

Federal Housing Finance Agency  
Office of Inspector General



# **FHFA's Use of Government Purchase Cards**

Audit Report • AUD-2014-006 • January 31, 2014




**OFFICE OF INSPECTOR GENERAL**  
Federal Housing Finance Agency

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400 7th Street, S.W., Washington DC 20024

January 31, 2014

**TO:** Mark Kinsey, Chief Financial Officer  
  
**FROM:** Russell A. Rau, Deputy Inspector General for Audits  
**SUBJECT:** Audit of FHFA's Use of Government Purchase Cards

**Summary**

On October 5, 2012, the President signed into law the *Government Charge Card Abuse Prevention Act of 2012* (Charge Card Act), Public Law 112-194. The Charge Card Act requires all executive branch agencies to establish and maintain safeguards and internal controls for charge cards. The Office of Management and Budget (OMB) provided supplemental guidance through Memorandum M-13-21, *Implementation of the Government Charge Card Abuse Prevention Act of 2012*, dated September 6, 2013. The guidance requires each agency head to provide an annual certification that the appropriate policies and controls are in place or that corrective actions have been taken to mitigate the risk of fraud and inappropriate charge card practices. The annual certification should be included as part of the existing annual assurance statement under the *Federal Managers' Financial Integrity Act of 1982* (31 U.S.C. § 3512(d)(2)).

Under the Charge Card Act, Inspectors General (IGs) are required to conduct periodic risk assessments of agency purchase card programs to analyze the risks of illegal, improper, or erroneous purchases.<sup>1</sup> Status reports on the IGs' purchase and travel card audit recommendations, if any, must be submitted to OMB by January 31, 2014, for compilation and transmission to Congress and the Comptroller General of the United States. This audit report supports Federal Housing Finance Agency (FHFA or Agency) Office of Inspector General (OIG) efforts to fulfill these requirements.

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<sup>1</sup> 41 U.S.C. § 1909(d)(1).

## Background

### *OIG's Activity Pursuant to the Charge Card Act*

The Charge Card Act requires each agency with more than \$10 million in purchase card spending during the prior fiscal year to jointly report with its OIG to OMB on a semi-annual basis regarding employee violations of agency policies on card use, as well as certain other actions taken by the agency's employees.<sup>2</sup> OIG conducted a periodic risk assessment as required, and found that FHFA's purchase and travel card spending in FY 2013 did not exceed \$10 million. Additionally, the Government Accountability Office (GAO) provides audit coverage of FHFA's purchase and travel card transactions as part of its annual audit of FHFA's financial statements required by the Housing and Economic Recovery Act of 2008. Nonetheless, OIG's periodic risk assessment determined that audits of FHFA's purchase card spending and travel card spending were warranted due to the absence of targeted OIG audit coverage. Therefore, OIG conducted this audit to assess FHFA compliance with laws and regulations related to use of purchase cards with particular emphasis on mitigation of the risk of fraud and inappropriate charge card practices. OIG will report separately on the results of its audit of travel card spending.

### *Purchase Card Program*

FHFA participates in the government-wide GSA SmartPay program. There are a number of stated benefits associated with the use of the SmartPay program including estimated administrative savings of \$70 per transaction when a purchase card is used in place of a written purchase order. Other benefits include Agency refunds, such as:

- **Productivity refunds**—Based on the timeliness and/or frequency of payments to the bank (faster payments mean higher refunds);
- **Sales refunds**—Based on the dollar or spend volume during a specified time period; and
- **Corrective refunds**—Payments made to the Agency to correct improper or erroneous payments on an invoice.

Under the GSA SmartPay2 master contract, Citibank is a provider of commercial charge card payment solutions to federal agencies. Since July 1, 2009, Treasury's Bureau of Fiscal Service's, Administrative Resource Center (ARC) has provided purchase card administrative services to FHFA. FHFA participates in the GSA SmartPay program through Treasury's master contract with Citibank. FHFA's Office of Budget and Financial Management (OBFM) is responsible for managing the purchase card program and ensuring that the program complies with applicable laws, regulations, policies, and procedures.

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<sup>2</sup> *Id.* § 1909(c)(3).

When a cardholder receives approval for a purchase request, the authorized cardholder will process the purchase. After authorizing the purchase, the cardholder logs the transaction into the purchase card log. After the statement cycle closes, the cardholder submits the statement and supporting documentation to the Statement Reviewer and Approving Official for payment approval of the outstanding card balance. As of November 11, 2013, a total of 25 FHFA employees were authorized purchase cardholders. During 2013, FHFA purchase cardholders executed approximately 1,500 purchase card transactions totaling approximately \$1.4 million. Of these 1,500 transactions, 16 exceeded FHFA's micro-purchase threshold of \$5,000.

### ***OMB A-123, the Charge Card Act of 2012, and OMB Memorandum M-13-21***

OMB Circular A-123, *Management's Responsibility for Internal Control*, dated December 21, 2004, provides the specific requirements for assessing and reporting on controls.<sup>3</sup> The Circular defines control standards, including a standard related to control activities that, among other things, requires that internal controls be documented. The circular also requires that internal controls be monitored and that deficiencies found should be reported to responsible management officials.<sup>4</sup>

Appendix B of OMB Circular A-123, "Improving the Management of Government Charge Card Programs," originally issued in 2005, prescribes policies and procedures to agencies regarding how to maintain internal controls that reduce the risk of fraud, waste, and error in government charge card programs. FHFA issues an annual Charge Card Management Plan to comply with OMB Circular A-123. The Agency's Charge Card Management Plan summarizes key charge card data and outlines policies and procedures critical to the management of FHFA's charge card program to ensure that FHFA follows a system of internal controls and mitigates the potential for fraud, misuse, and/or delinquency.

OMB Memorandum M-13-21 provides supplemental guidance to OMB Circular A-123 Appendix B related to implementation of the Charge Card Act, including requirements for:

- Federal agencies to establish certain safeguards and internal controls for the government charge card program; and
- Reports on purchase card violations and penalties for violators, including removal when circumstances warrant.

### **Objective**

The overall objective of the audit was to assess FHFA's use of government purchase cards. The specific objective was to determine whether FHFA complied with applicable purchase card laws

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<sup>3</sup> 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.

<sup>4</sup> Internal control standards and the definitions of internal control are based on GAO's *Standards for Internal Control in the Federal Government* (November 1999).

and regulations and whether the Agency has implemented adequate purchase card internal controls to help avoid fraud and inappropriate charge card practices.

### **Finding: FHFA Can Further Strengthen Purchase Card Program Policies and Procedures**

OIG did not identify any instances of noncompliance with applicable laws and regulations or fraudulent or inappropriate charge card practices. With limited exceptions, FHFA implemented adequate purchase card internal controls. OIG noted that FHFA could improve existing controls by documenting policies and procedures regarding the:

- Solicitation of multiple bids and/or completion of sole-source justifications in conjunction with the purchase of employee training costing in excess of \$5,000;
- Execution of Continued Service Agreements for high-cost employee training;
- Approval of temporary increases in dollar limits on cardholder purchase authority; and
- Granting and removing of exceptions for card purchases in Merchant Category Codes (MCCs) not otherwise authorized.<sup>5</sup>

Strengthening controls in these areas will help ensure that purchase cards are used in an efficient, effective, and economical manner and not for illegal, improper, or erroneous purchases.

### ***FHFA Voluntarily Complies with the Federal Acquisition Regulation***

As an independent federal agency, FHFA is not subject to the Federal Acquisition Regulation (FAR). However, as a matter of administrative convenience, FHFA generally follows the FAR on a voluntary basis with the exception of flexibilities identified within the Agency's Acquisition Procedures Manual. For example, while the FAR micro-purchase threshold is \$3,000, FHFA has adopted a micro-purchase threshold of \$5,000.<sup>6</sup>

### ***Training Purchases in Excess of \$5,000***

OIG noted that FHFA did not have documented policies and procedures regarding the purchase and approval of employee training above the \$5,000 micro-purchase threshold. In a sample of 16 purchase card transactions that exceeded the \$5,000 threshold, 8 were for purchases of FHFA employee training. While purchases above the \$5,000 FHFA micro-purchase threshold typically require multiple bids or sole source justifications, OIG noted that FHFA policies and procedures do not exempt training purchases above the \$5,000 threshold from the solicitation of multiple

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<sup>5</sup> A Merchant Category Code (MCC) is a four-digit code used to identify the type of business a merchant conducts (e.g., gas stations, restaurants, airlines). The merchant selects its MCC with its bank based on its primary business. The code helps agencies control where purchases are allowable and may determine if the item is centrally or individually billed.

<sup>6</sup> FAR 2.101, "Definitions," defines a micro-purchase as an acquisition of supplies or services using simplified acquisition procedures, the aggregate amount of which does not exceed the micro-purchase threshold of \$3,000 unless one or more exceptions applies; none are applicable here.

bids or sole source justifications, nor did FHFA obtain bids or complete sole source justifications for any of the eight training purchases above \$5,000.

While FHFA has implemented procurement guidance for the purchase of training below \$5,000, there is no documented guidance to follow when the cost of training exceeds the \$5,000 threshold. FHFA officials referred to the FAR as their guidance for procurements above \$5,000. The FAR requires the solicitation of a “reasonable number of bids” or completion of a sole source justification for any purchases above the micro-purchase threshold.

While FHFA does not have documented guidance related to the purchase of training in excess of the \$5,000 micro-purchase threshold, the Agency has relied on a September 27, 2012, legal opinion, “Contracting for Training,” as the authority for its practice of purchasing training in excess of the threshold without obtaining multiple bids or preparing sole source justifications. Regardless, this method of purchasing training in excess of the threshold was not documented in the Agency’s purchase card policies and procedures. Documenting controls related to exceptions in the purchase card policies and procedures for purchasing training in excess of \$5,000 will further strengthen Agency compliance with laws and regulations and help avoid potentially wasteful spending practices.

### ***Inconsistent Use of Continued Service Agreements for High-Cost Training***

Controls can also be strengthened to help ensure the consistent use of Continued Service Agreements for employees obtaining high-cost training in excess of \$5,000. Of the eight training purchases that exceeded the \$5,000 threshold, only one required the employee who received the training to sign a Continued Service Agreement. FHFA did not require Continued Service Agreements for the other seven training purchases.

OIG identified that FHFA had no policies or procedures in place regarding Continued Service Agreements for training costing over \$5,000. The total value of training purchases over \$5,000 for which Continued Service Agreements were not obtained was \$51,722. The lack of a documented Agency policy concerning the use of Continued Service Agreements could potentially lead to inconsistent employee treatment and wasteful training expenditures, such as an employee separating from the federal government shortly after completion of high-cost training. Documenting the use of Continued Service Agreements for employee training in excess of an appropriate dollar threshold will help ensure that training funds are expended in the most efficient and effective manner. The use of such agreements will also help ensure that the Agency as well as the employee benefits from the investment made in the training provided.

### ***Temporary Increases to Cardholder Approval Limits***

FHFA program officials approved temporary transaction limit authority increases on multiple occasions. For example, when purchases above a purchase cardholder’s \$6,000 limit were required, FHFA program officials approved temporary increases in cardholder transaction limits to facilitate specific purchases. Specifically, FHFA program officials increased the single transaction limit for a purchaser cardholder with a \$6,000 limit to a limit of \$7,000 on March 13, 2013, to facilitate a transaction for \$6,900. The limit was subsequently and promptly reduced back to \$6,000 on March 19, 2013. OIG found that FHFA (in coordination with ARC) reset

cardholder limits in a timely manner; however, FHFA did not have policies and procedures governing approvals to ensure the temporarily higher limits were appropriate and allowable. Transaction limits are an important control in the purchase card program and the absence of procedures regarding increases hinders the effectiveness of these controls.

### ***MCC Exceptions Not Subsequently Removed in a Timely Manner***

FHFA program officials granted purchase cardholders MCC exceptions that were not subsequently removed in a timely manner. For example, the audit identified that of 29 MCC exceptions available to different purchase cardholders as of October 2013, 27 of those MCCs had not been used as a purchase source for over 6 months. While OIG found that FHFA obtained appropriate approvals for these otherwise blocked MCCs, policies and procedures governing MCC exceptions were not in place, including monitoring controls to terminate the exception when no longer needed. The absence of documented policies and procedures regarding MCC exceptions reduces the effectiveness of an important purchase card program control that is intended to ensure that purchases are made with authorized merchants and only for required products and services. While an MCC exception is allowable, procedures should be in place to ensure that an MCC exception is allowable only on a case-by-case basis and that there is a process in place to remove the exception in a timely manner after the allowed purchase is transacted. Such controls will help decrease the risk that inappropriate purchases will be made with FHFA purchase cards.

### **Conclusion**

While overall FHFA had sound internal control to ensure compliance with purchase card laws and regulations, certain controls can be strengthened to further enhance FHFA's purchase card management.

### **Recommendations**

OIG recommends that FHFA document purchase card policies and procedures related to:

1. Purchase of training above the \$5,000 micro-purchase threshold.
2. Use of employee Continued Service Agreements for high-cost training.
3. Approval and resetting of temporary increases in transactions limits in a cardholder's purchase authority.
4. Management of MCC exceptions, which should be allowed only on a case-by-case basis and removed in a timely manner after the allowed purchase is transacted.

FHFA provided comments (see Attachment A) agreeing with OIG's recommendations. Attachments B and C contain OIG's evaluation of FHFA's comments.

## Scope and Methodology

In order to accomplish its objective, OIG:

- Obtained relevant policies, procedures, and data related to FHFA's purchase card program;
- Interviewed FHFA officials and reviewed relevant guidance; and
- Analyzed FHFA's purchase card transactions for compliance with laws, regulations, and FHFA policies and procedures.

OIG conducted its fieldwork at FHFA's offices in Washington, DC. The scope of the audit was October 2012 through September 2013.

OIG assessed the reliability of data received for this audit as determined necessary by corroborating the information with other source data. OIG considered the risk of fraud as it relates to the audit objective.

OIG assessed the internal controls related to the audit objective. Specifically, OIG evaluated the control standards that were significant to the audit objective, including control activities and monitoring.

OIG performed fieldwork for this audit from October 2013 through December 2013 in accordance with generally accepted government auditing standards. Those standards require that audits be planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objective. OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions included herein, based on the audit objective.

OIG appreciates the cooperation of FHFA staff in completing the audit. This audit was led by Kevin Carson, Audit Director, and Theodore Kirby, Auditor-in-Charge, who was assisted by Anya Maffei-Philbert, Auditor.

cc: Melvin L. Watt, Director  
Edward DeMarco, Senior Deputy Director  
Eric Stein, Special Advisor and Acting Chief of Staff  
Richard Hornsby, Chief Operating Officer  
John Major, Internal Controls and Audit Follow-up Manager

### Attachments:

- Attachment A: FHFA's Comments
- Attachment B: OIG's Response to FHFA's Comments
- Attachment C: Summary of Management's Comments on the Recommendations



**Attachment A**

***FHFA's Comments on OIG's Findings and Recommendations***



**Federal Housing Finance Agency**

**MEMORANDUM**

TO: Russell A. Rau, Deputy Inspector General for Audits  
FROM: Mark Kinsey, Chief Financial Officer *MK*  
SUBJECT: FHFA's Use of Government Purchase Cards (Audit Report No. AUD-2013-017)  
DATE: January 23, 2014

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Thank you for the opportunity to respond to the Federal Housing Finance Agency-Office of Inspector General's (FHFA-OIG) draft audit report titled, FHFA's Use of Government Purchase Cards, Audit Report No. AUD-2013-017. This report presents the results of FHFA-OIG's audit to assess FHFA's compliance with laws and regulations related to the use of purchase cards with particular emphasis on mitigation of the risk of fraud and inappropriate charge card practices.

I am pleased that FHFA-OIG concluded that FHFA complied with applicable laws and regulations and no instances of fraudulent or inappropriate charge card practices were found. The FHFA-OIG audit report recognized that FHFA implemented adequate purchase card internal controls, with limited exceptions. The FHFA-OIG audit report noted that certain controls could be strengthened to further enhance FHFA's purchase charge card management. FHFA agrees that the FHFA-OIG's recommendations would strengthen FHFA's purchase charge card program. To that end, FHFA plans to comply with all of the FHFA-OIG's recommendations contained in the audit report as discussed below.

**Policies and Procedures**

**FHFA-OIG Recommendation #1:**

FHFA-OIG recommends that FHFA document purchase card policies and procedures related to purchase of training above the \$5,000 micro-purchase threshold.

**FHFA Response:**

FHFA agrees with the recommendation. FHFA will revise the Purchase Card Desktop Procedures and the Micro-Purchase Procedures and Supplemental Purchase Card Guidance documents to include guidance to follow when the cost of training exceeds \$5,000. The revisions will be completed by June 30, 2014.

FHFA-OIG Recommendation #2:

FHFA-OIG recommends that FHFA document purchase card policies and procedures related to use of employee Continued Service Agreements for high-cost training.

FHFA Response:

FHFA agrees with the recommendation. FHFA has developed a draft Training Policy which includes Continued Service Agreement requirements and thresholds. The draft Training Policy is currently undergoing review by the Policy Review Team. FHFA plans to issue the policy by August 31, 2014. Once the Training Policy is signed by the Director, FHFA will revise the Purchase Card Desktop Procedures and the Micro-Purchase Procedures and Supplemental Purchase Card Guidance documents to include a reference to the Training Policy for Continued Service Agreement requirements and thresholds. The revisions will be completed by September 30, 2014.

FHFA-OIG Recommendation #3:

FHFA-OIG recommends that FHFA document purchase card policies and procedures related to approval and resetting of temporary increases in transactions limits in a cardholder's purchase authority.

FHFA Response:

FHFA agrees with the recommendation. FHFA will revise the Purchase Card Desktop Procedures and the Micro-Purchase Procedures and Supplemental Purchase Card Guidance documents to include guidance on requests for temporary increases in transaction limits in a cardholder's purchase authority. The revisions will be completed by June 30, 2014.

FHFA-OIG Recommendation #4:

FHFA OIG recommends that FHFA document purchase card policies and procedures related to management of MCC exceptions, which should be allowed only on a case-by-case basis and removed in a timely manner after the allowed purchase is transacted.

FHFA Response:

FHFA agrees with the recommendation. FHFA will revise the Purchase Card Desktop Procedures and the Micro-Purchase Procedures and Supplemental Purchase Card Guidance documents to include guidance on requests for temporary MCC exceptions and on bi-annual review of MCC templates. The revisions will be completed by June 30, 2014.

FHFA would like to acknowledge the dedicated FHFA-OIG staff that worked with FHFA during this audit.

If you have any questions relating to our response, please do not hesitate to call me at (202) 649-3780.

## **Attachment B**

### ***OIG's Response to FHFA's Comments***

On January 23, 2013, FHFA provided comments to a draft of this report, agreeing with OIG's recommendations and identifying specific actions it would take to address the recommendations. FHFA agreed to revise purchase card procedures by June 30, 2014, to include guidance to follow when the cost of training exceeds \$5,000. FHFA also agreed to issue a training policy, currently in draft form, addressing Continued Service Agreement requirements and thresholds. The Agency will issue the Training Policy by August 31, 2014, and incorporate references to the policy into purchase card procedures by September 30, 2014. In addition, FHFA agreed to revise purchase card program procedures to include guidance on requests for temporary increases in purchase cardholder limits and requests for temporary MCC exceptions and periodic MCC template reviews by June 30, 2014.<sup>7</sup>

OIG considers the planned actions sufficient to resolve the recommendations, which will remain open until OIG determines that the agreed-upon actions are completed and responsive to the recommendations. OIG considered the Agency's full response (attached as Appendix A) in finalizing this report. Appendix C provides a summary of management's comments on the recommendations and the status of agreed-upon actions.

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<sup>7</sup> An MCC template is a grouping of MCCs that is assigned to each purchase cardholder's account based on the cardholder's anticipated purchasing activity. MCC templates are an element of the system of internal controls for the Purchase Card Program, helping to reduce the potential for inappropriate use of a purchase card.

## Attachment C

### *Summary of FHFA's Comments on the Recommendations*

This table presents management's response to the recommendations in OIG's report and the status of the recommendations as of when the report was issued.

<b>Rec. No.</b>	<b>Corrective Action: Taken or Planned</b>	<b>Expected Completion Date</b>	<b>Monetary Benefits</b>	<b>Resolved: Yes or No<sup>a</sup></b>	<b>Open or Closed<sup>b</sup></b>
1.	FHFA will revise purchase card procedures to include guidance to follow when the cost of training exceeds \$5,000.	6/30/2014	\$0	Yes	Open
2.	FHFA will issue a Training Policy addressing Continued Service Agreement requirements and thresholds. FHFA will revise purchase card procedures to include references to the newly issued Training Policy.	9/30/2014	\$0	Yes	Open
3.	FHFA will revise purchase card procedures to include guidance on requests for temporary increases in purchase cardholder transaction limits.	6/30/2014	\$0	Yes	Open
4.	FHFA will revise purchase card procedures to include guidance on requests for temporary MCC exceptions and periodic reviews of MCC templates.	6/30/2014	\$0	Yes	Open

<sup>a</sup> Resolved means: (1) Management concurs with the recommendation, and the planned, ongoing, and completed corrective action is consistent with the recommendation; (2) Management does not concur with the recommendation, but alternative action meets the intent of the recommendation; or (3) Management agrees to the OIG monetary benefits, a different amount, or no amount (\$0). Monetary benefits are considered resolved as long as management provides an amount.

<sup>b</sup> Once OIG determines that the agreed-upon corrective actions have been completed and are responsive, the recommendations can be closed.

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