



U.S. DEPARTMENT OF  
HOUSING AND URBAN DEVELOPMENT  
OFFICE OF INSPECTOR GENERAL

April 18, 2019

**MEMORANDUM NO:**  
2019-KC-0801

## *Memorandum*

TO: Brian Montgomery  
Acting Deputy Secretary, S

Ronald C. Flom  
Chief Procurement Officer, N

Krista Mills  
Acting Chief Human Capital Officer, A

//signed//

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

SUBJECT: Moderate Risk Identified in HUD's Fiscal Years 2017-2018 Purchase Card  
Program Risk Assessment



### **INTRODUCTION**

The U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), has completed its annual risk assessment of HUD's purchase cards as required by the Government Charge Card Abuse Prevention Act of 2012 (Public Law 112-194) and Office of Management and Budget (OMB) Memorandum M-13-21.

Our objective was to identify and analyze risks of illegal, improper, or erroneous purchases and payments in HUD's fiscal years 2017 and 2018 purchase card program. We found that a moderate risk was associated with HUD's purchase card program. Our assessment is based on our analysis of HUD's fiscal years 2017 and 2018 purchase card spending; the results of our fiscal year 2016 audit of HUD's charge card programs; the status of previous purchase card recommendations; and additional charge card program risk attributes, including the number of cardholders, blocked and overridden merchant category codes, third-party payments, sales tax payments, potential split purchases, transactions over the single purchase thresholds, separated cardholders, and cardholders having dual purchase card roles.

This memorandum does not contain recommendations. We will use the risk assessment to determine the scope, frequency, and number of periodic audits or reviews of the purchase card program.

### **METHODOLOGY AND SCOPE**

We performed our review from October 2018 through February 2019 at our offices in St. Louis, MO, and Denver, CO. Our review covered the period October 1, 2016, through September 30, 2018.

To accomplish our objective, we

- reviewed prior OIG audit reports and risk assessments;
- reviewed the status of purchase card audit recommendations;
- reviewed applicable laws and regulations;
- reviewed the two most recent versions of HUD's Government Purchase Card 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 Reverse Auction Program, Uniform Physical Condition Standards Inspection Services, Purchase Order Terms And Conditions;
- reviewed the Reverse Auction Program Business Rules;
- interviewed HUD and Bureau of the Fiscal Service officials;
- obtained a listing of HUD purchase cards closed between October 1, 2016, and September 30, 2018;
- obtained a listing of active purchase card holders, their approving officials, and spending limits;
- obtained the purchase card blocked and lifted merchant category codes listings;
- obtained a list of purchase card training for HUD purchase card holders;
- reviewed fiscal years 2017 and 2018 HUD purchase card transactional data; and
- selected and tested individual purchase card transactions.

The universe of the purchase card transactions covered the period October 1, 2016, to September 30, 2018, and consisted of 26,490 transactions totaling more than \$14.9 million. This review did not include OIG transactions or travel card transactions.

We used data analytics software to identify purchase card transactions with indications that they were potentially improper. Our review of HUD's purchase card transactions included tests for

- blocked and overridden merchant category codes,
- third-party payments,
- sales tax payments,
- potential split purchases,
- transactions over the single purchase thresholds,
- separated cardholders, and
- cardholders having dual purchase card roles.

We selected a sample of 18 items totaling \$145,067 based on the results of our data analytics tests. We chose this type of sample because the purpose of our risk assessment was to identify and analyze areas of potential risk to determine the scope, frequency, and number of periodic audits of purchase cards. This sample included 15 transactions comprised of the highest 3 charges for blocked merchant category codes that did not appear on the override report, the highest 3 charges for third-party merchants, the highest 3 charges with sales tax, the highest 3 charges over the \$2,000 construction spending threshold, and the highest 3 charges over the \$2,500 services threshold. It also included three series of potential split transactions. To obtain these transactions, we combined transactions made by the same cardholder to the same vendor on the same day into a single record, sorted on the total dollar amount column, and then selected the highest 3 unique cardholders on the list and requested all 119 transactions that they completed on the selected day. The results of this sample cannot be projected to the universe.

Our assessment is based on our analysis of HUD's fiscal years 2017 and 2018 purchase card transactions, the results of our fiscal year 2016 audit of HUD charge card programs, the status of previous purchase card recommendations, and our review of HUD's most recent semiannual reports to OMB on charge card violations.

To achieve our objective, we relied in part on data obtained from Citibank's Client Reporting System. To test the data reliability, we compared the names and transaction amounts in the Citibank data with HUD records for a sample of transactions and found the data to be adequate for our purposes. We directly accessed Citibank's Client Reporting System to obtain all purchase card transactions for fiscal years 2017 and 2018. This action resulted in 26,490 purchase card purchases totaling more than \$14.9 million.

### **BACKGROUND**

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 and convenience checks. Further, it required offices of inspector general to (1) conduct periodic risk assessments of the agency purchase card or convenience check programs; (2) identify and analyze the risk of illegal, improper, or erroneous purchases and payments; (3) perform analyses or audits, as necessary, of purchase card transactions; and (4) report on the results of such analyses or audits.

The General Services Administration (GSA) administered the government charge card program, also known as the SmartPay program. This program provided purchase cards to agencies or departments throughout the U.S. 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.

HUD used 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 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 tracking required purchase card training. Citibank used merchant category codes to identify transactions by merchant or by type of good or service purchased.

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 issued in compliance with the Federal Acquisition Regulations (FAR), the Housing and Urban Development Acquisition Regulation, appendix B of OMB Circular A-123, and the GSA SmartPay2 Program. OCHCO managed the day-to-day operations, including monitoring purchase card use. The Office of Public and Indian Housing, Real Estate Assessment Center (REAC), Reverse Auction Program, had 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.

## **RESULTS OF REVIEW**

HUD's purchase card program had a moderate risk of susceptibility to illegal, improper, or erroneous purchases. Risk-increasing factors included a prior audit recommendation not fully implemented, purchase card use by cardholders not identified as active or closed, cardholders and noncardholders late on meeting their 3-year training requirements, cardholders missing from the training records, potential split purchases, purchases at agency-restricted merchants, sales tax paid on purchases, interest paid on payments, and supporting documentation missing or not provided. Risk-decreasing factors included no open purchase card recommendations, a decrease in purchase card use from fiscal year 2016, and the discontinued use of the purchase card in the REAC Reverse Auction Program.

### **Risk-Increasing Factors**

During our 2015 purchase card audit, we found that HUD needed to improve its policies, to include specific criteria for determining which purchase card violations would be reported to OMB. HUD created the Government Purchase Card Suspected Violations Response Policy in November 2015 as a result of a recommendation from this audit. However, the Government Purchase Card Guide did not include all aspects of this policy, although the guide had been updated twice since the policy's issuance. HUD agreed to include all remaining aspects in its next revision to the guide.

We summarized the list of fiscal years 2017 and 2018 purchases by cardholder and compared this list to HUD's closed and active cardholder lists. The Charge Card Act requires each agency to keep a record of each purchase card issued, its single transaction limit, and its total transaction limit. This comparison resulted in nearly 11,000 purchases totaling more than \$6.7 million made by 63 cardholders who did not appear as either active or closed on HUD's list during the risk assessment period. Of these cardholders, 58, who were responsible for 9,790 transactions totaling \$5.8 million, fell under the REAC Reverse Auction Program, which was managed separately from the purchase card program.

Forty cardholders and noncardholders (such as approving officials and statement reviewers) were past due on meeting their 3-year training requirement. Appendix B of OMB Circular A-123 requires training for all charge cardholders and charge card managers upon initial issuance of a card and then every 3 years at a minimum. The due dates ranged from March to October 2018. Bureau of the Fiscal Service confirmed that HUD was aware of the past-due training and was working with the cardholders and noncardholders to fulfill the training requirement.

In addition, we compared the summarized list of fiscal years 2017 and 2018 purchases by cardholder to the list of completed charge card training and found cardholders not shown on the training list provided by HUD. After excluding the closed cardholders, 62 cardholders were not shown on HUD's training list. Therefore, it did not appear that HUD tracked completion of their required training. Of these cardholders, 58 fell under the REAC Reverse Auction Program.

In reviewing the purchase card data, we identified 513 potential split purchases totaling more than \$3.9 million, in which a purchase cardholder made purchases at the same merchant on the same day and the combined charges exceeded the micropurchase thresholds. The micropurchase threshold increased from \$3,500 to \$10,000 after March 11, 2018. Split purchases violate FAR, subpart 13.003(c)(2), which states that one must not break down requirements combining more than the micropurchase limit into several purchases that are less than the applicable threshold merely to avoid any requirement that applies to purchases exceeding the micropurchase threshold. However, most of these transactions were made as part of the Reverse Auction Program. In these cases, the purchase card was used after a competitive bidding process. The transactions were not separated to avoid procurement requirements.

HUD employees used their government purchase cards at merchants with agency-restricted merchant category codes (MCC) for 463 transactions totaling \$308,487. HUD restricted its purchase cards from use with certain merchant codes it identified as risky or outside HUD's usual operations. These restricted merchant codes include purchases from pawn shops, jewelry shops, massage parlors, counselling services, government owned lottery, internet gambling, religious organizations, dating and escort services, fur shops, bail and bond payments, and hotels. HUD allowed cardholders to submit a written request to OCHCO for a temporary lift in special situations. An example of an approved lift would be for a hotel where a conference or training was being held. HUD maintained a list of the approved lifts. However, some of the 463 transactions did not appear on HUD's list of approved lifts. We reviewed three of these transactions and could not determine why they did not appear on HUD's list of approved lifts.

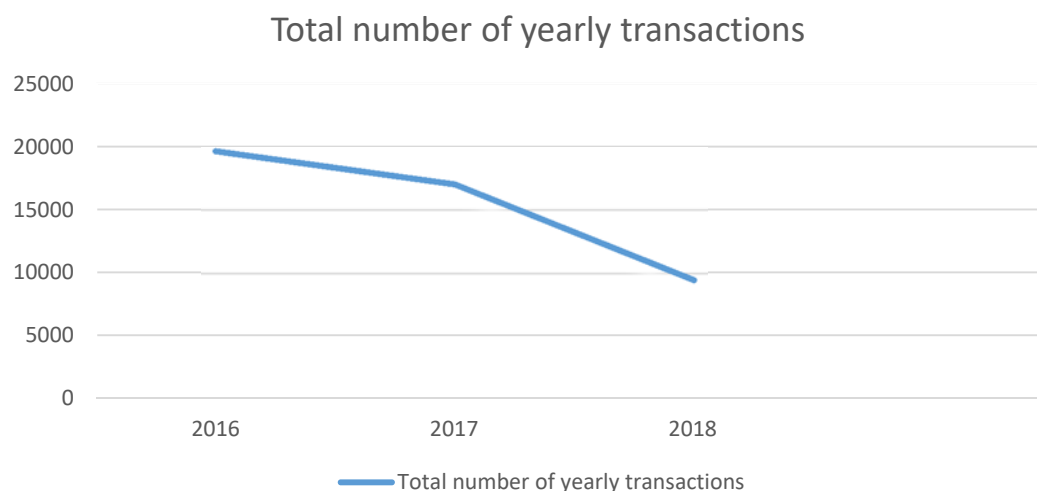
According to the Citibank data, HUD paid \$42,944 in sales tax on purchase card transactions. The purchase card policy states that purchases made with the purchase card are generally exempt from State and local sales taxes. It further states if the merchant refuses to remove the sales tax, the cardholder will attempt to locate another merchant that does not add sales tax to the purchase price. The phrase “U.S. Government Tax Exempt” is printed on the front of each purchase card. The appearance of sales tax in the Citibank data indicates that this is an area of potential risk.

HUD paid 56 invoices late resulting in \$715 in interest to Citibank during fiscal years 2017-2018. Therefore, not all purchase card account payments were made promptly and within prescribed deadlines as required by the Charge Card Act.

HUD did not provide all required documentation to support four of our sample items. Specifically, during our review, we noted that supporting documents, such as Citibank statements, forms HUD-10.4, and receipts and invoices, were not always provided. HUD’s purchase card policy states that all purchase cardholders must maintain a file of all original records and documents related to monthly purchases. In accordance with FAR 4.805, the cardholder’s purchase card files must be retained for 6 years after payment.

#### Risk-Decreasing Factors

HUD had closed all open purchase card recommendations from our fiscal year 2015 audit, total purchase card activity had decreased in recent years, and HUD discontinued the use of purchase cards in the REAC Reverse Auction Program at the end of fiscal year 2018. The chart below shows a decrease from more than 19,000 transactions in 2016 to about 17,000 and 9,000 transactions, respectively, in 2017 and 2018.



### **CONCLUSION**

The Charge Card Act requires annual risk assessments of purchase card programs to determine the scope, frequency, and number of periodic audits or reviews of the program. We found that a moderate risk was associated with HUD’s purchase card program. As a result, we plan to audit the purchase card program for fiscal years 2017 and 2018. This memorandum does not contain recommendations.

## APPENDIX A

### Auditee Comments and OIG's Evaluation

#### Ref to OIG Evaluation

#### Auditee Comments

#### Comment 1

Thank you for providing the Draft Report on HUD's Fiscal Years 2017 – 2018 Purchase Card Program Risk Assessment. We appreciate the opportunity to respond to the draft results of the review. While we agree with some of the risk increasing factors identified in the review, we believe that many of the risk increasing factors identified in the report are not supportable.

#### Comment 2

As a point of clarification, the use of purchase cards by the Real Estate Assessment Center (REAC) Reverse Auction Program was managed separately from the purchase card program under review and any assessment of actions taken in support of that program should not be included in this assessment.

#### Comment 3

This report found that HUD needed to improve its policies, to include specific criteria for determining which purchase card violations would be reported to OMB and further states that "HUD created the Government Purchase Card Suspected Violations Response Policy in November 2015 as a result of a recommendation from this audit. However, the Government Purchase Card Guide did not include all aspects of this policy, although the guide had been updated twice since the policy's issuance. HUD agreed to include all remaining aspects in its next revision to the guide." This statement is misleading. HUD fully addressed the audit recommendation with a policy paper titled Government Purchase Card Suspected Violations Response Policy in November 2015. This paper was deemed sufficient by OIG to fully close the recommendation. In a bid to incorporate the policy paper into the GPC Program Policy Guide, some aspects of the policy paper were inadvertently omitted. To rectify this omission, all the aspects of the guide will be added to the next revision of the guide. We recommend this risk increasing factor be removed from the report.

#### Comment 4

#### Comment 5

This draft report identifies the use of the purchase card by cardholders whose accounts were identified as "closed" as a risk increasing factor. We reviewed the samples that were provided to support this factor and found that only 5 of the 63 individuals identified were purchase cardholders and all 5 purchase cardholders have entries that accurately showed their accounts as closed on the GPC Log under the "closed" tab. Cardholders whose accounts are identified as "closed" do not have the ability to use the credit card, therefore this is not a risk increasing factor.

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 6

The report identifies cardholders, approving officials and statement reviewers as being delinquent on their 3-year training requirements and that cardholders' names were missing from HUD's training records as a risk increasing factor. Only 4 of 62 individuals identified in the sample provided in the report were purchase cardholders. Most of these cardholders did not need training as they were no longer cardholders as of the date their training expired. Furthermore, it is misleading to state that "...it did not appear that HUD tracked completion of their required training" because we not only track training, we act by suspending the accounts of errant program participants. In view of this, the risk increasing factor should be removed from the report.

Comment 7

The report identifies potential split purchases as a risk increasing factor. The report stated that "However, most of these transactions were made as part of the Reverse Auction Program. In these cases, the purchase card was used after a competitive bidding process. The transactions were not separated to avoid procurement requirements." Because purchases included in the Reverse Action Program are outside of this review, findings of potential split purchases should not be considered for this report. Further, in the initial call for documents, the OIG identified multiple transactions by three purchase cardholders for further review. Upon review of the requested documentation, the transactions did not meet the definition of split purchases. The identified risk increasing factor should be removed from the report.

Comment 8

The report identifies purchases made from agency-restricted merchants as a risk increasing factor. We believe you are referring to purchases from vendors with agency-restricted Merchant Category Code (MCC). If this is the case, we believe we are complying with the regulations and policies. All three transactions identified were reviewed and, in each instance, the cardholder had correctly obtained an MCC override prior to making the purchase and the actions were documented on the MCC override log that HUD and ARC maintains. In view of this, we believe that this risk increasing factor should be removed from the report.

Comment 9

The report identifies paying sales tax on purchases as a risk increasing factor. No cardholder intentionally paid sales tax and in instances where sales tax was inadvertently paid, the cardholder followed the policy of recouping the amount paid in sales tax as soon as the mistake is discovered. In this specific instance, we reviewed the transaction and found that the cardholder did not pay sales tax per the invoice/receipt issued by the vendor. We also discussed this with Citi Account Manager, Steve Babain, who explained "sales tax being reflected along with a transaction within Citi's information is dependent on how the merchants and their banks process and relay data through the networks." We believe this is a data handling issue between merchant's bank or payment processor and CitiBank and should not rise to the level of a risk increasing factor.

Comment 10

With regards to supporting documentation missing or not provided, there was only one instance where supporting documents were not available for this review. The Agency Program Coordinator, Ms. Martha Bullock, explained to the auditor that the cardholder was out of the office on extended leave and the approving official did not have immediate access to the records. This is not a case of missing records, and we are confident that the cardholder will produce the documents upon return to duty.



## Auditee Comments and OIG's Evaluation


### Ref to OIG Evaluation

### Auditee Comments

#### Comment 11

OCPO and OCHCO appreciate the efforts of the OIG in reviewing the Credit Card Program. However, we disagree with several of the identified risk increasing factors. Therefore, we request that those risk increasing factors identified above be reevaluated, and the risk characterization of the Purchase Card Program be changed from moderate to low.

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, Assistant Chief Procurement Officer, Policy, Systems, and Risk Management, at 202-402-6728.



Ronald C. Flom  
Chief Procurement Officer, N



Krista Mills  
Acting Chief Human Capital Officer, A

## OIG Evaluation of Auditee Comments

- Comment 1 All of these risk-increasing factors described in the risk assessment above are supportable. However, these are only risk areas indicating the need for us to perform further audit work to determine if an actual problem exist.
- Comment 2 While we understand that the program is managed separately from the purchase card program, we do not agree that the program should not be included in this risk assessment. The Charge Card Act requires us to perform an annual risk assessment of purchase cards and does not provide an exclusion for cards that were managed separately.
- Comment 3 HUD misstated which report found that they needed to improve policies. This was a recommendation in the 2015 audit as mentioned in the risk assessment above.
- Comment 4 We agree that the Response Policy was sufficient to close the past recommendation, however, to ensure that everyone at HUD is aware of the Policy it should be included or mentioned in the Government Purchase Card Policy. During our interview with HUD officials, some did not know what this Policy was. Since this update is still needed this risk-increasing factor should remain.
- Comment 5 HUD provided the list of accounts closed during fiscal years 2017 and 2018 on 11/30/18. The five purchase card cardholders we identified during the risk assessment were not on this list and were also not on the list of active cardholders. However, these five cardholders in addition to the 58 REAC Reverse Auction Program cardholders made purchases which we considered a risk-increasing factor. If there is an additional list or if the list provided was not complete, we can review any additional information during the purchase card audit.
- Comment 6 We asked HUD for the master spreadsheet showing the dates of purchase card training for HUD purchase card users during fiscal years 2017 and 2018. We received this list on 12/13/18 from HUD's shared service provider at the Treasury. The list showed cardholders and noncardholders and the dates of their last training. Past due dates were highlighted in yellow with a note stating that HUD is aware and is working with the cardholder to fulfill the requirement. The four cardholders that we identified were not shown on this training list or shown on the closed or active lists provided by HUD. Since these four cardholders did not appear on the training list we received, it did not appear that HUD tracked every cardholder's training. Therefore, this risk-increasing factor should remain.
- Comment 7 We requested documentation to support three series of potential split purchases, but never received any of the documentation. We cannot comment on HUD's review of documentation that was not provided to us. Since there are additional potential split purchases outside of the REAC Reverse Auction Program, this risk-increasing factor should remain.

- Comment 8 We requested the master spreadsheet showing MCC lifts for fiscal years 2017 and 2018 from HUD's shared service provider (ARC) on 12/6/18. We received the list on 12/7/18. Only one of the three transactions sampled showed that a lift was requested and approved and that lift was for a different MCC than the actual transaction MCC. The other two transactions reviewed did not provide documentation showing that a lift was requested or approved and the lifts did not show up on the lift list. We considered purchases made at restricted merchants without a corresponding lift documented on the list to be a risk-increasing factor. Therefore, this risk-increasing factor should remain. If there is an additional override log or if the list of lifts provided was not complete, we can review this additional information during the audit.
- Comment 9 We did not review all of the sales tax purchases during this limited review so we cannot comment whether any cardholders inadvertently paid taxes and then recouped the money per policy. We also cannot comment if it is a data handing issue between the merchant's bank and Citibank. We considered the existence of sales tax in the Citibank data to be a risk-increasing factor. Therefore, this risk-increasing factor should remain. We plan to more thoroughly review the sales tax transactions during the upcoming purchase card audit.
- Comment 10 The Government Purchase Card Policy states that a cardholder anticipating extended leave shall provide the administrative officer with all receipts and other supporting documentation related to all previous transactions. In addition, at the end of the billing cycle the cardholder should have also sent the original receipts attached to the monthly government purchase card file to the administrative officer for review and signature. Therefore, the administrative officer should have other access to this information even if the originals are locked in a desk drawer. In addition, HUD did not provide all required documentation to support four of our sample items. In addition to the instance cited, we never received documentation for the three series of potential split purchases requested from the REAC Reverse Auction Program.
- Comment 11 As mentioned above the risk-increasing factors will remain. The purpose of this required annual risk assessment of purchase cards was to determine if the risk level was high enough to indicate that we should audit purchase card activity this year. The rating of moderate is not meant to be used for any other purpose.