



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, D.C. 20410-4500

OFFICE OF THE INSPECTOR GENERAL

TO: Joseph F. Smith, Acting Assistant Secretary for Administration, A  
Richard F. Keevey, Chief Financial Officer, F

FROM: Benjamin K. Hsiao, Director, Information Systems Audit Division, GAA

SUBJECT: Audit Report of the Commercial Credit Card Program

We completed an audit of the agency's commercial credit card program used for the procurement of goods and services. The objective of our audit was to determine if the agency's credit card program was effective and efficient and had adequate internal controls to ensure that credit card purchases were authorized and made for official purposes.

Our audit concluded that the credit card program is effective in reducing administrative time and costs associated with more formal procurement methods. Program efficiency, however, needs to be improved and the agency's internal controls over the credit card transactions are weak. Approximately 43 percent of our sampled cardholder billing statements, which support credit card invoice payments, lacked assurance that credit card purchases were properly authorized and made for official purposes. As a result the credit card program is subject to fraud, waste, and abuse.

Within 60 days, please submit for each recommendation a status report on: (1) corrective action taken; (2) the proposed corrective action and target completion dates; or (3) why corrective action is considered unnecessary.

Thank you for the assistance provided to us by your staff during the course of our review. Should you have any questions, please call me at 708-3444, extension 149.

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# Executive Summary

We completed an audit of the agency's commercial credit card program used for the procurement of goods and services. The objective of our audit was to determine if the agency's credit card program was effective and efficient and had adequate internal controls to ensure that credit card purchases were authorized and made for official purposes.

Our audit concluded that the credit card program is effective in reducing administrative time and costs associated with more formal procurement methods. Program efficiency, however, needs to be improved and the agency's internal controls over the credit card transactions are weak, especially in the review of transactions. As a result, the agency's credit card program is subject to fraud, waste, and abuse because it lacks assurance that credit card purchases are properly authorized and made for official purposes.

The primary control over credit card transactions resides with the Approving Officials, designated throughout the agency offices and components. These officials are to authorize credit card purchases and to actively review and sign all monthly transaction statements mailed to the officials' assigned credit cardholders by the program's servicing bank. These signed statements are then to be promptly forwarded to the Office of Finance and Accounting (Accounting) for final oversight review and processing for expense recording.

Our audit found that these controls were often not followed. A total of 31 of the 73 cardholder transaction statements examined (approximately 43 percent) for our sample month of November 1997 lacked evidence of adequate review. Control deficiencies included: missing statement signatures of the cardholder, Approving Official, or both; submissions of photocopies of the statements (including the signature pages); and non-submissions or late submissions of the statements to Accounting for review. Furthermore, Accounting's oversight process was not effective. Unsigned statements were not always sent back for signature and the office was unaware of the magnitude of the problem of non-submitted statements. At least one case of credit card abuse, totaling \$6,850, was found.

The audit also concluded that Accounting was not efficient in paying the monthly credit card invoice submitted by the servicing bank. Payment of the monthly invoices by Accounting was late for 11 of the 12 months reviewed and, as a result, over \$10,000 have been paid in interest penalties under the Prompt Payment Act. The payment process was delayed because invoices were received late and were being used by Accounting for making various manual computations for totaling expenses by component organization and by fiscal year. The controls and the supporting documentation over cardholder account setup, cancellation, and purchase limit changes also need improvement.

The audit report provides for a number of recommendations to improve internal controls and efficiency in the credit card program.

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# Executive Summary

## **Response to Report**

We provided the draft report to the Acting Assistant Secretary for Administration and the Chief Financial Officer (CFO) on November 30, 1998. We received a written response to the draft from the Office of Administration and written comments from the Chief Financial Officer at the exit conference. Both offices have agreed with our recommendations, except for Recommendation 1E, and either have taken or plan to take appropriate action. The Office of Administration response is provided in Appendix E.

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# Introduction

The Code of Federal Regulations (Title 48, part 13) requires Federal agencies to use the Governmentwide credit card as the preferred method to purchase and pay for micro-purchases (those procurement amounts under \$25,000). Use of the credit card program is intended to save on administrative costs by avoiding the issuing of purchase orders. The regulations do not require competitive quotations or verification of price reasonableness unless the credit card user has reason to believe the vendor's price is not reasonable. Generally, procurement through use of credit cards involves some trade off of internal control from lesser segregation of duties (i.e. the buyer of goods is also the recipient of the goods) versus lower costs by avoiding the use of requisitions and purchase orders. To compensate for this, the Governmentwide program has relied on the "Approving Official", often the cardholder's supervisor, to review cardholder purchase activity.

The Department of Housing and Urban Development (the agency) started using the credit card in September 1989. The small purchases credit card, also known as the International Merchant Purchase Authorization Card (IMPAC) is assigned by agencies to selected personnel to make purchases such as office supplies and equipment. Each cardholder is subject to single item purchase limit, as well as a monthly dollar amount. The credit card is a distinctively designed card which bears the legend "For Official Government Use Only". The agency credit card program requirements are contained in HUD Handbook 2212.1, which includes assigning the responsibility for the propriety of the credit card program among certain individuals/organizations. The list includes: (1) Cardholders, (2) Approving Officials, (3) the Office of Finance and Accounting under the Chief Financial Officer and (4) the Office of Administrative and Management Services (OAMS).

The agency's total credit card purchases have been increasing and for fiscal years (FY) 1996 and 1997 were \$4.9 million and \$7.6 million, respectively. Credit card purchases for FY 1998 are estimated at \$11.8 million. Approximately 70 percent of the credit card purchases were made by headquarters offices.

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## **Audit Objectives**

Our primary audit objective was to determine if the agency's credit card program was effective and efficient and had adequate internal controls to ensure that credit card purchases were authorized and made for official purposes.

## **Audit Scope and Methodology**

The audit was performed at the agency's headquarters and included the Office of Administrative and Management Services (OAMS), the Office of Finance and Accounting (Accounting), the Office of Procurement and Contracts, as well as various other offices of credit cardholders. We reviewed pertinent records and transaction disks issued or provided to us by the credit card servicing bank, Rocky Mountain Bank Card System. We also reviewed data and transactions contained in the agency's accounting and

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# Introduction

payment system (HUDCAPS/FFS), and interviewed various officials and employees associated with the credit card program, including administrators, Approving Officials, and cardholders. Our field work was performed during the period of May 1998 through October 6, 1998; and included credit card transactions from May 5, 1997 through January 5, 1998; and agency accounting records from FY 1997 through October 6, 1998.

During the conduct of this audit, we used an automated tool for data extraction and analysis, called "ACL", to relate, sort, and summarize the servicing bank's and the agency's databases of credit card transactions. The ACL program has several built-in programs that permitted immediate classification, categorization, filtration, and stratification of the databases' figures and information. Appendices A, B, and C are examples of the ACL output reports.

The management control categories concerning the credit card program operations consist of:

1. Authorization of credit card transactions
2. Procurement of goods and services
3. Receipt of goods and services
4. Payment of the servicing bank's credit card invoices
5. Recording of credit card transactions

Our review found weaknesses in these categories and our recommendations for their improvement are included under Findings 1 and 2 of our report.

Our audit was made in accordance with the "Government Auditing Standards", issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that we considered necessary under the circumstances .

# Control Over Credit Card Transactions

Internal controls over the credit card transactions are weak and need improvement. The three available methods for providing control over such transactions all have some problems which result in a lack of assurance that transactions are proper and that the credit card program is free from fraud, waste, and abuse. At least one case of credit card use for personal purposes was found. Required signatures showing cardholder certifications and supervisor review and approval were often missing. Cardholder statements were frequently not forwarded or forwarded late to the Office of Finance Accounting (Accounting) for final review and expense recording. Supervisors reviewing cardholder statements need periodic training in the reviewing process and some supervisors are responsible for reviewing an excessive number of cardholder statements. The Accounting office which provides the final oversight of the review process lacks sufficient resources to effectively perform this function.

## Control Methods

The agency has three available methods for providing internal controls over credit card transactions. These methods include: (1) a limited system control consisting of programming by the servicing bank to preclude purchases from certain merchant categories, (2) an active control consisting of the “Approving Official’s” authorizing the cardholder’s planned purchase and subsequent review of the cardholder’s credit card statement, and (3) a passive control consisting of Accounting’s (under Chief Financial Officer) oversight review of the cardholder statements submitted to it for processing. Under the first method, merchants in the credit card program are required to provide a standard industrial classification (SIC) code for the type of business activity they are engaged in. If the agency wants to preclude the possibility of incurring purchases for prohibited items, it can request the servicing bank to program its credit card system to prevent authorization of point-of-sell purchases involving agency-specified SIC codes. However, the primary method for ensuring the legitimacy of credit card activity is the review of and signature by the Approving Official of cardholder’s signed credit card statement with vendor invoices/receipts attached. All such statements and invoices are then forwarded to Accounting for processing and expense recording. Accounting is also suppose to verify that the statements have been signed.

## Merchant Categories

In its “Agency Program Coordinator’s Guide”, the agency has selected from numerous merchant category groupings a particular grouping of specific SIC codes from which credit card purchases will be allowed. Those SIC codes not included in the groupings generally represent prohibited purchases, such

as purchases of food and entertainment purchases from restaurants, and airline tickets or other travel purchases and telephone calls which are covered under travel credit card and telephone calling card programs. Purchase attempts involving non-allowable SIC codes should preclude the execution of the credit card purchase.

We reviewed all credit card transactions (10,239), totaling \$5.5 million, from the period May 5, 1997 to January 5, 1998 in search of any prohibited purchases, as identified by the SIC code (and merchant name). Appendix A provides a summary of all purchases by SIC code description. We found that 303 individual transactions totaling \$365,898 involved merchant categories not on the allowed list. These transactions included use of the card for rental cars (SIC code 3357, 3366, 3370), travel agencies (SIC code 4722), and telephone calls, services, or equipment (SIC code 4812 and 4814). We provided a list of these transactions to agency management; however, explanations were not available regarding why the servicing bank's allowable list permitted these transactions. We recommend that management notify the servicing bank of this type of system deficiency in the future. In some instances where another credit card should have been used, such as the federal calling card for telephone calls, the agency incurs higher costs.

**Approving Official**

The primary control to ensure the official nature of the credit card activity rests with the Approving Official. This official receives a monthly statement called the Business Account Summary (the R090 report) from the servicing bank. This report provides both a summary of the total purchase amount by each of the credit cardholders assigned to him and detailed listings of the cardholder's transactions. The detailed listing is basically, a duplicate of the cardholders' monthly statements. Each month, the cardholder is suppose to: attach purchase invoices and receipts to his monthly statement or write in a description of the purchase if receipts were not available; sign the statement; and submit it to the Approving Official for his review and signature. Upon signing, the Approving Official submits the cardholder statements and attachments to Accounting for review, expense processing, and recording. However due to time constraints, Accounting, which also receives a total monthly invoice from the servicing bank along with a floppy disk of all transactions, generally makes payment to the bank prior to completing the expense processing of these individual statements.



We examined the processing status of all cardholder statements that were to be submitted to Accounting for FY 1997 and 1998 (as of July 27, 1998). We also performed a detailed review during October 1998 of the 54 cardholder statements submitted to Accounting (headquarters) for the month of November 1997.

Our review found that, at least, \$1.04 million (or 13.3 percent of the credit card purchases from October 1, 1997 through July 27, 1998) had not been processed for expense recording due primarily to either late or non-submissions of the statements by the Approving Officials. Of the FY 1997 transactions, 3.4 percent were still unprocessed. Appendix B is a graph of the unprocessed expense (CPAY Table) amounts as of July 1998. Our review of the 54 November statements on file showed that Approving Officials' signature dates averaged 59 days after the date of the statements. Several of the signature dates were six to seven months after the statement date. The credit card contract with the bank requires that the agency notify the bank within 60 days of the receipt of the cardholder statements of any disputed transactions in order to obtain credit.

Another disturbing fact was that Accounting might have processed 13 statements (18 percent of the month's transactions totaling \$29,064) without ever having received the statements from the Approving Official. Although it is possible that a statement or two could have been misfiled, we found only one misfiled (non-November) statement out of the 55 total in the folder and none out of a total 67 December statements filed in the following month.

Besides the delays of the statement submissions, we found that 12 (or 22 percent) of the November statements had missing cardholder or Approving Official signatures. Four statements were missing both signatures, two were missing the cardholder signatures, three were missing the Approving Official signatures, and three had signatures from other than the Approving Official. The cardholder signature represents certification that the statements are complete and accurate, while the Approving Official signature represents that he has reviewed and approved the statements. We also found that 37 percent of the transactions lacked supporting vendor invoices or credit card charge receipts. Agency procedures require

descriptions of the purchase to be written on the cardholder statements if invoices/receipts were not available/attached. We found four statements contained transactions not supported by either invoices/receipts or written descriptions.

An example of the effects from delays in reviewing the cardholder or the Approving Official's statements occurred in the summer of 1997. The Approving Official had not opened his statements for two months. When he opened and reviewed them, he realized that his assigned cardholder was using the card for purchasing approximately \$6,850 in personal items. An investigation by the Office of Inspector General ensued which resulted in administrative action against the employee, including reimbursement of the amounts paid for personal items.

The weaknesses associated with the Approving Official control process are caused by two factors – (i) an excessive number of cardholders assigned to many of the Approving Officials and (ii) failure of the Approving Officials to use their summary statement to ensure that all statements have been received and reviewed. The agency has a total of 364 cardholders and 138 Approving Officials which is about a 2-to-1 cardholder/Approving Official ratio on an overall basis. However, 45 percent of the cardholders are assigned to only 15 Approving Officials. The top five Approving Officials have 27, 23, 18, 16, and 12 assigned cardholders (see Appendix C). Because Approving Officials are generally supervisors with many other responsibilities, we believe they have too many cardholders, many of which are geographically dispersed, to effectively review the statements. Some of the unsigned statements in the November folder belonged to one of these officials. We also found that the Approving Official's summary statement is not being used to ensure that all statements have been received from their cardholders. Accounting should require this summary portion with notations showing that all statements have been reviewed and included therein.

Another potential control not previously discussed pertains to purchase authorizations by the Approving Officials prior to the cardholders' purchasing the items. Agency credit card procedures do not specify any procedures or required authorization documentation for this but leaves it up to individual Approving Officials to establish their own. We did not find any universal documentation of cardholder requests

and therefore, the agency is left with the after-the-fact review documentation as the primary evidence of the existence of internal controls.

**Accounting Office**

The final internal control over credit card transactions is assigned to Accounting. It provides the oversight to ensure that the primary control of the Approving Official review process is working. Accounting is suppose to ensure that all bankcard statements have been received within 15 days of the bank invoice date (statement dates) and have been signed by both the cardholder and the Approving Official. If not, missing statements are to be requested and non-signed statements are to be returned for appropriate signatures. Accounting is also responsible for entering the expense against the organizational component, expense object class codes, obligation amounts if not previously obligated by the originating component. In accordance with agency credit card procedures (Administration Handbook 2212.1 Rev-2), Accounting is also responsible for reviewing all attached credit card receipts to verify that the charges were made by the cardholder.

As evidenced by the high level of non-processed statements (\$1.04 million) and the results of our review of the November filed statements, Accounting's oversight process is inadequate. Because of the overall agency staff reductions and the ongoing program to consolidate accounting and finance operations to other locations, this oversight function was assigned as a collateral duty to only one individual. According to our discussions with this individual, her primary oversight duty was limited to checking the statements to see if they had been signed. She was suppose to send them back to the Approving Official if a signature was missing. She was not aware of the magnitude of the non-processed statements (late and non-submissions of statements by the Approving Officials). During our audit, we provided her with a copy of the \$1.04 million in non-processed statements for follow-up action.

We believe that if the signature process and the complete and timely submission of statements are enforced by Accounting, then this office's internal control role can be effective. Besides this shortcoming, however, we found two other problems. Eight of the 54 statements in the November review were photocopies of the cardholder statements. The original statements always contain the standard signature page on the

back of each page listing the credit card transactions. With submissions of one-sided photocopies, however, the signature page is detached and loses any identity to the transactions it is suppose to represent. Six of the eight statements belonged to one Approving Official. Accounting had previously approved that Official's request to submit photocopies. We recommend that Accounting reject any such allowance and require original copies from all Approving Officials.

The other problem found in the November file was the presence of six statements that Accounting had failed to process. If these transactions were not previously obligated by the originating components, then these amounts (as well as, transactions from non-submitted statements) would represent an understatement of charges against the appropriation account. If adequate Accounting follow-up of outstanding statements is undertaken, this type of deficiency should be identified and corrected. At the minimum, Accounting should review and close out (i.e. record) all unprocessed statements at the end of each fiscal year.

Appendix D provides a summary of all of the internal control deficiencies found for the agency's handling of the headquarters' November 1997 cardholder statements, billed by the servicing bank. Out of a total of 73 statements billed, 31 (or 43 percent) lacked evidence of the prescribed review by the agency's control processes. Some of the 31 statements had more than one control deficiency. The agency, therefore, lacks assurance that the all credit card purchases, such as those listed in Appendix A, have been appropriately authorized and made for official purposes.

**Electrical Contractor**

One of our sampled areas of review concerned a particular activity that involved extensive use of the credit card and significant internal control problems. This activity pertained to various electrical work performed by a contractor for the Space Management Division, Office of Administrative and Management Services. Credit card transactions during 1997 for electrical wiring jobs at various headquarters facilities totaled \$512,600 for this contractor. This represented approximately 10 percent of the total headquarters credit card activity for the year. Because this contract greatly exceeds the \$25,000 micro-purchase figure generally used for credit card purchases and the agency's \$2,000 limit for construction purchases under the credit card program (Handbook 2212.1

Rev-2), use of a credit card to pay for this work is not appropriate. Although agency management has informed us that a new contract for headquarters facilities work will not involve use of the credit card, the following control problems are also pertinent to the new contract and therefore, better controls need to be installed.

The major control problem found was a serious lack of segregation of duties in the procurement transaction process. The cardholder, who supervised space management specialists in requesting the electrical services, sometimes served as the requester, the buyer, and the receiver of the electrical service work. Normal segregation of duties control would dictate that these functions be separate. For example, in the case of requesting the services, a headquarters component might forego inputting requests into the automated construction job tracking system called ACRS and relate their request verbally or by phone to the specialist supervisor. She will in turn enter the request into ACRS, which in this case would be the only documentation. We recommend that the supervisor's for job requests entry rights be eliminated. In the case of the receipt of such services, the supervisor informed us that she often inspects and signs off on the inspection sheet for completed construction work. We were informed that the requesting component does not sign the inspection sheet as evidence of receipt of services and in many instances does not formally inspect the work done. We recommend that the requesting department participate with the specialists in inspecting significant work done and in signing the inspection sheet.

Another control problem with this activity was the lack of effective Approving Official review. According to our discussions with him, he only compares the dollar amount and contractor name on each credit card charge slip (which lacks any detail of work performed) to the corresponding data on each transaction listed on the cardholder statement. He said he seldom reviews the supporting construction project data maintained by the cardholder in her filing cabinets. He is not really sure what should be verified and could not recall what training, if any, he had received in the past. He believes he might have received an hour of training a couple of years ago. For effective oversight, the Approving Official should review the supporting construction project data. If this review function is transferred to another office under the new contract, then our recommendation is applicable to that office. Periodic

training should also be provided to him, as well as, all other Approving Officials.

**Auditee Comments**

With the exception of Recommendation 1E, the Office of Administration concurred with the recommendations and plans to take the following actions. The Office will discuss the problem of purchases of items not on the allowed profile list with the new credit card servicing bank. The ratio of cardholders to Approving Official has been declining and the office plans to make further reductions. The Space Management Division's operations are being changed: (i) to preclude the specialist supervisor from entering work requests into ACRS, and (ii) to require a requesting office representative to inspect work done and to sign the inspection report. The Office also plans to provide periodic training to Approving Officials regarding cardholder statement reviews. The reason given by the Office of Administration for disagreeing with Recommendation 1E was that the requirement for review of supporting construction scope of work plans was not covered in Handbook 2212.1 REV-2, Chapter 2 -3 (C).

The Office of the Chief Financial Officer (CFO) agreed with our finding and recommendations and proposed certain additional controls. To ensure that all cardholder statements are being timely submitted, the CFO plans to have the new Fort Worth Accounting Center monitor statement submittals. In addition, the CFO proposes an accounting system's programming change to provide listings of unprocessed credit card transactions by applicable agency offices for follow-up. The CFO also stated a year-end closing entry will be made to the General Ledger to record an accrual for the expenses incurred for any unprocessed statements. The entry will be reversed at the beginning of the new fiscal year. The CFO's office also concurred with our recommendation to require that statement submissions be the original documents.

**OIG Evaluation of  
Auditee Comments**

Agency management has or will be taking action to implement all recommendations except for Recommendation 1E. Handbook 2212.1 Rev. 2, 2-3(C) provides that an Approving Official shall review and certify

cardholder purchases made during the preceding cycle, "after satisfying himself/herself that all purchases are appropriate". The Handbook does not provide any further details for this obligation. In order to determine the appropriateness (i.e. the particular purpose) of the purchases, the scope or the description of the electrical work needs to be compared to the billing charge for this work. The dollar volume of these purchases was significant, estimated at over \$500,000 per year. Whatever payment method (credit card or non-credit card) will be used for these types of purchases in the future, individuals responsible for approving them should review the supporting scope of work details in carrying out their responsibility.

## Recommendations

We recommend that the Acting Assistant Secretary for Administration:

- 1A. Notify the servicing bank of system deficiencies that allow execution of purchases of items not on the allowed profile list.
- 1B. Appoint additional Approving Officials or reduce the number of assigned cardholders to avoid excessive cardholder to Approving Official ratios.
- 1C. Eliminate the specialist supervisor's (of the Space Management Division) ACRS entry rights for job requests.
- 1D. Require the component offices, which originate work requests, to participate with the specialists in inspecting significant work done and in signing the inspection sheets.
- 1E. Require the Approving Official for the Space Management Division to review the construction project data supporting the cardholder statement transactions.

- 1F. Provide periodic training to all Approving Officials on how to review cardholder statements.

We further recommend that the Chief Financial Officer:

- 1G. Require inclusion with the cardholder statement, the summary portion of the Approving Official's statement with notations showing that all statements have been reviewed and included therein.
- 1H. Allocate sufficient staff resources to perform adequate and prompt follow-up of all unsubmitted statements.
- 1I. Review and close out (i.e. record) all unprocessed statements at the end of each fiscal year.
- 1J. Require that all submissions of cardholder statements be the original documents.



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# Credit Card Payment And Administration

The agency's payment and administration of its credit card program needs to be improved. Payment of monthly credit card invoices are late and, as a result, over \$10,000 have been paid in interest penalties. The payment process has been delayed because of late receipt of invoices and manual computation of expenses by component organization and by fiscal year. The controls over cardholder account setup, cancellation, and purchase limit changes and the supporting documentation are inadequate. As a result, many of the cardholder and Approving Official relationships on record no longer represent actual employee and supervisor relationships due to transfers of either party.

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## Administration

The agency's credit card procedures and policies, including payment and account maintenance, are set forth in its Handbook 2212.1. The agency's credit card program is also conducted pursuant to a governmentwide GSA contract with the servicing bank. This contract covers various dispute resolution procedures and invoice payment terms, including compliance to the Prompt Payment Act. As discussed in Finding 1, payment of the servicing bank's monthly invoices is the responsibility of the Accounting office. Credit card account maintenance (setup, changes, and cancellations) is the responsibility of the agency's Office of Administrative and Management Services (OAMS). The OAMS Administrative Officer serves as the agency's technical representative and liaison with GSA and the servicing bank regarding the credit card program issues.

## Invoice Payments

The Prompt Payment Act (Public Law 97-177) requires that invoices be paid within 30 days from the date the invoice is actually received or the seventh day after the billing cycle whichever is later. Agencies, therefore, should record or note the date invoices are received. If the date is not noted, then the receipt date is considered to be the date of the invoice as entered by the contractor. If invoice payments are not made on time, the agency, on its own initiative, is required to compute and pay an interest penalty based upon the current federal funds rate. The agency receives the monthly invoice in two formats – a floppy disk and a hard-copy document.

For a 12-month period from December 1996 through November 1997, we found that the agency was late in

paying the monthly credit card invoices for 11 out the 12 months. Late interest penalties totaled \$10,350, of which 70 percent belonged to headquarters activities. Payments were made on average, 42 days from the invoice date. For the first three months of 1998, the average increased to 51 days. According to discussions with Accounting, the agency did not record or note the date the invoice disk or hard-copy invoice document was received. The Accounting employee said the invoice disk generally was not received until 10 days after the contractor's invoice date, while the hard-copy document was received four or five days after disk receipt. We found that the servicing bank computed the interest penalties and submitted the invoices for the same to the agency. We noticed that for the month of November 1997, interest was assessed for a payment that was made within 33 days from the entered invoice date. An agency would normally have 37 days to make payment if it kept track of invoice receipt dates.

Although the late receipt of the disk and hard-copy invoice contributed to the cause of late payments, we found that the Accounting employee, responsible for making payments, was performing certain intermediary tasks which slowed the process. Upon receiving the invoice disk, she would turn it over to a Federal Financial Systems (FFS) coordinator who would transfer the invoice data into the agency's accounting and payment system. This system is the HUDCAPS/FFS accounting application and involved certain payment tables, including the CPAY expense suspense table. The Accounting employee would then await the receipt of the hard-copy invoice, which she used to manually total certain invoice subtotals to arrive at invoiced amounts for the three component headquarters offices and for the appropriate fiscal year before she could make payment. After receiving the cardholder statements from the Approving Officials, she would input various other data (such as, the expense object class, etc.) into HUDCAPS/FFS to close out the payment suspense data initially entered by the FFS systems coordinator.

The credit card contract provides agencies with the option of receiving their invoice and all supporting cardholder and other statements electronically in lieu of hard-copy. If agencies elect to do so, they can receive a .02 percent discount on all credit card purchases. For FY 1997, this

discount would have totaled \$1,520. We recommend that the agency seriously consider receiving these documents in electronic format, as transit time would be substantially reduced. If document formats were continued to be received as they are now, we recommend that a spreadsheet software program be used with the invoice disk data so that calculations can be made electronically.

### Account Setup and Cancellations

The Approving Officer, generally a supervisor, is responsible for selecting those employees in his office who he wants as cardholders. He is also responsible for sending the application and a copy of the cardholder's signature (as well as his own) to OAMS for account setup and approval. When a cardholder is transferred, resigns, or retires, the Approving Official is responsible for cutting the card in half and returning it along with the completed and signed "Card Destruct Notice" to OAMS. The Approving Official is also responsible for annotating on the agency clearance form that the card has been surrendered and for notifying Accounting to remove the cardholder from the HUDCAPS' CPAY table database. The OAMS liaison is responsible for notifying the servicing bank of cancellations and cardholder account requests.

We found that cardholder and Approving Official account relationships need to be reviewed and updated. We found that these relationships are not only affected by cardholder transfers but also Approving Official transfers to different offices. For example, one Approving Official was transferred to headquarters from a regional office but the cardholder assignment in that region was not changed. The OAMS needs to periodically review and reconcile the current relationships and reassign or eliminate outdated accounts. In addition, as discussed in Finding 1, certain Approving Officials have too many assigned cardholders, some of which are due to the outdated account relationships. We found one other problem in a particular relationship – the cardholder and Approving Official was the same person. Total purchases over a 4-month period (May 1997 through September 1997) were \$6,361. The cardholder and the Approving Official should never be the same individual.

We also found that OAMS files lacked the required documentation to support card cancellations. We reviewed 10 cardholder accounts that had credit card transactions but

no names listed for either the cardholder or the Approving Official (see Appendix C). Of the 10 accounts, none had the proper cancellation documentation on file at the OAMS. The OAMS liaison was able to confirm that the cards were cancelled and the effective dates of cancellation only through calling the servicing bank.

### Purchase Limits

According to HUD Handbook 2212.1, the Approving Official must initiate single purchase limit increases or other changes affecting the cardholders accounts by submitting a "Cardholder Account Maintenance" form. These requested changes are to be forwarded by the OAMS liaison to the servicing bank. Purchases above the old single purchase limit will be denied until the bank is notified.

We reviewed the status of the supporting documentation for increases to the cardholders' single purchase dollar limits. We selected all 34 headquarters' cardholders with increased purchase limits to determine if the forms were completed and filed with the OAMS. We found that 20 (or 60 percent) of the cardholder files lacked supporting documentation.

### Auditee Comments

The CFO's office agreed with our recommendation to improve the administration of the credit card operations. The Office stated that the new credit card company will offer more electronic features that will assist in the receipt and payment of invoices. They also agreed to maintain a log of the receipt of invoices to ensure payments are made timely or to dispute any erroneous late charges. The new credit card company will now be classified as a prompt pay commercial vendor, resulting in the system automatically computing interest for late payments.

The Office of Administration responded that the dual cardholder/Approving Official relationship, identified in our report, no longer exists. The office, however, has agreed to perform semiannual reconciliation of cardholders and Approving Officials to prevent such relationships in the future. To assist in the maintenance and review of cardholder and Approving Official documentation, such as purchase limit changes and cardholder cancellations, the Office will use the ACRS system.

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**OIG Evaluation of  
Auditee Comments**

Both the CFO's office and the Office of Administration are in agreement with our finding and recommendations for improving the payment and administrative processes of the credit card program.

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**Recommendations**

We recommend that the Chief Financial Officer:

- 2A. Record or note the date the invoice disk or hard-copy invoice document was received.
- 2B. In the case of late payments under the Prompt Payment Act, compute and pay interest due based upon its recorded invoice receipt date.
- 2C. Select to receive its credit card invoices in electronic format or, as a minimum, use a spreadsheet program to compute component subtotals and fiscal year totals from the invoice disk.

We recommend that the Acting Assistant Secretary for Administration:

- 2D. Periodically review and reconcile current cardholder and Approving Official relationships, including making reassignments where such relationships involve the same individual.
- 2E. Review the status of its documentation of cardholder cancellations and purchase limit changes in order to identify and request any missing documentation.

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# Follow Up On Prior Audits

The Office of Inspector General issued an audit report on the Commercial Credit Card Program, dated March 25, 1992. This report identified weaknesses in the implementation of overall agency oversight and monitoring. As a result, several credit cardholders used their cards for questionable or prohibited purchases. The report made six recommendations. Our current audit reinforces these recommendations and provides additional specific recommendations to strengthen internal controls in the credit card program.

# Purchases by SIC Descriptions

| SIC  | SIC DESCRIPTION           | COUNT | COUNT<br>% | AMOUNT<br>% | AMOUNT  |
|------|---------------------------|-------|------------|-------------|---------|
| ---  | [various credits]         | 12    | 0.12       | -0.04       | -2,118  |
| 1520 | GENERAL CONTRACTORS - RES | 7     | 0.07       | 0.06        | 3,375   |
| 1731 | ELECTRICAL CONTRACTORS    | 106   | 1.04       | 8.44        | 467,255 |
| 1799 | SPECIAL TRADE CONTRACTORS | 29    | 0.28       | 0.51        | 28,006  |
| 2741 | PUBLISHING/PRINTING       | 32    | 0.31       | 0.13        | 7,222   |
| 2791 | TYPESETTING/PLATE MA      | 9     | 0.09       | 0.06        | 3,305   |
| 3063 | U.S. AIR                  | 1     | 0.01       | 0           | 252     |
| 3357 | HERTZ RENT-A-CAR          | 1     | 0.01       | 0           | 246     |
| 3366 | BUDGET RENT-A-CAR         | 5     | 0.05       | 0.02        | 1,010   |
| 3370 | RENT-A-WRECK              | 4     | 0.04       | 0.03        | 1,524   |
| 3393 | NATIONAL CAR RENTAL       | 1     | 0.01       | 0           | 196     |
| 3501 | HOLIDAY INNS              | 128   | 1.25       | 3.29        | 182,146 |
| 3502 | BEST WESTERN              | 2     | 0.02       | 0.01        | 666     |
| 3503 | SHERATON HOTELS           | 2     | 0.02       | 0.03        | 1,390   |
| 3504 | HILTON HOTELS             | 9     | 0.09       | 0.75        | 41,438  |
| 3509 | MARRIOTT                  | 5     | 0.05       | 0.13        | 7,430   |
| 3510 | DAYS INNS OF AMERICA      | 1     | 0.01       | 0.01        | 396     |
| 3512 | INTER-CONTINENTAL HOTELS  | 1     | 0.01       | 0.01        | 478     |
| 3513 | WESTIN HOTELS             | 1     | 0.01       | 0.39        | 21,770  |
| 3516 | LA QUINTA MOTOR INNS      | 1     | 0.01       | 0.01        | 498     |
| 3528 | THUNDERBIRD/RED LION      | 2     | 0.02       | 0.02        | 1,080   |
| 3562 | COMFORT INNS              | 4     | 0.04       | 0.02        | 952     |
| 3590 | FAIRMONT HOTELS           | 3     | 0.03       | 0.04        | 2,236   |
| 3592 | OMNI INTERNATIONAL        | 1     | 0.01       | 0.01        | 514     |
| 3615 | TRAVELODGE MOTELS         | 1     | 0.01       | 0.02        | 1,086   |
| 3637 | RAMADA INNS               | 9     | 0.09       | 0.17        | 9,367   |
| 3640 | HYATT HOTELS              | 9     | 0.09       | 0.47        | 25,940  |
| 3649 | RADISSON HOTELS           | 12    | 0.12       | 0.35        | 19,408  |
| 3654 | LOEWS HOTELS              | 13    | 0.13       | 0.14        | 7,969   |
| 3681 | ADAMS MARK HOTELS         | 1     | 0.01       | 0           | 25      |
| 3687 | CLARION HOTELS            | 1     | 0.01       | 0.01        | 704     |
| 3690 | COURTYARD INNS            | 3     | 0.03       | 0.02        | 835     |
| 3692 | DOUBLETREE HOTELS         | 1     | 0.01       | 0           | 200     |
| 3703 | RESIDENCE INN             | 1     | 0.01       | 0           | 192     |
| 3722 | WYNDHAM                   | 4     | 0.04       | 0.19        | 10,711  |
| 4111 | COMMUTER TRANSPORT/FERRY  | 1     | 0.01       | 0.02        | 995     |
| 4121 | TAXICABS/LIMOUSINES       | 13    | 0.13       | 0.08        | 4,513   |
| 4214 | MOTOR FREIGHT CARRIERS, M | 8     | 0.08       | 0.05        | 2,918   |
| 4215 | COURIER SERVICES-AIR/GRND | 62    | 0.61       | 0.16        | 8,983   |
| 4225 | PUBLIC WAREHOUSING-INCL.  | 1     | 0.01       | 0           | 65      |
| 4722 | TRAVEL AGENCY (NOT AIR)   | 28    | 0.27       | 3.3         | 182,733 |
| 4789 | TRANSPORTATION SERVICES   | 2     | 0.02       | 0.01        | 408     |
| 4812 | TELECOM EQUIPMENT         | 84    | 0.82       | 1.63        | 90,267  |
| 4814 | TELECOM SVC/CRED CRD CALL | 27    | 0.26       | 0.49        | 27,206  |
| 4815 | VISA PHONE                | 1     | 0.01       | 0.01        | 775     |

# Purchases by SIC Descriptions

| SIC  | SIC DESCRIPTION                    | COUNT | COUNT<br>% | AMOUNT<br>% | AMOUNT  |
|------|------------------------------------|-------|------------|-------------|---------|
| 4816 | COMPUTER NETWORK/<br>INFORMATION S | 96    | 0.94       | 0.92        | 50,943  |
| 4899 | CABLE SERVICES                     | 1     | 0.01       | 0.01        | 454     |
| 4900 | UTILITIES-ELECTRIC , GAS , WA      | 1     | 0.01       | 0           | 55      |
| 5021 | WHOLESALE OFFICE FUR               | 43    | 0.42       | 0.95        | 52,821  |
| 5044 | WHOLESALE PHOTO EQPT               | 12    | 0.12       | 0.09        | 5,038   |
| 5045 | WHOLESALE COMPUTERS/               | 160   | 1.56       | 2.44        | 135,056 |
| 5046 | WHOLESALE COMMERCIAL               | 20    | 0.2        | 0.13        | 7,234   |
| 5047 | WHOLESALE MED/DENTAL               | 6     | 0.06       | 0.02        | 1,028   |
| 5065 | WHOLESALE ELEC PARTS               | 1     | 0.01       | 0           | 37      |
| 5072 | WHOLESALE HARDWARE/S               | 1     | 0.01       | 0           | 240     |
| 5085 | WHOLSALE INDUST SUPP               | 70    | 0.68       | 0.5         | 27,785  |
| 5099 | WHOLESALE DURABLE GO               | 25    | 0.24       | 0.18        | 9,842   |
| 5111 | WHOLESALE OFFICE SUP               | 147   | 1.44       | 0.75        | 41,627  |
| 5131 | WHOLESALE PIECE/DRY                | 5     | 0.05       | 0.02        | 914     |
| 5137 | WHOLESALE UNIFORMS                 | 1     | 0.01       | 0           | 22      |
| 5139 | WHOLESALE FOOTWARE                 | 1     | 0.01       | 0           | 75      |
| 5169 | WHOLESALE CHEMICALS                | 3     | 0.03       | 0.01        | 507     |
| 5192 | WHOLESALE BOOKS/MAG/               | 26    | 0.25       | 0.14        | 8,014   |
| 5200 | HOME SUPPLY WAREHOUS               | 16    | 0.16       | 0.06        | 3,520   |
| 5211 | LUMBER & BUILDING MATERIA          | 22    | 0.21       | 0.13        | 7,292   |
| 5231 | GLASS, PAINT, AND WALLPA           | 4     | 0.04       | 0.03        | 1,624   |
| 5251 | HARDWARE STORES                    | 14    | 0.14       | 0.02        | 961     |
| 5261 | LAWN & GARDEN SUPPLY STOR          | 3     | 0.03       | 0           | 182     |
| 5300 | WHOLESALE CLUBS                    | 2     | 0.02       | 0.01        | 751     |
| 5310 | DISCOUNT STORES                    | 40    | 0.39       | 0.07        | 3,663   |
| 5311 | DEPARTMENT STORES                  | 38    | 0.37       | 0.1         | 5,530   |
| 5331 | VARIETY STORES                     | 3     | 0.03       | 0.01        | 510     |
| 5399 | MISCELLANEOUS GENERAL MER          | 62    | 0.61       | 0.4         | 22,397  |
| 5411 | GROCERY STORES, SUPERMARK          | 11    | 0.11       | 0.01        | 709     |
| 5499 | MISC. FOOD STORES/SPECIAL          | 12    | 0.12       | 0.07        | 3,617   |
| 5533 | AUTOMOTIVE PARTS, ACCESSO          | 2     | 0.02       | 0.01        | 357     |
| 5541 | SERVICE STATIONS                   | 2     | 0.02       | 0           | 26      |
| 5621 | WOMEN'S READY-TO-WEAR STO          | 1     | 0.01       | 0           | 169     |
| 5631 | WOMEN'S ACCESSORY AND SPE          | 1     | 0.01       | 0           | 198     |
| 5641 | CHILREN'S AND INFANTS' WE          | 1     | 0.01       | 0.01        | 450     |
| 5655 | SPORTS APPAREL,RIDING AP           | 2     | 0.02       | 0.02        | 1,185   |
| 5661 | SHOE STORES                        | 2     | 0.02       | 0.01        | 351     |
| 5691 | MEN AND LADIES CLOTHING S          | 1     | 0.01       | 0.01        | 487     |
| 5699 | MISCELLANEOUS APPAREL              | 27    | 0.26       | 0.13        | 7,198   |
| 5712 | HOME FURNITURE/EQUIPMENT           | 139   | 1.36       | 3.49        | 193,338 |
| 5713 | FLOOR COVERING STORES              | 12    | 0.12       | 0.46        | 25,323  |
| 5714 | DRAPERY AND UPHOLSTERY ST          | 13    | 0.13       | 0.58        | 32,036  |
| 5719 | MISC HOME FURNISHINGS              | 13    | 0.13       | 0.16        | 8,928   |
| 5722 | HOUSEHOLD APPLIANCE STORE          | 6     | 0.06       | 0.05        | 2,532   |
| 5732 | RADIO/TV/STERIO STORE              | 212   | 2.07       | 1.61        | 89,369  |
| 5733 | MUSIC STORES, INSTRUMENTS          | 14    | 0.14       | 0.28        | 15,598  |



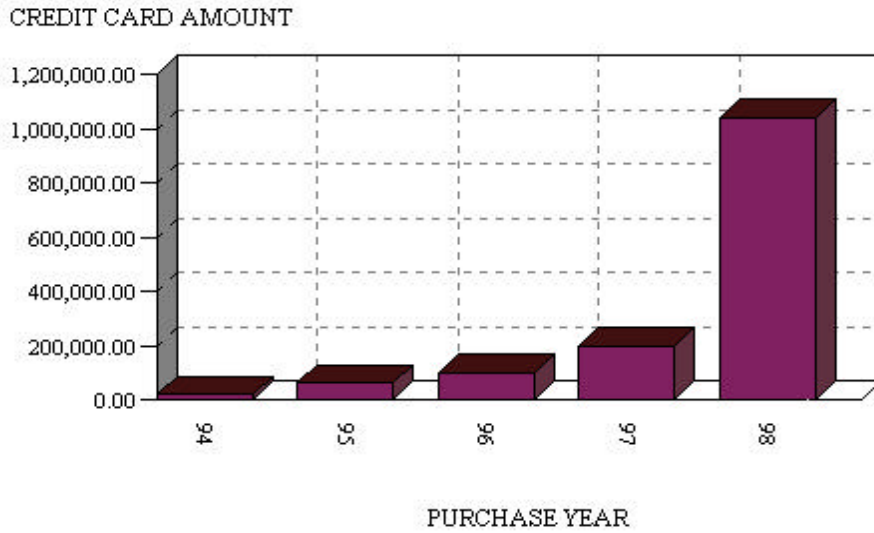
## Purchases by SIC Descriptions

| SIC  | SIC DESCRIPTION           | COUNT | COUNT |      | AMOUNT |         |
|------|---------------------------|-------|-------|------|--------|---------|
|      |                           |       |       | %    | %      | AMOUNT  |
| 5734 | COMPUTER SOFTWARE STORES  | 263   |       | 2.57 | 4.19   | 232,259 |
| 5735 | RECORD STORES             | 13    |       | 0.13 | 0.03   | 1,629   |
| 5811 | CATERERS                  | 7     |       | 0.07 | 0.08   | 4,353   |
| 5812 | EATING PLACES, RESTAURANT | 18    |       | 0.18 | 0.13   | 7,060   |
| 5912 | DRUG STORES & PHARMACIES  | 55    |       | 0.54 | 0.04   | 2,268   |
| 5932 | ANTIQUE SHOPS             | 2     |       | 0.02 | 0.29   | 16,016  |
| 5941 | SPORTING GOODS STORES     | 43    |       | 0.42 | 0.16   | 8,707   |
| 5942 | BOOK STORES               | 56    |       | 0.55 | 0.15   | 8,281   |
| 5943 | STATIONERY STORE/SUPPLIES | 1554  | 15.18 |      | 6.45   | 357,182 |
| 5944 | JEWELRY, WATCHES, CLOCKS  | 14    |       | 0.14 | 0.05   | 2,518   |
| 5945 | HOBBY, TOY, AND GAME SHOP | 2     |       | 0.02 | 0      | 250     |
| 5946 | CAMERA & PHOTOGRAPHIC SUP | 122   |       | 1.19 | 0.43   | 23,890  |
| 5947 | GIFT, CARD, NOVELTY       | 42    |       | 0.41 | 0.08   | 4,445   |
| 5948 | LUGGAGE & LEATHER GOODS   | 2     |       | 0.02 | 0.01   | 644     |
| 5949 | SEWING/NEEDLEWORK/FABRIC  | 1     |       | 0.01 | 0      | 27      |
| 5960 | DIRECT MARKET INSURA      | 2     |       | 0.02 | 0.01   | 379     |
| 5964 | CATALOG MERCHANT          | 1367  | 13.35 |      | 9.35   | 517,531 |
| 5965 | COMBINED MAIL/PHONE       | 446   |       | 4.36 | 3.42   | 189,366 |
| 5967 | INBOUND TELESERVICES      | 2     |       | 0.02 | 0      | 24      |
| 5968 | CONTINUITY SUBSCRIPTION   | 162   |       | 1.58 | 0.58   | 31,929  |
| 5969 | OTHER DIRECT MARKETER     | 1289  | 12.59 |      | 12.81  | 709,361 |
| 5970 | ARTISTS SUPPLY/CRAFT SHOP | 38    |       | 0.37 | 0.1    | 5,731   |
| 5971 | ART DEALERS & GALLERIES   | 15    |       | 0.15 | 0.05   | 2,675   |
| 5972 | STAMP/COIN STORES-PHILATE | 8     |       | 0.08 | 0.01   | 628     |
| 5975 | HEARING AIDS, SALES, SER  | 13    |       | 0.13 | 0.06   | 3,145   |
| 5977 | COSMETIC STORES           | 1     |       | 0.01 | 0      | 109     |
| 5978 | TYPEWRITERS - SALES, RENT | 17    |       | 0.17 | 0.19   | 10,556  |
| 5992 | FLORISTS                  | 11    |       | 0.11 | 0.18   | 9,940   |
| 5994 | NEWS DEALERS/NEWSSTANDS   | 87    |       | 0.85 | 0.19   | 10,433  |
| 5998 | TENT AND AWNING SHOPS     | 1     |       | 0.01 | 0      | 117     |
| 5999 | MISCELLANEOUS AND SPECIAL | 496   |       | 4.84 | 3.67   | 203,378 |
| 6300 | INSURANCE SALES/UNDERWRTR | 3     |       | 0.03 | 0      | 93      |
| 7011 | OTHER HOTELS              | 35    |       | 0.34 | 0.56   | 30,776  |
| 7217 | CARPET/UPHOLSTERY CLEAN   | 81    |       | 0.79 | 0.85   | 47,138  |
| 7221 | PHOTOGRAPHIC STUDIOS - PO | 10    |       | 0.1  | 0.08   | 4,676   |
| 7230 | BARBER AND BEAUTY SHOPS   | 1     |       | 0.01 | 0      | 39      |
| 7261 | FUNERAL SERVICE/CREMATION | 1     |       | 0.01 | 0.05   | 2,500   |
| 7276 | TAX PREPARATION SERVICE   | 1     |       | 0.01 | 0.01   | 565     |
| 7296 | CLOTHING-RENTAL & COSTUME | 1     |       | 0.01 | 0      | 69      |
| 7299 | MISC PERSONAL SERVICES    | 20    |       | 0.2  | 0.1    | 5,635   |
| 7311 | ADVERTISING SERVICES      | 21    |       | 0.21 | 0.11   | 5,824   |
| 7333 | COMMERCIAL PHOTOGRAPHY    | 127   |       | 1.24 | 2.21   | 122,459 |
| 7338 | QUICK COPY & REPRODUCTION | 170   |       | 1.66 | 1.68   | 93,253  |
| 7349 | CLEANING AND MAINTENANCE  | 37    |       | 0.36 | 1.48   | 82,208  |
| 7361 | EMPLOYMENT AGENCIES- TEMP | 5     |       | 0.05 | 0.01   | 679     |
| 7372 | COMPUTER AND DATA PROCESS | 146   |       | 1.43 | 1.64   | 90,726  |
| 7375 | INFORMATION RETRIEVA      | 7     |       | 0.07 | 0.02   | 1,330   |

## Purchases by SIC Descriptions

| SIC  | SIC DESCRIPTION            | COUNT  | COUNT |      | AMOUNT |             |
|------|----------------------------|--------|-------|------|--------|-------------|
|      |                            |        |       | %    | %      | AMOUNT      |
| 7379 | COMPUTER REPAIR/MAIN       | 10     |       | 0.1  | 0.13   | 7,258       |
| 7392 | MANAGEMENT, CONSULTING     | 24     |       | 0.23 | 0.21   | 11,840      |
| 7393 | DETECTIVE/PROTECTIVE SERV  | 14     |       | 0.14 | 0.14   | 7,984       |
| 7394 | EQUIPMENT RENTAL/LEASING   | 33     |       | 0.32 | 0.22   | 12,337      |
| 7395 | PHOTOFINISHING LABORATORY  | 188    |       | 1.84 | 3.23   | 179,038     |
| 7399 | BUSINESS SERVICES - OTHER  | 237    |       | 2.31 | 3.45   | 190,887     |
| 7512 | OTHER AUTO RENTALS         | 1      |       | 0.01 | 0      | 140         |
| 7523 | AUTOMOBILE PARKING LOTS    | 18     |       | 0.18 | 0.4    | 22,064      |
| 7531 | AUTO TOP/BODY REPAIR       | 1      |       | 0.01 | 0      | 75          |
| 7538 | AUTOMOTIVE REPAIR SHOPS    | 14     |       | 0.14 | 0.18   | 9,827       |
| 7622 | RADIO/TV/STERIO RENTAL     | 10     |       | 0.1  | 0.11   | 6,160       |
| 7623 | AIR CONDITIONING/REFRIG    | 1      |       | 0.01 | 0.01   | 450         |
| 7629 | ELECTRICAL/SMAL APPLIANCE  | 7      |       | 0.07 | 0.02   | 918         |
| 7641 | REUPHOLSTERY & FURNITURE   | 35     |       | 0.34 | 0.77   | 42,590      |
| 7699 | MISCELLANEOUS REPAIR SHOP  | 13     |       | 0.13 | 0.03   | 1,809       |
| 7829 | VIDEO/MOVIE PROD/DIS       | 3      |       | 0.03 | 0.03   | 1,782       |
| 7841 | VIDEO RENTAL STORES        | 7      |       | 0.07 | 0.02   | 1,080       |
| 7922 | THEATRICAL PRODUCERS       | 1      |       | 0.01 | 0      | 199         |
| 7941 | COMMERCIAL SPORTS/PROFESS  | 4      |       | 0.04 | 0.01   | 510         |
| 7991 | TOURIST ATTRACTION/EXHIBT  | 2      |       | 0.02 | 0      | 194         |
| 7996 | AMUSEMENT PARKS, CIRCUSES  | 1      |       | 0.01 | 0      | 108         |
| 7999 | AMUSEMENT AND RECREATION   | 7      |       | 0.07 | 0.05   | 2,561       |
| 8042 | OPTOMETRISTS/OPHTHALMOLOG  | 1      |       | 0.01 | 0.03   | 1,386       |
| 8062 | HOSPITALS                  | 1      |       | 0.01 | 0.01   | 625         |
| 8071 | MEDICAL/DENTAL LABORATORY  | 1      |       | 0.01 | 0      | 162         |
| 8099 | MEDICAL SERVICES & HEALTH  | 4      |       | 0.04 | 0.02   | 873         |
| 8111 | LEGAL SERVICES, ATTORNEYS  | 8      |       | 0.08 | 0.03   | 1,488       |
| 8220 | COLLEGES, UNIVERSITIES     | 31     |       | 0.3  | 0.15   | 8,418       |
| 8249 | VOCATIONAL/TRADE SCHOOLS   | 1      |       | 0.01 | 0      | 41          |
| 8299 | SCHOOLS/EDUCATIONAL SCHL   | 42     |       | 0.41 | 0.23   | 12,880      |
| 8398 | CHARITABLE/SOCIAL SERVICE  | 4      |       | 0.04 | 0.02   | 1,119       |
| 8641 | CIVIC/SOCIAL/FRATERNAL     | 5      |       | 0.05 | 0.04   | 2,358       |
| 8699 | MEMBERSHIP ORGANIZATIONS , | 46     |       | 0.45 | 0.28   | 15,724      |
| 8911 | ARCHITECTURAL/ENGINEERING  | 28     |       | 0.27 | 0.35   | 19,177      |
| 8931 | ACCOUNTANTS, AUDITORS      | 6      |       | 0.06 | 0.07   | 3,690       |
| 8999 | SERVICES - OTHER           | 111    |       | 1.08 | 1.09   | 60,286      |
| 9399 | GOVERNMENT SERVICES-OTHER  | 285    |       | 2.78 | 0.99   | 54,996      |
| 9402 | POSTAGE STAMPS             | 20     |       | 0.2  | 0.08   | 4,284       |
| 9950 | INTRA COMPANY PURCHASES    | 256    |       | 2.5  | 1.09   | 60,454      |
|      | TOTALS                     | 10,239 |       | 100% | 100%   | \$5,537,133 |

# Unprocessed Transactions From CPAY Table



## Number of Cardholders By Approving Official

| COUNT         | APPROVING<br>OFFICIAL<br>COUNT | APPROVING<br>OFFICIAL<br><-- % | CARDHOLDER<br>% --> | CARDHOLDER<br>COUNT |
|---------------|--------------------------------|--------------------------------|---------------------|---------------------|
| 1 ->1         | 65                             | 46.76%                         | 17.38%              | 65                  |
| 2 ->2         | 41                             | 29.50%                         | 21.93%              | 82                  |
| 3 ->3         | 14                             | 10.07%                         | 11.23%              | 42                  |
| 4 ->4         | 3                              | 2.16%                          | 3.21%               | 12                  |
| 5 ->5         | 3                              | 2.16%                          | 4.01%               | 15                  |
| 6 ->8         | 4                              | 2.88%                          | 6.42%               | 24                  |
| 9 ->9         | 2                              | 1.44%                          | 4.81%               | 18                  |
| 10 ->11       | 2 <sup>A</sup>                 | 1.44%                          | 5.35%               | 20                  |
| 12 ->15       | 1                              | 0.72%                          | 3.21%               | 12                  |
| 16 ->17       | 1                              | 0.72%                          | 4.28%               | 16                  |
| 18 ->22       | 1                              | 0.72%                          | 4.81%               | 18                  |
| 23 ->26       | 1                              | 0.72%                          | 6.15%               | 23                  |
| 27 ->27       | 1                              | 0.72%                          | 7.22%               | 27                  |
| <b>TOTALS</b> | <b>139</b>                     | <b>100.00%</b>                 | <b>100.00%</b>      | <b>374</b>          |

Note A: Count includes 10 cancelled credit cardholder accounts which, for appendix purposes only, represents one Approving Official.

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# Summary Of Deficiencies Involving November 1997 Cardholder Statements

| <u>Deficiency</u><br><u>Statements</u>                    | <u>No. of</u> |
|---|---------------|
| Both Cardholder and Approving Official signatures missing | 4             |
| Approving Official signature missing                      | 3             |
| Cardholder statements not original                        | 2             |
| Cardholder signatures missing                             | 2             |
| Approving Official signature a substitute                 | 1             |
| Non-submitted statements, as of October 6, 1998:          |               |
| Processed/Cleared by Accounting                           | 13            |
| Not Processed/Cleared by Accounting                       | 6             |
| Total Deficiencies Found                                  | <u>31</u>     |

Note: Total statements billed by servicing bank for November were 73; therefore, total rate of statements affected by internal control deficiencies were 43 percent (31/73).

# Auditee Comments

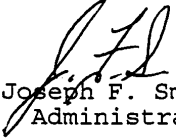


U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, D.C. 20410-3000

OFFICE OF THE ASSISTANT SECRETARY  
FOR ADMINISTRATION

January 25, 1999

MEMORANDUM FOR: Benjamin K. Hsiao, Director, Information Systems  
Audit Division, GAA

FROM:  Joseph F. Smith, Acting Assistant Secretary for  
Administration, A

SUBJECT: Draft Audit Report of the Commercial Credit Card Program

In response to the Office of Inspector General (OIG) memorandum dated November 30, 1998, entitled "Draft Audit Report for the Commercial Credit Card Program," attached is the response to the findings and recommendations contained in the draft report.

We accept all the recommendations except 1E as noted in the response.

If you have any questions, please call Melvin Bell on 708-4602.

Attachment

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# Auditee Comments

Draft Audit Report Commercial Credit Card Program Page 1

## **1A. Notify the servicing bank of system deficiencies that allow execution of purchases of items not on the allowed profile list.**

- The Office of Administrative and Management Services (OAMS) will meet with the new contractor, First Chicago Bank, in January 1999 to notify them of system deficiencies that allow execution of purchases of items not on the allowed profile list.
- It must be recognized that these SIC codes are not perfect. First Chicago Bank can only apply a code based on the description provided by the merchant. If the merchant upgrades its services to include services and/or goods not identified by its SIC code and does not redefine their code to include the upgraded business activity they are engaged in, it is almost impossible for the Bank to prevent the use of the card in a store that is recognized under the allowable merchant code type.
- OAMS will also provide training (i.e., classroom, computer-based, etc.) to the Approving Officials in February and August each year highlighting their responsibility to review cardholder statements for the purpose of detecting improper use of the card.

## **1B. Appoint additional Approving Officials or reduce the number of assigned cardholders to avoid excessive cardholders to Approving Official ratios.**

- At present, our largest number of cardholders under an approving official. is 20. In all but one of the instances cited, the number of cardholders has declined. Specifically the Approving Official who had 27 cardholders has reduced his cardholders to 19. The Approving Official who had 23 cardholders has reduced his cardholders to 14.
- OAMS will work with the Approving Officials to further reduce their number of cardholders.

## **1C. Eliminate the Specialist Supervisor's (of the Space Management Division) ACRS entry rights for the job request.**

- The Specialist Supervisor will no longer enter requests for services in the ACRS system. The duties of the requester and the buyer will be separated.
- Electrical services has been transferred to the CFM Contract. The bankcard will no longer be used by the Specialist Supervisor for payment of electrical services.

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# Auditee Comments

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**1D. Require the component offices, which originate work requests, to participate with the specialists in inspecting significant work done and in signing the inspection sheets.**

- The Space Management Division will require all requesting offices to participate with the specialist in inspecting significant work. The requesting office will be required to sign inspection sheets as acceptance of work performed.

**IE. Require the Approving Official for the Space Management Division to review the construction project data supporting the cardholder statement transactions.**

- Disagree - This review is not required by Handbook 2212.1 REV-2. Approving Official requirements are defined in Chapter 2, Section 3 at C and Chapter 4, Section 2, at C.

**IF. Provide periodic training to all Approving Officials on how to review cardholder statements.**

- CAMS will provide training for all Approving Officials. The training (i.e. classroom, computer-based, etc.) will be provided to Approving Officials in February and August each year.

**2D. Periodically review and reconcile current cardholder and Approving Official relationships, including making reassignments where such relationships involve the same individual.**

- As of the latest report from U.S. Bank, there are no instances where an individual serves as approving official for him or herself
- OAMS will twice yearly require Approving Officials to review and update the status of all accounts they approve. Upon receipt of this information, OAMS will complete any changes necessary to bring the account up to date.



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# Auditee Comments

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## **2E. Review the status of its documentation of cardholder cancellations and purchase limit changes in order to identify and request any missing documentation.**

- OAMS will emphasize the use of the Administrative Client Request System (ACRS). ACRS is an automated system used to request administrative services. This system is currently available to all departmental areas, and includes requests for Bankcard Services. The increased use of ACRS will provide the written records and files (that can be retrieved for approximately 3 years) that will be used as supporting documentation. ACRS will also be used as a "tickler file" for temporary actions. The normal close-out of a request will not take place until the temporary changes are returned to their normal mode.
- Clients will also be able to use e-mail to request changes in bankcard services.

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