

Federal Housing Finance Agency
Office of Inspector General



**Audit of FHFA's Government
Purchase Card Program
October 1, 2018 – March 31, 2019**

Audit Report • AUD-2019-010 • August 28, 2019



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August 28, 2019

Executive Summary

The Federal Housing Finance Agency (FHFA or Agency), like other federal agencies, uses government purchase cards to make micro-purchases (purchases of \$5,000 or less, as defined by FHFA) to acquire goods and services for its operations, although use of the government purchase card is not limited to micro-purchases. For October 2018 to March 2019, FHFA's purchase card transactions totaled \$533,639.

We audited FHFA's purchase card program for fiscal year 2017 (see *Audit of FHFA's Fiscal Year 2017 Government Purchase Card Program Found Several Deficiencies with Leased Holiday Decorations, and the Need for Greater Attention by Cardholders and Approving Officials to Program Requirements* (September 6, 2018) (AUD- 2018-011)). In that audit, we found that FHFA had adequate written policies and procedures for the purchase card program. However, those policies and procedures were not always followed.

We made two recommendations to FHFA to address the shortcomings identified in the fiscal year 2017 audit. In a written management response, FHFA disagreed with our recommendation to pay a vendor interest penalties owed under the Prompt Payment Act regulations for late payment of a service. FHFA agreed with our other recommendation to reinforce, through periodic reminders and staff training, various policies and procedures for the purchase card program.

Based on the results of that audit and FHFA's planned corrective actions to address the findings in that report, we determined that an audit was warranted of the Agency's purchase card program for the period October 1, 2018, to March 31, 2019, to include follow-up on our prior report recommendations and tests of purchase card transactions. The objectives of this audit were to determine whether (1) the Agency's existing controls over the program provide reasonable assurance that improper payments will not occur or will be detected in the normal course of business and (2) payments for purchase card transactions were properly supported as a valid use of Agency funds.

We confirmed that FHFA's promised actions to address the fiscal year 2017 report were completed on time and that they included: sending out reminders to cardholders and approving officials, conducting training in December 2018, and using a competitive bidding process to procure services it had previously obtained repeatedly from one vendor without competitive bidding.

As in our prior audit, we found that FHFA's policies and procedures for its government purchase card program, if implemented as written, prescribe a



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control regime that provides reasonable assurance that improper payments would not occur or would be detected in the normal course of business. From our tests of 36 purchase card transactions, we found that FHFA's controls over the purchase card program between October 2018 and March 2019 were generally followed. However, our tests did identify some exceptions to FHFA's requirements – failures to document the receipt of goods and services, obtain prior written approval by approving officials, and post transactions immediately to purchase card logs. While those exceptions were similar to those found by our prior audit, given the dollar amount and nature of those exceptions we make no recommendations in this report. Prudence counsels that these requirements continue to be emphasized in the training of cardholders and approving officials.

This report was prepared by Heath Wolfe, Director of Audit Operations, with the assistance of Bob Taylor, Senior Advisor. We appreciate the cooperation of FHFA staff, as well as the assistance of all those who contributed to the preparation of this report.

This report has been distributed to FHFA, Congress, Office of Management and Budget (OMB), the Government Accountability Office (GAO), and others and will be posted on our website, www.fhfaog.gov.

Marla A. Freedman, Deputy Inspector General for Audits /s/

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ABBREVIATIONS

ARC	Department of the Treasury, Bureau of the Fiscal Service's Administrative Resource Center
FAR	Federal Acquisition Regulation
FHFA or Agency	Federal Housing Finance Agency
GAO	Government Accountability Office
MCC	Merchant Category Code
OIG	Federal Housing Finance Agency Office of Inspector General
OMB	Office of Management and Budget

BACKGROUND.....

Within FHFA, the Office of Budget and Financial Management manages the Agency’s government purchase card program. This office is also responsible for ensuring that FHFA’s purchase card program complies with the Government Charge Card Abuse Prevention Act of 2012¹ and applicable OMB requirements. Those requirements include OMB Circular No. A-123, Appendix B (Revised January 15, 2009), *Improving the Management of Government Charge Card Programs*; and OMB M-13-21, *Implementation of the Government Charge Card Abuse Prevention Act of 2012*.

In July 2009, FHFA entered into an interagency agreement with the Department of the Treasury, Bureau of the Fiscal Service’s Administrative Resource Center (ARC) for services related to the Agency’s government purchase card program. ARC uses the CitiDirect® Card Management System to manage FHFA’s purchase card program.

FHFA Maintains that it Follows the Federal Acquisition Regulation with Some Exceptions

As an independent federal agency, FHFA is not subject to the Federal Acquisition Regulation (FAR). However, FHFA states in its written policy that it follows the FAR on a voluntary basis, except for flexibilities set forth in its *Acquisition Procedures Manual*.² For example, FHFA maintains that it follows the FAR’s requirements for micro-purchases made by government purchase cards, but increased the micro-purchase threshold from \$3,500 to \$5,000.³

FHFA has supplemented the *Acquisition Procedures Manual* with additional procedures, which are codified in *FHFA Micro-purchase Procedures and Supplemental Purchase Cardholder Guidance*. Among other things, these procedures require cardholders to:

- Obtain prior, written approval from their approving official before making purchases;
- Document proof of product delivery or completion of service performance; and

¹ See Public Law No. 112-194.

² FHFA Policy No. 503, Acquisition Policy (June 27, 2011).

³ FAR 2.101, “Definitions,” a micro-purchase is an acquisition of supplies or services using simplified acquisition procedures, the aggregate amount of which does not exceed the micro-purchase threshold of \$3,500 (with certain exceptions that are not applicable for the purposes of this report).

- Immediately record transactions to their purchase card log upon making a purchase (thus the purchase card log should provide a sequential, contemporaneous record of all purchase card transactions made).

Another control over FHFA's purchase card program is ARC's monitoring of the use of those cards. For example, ARC's random sampling procedures for the purchase card program state that it will conduct annual compliance reviews of FHFA's purchase cardholders and the related transactions using a statistical sampling plan with a 90 percent confidence level and a precision error rate of 15 to 25 percent. For the most recent compliance review, ARC reviewed 141 purchase card transactions made by FHFA cardholders between April 1, 2018, and March 31, 2019. ARC noted no issues of noncompliance.

For purchases of supplies and services of more than \$5,000, FHFA's Acquisition Policy states that it follows the Simplified Acquisition Procedures prescribed in FAR Part 13, but FHFA enlarges the lower end of the threshold from \$3,500 in the FAR to \$5,000. The purpose of the simplified procedures is to, among other things, reduce costs and improve opportunities for certain businesses (e.g., small disadvantaged, women-owned, veteran-owned, etc.). For the purposes of this report, Simplified Acquisition Procedures are for the acquisition of supplies or services that have an anticipated dollar value exceeding \$5,000, but not exceeding \$200,000.

OIG's Previous Purchase Card Audit

In 2018, we issued an audit report on FHFA's purchase card program. In that report, *Audit of FHFA's Fiscal Year 2017 Government Purchase Card Program Found Several Deficiencies with Leased Holiday Decorations, and the Need for Greater Attention by Cardholders and Approving Officials to Program Requirements* (September 6, 2018) (AUD-2018-011), we reported that FHFA had adequate written policies and procedures for the purchase card program. However, those policies and procedures were not always followed. We found that one purchase card transaction, for \$5,000 of leased seasonal decorations for the Agency's headquarters space, lacked prior approval, was not posted timely to the cardholder's purchase card log, and the vendor's invoice was paid nearly six months after the goods and services were received, which is in noncompliance with Prompt Payment Act regulations. We also reported that the continual use of the same vendor for leased seasonal decorations year-after-year is contrary to micro-purchase requirements that call for such purchases to be equitably distributed among qualified vendors (to the extent practicable), and FHFA lacked a policy governing the use of funds for seasonal decorations. Additionally, we found that FHFA personnel did not consistently document the receipt of goods and services nor obtain prior written approval by an approving official before making purchases.

FACTS AND ANALYSIS

FHFA Implemented its Planned Corrective Actions to Our 2018 Purchase Card Audit

We made two recommendations to FHFA to address the shortcomings identified in our 2018 audit. In a written management response, FHFA disagreed with our recommendation to pay interest penalties owed under the Prompt Payment Act regulations to a vendor for the late payment of the leased seasonal decorations and we reported the recommendation as closed, rejected. FHFA agreed with our other recommendation to reinforce, through periodic reminders and staff training, various policies and procedures for the purchase card program. In its management response, FHFA outlined responsive corrective actions for the second recommendation that were to be completed by December 31, 2018. We confirmed those actions were completed on time, and that they included sending out reminders to cardholders and approving officials and conducting training in December 2018. Both the reminder and training emphasized the requirements to distribute micro-purchases equitably among qualified suppliers (to the extent practicable), document the receipt of goods and services, and obtain prior written approval from an approving official before purchases are made. We also found that FHFA used a competitive bidding process to procure its seasonal decorations for 2018.

FHFA Has Adequate Written Policies and Procedures for the Purchase Card Program; However, They Were Not Always Followed During the Review Period

We found that FHFA's Acquisition Policy and *FHFA Micro-purchase Procedures and Supplemental Purchase Cardholder Guidance*, if implemented as written, prescribe a control regime that provides reasonable assurance that improper payments would not occur or would be detected in the normal course of business. However, our tests found some exceptions in implementation similar to that in our 2018 audit that require FHFA's continued management attention.

We selected and reviewed two samples:

- 11 purchase card transactions from the period October 1, 2018, to March 31, 2019, that we considered unusual based on the transactions' associated Merchant Category Code (MCC).⁴ The universe from which the 11 transactions were sampled consisted of 561 purchase card transactions, totaling \$533,639. The total for 10 of the sampled purchase card transactions was \$39,705; the other tested transaction was a credit/refund for \$3,028.

⁴ An MCC is a four-digit code used to identify the type of business a merchant conducts (e.g., gas stations, restaurants, airlines).

- 25 purchase card transactions randomly selected from the period January 1 to March 31, 2019. The universe from which the 25 transactions were sampled consisted of 260 purchase card transactions totaling \$248,162. We chose this universe to sample as the date of these transactions was after the date FHFA had planned to complete its corrective actions to our prior audit (December 31, 2018). The 25 selected purchase card transactions totaled \$19,778.

In all, we tested the 36 (11 plus 25) purchase card transactions for compliance with provisions of FHFA’s purchase card policies and procedures to include, but not be limited to, requirements for: (1) proper authorization of purchases; (2) allowability of purchases made; and (3) review, posting, and approval of the transactions.

For 23 of the 36 purchase card transactions, we found that these transactions complied with the applicable FHFA purchase card policies and procedures and/or were properly supported as a valid use of Agency funds. We identified the following exceptions for 13 purchase card transactions:⁵

- FHFA could not provide documentation to support whether the goods or services were received for three purchase card transactions totaling \$910. During the audit, FHFA’s coordinator for the purchase card program claimed the items were received by FHFA but was unable to provide documentation or other evidence to support her claim.
- FHFA cardholders made two purchase card transactions totaling \$2,600 prior to receipt of written approval from an authorized approving official. For one of the two transactions, FHFA’s Office of Budget and Financial Management had identified the improper purchase card transaction and the cardholder received training.
- FHFA cardholders did not immediately post eight purchase card transactions to their purchase card logs. For example, one cardholder posted a July 10, 2018, transaction to the purchase card log on November 4, 2018.

CONCLUSION.....

We found that between October 1, 2018, and March 31, 2019, FHFA policies and procedures for the use of purchase cards, if implemented as written, prescribe a control regime that provides reasonable assurance that improper payments would not occur or would be detected

⁵ None of the tested purchase card transactions had more than one deficiency. We provided the details of the deficiencies found with the 13 transactions separately to FHFA’s Agency/Organization Program Coordinator during our audit fieldwork.

in the normal course of business. This is consistent with our fiscal year 2017 audit of FHFA’s government purchase card program. From our tests, we found that FHFA’s controls over the purchase card program between October 2018 and March 2019 were generally followed. However, our tests found some exceptions to requirements occurred – failures to document the receipt of goods and services, obtain prior written approval by approving officials, and post transactions immediately to purchase card logs. Prudence counsels that these requirements continue to be emphasized in the training of cardholders and approving officials.

FHFA COMMENTS.....

We provided FHFA an opportunity to respond to a draft of this report. In its management response, which is included as an appendix to this report, FHFA acknowledged our conclusion that its controls over the purchase card program between October 1, 2018, and March 31, 2019, were generally followed. FHFA also stated that it will emphasize the requirements for which we found exceptions in the training of cardholders and approving officials.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to determine whether (1) FHFA’s existing controls over the purchase card program provide reasonable assurance that improper payments will not occur or will be detected in the normal course of business and (2) payments for purchase card transactions were properly supported as a valid use of Agency funds. The scope of the audit focused on FHFA’s policies and procedures over its purchase card program and FHFA’s purchase card transactions between October 1, 2018, and March 31, 2019 (i.e., the first half of fiscal year 2019).

To address our objectives, we:

- Researched laws, regulations, policies, and procedures applicable to FHFA’s government purchase card program;
- Reviewed the Government Charge Card Abuse Prevention Act of 2012, OMB M-13-21, OMB M-17-26, and the FAR regarding requirements that apply to FHFA;
- Reviewed the FHFA Director’s Federal Managers’ Financial Integrity Act of 1982 Statement of Assurance for fiscal year 2018 for any mention of internal control matters related to FHFA’s purchase card program;
- Determined whether FHFA maintained and annually submitted its Charge Card Management Plan no later than January 31 for fiscal year 2019;
- Determined whether FHFA summarized its overall results in completed compliance summaries and internal assurance assessments in its annual Charge Card Management Plan;
- Determined the dollar amounts and other relevant statistical information for FHFA’s purchase card program for fiscal year 2018 and the first half of fiscal year 2019;
- Interviewed FHFA’s Deputy Chief Financial Officer and other appropriate officials responsible for FHFA’s purchase card program about (a) whether they had knowledge of any fraud or suspected fraud affecting the program, (b) whether they were aware of any allegations of fraud or suspected fraud affecting the program, (c) the nature and extent of monitoring they performed over the program, and (d) whether and how management communicated to cardholders and approving officials its views on the proper use of purchase cards;

- Determined whether FHFA and/or ARC conducted any compliance testing of FHFA's purchase card program. This included obtaining (a) an understanding of the compliance testing program in place during the audit period and (b) the results of the compliance testing performed, including any findings and recommendations;
- Reviewed FHFA's purchase card training material provided to cardholders and approving officials during the first half of fiscal year 2019;
- Reviewed the GAO's report on its audit of FHFA's financial statements for fiscal year 2018 to determine whether any deficiencies were reported related to FHFA's purchase card program. We also inquired of GAO's staff about the scope and results of any testing of the program done for the review period of FHFA's financial statements;
- Selected a random sample of 25 purchase transactions totaling \$19,778 from the universe of 260 transactions totaling \$248,162 that were performed by FHFA during January 1 to March 31, 2019. The random sample size was the minimum required for a 90 percent confidence level and zero expected deviations. Additionally, we selected 11 transactions totaling \$36,677 (10 purchase transactions totaling \$39,705 plus one transaction that was a credit/refund totaling \$3,028 where the MCC description appeared to be unrelated to the Agency's mission). For the 36 purchase card transactions, we tested for compliance with provisions of the FAR and FHFA's policies and procedures to include requirements for the proper authorization of purchases; allowability of purchases made; and the review, posting, and approval of purchase card transactions;
- Assessed the reliability of data received for this audit as determined necessary by corroborating the information with other source data;
- Assessed the Agency's internal controls related to the purchase card program. Specifically, we evaluated the program's control standards, including control activities and monitoring; and
- Evaluated the corrective actions by FHFA to address the findings and recommendations in our 2018 audit report.

We conducted this performance audit between March 2019 and August 2019 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 our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions, based on our audit objectives.


APPENDIX: FHFA MANAGEMENT RESPONSE.....



Federal Housing Finance Agency

MEMORANDUM

TO: Marla Freedman, Deputy Inspector General for Audits

FROM: Mark Kinsey, Chief Financial Officer 

SUBJECT: Draft Report: *Audit of FHFA's Government Purchase Card Program October 1, 2018 – March 31, 2019*

DATE: August 22, 2019

Thank you for the opportunity to respond to the Office of Inspector General (OIG) draft audit report titled, *Audit of FHFA's Government Purchase Card Program October 1, 2018 – March 31, 2019 (Report)*. The Report found that between October 1, 2018 and March 31, 2019, the Federal Housing Finance Agency (FHFA) policies and procedures for the use of purchase cards, if implemented as written, prescribe a control regime that provides reasonable assurance that improper payments would not occur or would be detected in the normal course of business. Furthermore, the Report found that FHFA's controls over the purchase card program between October 1, 2018 and March 31, 2019 were generally followed. The Report cited some exceptions to requirements, which FHFA will emphasize in the training of cardholders and approving officials.

I would like to acknowledge the dedicated 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.

cc: Chris Bosland
Larry Stauffer
John Major

ADDITIONAL INFORMATION AND COPIES.....

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