



September 15, 2020

MEMORANDUM NO:  
2020-KC-0801

## *Memorandum*

TO: Irving L. Dennis  
Chief Financial Officer, F

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

SUBJECT: Medium Risk Identified in HUD's Fiscal Year 2019 Travel Card Program Risk Assessment

### **INTRODUCTION**

The U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), has completed its risk assessment of HUD's travel cards as required by the Government Charge Card Abuse Prevention Act of 2012 (Public Law 112-194). Our objective was to assess the risks of illegal, improper, or erroneous purchases and payments within HUD's travel card program. We found that a medium risk was associated with HUD's travel card program. The risk assessment was based on our analysis of HUD's fiscal year 2019 travel card spending, compliance with the program requirements, and other program risk factors.

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 travel card program.

### **SCOPE AND METHODOLOGY**

We performed our review from December 2019 through April 2020 at our office in St. Louis, MO. Our review covered the period October 1, 2018, through September 30, 2019.

To accomplish the risk assessment objective, we

- reviewed Federal Travel Regulations and Office of Management and Budget (OMB) and General Services Administration (GSA) guidance;
- reviewed HUD's travel card policies;

- interviewed employees of HUD;
- developed criteria for assessing the overall risk of HUD’s travel card program;
- analyzed fiscal year 2019 travel card transaction data, along with the travel vouchers and authorizations data provided by HUD’s Office of the Chief Financial Officer (OCFO);
- analyzed the cardholders’ data and training records;
- identified potential risk areas for travel card misuse and abuse; and
- assessed the overall risk of the travel card program in fiscal year 2019.

We considered three areas in our risk assessment of HUD’s travel card program: (1) percentage of potentially improper purchases to total card purchases, (2) travel card program requirements, and (3) other program risk factors. Each area contained individual risk factors used to determine the program risk in that area. We assigned threshold amounts for each area based on prior audit experience and auditor judgment. We also took into account that during the risk assessment, we would be identifying potentially improper transactions but that some of those transactions, if tested, would have an acceptable explanation, such as timing issues.

Exhibit 1 – Scoring guide

Criteria	Low	Medium	High
Percentage of potentially improper purchases to total card purchases	< 2%	2-5%	> 5%
Program requirements not met	0-2	3-4	> 4
Other program risk factors	0-2	3-4	> 4

We will determine if an audit is warranted for any area scored as medium risk and develop recommendations for that work, if necessary. We will develop recommendations for audit work for any area scored as high risk.

**BACKGROUND**

On October 5, 2012, Congress enacted Public Law 112-194, the Government Charge Card Abuse Prevention Act. This law required each agency that had employees who used travel charge cards to establish and maintain internal control activities to ensure the proper, efficient, and effective use of the charge cards. Further, it required the inspector general of each executive agency with more than \$10 million in travel card spending to (1) conduct periodic audits of travel card programs to analyze risks of illegal, improper, or erroneous purchases and payment and (2) report the findings of such audits or reviews, along with recommendations to prevent the improper use of travel cards, to the Director of OMB and Congress.

GSA administers the government charge card program, also known as the GSA SmartPay program. This program provides travel cards to employees of agencies or departments throughout the U.S. Government. GSA designed travel cards to facilitate official government travel, including airfare, rail or bus tickets, lodging, meals, rental cars, and other miscellaneous expenses. The government travel cards must be used for all official travel expenses that can be

paid by credit card. Employees are responsible for full payment of all undisputed charges made using the card within 30 days from each statement closing date, regardless of the amount reimbursed by HUD. In November 2018, HUD began transitioning from the GSA SmartPay 2 to the GSA SmartPay 3 travel card program.

HUD uses Citibank as its travel 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 travel card program. ARC assisted with the opening and closing of Citibank card accounts, providing assistance with OMB inquiries concerning travel card activity, managing the travel card training program for cardholders and travel program officials, providing assistance to resolve issues with Citibank, and distributing delinquency and monitoring reports.

OCFO administers the HUD travel card program. Within this office, the agency program travel coordinator is responsible for completing charge card applications, assisting cardholders as necessary, and acting as liaison between HUD and the travel card contractor. The coordinator is also responsible for reviewing the monthly monitoring reports from ARC to identify potential misuse or abuse and contacting appropriate program offices for further review and disciplinary action.

## **RESULTS OF REVIEW**

Based on our review of individual risk factors in each risk area, we determined that the overall travel card program risk in fiscal year 2019 was medium.

### **Potentially Improper Purchases**

In fiscal year 2019, HUD employees made 84,160 purchases and payments totaling more than \$13 million. The potentially improper purchases included the following policy violations: returned check and late payment fees, cash advances occurring more than 5 days before or 0 days after trip dates, and other purchases and payments occurring more than 1 day outside trip dates. HUD employees potentially made 2,368 improper purchases and payments totaling \$378,407, representing almost 3 percent of the total purchases and payments amount. These transactions may have included legitimate charges. For example, if a rental car is returned on a Friday night at a location that is closed for the weekend, the charge may be delayed until Monday, and other merchants may not process charges in a timely manner. In addition, some transactions could have been refunded or reversed later. Therefore, the risk to the travel card program based on the percentage of potentially improper transactions to the total travel card spending was medium.

Exhibit 2 – Travel card information October 1, 2018 – September 30, 2019

Background information	Travel card data
Number of cardholders	4,916
Number of transactions	84,160
Transactions total	\$13,143,428
Average spending on card	\$2,674
Average transaction value	\$156
Potentially improper transactions	\$378,407
Percentage of potentially improper to total spending	2.879%
<b>Financial risk assessment</b>	<b>Medium risk</b>

Program Requirements Not Met

The Government Charge Card Abuse Prevention Act of 2012, appendix B of OMB Circular A-123, and GSA guidance require HUD to establish and maintain certain internal control activities to ensure the proper, efficient, and effective use of such travel charge cards. We found that 9 of 14 required internal controls were lacking or not adequate (appendix A). These requirements involved

- the charge card management plan elements and compliance summary (requirements 2, 3, and 5),
- reviews of refund agreement (requirement 7),
- reviews of employees who need travel cards (requirement 8),
- cancellation of travel cards for terminated employees (requirement 10),
- agency’s evaluation of effective controls (requirement 9), and
- travel cardholders’ records and training (requirements 11 and 13).

Therefore, the travel card program risk from noncompliance with the travel card program requirements was high.

Other Program Risk Factors

The risk assessment also included a review of other program risk factors, including negative media coverage, recent program changes, staffing or contractor changes, hotline complaints, substantial misuse or abuse allegations, and additional risk factors (if present). There were recent travel card program changes involving HUD’s transition to the SmartPay 3 travel card system. Information for the travel card accounts needed to be manually transferred into the new system, exposing travel card data to manual errors and increasing the overall program risk. There were also staffing changes within the OCFO office that handles the travel cards. One of the two OCFO employees responsible for travel card program administration has been in that position since August 2019. The other employee has been transitioning to become the new travel card program coordinator. In addition, there was a hotline complaint involving travel cards.

This complaint brought up an issue of HUD employees failing to request State tax exemption at hotels while on official government travel. We did not determine whether the complaint could be substantiated as part of our risk assessment. OCFO also reported 23 administrative or disciplinary actions taken against employees who misused their travel cards in fiscal year 2019, substantiating misuse and abuse violations. Based on these risk factors, the travel card program risk is medium.

Exhibit 3 – Other program risk factors

Other program risk factors	Instances
Negative media coverage	No
Recent program changes	Yes
Staffing or contractor changes	Yes
Hotline complaints	Yes
Substantiated misuse or abuse allegations	Yes
Additional risk factors, if present	No
<b>Other risk factors assessment</b>	<b>Medium risk</b>

### CONCLUSION

Based on predetermined criteria, we concluded that the risk of illegal, improper, or erroneous purchases and payments made through the HUD travel card program during the period under assessment was medium. We based our conclusion on the percentage of potentially improper transactions, noncompliance with the travel card program requirements, and other program risk factors.

While the risk associated with the use of travel cards was medium for fiscal year 2019, this risk rating is merely an indicator of the need to perform further audit work to determine the extent of actual problems.

Exhibit 4 – Summary risk assessment results

Program area	Review results	Program area risk
Percentage of potentially improper purchases to total card purchases	2.879%	Medium risk
Program requirements not met	9	High risk
Other program risk factors	4	Medium risk
<b>Summary assessment</b>		<b>Medium risk</b>

# Appendixes

## Appendix A

### OIG Review of HUD Compliance With Travel Card Program Requirements

Travel card program requirements	Criteria	Requirement met
1. Provide annual certification that the appropriate policies and controls are in place or that corrective actions have been taken to mitigate the risk of fraud and inappropriate charge card practices.	OMB Memorandum M-13-21 (rescinded on August 27, 2019)	Yes
2. Summarize the overall results of completed compliance summaries and internal control assurance assessments in the charge card management plan.	OMB Memorandum M-13-21 (rescinded on August 27, 2019)	No
3. Keep the compliance summary on file, along with related supporting documentation, as evidence of adequate control assurances.	GSA Smart Bulletin No. 021 (issued on November 18, 2013)	No
4. Submit a copy of the charge card management plan to OMB annually.	OMB Circular A-123, appendix B, chapter 2.1 (revised on January 15, 2009)*	Yes
5. Develop and maintain a charge card management plan that meets the requirements of OMB Circular A-123, appendix B.	OMB Circular A-123, appendix B, chapter 2.3 (revised on January 15, 2009)	No
6. Maintain statistical and narrative information for HUD's own use and management of the travel card program.	OMB Circular A-123, appendix B, chapter 5.3 (revised on January 15, 2009)	Yes
7. Review HUD's refund agreement with the travel card contractor.	OMB Circular A-123, appendix B, chapter 7.4 (revised on January 15, 2009)	No

Travel card program requirements	Criteria	Requirement met
8. Perform periodic reviews to determine whether each employee has a need for the charge card.	Public Law 112-194, section 3(h)(1)(C) (signed on October 5, 2012)	No
9. Evaluate the effectiveness of the controls put into place to mitigate the risks of payment delinquencies and to prevent or identify charge card misuse.	OMB Circular A-123, appendix B, chapter 1.7 (revised on January 15, 2009)	No
10. Invalidate the charge card of each employee leaving the agency immediately upon termination of the employment.	Public Law 112-194, section 3(h)(1)(H) (signed on October 5, 2012)	No
11. Maintain a record of each employee who was issued a travel card on behalf of the agency for official use.	Public Law 112-194, section 3(h)(1)(A) (signed on October 5, 2012)	No
12. Ensure that audit findings are promptly resolved after completion of the audit.	OMB Memorandum M-13-21 (rescinded on August 27, 2019)	Yes
13. Ensure that appropriate training is provided to each travel cardholder and approving official.	Public Law 112-194, section 3(h)(1)(D) (signed on October 5, 2012)	No
14. Ensure that travel card payments are issued directly to the travel card-issuing bank for credit to the employee's individual travel card account.	Public Law 112-194, section 3(h)(1)(I) (signed on October 5, 2012)	Yes
<b>Program requirements risk assessment</b>		<b>High risk</b>

\*OMB revised the appendix on August 29, 2019, but we used the previous version as it was in effect at the time the requirements should have been met.

## Appendix B

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### Auditee Comments

The Office of Chief Financial Officer chose not to provide any comments to include in the final report.