



Integrity Bulletin

U.S. Department of Housing and Urban Development
Office of Inspector General

February, 2016

BEST PRACTICES FOR PURCHASE AND TRAVEL CARD INTEGRITY

This bulletin provides public housing agencies (PHAs) some tips for reducing purchase and travel card misuse and fraud.

The U.S. Department of Housing and Urban Development (HUD) expects PHAs to implement strong internal controls over purchase and travel cards. The Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards at title 2 of the Code of Federal Regulations Part 200 (formerly Office of Management and Budget Circular A-87) sets out the Federal cost principles that govern what purchases are allowable. PHAs must follow these regulations as well as State and local laws as applicable.



Purchase and travel card abuse is among the issues commonly identified during HUD's Office of Inspector General (OIG) audits or investigations of PHAs. Past reviews have uncovered cases of purchase or travel card fraud and misuse committed by PHA commissioners, executive directors, and other staff. These individuals, entrusted with public funds, have spent tens of thousands of dollars on personal items, such as fine dining, casino gambling, alcohol, cameras, pet supplies, cruises, sporting events, golf supplies, concert tickets, and manicures. While even small dollar purchases of ineligible items are not permitted, ignoring them can lead to large losses, if continued over a long period. For example, an executive director in Ohio made \$583,000 in fraudulent credit card purchases over a 5-year period. In many cases, violators create false documents or destroy or alter original receipts to cover up the fraud.



Why do card holders misuse or abuse credit cards?

- Ignorance: They do not know or understand the rules
- Rationalization: They feel their position entitles them to ignore the rules.
- Opportunity: They abuse credit card use to enrich themselves
- Financial Pressure: They get in debt and often justify taking money as a loan that they intend to pay back, but as the amounts increase, they realize they can't repay,

What allows misuse or abuse to occur?

- Lack of written policies and procedures for purchase or travel card use.
- Lack of PHA board oversight or the PHA executive director is absent or lax in administering day-to-day operations.
- Control deficiencies, such as a lack of segregation of duties.
- No monitoring of purchase or travel card transactions.
- An environment in which fraud is acceptable.
- Inadequate audit reviews by independent auditors.

How can PHAs prevent card abuse?

Fortunately, card abuse is easy to prevent if the board and executive director ensure that controls are in place and followed. While not a comprehensive list of controls, the following are key elements in keeping your card program honest. When in doubt as to the correct policies or procedures to use, consult your HUD representative.

1. Active governance. The most important control is creating an environment in which there is an expectation of integrity and employees understand that dishonest acts will be detected and promptly addressed. When the board and managers continually reinforce the need for honesty, it establishes a culture and expectation of ethical behavior. When an abuse is uncovered, responsible parties must take the appropriate actions against perpetrators. These actions effectively deter others from committing similar acts. This advice is true for all types of abuse in the PHA.



2. Loss prevention initiatives. You can also promote integrity through best practices by encouraging staff to become involved in prevention activities. For example, the Birmingham Office of Public Housing and the Alabama Association of Redevelopment Housing Authorities (AAHRA) partnered to examine causes of financial losses at State PHAs. At a spring 2015 workshop, AAHRA and the HUD office formed a Committee on Loss Prevention and Detection. The Committee is composed of executive directors, directors of finance, PHA insurance providers, fee accountants, auditors, and HUD staff. AAHRA surveyed all of the PHAs in the State and found that approximately 70 percent of the PHAs had issued credit cards to their employees without specific policies to prevent and detect the fraudulent activities. After this review, additional credit card policies were developed and posted to the AAHRA Web site(<http://aahra.org/page17/page19/page36.html>). AAHRA also issues a quarterly Loss and Prevention newsletter.

3. Recurring training. PHAs must require regular training to educate all card holders, administrators, and supervisors regarding their roles and responsibilities for purchase and travel card use. Employees who misuse cards often assert that because they repaid the agency for personal expenses charged to their agency card, their use of the credit card for personal items was acceptable. This is untrue. Training should include clear definitions of roles, types of purchases allowed and not allowed, documentation required, approvals required, and penalties for failing to follow rules.

4. Strong mitigation procedures. A number of controls over card programs are needed. Some do's and don'ts to consider include

- ✓ DON'T issue cards to everyone. Only issue cards to those who have an organizational need to have a card.
- ✓ DON'T allow cash withdrawals on the cards without preapproval by authorized approving officials.
- ✓ DON'T allow anyone to use credit cards that are not assigned to them.
- ✓ DO conduct background checks and credit checks on purchase cardholders (as well as others who have financial responsibilities), and do not issue a card to anyone who has been convicted of theft or is delinquent on debt or at their credit limit on their revolving accounts.
- ✓ DO require each card holder to sign a card holder agreement stating they understand the rules and regulations pertaining to the use of the card.
- ✓ DO use dollar limits. An individual's purchase card should have a reasonable monetary limit based on both daily and monthly use. While some organizations set limits at the same level for all cardholders, it is better to tailor limits for each cardholder, thereby reducing the total dollars at risk for misuse and fraud.
- ✓ DO require the use of merchant classification codes. PHAs can work with the card issuer to bar card use from any of the nearly 800 merchants' categories. (A list can be found at http://www.irs.gov/irb/2004-31_IRB/ar17.html). These codes should be used to prohibit transactions at various establishments, such as liquor stores, casinos, department or clothing stores, movie theaters, etc.
- ✓ DO mandate reconciliation reviews. Establish a monthly review by the cardholder's supervisor or other independent person. Ensure that there is transparency and a review of the executive director's and board members' card use. Review receipts to ensure appropriateness and reasonableness of charges and that there is a receipt (when required by a dollar threshold) that agrees with its corresponding charge in the card statement.
- ✓ DO review the reasonableness of charges on travel cards, such as not accepting actual cost for lodging and food when standard per diem and set lodging rates should apply.

- ✓ DO ensure that the travel charges are only for the authorized traveler.
- ✓ DO implement an anonymous tip line: Most frauds are discovered as the result of a tip. A tip line allows employees or citizens to report suspected abuse of not only purchase and travel cards, but other types of frauds as well.

5. Use of remedial actions.

- a. In coordination with your human resources department or legal counsel, you can create a matrix of escalating corrective actions based on the frequency, magnitude, or repetitiveness of mistakes and misuse. These actions could include
 - 1) Verbal counseling and warning,
 - 2) Repayment of any purchases for personal use,
 - 3) Written warning,
 - 4) Suspension or permanent removal of card privileges,
 - 5) Including misuse or delinquency occurrence in employee performance evaluations, and
 - 6) Suspension or termination of employment.
- b. Ensure consistent enforcement of penalties.
- c. Publish actions taken by the PHA for the fraudulent use of charge cards.
- d. In severe cases, in which the employee goes beyond making a mere mistake and has apparently hidden the abuse by changing or falsifying documents, the matter should be referred to HUD OIG. File a report on [OIG's Web site \(https://www.hudoig.gov/report-fraud\)](https://www.hudoig.gov/report-fraud) or call the appropriate Special Agent in Charge in the Office of Investigation (<https://www.hudoig.gov/about/where-were-located>).

Previous Program Integrity Bulletins for PHAs

- ❖ A Primer for PHA Commissioners
- ❖ Developing a Fraud Policy
- ❖ Avoiding Embezzlement of Public Housing Funds
- ❖ Hiring by Public Housing Agencies
- ❖ Procurement and Contracting: Five Ground Rules for Executive Directors and Commissioners
- ❖ Locking Out Tenant Fraud
- ❖ Sovereign Citizens