



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

## Government Travel and Purchase Cards

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

**Audit Report Number: 2017-KC-0009  
September 26, 2017**





**To:** Keith W. Surber, Chief Procurement Officer, N  
Towanda A. Brooks, Chief Human Capital Officer, A  
Courtney B. Timberlake, Deputy Chief Financial Officer, F

//signed//

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

**Subject:** Some HUD Employees Used Travel Cards for Potentially Improper Purchases and Purchase Cards Without All Required Approvals

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 travel and 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, section 8M, requires that OIG post its publicly available reports on the OIG website. Accordingly, this report will be posted at <http://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: 2017-KC-0009**

**Date: September 26, 2017**

**Some HUD Employees Used Travel Cards for Potentially Improper Purchases and Purchase Cards Without All Required Approvals**

## Highlights

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### What We Audited and Why

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We audited the U.S. Department of Housing and Urban Development's (HUD) travel and purchase card programs for fiscal year 2016 based on (1) our annual risk assessment of these programs and (2) our requirement under the Charge Card Abuse Prevention Act of 2012 to periodically review government travel and purchase cards. The most recent risk assessment found that there was a moderate risk of illegal, improper, or erroneous transactions occurring. The Act required inspectors general to perform analyses or audits of government charge card programs as necessary. Our audit objective was to determine whether HUD travel and purchase cards were used for potentially illegal, improper, and erroneous purchases.

### What We Found

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Some HUD employees used government travel cards for potentially improper charges. Specifically, we identified 3,160 travel card transactions that totaled more than \$550,000 and contained indications that the employee incurred the charge without a travel authorization.

Also, some HUD employees used government purchase cards without all required approvals. Specifically, one employee used a government purchase card without all required preapprovals, and three HUD employees used government purchase cards at merchants with agency-restricted merchant category codes without written approvals for that use.

### What We Recommend

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We recommend that HUD develop and implement adequate written policies to ensure that cardholders obtain appropriate authorizations to support charges to their government travel cards and establish a process for submitting a written request for a merchant code unblock to the Office of the Chief Financial Officer (OCFO), develop and implement written policies to ensure that program offices adequately follow up on identified questionable charges and inform OCFO of significant travel card violations when they are identified, and review the identified 3,160 travel card transactions to determine whether they were for official government travel, taking appropriate actions as necessary.

Additionally, we recommend that HUD strengthen current purchase card controls to ensure that purchases are supported by all required approvals before the purchase is made and review the four cardholders with incomplete approvals and determine whether the purchase card use was allowable and proper, taking appropriate administrative actions as necessary.

# Table of Contents

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<b>Background and Objective.....</b>	<b>3</b>
<b>Results of Audit .....</b>	<b>5</b>
<b>Finding 1: Some HUD Employees Used Government Travel Cards for Potentially Improper Charges.....</b>	<b>5</b>
<b>Finding 2: Some HUD Employees Used Government Purchase Cards Without All Required Approvals.....</b>	<b>9</b>
<b>Scope and Methodology.....</b>	<b>12</b>
<b>Internal Controls.....</b>	<b>14</b>
<b>Appendixes.....</b>	<b>15</b>
<b>Schedule of Questioned Costs .....</b>	<b>15</b>
<b>Auditee Comments and OIG’s Evaluation.....</b>	<b>16</b>
<b>Criteria.....</b>	<b>20</b>

# Background and Objective



On October 5, 2012, President Obama signed the Charge Card Abuse Prevention Act of 2012, Public Law 112-194. The Charge Card Act was designed to prevent recurring fraud, waste, and abuse in governmentwide charge card programs. This law required all executive branch agencies to establish and maintain safeguards and internal controls for their use of purchase cards, travel cards, and centrally billed accounts. Further, it required offices of inspector general to (1) conduct periodic assessments of the agency charge card programs; (2) identify and analyze the risk of illegal, improper, or mistaken purchases and payments; and (3) perform analyses or audits as necessary.

The General Services Administration (GSA) administered the government charge card program, also known as the SmartPay program. This program provided purchase and travel cards to agencies or departments throughout the U.S. Government. GSA designed purchase cards to streamline small purchases, facilitate payment processes, minimize paperwork, and simplify the administrative effort associated with procuring goods and services. GSA designed travel cards to facilitate official government travel, including airfare, rail or bus tickets, lodging, meals, rental cars, and other miscellaneous expenses.

The U.S. Department of Housing and Urban Development (HUD) used Citibank as its purchase and travel card provider. HUD contracted with the Accounting Resource Center within the Bureau of the Fiscal Service, U.S. Department of the Treasury, to provide supportive services to the HUD travel and purchase card programs. The Accounting Resource Center assisted with the opening and closing of Citibank card accounts, placing and removing purchasing blocks for HUD-restricted merchant category codes, generating regular monitoring reports, and assisting HUD with required Office of Management and Budget reporting. Citibank used merchant category codes to identify transactions by merchant or by type of good or service purchased.

The Office of the Chief Financial Officer (OCFO) administered the HUD travel card program. This responsibility included managing the day-to-day operations, monitoring card use, and reporting to the Office of Management and Budget on the status of the travel card program. OCFO established travel card policies and used the Federal Travel Regulations at 41 CFR (Code of Federal Regulations) Parts 300 through 304 to administer the program.

The Office of the Chief Procurement Officer (OCPO) administered the HUD purchase card program with the assistance of the Office of Chief Human Capital Officer (OCHCO). OCPO established purchase card policies and used the Federal Acquisition Regulations at 48 CFR Part 24 to administer the program. OCHCO managed the day-to-day operations, including monitoring purchase card use.

The table below shows the total number of transactions and their total dollar amounts during fiscal year 2016 for the HUD travel and purchase card programs.

	Number of transactions	Total amount spent in fiscal year 2016
Travel card	95,578	\$13,013,045
Purchase card	19,621	8,737,208

On September 29, 2016, we issued report 2016-FO-0006 on HUD's travel and purchase card programs for fiscal year 2015. In that report, we noted 3,671 questioned travel card transactions and 85 purchase card transactions with indications of control issues. As of August 2017, HUD had met all associated recommendations on time, except for recommendation 2B, establishing a periodic review of cardholder records, which it is working to complete.

Our audit objective was to determine whether HUD travel and purchase cards were used for potentially illegal, improper, and erroneous purchases.

# Results of Audit

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## **Finding 1: Some HUD Employees Used Government Travel Cards for Potentially Improper Charges**

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Some HUD employees used government travel cards for potentially improper charges. This condition occurred because HUD did not implement adequate written policies to ensure the proper administration and monitoring of government travel cards. As a result, HUD did not have assurance that more than \$550,000 in government travel charges was properly used for official business.

### **Some HUD Employees Used Government Travel Cards for Potentially Improper Charges**

Of the more than 95,000 fiscal year 2016 travel card transactions, we identified 3,160 transactions that totaled more than \$550,000 and contained indications that the employee incurred the charge without a travel authorization. These transactions occurred at least 7 days outside all approved trip start and end dates for any given travel cardholder. Generally, travel charges occur during the dates of actual travel, and charges made outside approved travel dates indicate that they may not have been properly authorized.

We selected a nonstatistical representative sample of 40 transactions from the 3,160. The 40 transactions occurred on 35 unique travel cards. We reviewed each travel transaction in our sample to determine whether it was not authorized, was charged to an agency-restricted merchant category code, or contained irregularities. The table below shows the 23 travel cards containing exceptions found within the sample of 35 total cards. The 23 travel cards included exceptions with 24 transactions totaling more than \$18,000 within the universe of 3,160 transactions.

Sample description	Cards with exceptions
Travel cards used without a travel authorization	18
Travel cards used at merchants with agency-restricted category codes	2
Travel cards used for trips containing irregularities	3
<b>Total</b>	<b>23</b>

### Some HUD Employees Used Government Travel Cards Without a Travel Authorization

Eighteen HUD employees in our sample of 35 unique travel cards used government travel cards without an authorization or voucher. Regulations at 41 CFR 301-2.1 generally require cardholders to have written or electronic authorization before incurring any travel-related expense. However, cardholders in our sample used their cards for travel agencies, hotels, real estate rentals, taxi fares, car rentals, and airfares with dollar amounts ranging from \$4 to more than \$6,000 without an authorization or voucher. We found no indications that the 18

cardholders reversed their travel card charges during fiscal year 2016. A reversal would indicate that the charge was made in error.

#### HUD Employees Used Travel Cards at Merchants With Agency-Restricted Category Codes

Two HUD employees in our sample of 35 unique travel cards used their government travel cards at merchants with agency-restricted merchant category codes without written approvals for that use. HUD restricted its travel and purchase cards from use with certain merchant codes it identified as risky or outside HUD's usual operations. HUD allowed cardholders to submit a written request to OCFO for a temporary unblock in special situations. However, HUD did not maintain records of these requests for the two cardholders in our sample.

#### Some Authorized Travel Contained Irregularities

Of the 17 employees in our sample with travel authorizations or local vouchers, 3 employees made charges that were not adequately approved. One cardholder withdrew more than \$400 from ATMs without preapproval and without including this information in the voucher, despite claiming ATM transaction fees. Regulations at 41 CFR 301-51.202 require the cardholder to account for ATM withdrawals in the voucher.

Another cardholder purchased business class seats on a train without a justification or specific approval in the authorization for the business class seats. Regulations at 41 CFR 301-2.5 state that a specific authorization or prior approval is required for first class or business class on common carrier transportation.

A third cardholder obtained approval to use a combination of train and rental car travel when travel by air would have saved at least 2 days of travel time. The cardholder included the avoidable hotel stays in the claim and was reimbursed for them as well as the additional meals and incidental expenses for the extra travel days. Regulations at 41 CFR 301-70.100 require agencies to limit authorization and payment of transportation expenses to those expenses that result in the greatest advantage to the government.

#### **HUD Did Not Implement Adequate Written Policies**

HUD did not implement adequate written policies to ensure the proper administration of travel authorizations and the proper monitoring of government travel card use.

#### Adequate Policies for Travel Authorizations Were Not Implemented

HUD did not implement adequate written policies for the proper administration of travel authorizations. HUD's travel policies were outlined in HUD Handbook 2300.2, dated May 1984; a memorandum showing delegation of authority, dated April 2010; a 17-page travel document, dated December 2015; an 11-page informational chart provided by the Accounting Resource Center; a question and answer web page in HUD's internal website; a 36-page travel charge card procedure guide and management plan; and the Federal Travel Regulations at 41 CFR 301. These documents did not clarify which was the primary source of HUD travel guidance. The handbook contained outdated procedures, and of the remaining written travel policies, only the internal HUD website clearly stated that a written travel authorization (or local voucher) was required to incur any travel expense.



### Policies for Monitoring Were Not Implemented

HUD did not implement adequate written policies for monitoring card use. HUD policies did not establish processes for requesting a temporary lift on restricted merchant category codes or for informing OCFO when monitoring efforts revealed significant issues.

OCFO stated that it required a written request to approve a cardholder's temporary unblock of an agency-restricted code. However, written HUD policies did not provide guidance on restricted merchant category codes.

HUD policies also did not establish a process for fully resolving questionable charges and informing OCFO when monitoring efforts revealed significant issues. The Accounting Resource Center provided OCFO with monthly monitoring reports showing questionable travel transactions. HUD policies stated that OCFO would forward these reports to the HUD program offices where the identified cardholders worked. However, these policies did not set forth a process for how program offices should resolve the identified transactions, and they did not require program offices to inform OCFO if they identified significant issues.

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**Policies did not require OCFO to be informed of significant issues.**

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HUD program offices did not fully resolve questionable transactions for 9 of 13 cardholders identified in the Accounting Resource Center's monitoring reports. We asked HUD officials within each of the program offices where the 13 cardholders worked for information about what monitoring and resolution were conducted on the questionable transactions. Of the 13 cardholders, HUD

- had reviewed the transactions, informed the cardholder, and obtained satisfactory responses to fully support 4 cardholders' transactions;
- had reviewed the transactions and informed 3 cardholders without further action or followup;
- had reviewed the transactions but took no further action for 3 cardholders; and
- did not reply to our request for information for 3 cardholders.

Four of the six cardholders in the last two bullet points above did not have a travel authorization to support the identified travel card charge. The program offices did not report any of their findings to OCFO to provide assurance that the questionable transactions had been resolved.

### **HUD Did Not Have Assurance That Travel Charges Were for Official Business**

HUD travel policies required all use of the government travel card to be for official business. However, HUD did not have assurance that more than \$550,000 in government travel charges was for official business without travel authorizations in place when the purchases were made and without adequate written policies.

## **Recommendations**

We recommend that the HUD Office of the Chief Financial Officer

- 1A. Develop and implement adequate written policies to ensure that cardholders obtain appropriate authorizations to support charges to their government travel cards and establish a process for submitting a written request to OCFO for a merchant code unblock.
- 1B. Develop and implement written policies to ensure that program offices adequately follow up on identified questionable charges and inform OCFO of significant travel card violations when they are identified.
- 1C. Review the identified 3,160 transactions totaling \$555,337 to determine whether they were for official government travel. If they were not for official travel, OCFO should determine whether the cardholders paid the credit bill for the improper charges, request reimbursement when applicable, and take all other appropriate actions.

## **Finding 2: Some HUD Employees Used Government Purchase Cards Without All Required Approvals**

Some HUD employees used government purchase cards without all required approvals. This condition occurred because HUD’s internal controls over government purchase cards had weaknesses. As a result, HUD lacked assurance that government purchase cards were used properly.

### **Some HUD Employees Used Government Purchase Cards Without All Required Approvals**

Of the more than 20,000 fiscal year 2016 purchase card transactions, we identified 1,961 transactions totaling more than \$617,000 that contained indications that the employee incurred the charge improperly. These transactions occurred on weekends or holidays, were charged to agency-restricted merchant category codes, occurred after the cardholder separated, or contained indications that they were split transactions.

We selected a sample of 40 government purchase card transactions from the 1,961. The 40 transactions occurred on 29 unique purchase cards. HUD provided supporting documentation for every transaction in our sample, and we reviewed each purchase transaction to determine whether it was not authorized, was charged to an agency-restricted merchant category code, or contained irregularities. The table below shows the 4 purchase cards containing exceptions found within the sample of 29 unique cards. The four purchase cards included exceptions with four transactions totaling nearly \$4,000.

<b>Sample description</b>	<b>Cards with exceptions</b>
Purchase cards used without all required preapprovals	1
Purchase cards used at merchants with agency-restricted category codes	3
<b>Totals</b>	<b>4</b>

#### One HUD Employee Used a Purchase Card Without All Required Preapprovals

One HUD employee in our sample of 29 unique purchase cards used a government purchase card without all required preapprovals. HUD policies required cardholders to obtain written approval from an approving official and a written certification that funds were available before making a purchase. Policies did not allow a cardholder to also sign as the approving official or funds certifier. One cardholder in our sample signed as the cardholder and also signed as the funds certifier.

#### HUD Employees Used Purchase Cards at Merchants With Agency-Restricted Category Codes

Three HUD employees in our sample of 29 unique purchase cards used their government purchase cards at merchants with agency-restricted merchant category codes without written approvals for that use. HUD restricted its travel and purchase cards from use with certain merchant codes it identified as risky or outside HUD’s usual operations. HUD allowed

cardholders to submit a written request to OCHCO for a temporary unblock in special situations. However, HUD did not maintain records of these requests for the three cardholders in our sample.

### **HUD’s Internal Controls Over Government Purchase Cards Had Weaknesses**

Controls over preapprovals and purchase card use at merchants with agency-restricted merchant category codes had weaknesses.

HUD’s controls over preapprovals had weaknesses. HUD policies required all purchases to be preapproved in writing by the cardholder’s approving official and budget certifier before the transaction began. However, HUD policies did not prevent the approving official and budget certifier from being the same person. Therefore, an error made during a review could not be caught by a second person before the purchase was made. In these situations, if policies required these transactions to be flagged for additional monitoring after the charge occurred, the chance of an incomplete preapproval going undetected would be reduced.

In addition, HUD’s controls over purchase card use with restricted merchant category codes had weaknesses. Policies did not require cardholders or approving officials to maintain records of their temporary unblock requests along with the other supporting documentation for the transaction. In addition, restricted merchant category codes were unblocked when they should have been blocked from purchase card use. HUD’s administrative contractor managed the unblocking and blocking of card accounts, but it did not provide HUD assurance that HUD-requested blocks were put into place. The contractor did not track the status of HUD block requests, and it did not use an automated system to unblock and block accounts according to HUD’s requests.

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**Restricted merchant category codes were unblocked when they should have been blocked.**

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### **HUD Lacked Assurance That Government Purchase Cards Were Used Properly**

The Government Charge Card Act of 2012 required HUD to establish internal controls to identify improper purchases. The Act further required HUD to recover the cost of any such improper purchase. However, HUD could not accomplish either of these requirements when purchase card charges were not fully approved before the purchase was made.

### **Recommendations**

We recommend that the Office of the Chief Human Capital Officer and the Office of the Chief Procurement Officer

- 2A. Strengthen current purchase card controls to ensure that purchases are supported by all required approvals before the purchase is made.
- 2B. Review the four cardholders with incomplete approvals and determine whether the purchases were allowable and proper. If they were not for official government

use, OCPO should determine whether the cardholders paid the credit bill for the improper charges, request reimbursement when applicable, and ensure that appropriate administrative sanctions are taken.

# Scope and Methodology

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Our audit period generally covered October 1, 2015, through September 30, 2016. We performed our audit work from January through July 2017. We conducted onsite work at HUD headquarters in Washington, DC.

To accomplish our objective, we

- reviewed applicable laws and regulations;
- reviewed HUD's policies and procedures;
- interviewed HUD officials and officials from HUD's administrative contractor; and
- reviewed travel and purchase card data obtained from Citibank, HUD's travel system (CONCUR), HUD, and HUD's administrative contractor.

To achieve our objective, we relied in part on data obtained from Citibank's Client Reporting System and HUD's travel system. To test the data reliability, we compared the names and transaction amounts in the Citibank and travel system data with HUD records for a small sample and found the data to be adequate for our purposes.

We directly accessed Citibank's Client Reporting System to obtain all travel and purchase card transactions for fiscal year 2016. This action resulted in 95,578 travel card purchases and 19,621 purchase card purchases. We also obtained from HUD and its administrative contractor a list of all 2,133 fiscal year 2016 travel authorizations, a list of all HUD-restricted merchant category codes for the travel and purchase cards, and a list of all HUD employees who separated from HUD in fiscal year 2016.

We used data analysis tools (ACL and structured query language) to identify 3,160 travel card purchases with indications that they occurred without an authorization. For each travel card purchase, we compared the purchase date with all authorized trips the cardholder had for the year. We did not flag purchases that occurred at most 7 days before the authorized trip begin date or at most 7 days after the authorized trip end date. Otherwise, the purchase was included in the 3,160.

We selected a nonstatistical random sample of 40 travel card purchases from the 3,160 using a random number generator. Each sample item had an equal chance to be selected from the 3,160. We searched HUD's travel system for each sample item to see whether the purchase was supported by an authorization or voucher in the system. If it was supported, we reviewed the supporting documentation to determine whether the charge was proper. We did not review all 3,160 purchases because of the amount of documentation associated with each purchase. We used a nonstatistical selection method to select the sample items for review to assess the likely occurrence of unauthorized travel charges within the 3,160 purchases with indications that they occurred without an authorization. Our conclusions about the 3,160 purchases are a result of our

data analysis tools and our sample review. The results of our sample review cannot be projected to the universe of 95,578 travel card purchases.

We used data analysis tools to identify 1,961 purchase card purchases with indications that they were potentially improper. Specifically, we identified purchases that occurred on weekends or holidays, purchases made at merchants with agency-restricted merchant category codes, purchases that occurred after the cardholder separated, and purchases with indications that they were split transactions. We defined a split transaction as more than one purchase made at the same merchant within a 24-hour period in which the combined purchases exceeded the maximum purchase threshold of \$3,500.

We reviewed a total of 40 purchase card purchases from the 1,961. We obtained and reviewed supporting documentation from HUD for each of the 40 purchases in our sample to determine whether the purchase was proper. For 20 of the 40 purchases reviewed, we used a random number generator to select a nonstatistical random sample derived from the 1,961. We used this selection methodology to assess the likely occurrence of potentially improper charges within the 1,961. The results of this sample review cannot be projected to the universe of 19,621 purchase card purchases.

For the remaining 20 of the 40 purchases reviewed, we selected purchases made from the 1,961 with the highest perceived risk of being illegal, improper, or erroneous. We considered the merchant and dollar amount in our assessment of risk. From the list of transactions from restricted merchant category codes, we selected the transaction with the largest dollar amount from each of 12 merchant categories that we perceived as having the highest risk because the merchant typically sold goods and services for personal use, such as tourist attractions and exhibits, music stores, and theatrical producers (motion pictures). Likewise, from the list of transactions that occurred on a holiday or weekend, we selected the transaction with the largest dollar amount from each of seven merchant categories that we perceived as having the highest risk. Finally, we selected the one transaction that contained indications that it occurred after the cardholder separated from HUD. We used this selection methodology to determine whether the selected items were proper. The results of this review cannot be projected to any items beyond the 20 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

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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 and travel card programs to ensure that government charge cards are used properly and in accordance with applicable Federal regulations and HUD policies.

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 implement adequate written policies to ensure the proper administration of travel authorizations and the proper monitoring of government travel card use (finding 1).
- HUD did not implement adequate controls over purchase card preapprovals and purchase card purchases at merchants with agency-restricted merchant category codes (finding 2).



# Appendixes

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## Appendix A

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**Schedule of Questioned Costs**

<b>Recommendation number</b>	<b>Unsupported 1/</b>
1C	\$555,337
<b>Totals</b>	555,337

- 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

Comment 2



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-3000

CHIEF FINANCIAL OFFICER

12 September, 2017

MEMORANDUM FOR: Ronald J. Hosking, Regional Inspector General for Audit, 7AGA  
FROM: Courtney Timberlake, Deputy Chief Financial Officer, F  
SUBJECT: Response to Draft Audit Report - Some HUD Employees Used Government Travel Cards for Potentially Improper Charges

Thank you for the opportunity to review and comment on the subject report. The Office of the Chief Financial Officer (OCFO) administers the Government Travel Card program. Over the course of the past year OCFO has already taken steps to strengthen our internal controls over travel credit cards by taking the following actions:

1. Created the charge card reference guide "Understanding your Citibank Credit Card" and updated the HUD Travel Card Management Plan.
2. Conducted refresher training classes for cardholders and established annual mandatory training for the appropriate personnel within the program offices.
3. Researched cardholder transactions for anomalies and communicated the results to the program offices for further review and action.

We are committed to continued compliance with applicable travel credit card regulations. To that end, we are enhancing our processes to identify potential usage anomalies to the appropriate HUD offices for further review and action if inappropriate action has taken place.

Official Record Copy U.S. Department of Housing and Urban Development form HUD-713.1 (02/03)  
Previous edition is obsolete.

Page 1 of 1

Ref to OIG  
Evaluation


Auditee Comments

Comment 3

Comment 4

Comment 5

Comment 6

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

Chief Procurement Officer

SEP 8 2017

MEMORANDUM FOR: Ronald J. Hosking, Regional Inspector General for Audit, 7AGA

FROM: Keith W. Surber, Chief Procurement Officer, N

SUBJECT: Draft Audit Report: 2017-KC-00XX, September XX, 2017; Some HUD Employees Used Travel Cards for Potentially Improper Purchases and Purchase Cards Without All Required Approvals

Thank you for the opportunity to comment on the subject draft audit report. We appreciate your auditors' willingness to consider our inputs and explanations in developing this report. We concur with the recommendations provided in the audit regarding the purchase card program, as there is room for improvement in some aspects of the program. However, we are not in agreement that there is a significant deficiency in the program. Additional information is as follows:

1. Recommendation 2A - On the issue of some HUD employees using the purchase card without all required pre-approvals, participants in the program generally understand that there should be separation of duties in the purchase card program roles and they are not supposed to take on unauthorized roles. The review was conducted during the time when the February 2016 version of the guide was in effect. OCPO has already updated the separation of duties provisions in the May 2017 version of the HUD GPC Policy Guide in response to the similar audit finding from the 2016 GPC Audit Report dated September 29, 2016.
2. Recommendation 2B - OCPO and OCHCO will review the referenced transactions and prepare a report on the review to address this recommendation.
3. Assessment of a Significant Deficiency in HUD's Purchase Card Program - While HUD's internal controls over the purchase card are not perfect, it is misleading to characterize the controls that worked in 39 of 40 (98%) sampled instances as weak. Using the single improper process of just one cardholder for one act (the purchase itself was a bona fide action) to characterize the program is not descriptive of the entire system. The minimal finding during the review of the purchase card program clearly does not rise to the level of "Significant Deficiency." No matter how well designed, implemented, and conducted, due to limitations inherent to any system, internal controls can provide only reasonable assurance that objectives will be achieved. They cannot assure perfection. But the mere fact that they are not perfect should not render the program as significantly deficient. The program improvements we have put in place, in part due to prior

**Ref to OIG  
Evaluation**

**Auditee Comments**

**Comment 6**

mere fact that they are not perfect should not render the program as significantly deficient. The program improvements we have put in place, in part due to prior audits, provide a very reasonable assurance of the ability to prevent, detect, or correct fraud, waste or abuse that could lead to (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations.

If you have any questions concerning the comments, please contact OCPO's Audit Liaison Officer, Mr. Terry Price at (202) 402-2555 or Dr. Akinsola Ajayi, DACPO, Policy, Systems, and Risk Management at (202) 402-6728 or Ms. Martha Bullock-Fields, Agency Program Coordinator at (202) 402-6573.

## OIG Evaluation of Auditee Comments

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- Comment 1 We agree that HUD has strengthened its controls over the travel card program during the past year, and we believe these efforts have resulted in fewer questionable travel transactions being found when compared to last year's Office of Inspector General (OIG) review.
- Comment 2 We designed recommendation 1B to parallel HUD's commitment to continuous process improvements in the monitoring of travel card use.
- Comment 3 We appreciate HUD's assistance and input throughout the audit, including HUD's willingness to openly discuss areas for improvement.
- Comment 4 We believe that the control issues identified were significant because management did not have assurance that merchant code blocks were always implemented as desired and that transactions with one approver were scrutinized to the same degree as transactions with two approvers.
- Comment 5 We agree that HUD has strengthened its policies in response to prior OIG audit report recommendations. We designed recommendation 2A to provide HUD with flexibility in the purchase card program.
- Comment 6 This report does not characterize all controls over HUD's charge card program as being weak. The internal control section of this report does not offer an opinion on the overall control structure of the charge card program. The internal control section identifies only the controls that are relevant to the audit objective and those specific significant controls that are deficient.

## Appendix C

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### Criteria

#### Public Law 112-194

##### **2(h)(3) Inspector General Audit**

The Inspector General of each executive agency with more than \$10,000,000 in travel card spending shall conduct periodic audits or reviews of travel card programs to analyze risks of illegal, improper, or erroneous purchases and payments. The findings of such audits or reviews along with recommendations to prevent improper use of travel cards shall be reported to the Director of the Office of Management and Budget and Congress.

#### **1909 Management of Purchase Cards**

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).

#### **41 CFR Part 301**

##### **301–2.1 Must I have authorization to travel?**

Yes, generally you must have written or electronic authorization prior to incurring any travel expense. If it is not practicable or possible to obtain such authorization prior to travel, your agency may approve a specific authorization for reimbursement of travel expenses after travel is completed. However, written or electronic advance authorization is required for items in § 301–2.5 (c), (i), (n), and (o) of this part.