- 2D. Implement a process to suspend cardholders or approving officials who repeatedly cause HUD to pay interest.
- 2E. Obtain supporting documentation for the \$1,807 spent on two cardholders' purchase cards or require the vendors or cardholders to repay the funds to the applicable HUD program.

Scope and Methodology

Our audit period covered October 1, 2016, through September 30, 2018. We extended the audit period into fiscal year 2019 when following up on the resolution of span-of-control issues and late training. We performed our audit work from April through October 2019. We conducted onsite work at HUD headquarters at 451 7th Street SW, Washington, DC.

To accomplish our objective, we

- reviewed prior Office of Inspector General (OIG) audit reports and risk assessments;
- reviewed the status of purchase card audit recommendations;
- reviewed applicable laws and regulations;
- reviewed the two relevant versions of HUD's GPC program policy guide;
- reviewed the Bureau of the Fiscal Service Government Purchase Card Procedures;
- reviewed HUD's Government Purchase Card Suspected Violations Response Policy;
- reviewed the 2017 and 2018 management plans;
- interviewed HUD and Bureau of the Fiscal Service officials;
- reviewed listings of HUD purchase cards closed between October 1, 2016, and September 30, 2018;
- reviewed a listing of active purchase cardholders, their approving officials, and spending limits;
- reviewed the purchase card blocked and unblocked MCC listing;
- reviewed a list of purchase card training for HUD purchase cardholders and their approving officials;
- reviewed a listing of approved MCC lifts;
- reviewed fiscal years 2017 and 2018 HUD purchase card transactional data; and
- selected and tested individual purchase card transactions.

To achieve our objective, we relied in part on data obtained from Citibank's Client Reporting System. We directly accessed Citibank's Client Reporting System to obtain all purchase card transactions for fiscal years 2017-2018. This action resulted in identifying 26,490 purchase card purchases. To test the data reliability, we compared the names and transaction amounts in the Citibank system with HUD records for a small sample and found the data to be adequate for our purposes.

We used data analysis tools to identify 463 transactions totaling \$308,487 made at MCC-restricted merchants. We compared these transactions with the approved list of MCC lifts to determine that HUD made 144 transactions totaling \$57,992 at MCC-restricted merchants without a corresponding lift on HUD's approved list of lifts. We applied a \$500 threshold to the 144 to select the highest impact items and selected for further review the resulting 25 purchase card transactions totaling \$43,383. In addition, we identified 53 transactions totaling \$15,818 in which an MCC lift was used for more than one transaction. We again applied a \$500 threshold and selected for further review the resulting seven transactions totaling \$11,851. We obtained

and reviewed supporting documentation from HUD for each of the 32 purchases in our sample to determine whether the purchase was made with an approved lift. In the first group of 25 transactions, we determined that 19 were approved for a lift but not recorded on the tracking log, while 6 purchases did not have an approved lift. For the second group of seven, each purchase had an approved lift. The results of this sample review cannot be projected to the universe.

We used data analysis tools to identify 54 groups of purchase card purchases with indications that they were potentially split transactions. We defined a split transaction as more than one purchase made at the same merchant on the same day in which the combined purchases exceeded the maximum purchase thresholds of \$3,500 or \$10,000, depending on the date of the transaction. The purchase threshold was raised on March 11, 2018, to \$10,000 for nonservice, nonconstruction transactions. We reviewed all 54 groups of potential split transactions, totaling \$303,291 and consisting of 188 individual transactions. We obtained and reviewed supporting documentation from HUD for each of these transactions to determine whether the purchase was proper. We determined that two groups were split transactions and an additional two partially lacked supporting documentation. The results of this 100 percent selection review cannot be projected to any items beyond the 54 groups of purchases reviewed.

We conducted the 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 objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Internal Controls

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Controls over the purchase card programs to ensure that government purchase cards are used in accordance with applicable Federal regulations and HUD policies.
- Controls to ensure that purchase cards are properly used for authorized and legal purchases.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- HUD did not have adequate controls to ensure that its shared service provider, ARC, provided accurate and timely information and to ensure compliance with training and span-of-control requirements (finding 1).
- HUD did not have effective controls to prevent or detect split purchases, improper purchases from vendors with agency-restricted MCCs, and untimely reconciliation of cardholder statements (finding 2).

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Unsupported 1/
2E	\$1,807
Totals	1,807

1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1

 U.S. Department of Housing and Urban Development
Washington, D.C. 20410
JAN 21 2020

CHIEF PROCUREMENT OFFICER

MEMORANDUM FOR: Ronald J. Hosking, Report Inspector General for Audit, 7AGA
FROM: Ronald C. Flom, Chief Procurement Officer, N
SUBJECT: Draft Report – HUD's Purchase Card Program Had Inaccurate Records, Untimely Training, and Improper Purchases

Thank you for the opportunity to comment on the subject draft report. We appreciate your willingness to consider our inputs and explanations in developing this report. We concur with your recommendations and we have started addressing them in readiness for our corrective action.

If you have any questions concerning the response, please contact the Agency Program Coordinator Ms. Martha Bullock at (202) 402-6573 or Dr. Akinsola Ajayi, ACPO, Policy, Systems, and Risk Management at (202) 402-6728.

OIG Evaluation of Auditee Comments

Comment 1 HUD agreed with our recommendations and agreed to take corrective actions. HUD will provide details and target completion dates in its Management Decision.

Appendix C

Criteria

Government Charge Card Abuse Prevention Act of 2012

Section 3. Management of Travel Cards

Sec. 1909. Management of purchase cards.

(a) REQUIRED SAFEGUARDS AND INTERNAL CONTROLS. –The head of each executive agency that issues and uses purchase cards and convenience checks shall establish and maintain safeguards and internal controls to ensure the following:

(1) There is a record in each executive agency of each holder of a purchase card issued by the agency for official use, annotated with the limitations on single transactions and total transactions that are applicable to the use of each such card or check by that purchase card holder.

(2) Each purchase card holder and individual issued a convenience check is assigned an approving official other than the card holder with the authority to approve or disapprove transactions.

(3) The holder of a purchase card and each official with authority to authorize expenditures charged to the purchase card are responsible for—

(A) reconciling the charges appearing on each statement of account for that purchase card with receipts and other supporting documentation; and

(B) forwarding a summary report to the certifying official in a timely manner of information necessary to enable the certifying official to ensure that the Federal Government ultimately pays only for valid charges that are consistent with the terms of the applicable Governmentwide purchase card contract entered into by the Administrator of General Services.

(4) Any disputed purchase card charge, and any discrepancy between a receipt and other supporting documentation and the purchase card statement of account, is resolved in the manner prescribed in the applicable Government-wide purchase card contract entered into by the Administrator of General Services.

(5) Payments on purchase card accounts are made promptly within prescribed deadlines to avoid interest penalties.

(6) Rebates and refunds based on prompt payment, sales volume, or other actions by the agency on purchase card accounts are reviewed for accuracy and properly recorded as a receipt to the agency that pays the monthly bill.

(7) Records of each purchase card transaction (including records on associated contracts, reports, accounts, and invoices) are retained in accordance with standard Government policies on the disposition of records.

(8) Periodic reviews are performed to determine whether each purchase card holder has a need for the purchase card.

(9) Appropriate training is provided to each purchase card holder and each official with responsibility for overseeing the use of purchase cards issued by the executive agency.

(10) The executive agency has specific policies regarding the number of purchase cards issued by various component organizations and categories of component organizations, the credit limits authorized for various categories of card holders, and categories of employees

eligible to be issued purchase cards, and that those policies are designed to minimize the financial risk to the Federal Government of the issuance of the purchase cards and to ensure the integrity of purchase card holders.

(11) The executive agency uses effective systems, techniques, and technologies to prevent or identify illegal, improper, or erroneous purchases.

(12) The executive agency invalidates the purchase card of each employee who—

(A) ceases to be employed by the agency, immediately upon termination of the employment of the employee; or

(B) transfers to another unit of the agency, immediately upon the transfer of the employee unless the agency determines that the units are covered by the same purchase card authority.

(13) The executive agency takes steps to recover the cost of any illegal, improper, or erroneous purchase made with a purchase card or convenience check by an employee, including, as necessary, through salary offsets.

(b) GUIDANCE.—The Director of the Office of Management and Budget shall review existing guidance and, as necessary, prescribe additional guidance governing the implementation of the requirements of subsection (a) by executive agencies.

(c) PENALTIES FOR VIOLATIONS.—

(1) IN GENERAL.—The head of each executive agency shall provide for appropriate adverse personnel actions or other punishment to be imposed in cases in which employees of the agency violate agency policies implementing the guidance required by subsection (b) or make illegal, improper, or erroneous purchases with purchase cards or convenience checks.

(2) DISMISSAL.—Penalties prescribed for employee misuse of purchase cards or convenience checks shall include dismissal of the employee, as appropriate.

(3) REPORTS ON VIOLATIONS.—The guidance prescribed under subsection (b) shall direct each head of an executive agency with more than \$10,000,000 in purchase card spending annually, and each Inspector General of such an executive agency, on a semiannual basis, to submit to the Director of the Office of Management and Budget a joint report on violations or other actions covered by paragraph (1) by employees of such executive agency. At a minimum, the report shall set forth the following:

(A) A summary description of confirmed violations involving misuse of a purchase card following completion of a review by the agency or by the Inspector General of the agency.

(B) A summary description of all adverse personnel action, punishment, or other action taken based on each violation.

(d) RISK ASSESSMENTS AND AUDITS.—The Inspector General of each executive agency shall—

(1) conduct periodic assessments of the agency purchase card or convenience check programs to identify and analyze risks of illegal, improper, or erroneous purchases and payments in order to develop a plan for using such risk assessments to determine the scope, frequency, and number of periodic audits of purchase card or convenience check transactions;

(2) perform analysis or audits, as necessary, of purchase card transactions designed to identify—

(A) potentially illegal, improper, or erroneous uses of purchase cards;

- (B) any patterns of such uses; and
- (C) categories of purchases that could be made by means other than purchase cards in order to better aggregate purchases and obtain lower prices (excluding transactions made under card-based strategic sourcing arrangements);
- (3) report to the head of the executive agency concerned on the results of such analysis or audits; and
- (4) report to the Director of the Office of Management and Budget on the implementation of recommendations made to the head of the executive agency to address findings of any analysis or audit of purchase card and convenience check transactions or programs for compilation and transmission by the Director to Congress and the Comptroller General.

Office of Management and Budget Circular A-123, Appendix B Revised, January 15, 2009

3.4 What are the general training requirements for all charge card programs?

The general training requirements for all charge card programs are:

- All program participants must be trained prior to appointment;
- All program participants must take refresher training, at a minimum, every 3 years;
- All program participants must certify that they have received the training, understand the regulations and procedures, and know the consequences of inappropriate actions. Agencies will determine the method of certification; and
- Copies of all training certificates must be maintained pursuant to U.S. National Archives and Records Administration (NARA) requirements, General Records Schedule 1. Item 10a.

HUD’s GPC Program Policy Guide, May 2017

CHAPTER 1. OVERVIEW OF THE PURCHASE CARD PROGRAM

D. GPC PROGRAM ORGANIZATION.

3. LEVEL 3:

FIELD COORDINATORS: The Field Coordinators are responsible for daily operation of the program in their respective geographical areas to the degree delegated by the OAFSS [Office of Administration Field Support Services]. When a transaction is declined, the cardholder obtains the specific details and then requests a Merchant Category Code (MCC) override through the Field Coordinator. A justification must be provided as part of the request. If the request is adequately justified and approved, the Field Coordinator submits the request to the National APC [Agency Program Coordinator] to authorize the AOPC [Agency Organization Program Coordinator] to process an MCC override. The AOPC will not process any MCC overrides without APC approval. Field Coordinators are also responsible for notifying the APC of any cardholders who have transferred, retired, or terminated their employment; are absent without leave; are on extended leave (with or without pay), or have no further need of a GPC.

CHAPTER 2. ESTABLISHING AND MAINTAINING GPC ACCOUNTS

A. SELECTION AND APPROVAL PROCESS

6. SPAN OF CONTROL. Span of control refers to the extent of review responsibilities placed on a single AO [approving official] for the GPC transactions of one or more cardholders. The number of cardholders assigned to an AO must be reasonable, considering the volume of cardholder activity and the organizational structure, and allow an AO to conduct reviews to ensure timely detection of possible cases of misuse and fraud. The AO shall have direct

knowledge of the cardholder's role and must have the ability to verify receipt of goods or services and have access to supporting documentation associated with purchases. In accordance with the recommendations of the Government Accountability Office (GAO) Audit Guide, dated November 2003, all AOs shall have a maximum of seven (7) cardholders unless authorization to exceed that maximum is received in writing from the APC.

CHAPTER 3. GPC PROGRAM TRAINING

A. GENERAL

2. Training must be consistent with the program participant's level of responsibility or spending authority. Training must familiarize cardholders and AOs with federal laws and regulations, e.g. green purchasing, mandatory source requirements, and Section 508 of the Rehabilitation Act of 1973. Training must identify Departmental policies and procedures that impact purchases and payments made with the GPC. Training must address GPC cardholder and AO roles and responsibilities, proper GPC management, prohibited purchases, purchase limitations, sources of supply, and consequences of incorrect and improper uses of the GPC. Training for the APC must address proper program management, control and oversight tools and techniques, and the role and responsibilities of cardholders and AOs. The BFS [Bureau of the Fiscal Service] ARC AOPC is required to maintain a centralized list that captures the training of all GPC holders and AOs, including refresher training for auditing purposes. The BFS ARC AOPC also maintains training certificates electronically. OCPO retains the right to conduct audits of the training repository to ensure compliance.

B. SINGLE-PURCHASE LIMIT UP TO AND GREATER-THAN THE MPTs [micro-purchase thresholds]

Failure to complete required refresher training may lead to suspension of GPC holder accounts, and revocation of AO, APC, or cardholder duties until training is successfully completed.

TABLE 1. HUD GPC TRAINING PROGRAM, BY AUTHORITY LEVEL

Refresher Training:

- Refresher GPC training every three years (any of the following satisfies this requirement: HUD University course entitled "*Use of Government Charge Cards*"; attendance at GSA's annual training conference; GSA's Smartpay GPC Web-Based Training <http://www.fss.gsa.gov/webtraining/>; HUD-sponsored training for GPC holders and AOs; or an equivalent course as determined by the APC).

Chapter 4. Using the GPC

5. WITHIN DOLLAR LIMITS. Use of the GPC is subject to both "single-purchase" and "monthly purchase" limits. A "single-purchase" limit is a total of those items that may be purchased at one time from a particular vendor. A "monthly purchase" limit is the maximum total dollar amount the cardholder is authorized to procure each month. If a purchase cannot be made within the cardholder's single-purchase limit, the cardholder shall notify the customer to submit the requirement to OCPO or require that the procurement be made by a cardholder with a higher single-purchase limit. The requirement must not be split into two or more separate requirements to avoid exceeding the single-purchase limit. This practice is a violation of FAR Subpart 13.003(c)(2), an extract of which states the following:

"Do not break down requirements aggregating more than the...micro-purchase into

several purchases that are less than the applicable threshold merely to...avoid any requirement that applies to purchases exceeding the micro-purchase threshold.”

Cardholders who deliberately violate the FAR requirements regarding split purchases are subject to have their GPC account cancelled, and could be held personally liable for the charges. In some cases, determining whether a purchase has been split can be difficult.

C. BFS ARC PAYS GPC SERVICING BANK.

Once the statement of account and transactions have been reviewed and approved by the AO, CitiDirect then provides a file to BFS ARC which is interfaced into the Accounts Payable module.

If the AO fails to review and approve GPC cardholder statements, the statement will auto-close and be paid. The APC will monitor reports that identify AOs who fail to perform timely reconciliations and immediately authorize their removal from their AO responsibilities.

APPENDIX I, GLOSSARY

PROMPT PAYMENT ACT: Public Law 97-177 (96 Stat 85, U.S.C. [United States Code] Title 31, Section 1801) requires prompt payment of invoices (billing statements) within 30 days of receipt. An automatic interest penalty is required if payment is not timely.

HUD Acquisition Policy and Procedures 2210.3, REV 10, CHG 1, March 2019

Subchapter 2413.1 – Procedures

2413.101 – General.

2413.101-70 – Acquisition of training.

(a) This policy applies only to the acquisition of commercially available off-the-shelf training (COTS). Training that must be prepared or significantly customized for HUD is generally considered an acquisition of services, and not COTS training.

(f) Processing COTS training requests over the MPT and up to and including \$25,000:

(1) COTS training requests over the MPT and up to and including \$25,000 may be processed and acquired by training coordinators within HUD program offices by completing the SF-182 and the manual obligation document and submitting it to Bureau of Fiscal Services (BFS) for manual obligation. The manual obligation document may be found at URL:

https://arc.publicdebt.treas.gov/fs/fscust_hud_fm_forms.htm

- Enter in the customer web page username and password;
- Click on the Accounts Payable ‘green bar’;
- The miscellaneous Obligation form is the second link in that section.

(2) Each SF-182 must be signed by all the officials identified in “Section D. Approvals,” the Budget Officer in “Section E. Approvals/Concurrence” and also initialed and dated by the program office’s trusted agent in “Section E. Approvals/Concurrence.” The program office’s trusted agent is the employee designated by the program office’s General Deputy Assistant Secretary (GDAS). They must have the ability to validate that COTS training is what is being acquired via the SF-182. The trusted agent performs suitable oversight to ensure the SF-182 is in compliance with HUD’s policies including, but not limited to this AI [Acquisition Instruction]. To enable the BFS ARC to identify who the invoice approver is for each transaction, the person whose name is in Section E will also be the invoice approver in the Invoice Processing Platform (IPP). Program offices must ensure the individual has requisite access to the IPP.

(3) Program offices must have adequate internal controls in place to ensure no individual has the ability to perform all the steps (*e.g.* initiate, approve, award, and pay invoices) on a single transaction.

(4) At a minimum, the information/documentation described in 2413.101-70(e) above will be retained with each SF-182.

HUD's Charge Card Management Plan – January 2018

4.2 Controls, Practices, and Procedures Related to Centrally Billed Account (CBA)

Delinquencies

Purchase

Through the agency's go-green initiative, the monthly statement of account is available to the individual cardholders electronically through the servicing bank's online system. The statement reflects purchases made in the previous 30-day billing cycle. Cardholders and approving officials must ensure that statements are promptly reconciled electronically through the servicing bank. On an annual basis, a calendar of monthly reconciliation dates is provided to the cardholder community. If the cardholder is not able to reconcile within the allotted time period, the approving official must ensure the reconciliation is completed in a timely manner as required in the delegation of authority designation.

The APC monitors cardholder accounts for repeated instances of delinquent reconciliations by cardholders and delinquent approvals by approval officials. Appropriate actions are taken for repeated instances of delinquent reconciliation and approval.