



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

March 19, 2014

MEMORANDUM NO:
2014-FO-0801

Memorandum

TO: Keith W. Surber
Acting Chief Procurement Officer, N
Michael Anderson, Chief Human Capital Officer, A

//Signed//

FROM: Thomas R. McEnanly
Director, Financial Audits Division, GAF

SUBJECT: HUD's Semiannual Purchase Card Violation Report

INTRODUCTION

We reviewed the U.S. Department of Housing and Urban Development's (HUD) violation report regarding the misuse of a government purchase card in accordance with the Office of Management and Budget's (OMB) implementing guidance and the Government Charge Card Abuse Prevention Act of 2012.¹ HUD is responsible for the violation report and the conclusions expressed in the report. Our objective was to evaluate the fairness of the information presented in HUD's violation report.

In its report, HUD stated that no confirmed violations² occurred during the period April 1 to September 30, 2013. Thus, there were no adverse personnel actions taken by HUD. Our review did not disclose any violations by HUD personnel that were required to be reported during the reporting period. However, we noted the following areas of concern in HUD's internal controls that could impact its ability to prevent and identify violations in the purchase card program: (1) unblocked high-risk merchant category codes, (2) inconsistent monthly transaction reviews, (3)

¹ Public Law 112-194

² HUD considers a violation confirmed after a completed Office of Inspector General (OIG) investigation. HUD informed us that it had referred a cardholder to OIG for investigation due to suspicious purchase card activity during the fourth quarter of fiscal year 2013. The cardholder's purchase authority was revoked pending the results of the investigation, which was ongoing.

hampered split purchase analysis, and (4) oversight staffing constraints.

Our work in this area is ongoing, and we will review these issues further as we perform the fiscal year 2014 risk assessment and audit of HUD's credit card programs. Thus, there are no recommendations in this report.

METHODOLOGY AND SCOPE

Our review was conducted in Washington, DC, between December 2013 and February 2014. Our scope included purchase card activity during the period April 1 to September 30, 2013. Our limited review primarily consisted of reviewing purchase card transaction reports, questioning applicable HUD officials, and understanding HUD's internal controls at the agency level to identify, prevent, and report purchase card violations. We consulted with key personnel from the Offices of the Chief Procurement Officer, Chief Human Capital Officer, and Chief Financial Officer to accomplish our objectives for this assignment.

On March 13, 2014, HUD indicated that it did not need to review and provide formal comments to this memorandum.

BACKGROUND

On October 5, 2012, the Charge Card Act was signed into law by the President. It required all executive branch agencies to establish and maintain safeguards and internal controls for purchase cards, travel cards, integrated cards, and centrally billed accounts. To that end, on September 6, 2013, OMB issued implementing guidance to assist agencies in their implementation of the Charge Card Act.

One of the key provisions of the Charge Card Act applicable to the Office of Inspector General (OIG) is the requirement to work with HUD and submit a semiannual joint report to the director of OMB on purchase card violations by employees. At a minimum, the joint report must include a summary description of (1) confirmed violations involving misuse of a purchase card following completion of a review by the agency or by the inspector general of the agency and (2) all adverse personnel action, punishment, or other action taken based on each violation.

HUD submitted the joint report to OMB on January 31, 2014, which is the required deadline. Our portion of the joint report to OMB included the review results expressed in this memorandum report.

RESULTS OF REVIEW

Our review did not disclose any violations by HUD personnel that were required to be reported during the reporting period. However, we noted the following areas of concern in HUD's internal controls that could impact its ability to prevent and identify violations in the purchase card program:

- Unblocked high-risk merchant category codes. HUD had not established a policy to perform a periodic assessment of high-risk merchant category codes. In its fiscal year 2013 third quarter report to OMB, HUD reported that two purchase card accounts were compromised and fraudulently used at a department store and a big retail store. It was determined that the two cardholders were not responsible for these transactions. On January 24, 2014, OIG was informed that HUD may consider blocking additional codes to minimize the risk of fraudulent purchase card transactions after conducting additional analysis and review. Blocking purchases at establishments such as department stores, which are rarely needed for official government purposes, is a good business practice to reduce instances of purchase card fraud or misuse.
- Monthly transaction reviews. Tools used by HUD to identify potential purchase card violations were largely manual, and the methodology used for HUD's reviews was not always documented and applied in a consistent manner. On January 24, 2014, during our discussion of our preliminary results, HUD was amenable to establishing a written policy to consistently perform and document monthly reviews of purchase card transactions at the agency level. HUD believed that using automated tools and reports to identify and investigate suspicious transactions each month would increase its efficiency in this area. HUD had spoken with the General Services Administration (GSA) regarding the use of a reporting tool, which GSA is developing, to assist in monitoring the purchase card program. HUD planned to implement this tool, once GSA has developed, tested, and deployed it across the government.
- Split purchase³ reviews. HUD's processes for identifying split purchases were hampered by the banking data available and cardholder practices. HUD is considering more detailed information from vendors⁴ be included in Citibank's monthly purchase card transaction report to help identify suspicious transactions, including split purchases. HUD stated that this refinement of the monthly report may be addressed during the next charge card contract renewal with GSA. Our limited review of purchase card transactions showed the need for HUD to increase its efforts to encourage cardholders to combine transactions when possible to decrease the appearance of split purchases.
- Oversight staffing constraints. HUD noted that staffing constraints in the Offices of the Chief Human Capital Officer and the Chief Procurement Officer had impacted its ability to manage and oversee the purchase card program. As a result, HUD was using its limited resources to target areas of risk or concern.

³ According to HUD's Government Purchase Card Policy Guide, dated July 2013, and the Federal Acquisition Regulation, subpart 13.003(c)(1) and (2), a split purchase occurs when a cardholder breaks down purchase requirements aggregating more than the simplified acquisition threshold (micro-purchase threshold) into several purchases that are less than the applicable threshold, merely to permit use of simplified acquisition procedures or to avoid any requirement that applies to purchases exceeding the micro-purchase threshold.

⁴ Only vendors under the Federal Strategic Sourcing Initiative (FSSI) are required to provide more detailed purchase data (third-level data). Strategic sourcing is the structured and collaborative process of critically analyzing an organization's spending patterns to better leverage its purchasing power, reduce costs, and improve overall performance. HUD mandated that purchase card holders make all office supply purchases through GSA's FSSI office supplies blanket purchase agreements.

We presented these areas of concern to HUD during our review. Our work in this area is ongoing, and we will review these issues further as we perform the fiscal year 2014 risk assessment and audit of HUD's credit card programs.

RECOMMENDATIONS

There are no recommendations for this report.