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Audit Report Number  
2005-DP-0003

TO: Darlene F. Williams, General Deputy Assistant Secretary for Administration, A

*Curtis Hagan*

FROM: Curtis Hagan, Director, Information System Audit Division, GAA

SUBJECT: Controls Over HUD's Purchase Card Program Need Improvement To Ensure Documentation and Monitoring Requirements Are Met

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited the U.S. Department of Housing and Urban Development's (HUD) purchase card program to determine whether actions taken on the recommendations made in a 2003 audit report issued by the U.S. Government Accountability Office on HUD's purchase card program resulted in better program management and were effective in preventing or detecting inappropriate purchase card use.

### **What We Found**

We found that the actions taken to resolve the issues reported in the 2003 Government Accountability Office audit report have resulted in significant improvement in the overall management of the purchase card program. HUD has developed and put into operation several policies designed to improve purchase card transaction approval, review, monitoring, and training procedures. While these actions have reduced the frequency of improper and questionable purchase card transactions reported in the 2003 report, we found instances of questionable

activity that are detailed in appendix B of this report. We also found administrative weaknesses associated with documentation maintenance, statement reconciliations, delegations of authority, and the payment of sales tax.

### **What We Recommend**

We recommend that HUD improve controls over purchase card program administrative functions by making sure monitoring procedures include detailed reviews of documentation maintenance, statement reconciliations, delegations of authority, and sales tax payments.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

### **Auditee's Response**

The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix A of this report.

# TABLE OF CONTENTS

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Background and Objectives	4
Results of Audit	
Finding 1: Purchase Card Administrative Functions Were Not Always Performed and Adequately Monitored	5
Scope and Methodology	8
Internal Controls	9
Appendixes	
A. Auditee Comments and OIG's Evaluation	10
B. Prior Audit Findings Compared with Current Results	12

## **BACKGROUND AND OBJECTIVES**

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The purchase card is a governmentwide commercial credit card used to purchase goods and services. Government purchase cards are available to Federal agencies under a General Services Administration Smartpay Master Contract and may be used to make purchases with minimal paperwork.

Each agency is required to establish the parameters for administering its card program. U.S. Department of Housing and Urban Development (HUD) Handbook 2212.1, REV-2, “Governmentwide Credit Card Program,” establishes purchase card policies and procedures and assigns overall purchase card program responsibility to the Program Administrator. The Handbook establishes requirements for selecting cardholders and approving officials and sets forth procedures for creating purchase card accounts and spending limits. It also provides guidance and restrictions for use of the purchase card and billing and accounting procedures and establishes responsibilities for monitoring use of the card.

HUD headquarters and field office program coordinators are responsible for daily operation of the program in their respective geographical areas. Both designate approving officials, and approving officials select cardholders based on their responsibility for regularly procuring goods or services.

The approving official plays a critical role in ensuring that the requirements of the purchase card program are followed and has important first-line oversight responsibilities. The approving official is responsible for designating and monitoring cardholders, reviewing the appropriateness of items purchased by cardholders, reviewing cardholder monthly billing statements, and providing guidance to the cardholders in accordance with HUD policy. The approving official also ensures that cardholders maintain complete records of all purchase card charges.

In April 2003, the U.S. Government Accountability Office issued an audit report on HUD’s purchase card program. The report identified internal control weaknesses that resulted in improper and questionable purchase card activity. The report recommended that HUD develop and implement a robust review and approval process, establish supporting documentation requirements, and develop and implement formal monitoring procedures.

Our audit objective was to determine whether controls implemented by HUD as a result of the U.S. Government Accountability Office purchase card program audit were effective in preventing or detecting inappropriate purchase card use.

## RESULTS OF AUDIT

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### Finding 1: Purchase Card Administrative Functions Were Not Always Performed and Adequately Monitored

Although HUD has developed and put into operation several policies designed to reduce the number of improper and questionable purchase card transactions, management controls over purchase card program administrative functions need improvement. Because cardholders did not follow prescribed documentation requirements and purchase card approving officials did not always perform comprehensive reviews of cardholder administrative activities and delegations of authority, purchases were not always adequately supported, accounts were not reconciled in a timely manner, and sales tax was inappropriately paid.

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#### **Purchase Card Documentation Was Not Always Completed or Retained**

The U.S. Government Accountability Office noted in a 2003 audit report<sup>1</sup> of HUD's purchase card program that HUD did not follow its policies to retain supporting documentation for purchase card transactions. Our review showed that cardholders and approving officials continued to overlook HUD policies and did not always maintain proper purchase card transaction supporting documentation or complete required administrative tasks.

HUD guidance requires cardholders to complete and retain (1) written approval to purchase goods or services; (2) purchase logs that record the vendor, items purchased, transaction date, purchase amount, running total, and other basic transaction information; (3) invoices and receipts; and (4) monthly bank statements. Additionally, HUD policy requires that the approving official sign and date purchase approval documentation to acknowledge their review and concurrence with the purchase. Also, the cardholder and approving official are required to independently review, validate, and reconcile the monthly statement with their dated signature within 8 days of receiving the statement.

During the 11-month period from March 1, 2003, through January 31, 2004, HUD cardholders made 15,909 transactions valued at \$5.5 million, excluding Office of Inspector General (OIG) purchases.<sup>2</sup> Our review of 250 sampled transactions made

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<sup>1</sup> Audit report number GAO-03-489, "HUD Purchase Cards - Poor Internal Controls Resulted in Improper and Questionable Purchases," issued in April 2003.

<sup>2</sup> To ensure audit independence, 2,616 OIG purchase card transactions valued at more than \$911,000 were eliminated from the universe of transactions subject to audit review.

by 98 cardholders showed that 66 (67 percent) did not maintain all required supporting documents. For example, of the 250 transactions reviewed, 101 were not supported with a purchase log, 28 were missing preapproval documentation, 11 did not have invoices or receipts, and 6 were not supported with a monthly statement. In addition, required dates and signatures on purchase approval documentation and monthly statements were missing for 59 and 150 transactions, respectively. Unless approval documents and statements are acknowledged and dated by cardholders and approving officials, controls established to ensure transactions are authorized, fully funded, and reconciled in a timely manner cannot be measured and monitored.

### **Account Statements Were Not Always Reconciled in a Timely Manner**

Cardholders and approving officials did not reconcile credit card statements in a timely manner. HUD policy requires that monthly credit card statements be reconciled and approved within 8 days of receipt by the cardholder. Cardholders and approving officials are responsible for independently carrying out this function. Because required dates and signatures were generally not recorded on the monthly statements as required, we could not use the statements to determine whether they were reconciled. Accordingly, we reviewed HUD's Unapproved Credit Card Payment Report, dated December 2003, and determined that purchases were not always reconciled or reconciled in a timely manner. The report identified 15 cardholders who had 125 unreconciled transactions valued at more than \$56,000. The report clearly indicated that transactions had not been reconciled for at least 2 months, some as long as 4 months.

### **Cardholders with Higher Spending Limits Were Not Delegated the Proper Authority**

Cardholders with spending limits exceeding \$2,500 were not delegated the authority to make purchases at that level, nor did they complete training as prescribed by Federal guidelines. Federal and HUD procurement guidance limits non-contracting officers' purchase amounts to \$2,500 per transaction due to the more complex rules governing acquisitions and the higher risks associated with purchases above the limit. We identified eight Headquarters cardholders who were authorized to make purchases above \$2,500<sup>3</sup> but were not delegated the authority by HUD's Chief Procurement Officer. These cardholders initiated 104 transactions valued at about \$1.1 million that exceeded the \$2,500 threshold. The transactions were made to acquire items and services consistent with the

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<sup>3</sup> All eight cardholders were authorized to make purchases in excess of \$25,000.

cardholder's normal procurement responsibility. The Program Administrator did not coordinate with the Procurement Officer to ensure that proper delegations of authority were initiated and training completed. When we brought this matter to the attention of the Program Administrator, prompt action was taken to coordinate with the Procurement Officer so delegations of authority could be processed and cardholders advised of training requirements.

### **Sales Tax Was Inappropriately Paid**

Using automated techniques, we searched the 15,909 transactions processed during the 11-month period from March 2003 through January 2004 for payments of State and local sales taxes. We found 106 transactions initiated by 48 cardholders improperly included payments of sales taxes totaling \$1,282. Since the Federal Government is exempt from State and local taxes, HUD guidance prohibits payment of sales tax for government purchases and requires cardholders to ensure sales tax is not included in purchase amounts. The cardholder is also responsible for taking appropriate actions to receive credit for any sales tax charged to the card.

### **Conclusion**

HUD has made progress in developing and implementing policy and procedures designed to improve purchase card operations, minimize risks associated with improper use, and train key personnel. The administrative deficiencies we found were generally attributable to key personnel not following prescribed guidelines. Furthermore, supervisory and oversight functions were not sufficient to monitor, detect, prevent, and correct program administrative shortcomings. As a result, purchases were not always adequately supported, accounts were not reconciled in a timely manner, and sales tax was inappropriately paid.

### **Recommendations**

We recommend that HUD

- 1A. Develop monitoring and oversight procedures to systematically review cardholder and approving official activity to ensure administrative functions and documentation requirements are met, bank statements are reconciled in a timely manner, and sales taxes are not paid.
- 1B. Continue to coordinate with the Office of the Chief Procurement Officer to ensure that cardholders with purchase authority exceeding \$2,500 are formally delegated the authority and properly trained.

## SCOPE AND METHODOLOGY

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We performed the audit

- From October 2003 through June 2004,
- In accordance with generally accepted government auditing standards and included tests of internal controls that we considered necessary under the circumstances, and
- At HUD Headquarters, Washington, DC.

The audit covered transactions representative of operations current at the time of the audit and included the 11-month period from March 2003 through January 2004. We reviewed applicable guidance and discussed operations with management and staff personnel at the Office of Budget and Administrative Support and key officials from various HUD program areas assigned purchase card management responsibilities.

To determine whether cardholders had followed prescribed documentation requirements and purchase card managers had performed comprehensive reviews of cardholder administrative activities and delegations of authority, we

- Used audit software to analyze the universe of 15,909 non-OIG transactions valued at \$5.5 million that were made between March 2003 and January 2004.
- Identified 2,352 transactions made by 182 cardholders valued at \$2.4 million that exhibited risk characteristics for improper use or use that was inconsistent with purchase card provisions.
- Sampled 250 of the 2,352 high-risk transactions valued at \$2.4 million made between March 2003 and January 2004.
- Reviewed all documentation provided by cardholders and HUD officials to support sampled purchase card transactions.
- Used audit software to examine the 15,909 non-OIG transactions made between March 2003 and January 2004 to identify those that included State and local sales taxes.



# INTERNAL CONTROLS

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Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

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## Relevant Internal Controls

We determined the following internal controls were relevant to our audit objectives:

- Policies, procedures, control systems, and other management tools implemented to prevent the inappropriate use of government-issued purchase cards.
- Policies, procedures, controls, and other management tools implemented to detect, prevent, and resolve administrative deficiencies and delegations of procurement authority.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

## Significant Weaknesses

Based on our review, we believe the following items are significant weaknesses:

HUD did not

- Have sufficient management controls over administrative functions to prevent, detect, and minimize documentation and delegation of authority deficiencies.
- Establish adequate controls to prevent, detect, and resolve inappropriately paid sales taxes.

# APPENDIXES

## Appendix A

### AUDITEE COMMENTS AND OIG'S EVALUATION

#### Ref to OIG Evaluation

#### Auditee Comments



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

JAN 24 2005

ASSISTANT SECRETARY FOR ADMINISTRATION

MEMORANDUM FOR: Curtis Hagan, Director, Information Systems Audit Division, GAA  
FROM: Vicki B. Meadows, Assistant Secretary for Administration, A  
SUBJECT: Response to Office of Inspector General Draft Audit Report,  
Controls Over HUD's Purchase Card Program Need Improvement  
To Ensure Documentation and Monitoring Requirements Are Met

We have reviewed the subject draft audit report on your review of HUD's Purchase Card Program to determine whether controls implemented as a result of the U.S. Government Accountability Office (GAO) audit were effective in preventing or detecting inappropriate purchase card use. The GAO audit, issued April 2003, contained seven recommendations and concluded that there were significant internal control weaknesses in Fiscal Year 2001. GAO has closed six of the seven recommendations, and management actions on the remaining recommendation are near to completion. We are pleased that the OIG report concludes that, "HUD has made progress in developing and implementing policy and procedures designed to improve purchase card operations, minimize risks associated with improper use, and train key personnel."

We concur with the two recommendations in the report and are committed to implementing necessary actions to eliminate the remaining administrative deficiencies found.

Thank you for the opportunity to comment on the draft report. If you have any questions concerning this response, please contact Mary P. Barry, Director, Office of Management and Planning, at (202) 708-1027, extension 123.

Comment 1

**Comment 1** HUD agrees with our finding and plans to implement the recommended actions.

## Appendix B

### PRIOR AUDIT FINDINGS COMPARED WITH CURRENT RESULTS

The purpose of our review was to determine whether controls implemented by HUD to address recommendations made in a 2003 audit report issued by the U.S. Government Accountability Office on HUD’s purchase card program resulted in better program management and were effective in preventing or detecting inappropriate purchase card use. We found that controls were generally in place to minimize improper purchase card activity. However, we found instances of questionable activity that were similar to those discussed in the 2003 report. We do not consider these instances indicative of systemic internal control weaknesses. The following chart compares U.S. Government Accountability Office findings with our findings.

Findings Reported by U.S. Government Accountability Office in 2003 <sup>4</sup>	Results of This Audit
553 transactions totaling about \$1.03 million (2.3 percent of total transactions and 1 percent of total dollars reviewed) were improperly split to circumvent cardholder single purchase limits.	14 transactions totaling \$18,700 (0.09 percent of total transactions and 0.34 percent of total dollars reviewed) were split to circumvent spending limits.
1,183 transactions totaling \$869,000 (5 percent of total transactions and 8.2 percent of total dollars reviewed) were made with vendors not expected to engage in commerce with HUD. <sup>5</sup>	Did not find any unsupported transactions that were processed with vendors not expected to do business with HUD. <sup>6</sup>
Accountability for computer and related equipment valued at \$74,500 (0.7 percent of total dollars reviewed) was questionable since there was no supporting documentation.	3 transactions valued at \$600 (0.03 percent of total transactions and 0.01 percent of total dollars reviewed) were made by offices prohibited from purchasing computer and related items.
N/A	5 transactions totaling \$6,670 (0.02 percent of total transactions and 0.12 percent of total dollars reviewed) were made for items specifically prohibited by HUD guidance.
The U.S. Government Accountability Office sampled 222 transactions valued at \$1.8 million from 23,688 total transactions valued at \$10.6 million during fiscal year 2001.	We sampled 250 transactions valued at \$2.4 million from 15,909 total transactions valued at \$5.5 million during the 11-month period from March 2003 through January 2004.

<sup>4</sup> Audit report number GAO-03-489, “HUD Purchase Cards - Poor Internal Controls Resulted in Improper and Questionable Purchases,” issued in April 2003.

<sup>5</sup> HUD did not use merchant category blocking controls when the U.S. Government Accountability Office performed its audit.

<sup>6</sup> HUD had implemented merchant category blocking controls when we performed our audit. We did not find any improper transactions with blocked merchants. One merchant category code, while on HUD’s list, was not programmed into the bank system.