

NATIONAL CREDIT UNION ADMINISTRATION
OFFICE OF INSPECTOR GENERAL

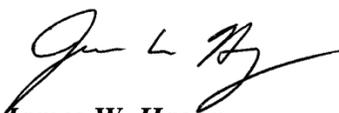


REVIEW OF
NATIONAL CREDIT UNION ADMINISTRATION'S
PURCHASE AND TRAVEL CARD PROGRAMS

Report #OIG-15-07

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ACRONYMS AND ABBREVIATIONS

Act	Government Charge Card Abuse Prevention Act of 2012
CBA	Centrally Billed Accounts
CO	Contracting Officer
FAR	Federal Acquisition Regulation
GSA	Government Services Administration
IBA	Individually Billed Accounts
MCC	Merchant Category Code
NCUA	National Credit Union Administration
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
PO	Purchase Order



EXECUTIVE SUMMARY

The National Credit Union Administration (NCUA) Office of Inspector General (OIG) conducted this review as required by the *Government Charge Card Abuse Prevention Act of 2012* (Act). Specifically, we conducted an audit of NCUA's individually billed accounts (IBA) travel card program because the agency's total spending in the prior year exceeded the Act's \$10 million threshold.

The Government Services Administration (GSA) SmartPay 2 program provides charge cards to U.S. government agencies/departments and tribal governments, through master contracts that are negotiated with major national banks. NCUA has established three government charge card programs through GSA SmartPay 2 contracts with JP Morgan Chase. Those charge card programs are:

- Purchase card – centrally billed accounts (CBA)
- Travel card – centrally billed accounts (CBA)
- Travel card – individually billed accounts (IBA)

Authorized purchase card holders can use a purchase card to buy goods and services that can generally be purchased with a Purchase Order (PO). The only exceptions to this are airfare and other forms of transportation, contracts awarded from a formal solicitation, and goods and services costing over \$25,000.

NCUA issues travel cards to most of its approximately 1,260 employees. Federal employees are required to use their federal travel charge cards for all expenses related to official government travel where merchants accept the card for payment.

The objectives of this engagement were to:

- Assess, identify, and analyze the risks of illegal, improper, or erroneous purchases and payments made through NCUA's purchase and travel card programs;
- Determine whether the results of our risk assessments justify performing an audit in compliance with Government Auditing Standards; and
- Coordinate with appropriate agency officials on a joint semi-annual report to the Office of Management and Budget (OMB) on any purchase card violations meeting the criteria established in the Act.



This engagement encompassed all three charge card programs and covered activity from October 1, 2012, through September 30, 2013. Overall, we determined that NCUA's three charge card programs pose a low risk of illegal, improper, or erroneous purchases and payments. Based upon this assessment, we did not perform an audit of the purchase card or centrally billed travel card programs. However, we did perform an audit of the individually billed travel card program.

We concluded that for IBA travel cards, 1.65 percent of the non-travel related Merchant Category Code¹ (MCC) transactions were questionable. We also concluded that for CBA purchase cards, less than 1 percent of the non-travel related MCC transactions were questionable, and we found no exceptions related to CBA travel cards.

Although we noted minimal misuse of NCUA charge cards, we are making two suggestions to NCUA management related to training and management reviews that we believe could help improve NCUA's Travel Card program. We appreciate the courtesy and cooperation NCUA management and staff provided to us during this review.

¹ A merchant category code is a four-digit number used by JP Morgan Chase to classify vendor types.



BACKGROUND

Government Charge Card Programs

On October 5, 2012, the President signed into law the *Government Charge Card Abuse Prevention Act of 2012* (Act), which reinforced Administration efforts to prevent waste, fraud and abuse of Government-wide charge card programs. To that end, each executive agency that issues purchase cards, convenience checks, and travel cards must establish and maintain safeguards and internal controls over these programs. The Act mandates that:

- Each head of an executive agency with more than \$10 million in purchase card spending annually, and each agency's Inspector General, submit a semiannual report on violations or other actions to the OMB.
- The Inspector General of each agency conducts an annual risk assessment of the agency purchase card, convenience check, and travel card programs to analyze risks of illegal, improper, or erroneous purchases, and to perform audits of transactions as necessary. Findings of the audits along with recommendations are to be reported to the executive agency, OMB, and the Congress.
- Audits for travel cards shall be required for agencies with \$10 million in prior year travel spending.

The GSA SmartPay 2 program provides charge cards to U.S. government agencies/departments and tribal governments, through master contracts negotiated with major national banks. There are currently over 350 agencies/organizations holding over 3 million cards participating in the program, which has spending of \$30 billion annually on roughly 100 million transactions.

In June 2007, the GSA Office of Charge Card Management awarded the GSA SmartPay 2 master contracts to Citibank, JP Morgan Chase, and U.S. Bank. Through these contracts, agencies can obtain a number of different types of charge cards to support their mission needs, including:

- Purchase Cards – for purchasing general supplies and services;
- Travel Cards – for travel expenses related to official government travel (airline, hotel, meals, and incidentals);
- Fleet Cards – for fuel and supplies for government vehicles, and
- Integrated Cards – for two or more business lines (card types) whose processes are integrated into one card.



NCUA Charge Card Programs

NCUA is an independent federal agency that regulates, charters, and supervises federally insured credit unions. NCUA has five regional offices and the Office of National Examinations and Supervision where field staff regularly examines federally insured credit unions to help ensure safe and sound operations. In 2013, NCUA’s budget was approximately \$251.4 million with a full-time equivalent staffing authorization of approximately 1,260.

NCUA has established three government charge card programs through GSA SmartPay 2 contracts with JP Morgan Chase. Those charge card programs are:

- Purchase card – centrally billed
- Travel card – centrally billed
- Travel card – individually billed

NCUA is responsible for payment of CBA charge card account balances. Individual cardholders are responsible for payment of IBA charge card account balances.

Table 1 (below) provides NCUA’s total charge card activity for Fiscal Year (FY) 2013:

Table 1

FY 2013 NCUA Total Charge Card Activity			
	Purchase Card	Travel Card (CBA)	Travel Card (IBA)
Total Amount - All Transactions	\$3,120,208	\$741,730	\$12,014,591
Total Transactions	4,557	10,592	100,741
Cards Issued	44	10	1,131
Average Transaction Amount	\$685	\$70	\$119
Average Amount per Card	\$70,914	\$74,173	\$10,623

Source: NCUA Office of the Chief Financial Officer (OCFO)



Charge Card Program Policy and Procedures

NCUA's procurement authority permits the agency to obtain goods and services required to fulfill its mission. Although NCUA is exempt from complying with the Federal Acquisition Regulation (FAR), NCUA uses the FAR for guidance. NCUA uses its Procurement Manual to guide agency contracting activity. Charge cards are one method used by NCUA to satisfy its procurement needs.

Purchase Cards

As of September 2013, forty-four individuals were authorized to procure goods and services for NCUA. NCUA issues purchase cards to an individual for use only by that individual. Authorized cardholders can use purchase cards to buy anything that can be purchased with a Purchase Order (PO), except airfare and other forms of transportation, contracts awarded from a formal solicitation, and purchase of goods and services exceeding \$25,000. Generally, purchase cards have a \$10,000 single transaction limit and a \$25,000 monthly limit. The Contracting Officer (CO) must authorize any exceptions to these limits.

Unless otherwise authorized, Central Office employees wishing to purchase goods using a purchase card must submit a request to their office director via email, listing the goods requested, the approximate cost, and the proposed vendor. The office director must forward the request to the 'OCFO Request' email box where a purchasing technician then clears the request with the CO and places the order. Each regional office can establish its own procedures for requesting purchase card procurements. At a minimum, however, office directors must submit requests from their own email account, or through the office's email account.

Regional Directors (RD), Associate RDs, and the respective office director of each purchase cardholder at the Central Office must approve monthly purchase card vendor statements. Additionally, the CO reviews the consolidated purchase card statements each month for the agency. The CO brings any questionable or inappropriate charges to the attention of the appropriate RD or office director for justification and resolution. Since purchase cards are CBAs, the agency is liable for all billed charges.

Travel Cards

NCUA issues travel charge cards to most of its approximately 1,260 employees. Federal travel regulations require employees to use their federal travel charge cards for all official government travel card expenses where the card is accepted for payment. Federal agencies are required to evaluate the credit worthiness of employees before issuing individual government travel charge cards.

NCUA's travel policy states that employees must use IBA travel charge cards for authorized official government business travel to the maximum extent possible. The NCUA recognizes that



charges of authorized and allowable travel and transportation expenses (i.e. lodging and/or meal costs) which exceed authorized amounts could and may infrequently occur. NCUA travel policy allows employees to use their agency issued travel charge card for supplies, rental car gasoline, training costs, and for other business related purchases.

NCUA's travel policy states that employees with IBA travel charge cards are liable for all billed charges, in accordance with the cardholder agreement. However, the policy also states that employees are not responsible for any charges incurred against a lost or stolen travel card if the employee promptly reports loss of the card to JP Morgan Chase, in accordance with the terms of the charge card cardholder agreement.

OBJECTIVE, SCOPE AND METHODOLOGY

We developed our objectives for this engagement based on requirements in the Act. Specifically, our objectives were to:

- Assess, identify, and analyze risks of illegal, improper, or erroneous purchases and payments made through NCUA's purchase and travel card programs;
- Determine whether the results of our risk assessments justify performing an audit in compliance with Government Auditing Standards; and
- Coordinate with appropriate agency officials on a joint semiannual report to the OMB on any purchase card violations meeting the criteria established in the Act.

To accomplish our review, we performed fieldwork at NCUA's Central Office in Alexandria, VA, and contacted cardholders in each of NCUA's five regions. The scope of this review focused on NCUA's three charge card programs and the agency's compliance with applicable provisions of the Act. The scope period of our review covered transaction activity from October 1, 2012 through September 30, 2013. To achieve our objective, we:

- Reviewed policies, directives, and procedures for each of NCUA's three charge card programs;
- Interviewed NCUA management officials having oversight of the charge card programs;
- Obtained cardholder transaction history for all three charge card programs from JP Morgan Chase's SmartPay 2 system;
- Selected and analyzed a judgmental sample of cardholder accounts and related transactions;



- Conducted reasonable tests of transactions from selected cardholder accounts; and
- Contacted and inquired with individual cardholders on questionable transactions.

As noted above, we obtained computer-generated data from JP Morgan Chase's SmartPay 2 system to obtain cardholder information and charge card transaction data. We did not test controls over this system. However, we relied on our analysis of the information and interviews to corroborate data obtained from these systems to support our audit conclusions.

We conducted this audit from February 2014 through January 2015 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit 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. Furthermore, we provided NCUA management officials a discussion draft of this report and included their comments where appropriate.

Prior Audit Coverage

The NCUA OIG has not conducted any prior audits within the past five years related to this subject.



RESULTS IN DETAIL

Overall, our review of NCUA’s FY 2013 purchase and travel card transactions determined that NCUA’s three charge card programs pose a low risk for illegal, improper, or erroneous purchases and payments. Based upon our assessment, we did not perform an audit of NCUA’s CBA purchase card or CBA travel card programs. However, because NCUA exceeded the Act’s \$10 million threshold for IBA travel card usage by approximately \$2 million, we performed an audit of NCUA’s IBA travel card program.

Areas of Improvement Exist with Individually Billed Account Travel

We determined NCUA could improve aspects of its IBA program for travel cards. Specifically, we identified 37 transactions related to our testing of specific IBA accounts that we determined to be questionable charges. In addition, we also identified 108 transactions related to our testing of non-travel related transactions by MCCs totaling approximately \$9,700.

We conducted two separate tests over IBA travel cards. Our initial test consisted of a random sample of 67 IBA travel card accounts selected from the entire universe of 1131 cardholders. Our second test included an agency-wide review of all activity of non-travel related transactions by merchant category code. For each of these testing efforts, we obtained a listing of all transaction related activity from JP Morgan Chase. For our random sample of 67 IBA travel card accounts, we downloaded all transactions (travel and non-travel) for review and analyses. For our MCC testing effort, we downloaded all non-travel MCC transactions for review and conducted reasonableness testing over these transactions. When we identified questionable transactions within either testing effort, we inquired with the cardholder(s) to obtain supporting documentation. We also traced the transaction(s) to agency reimbursement documentation, as necessary.

Table 2 (below) provides the total number of transactions and associated amounts the OIG tested for both travel card accounts and MCC:

Table 2

Total Transactions and Amounts Tested		
	Total Number of Transactions	Total Transaction Amount
Total Travel Card Account Transactions Reviewed	4,853	\$588,556
Total MCC Transactions Reviewed	14,963	\$586,947

Source: OCFO, JPMorgan Chase, Auditor Review



IBA Travel Cardholder Accounts

As previously mentioned, we selected a sample of IBA transactions for 67 cardholders. Our review identified 37 (0.76 percent) questionable charges (exceptions) totaling approximately \$3,555 (0.60 percent). We determined 27 of the 37 exceptions were travel related and totaled approximately \$2,800. The other ten exceptions were non-travel related and totaled \$750. We note that of the 37 total questionable charges identified, we determined that 27 of the charges amounting to \$1,405 were attributable to one employee. In addition, we determined that regional office management had discovered several of these improper transactions during a quarterly review of sampled travel card transactions. Regional management reviewed the matter and counseled the employee on the improper charges.

For the 27 travel-related exceptions, despite employees charging approximately \$2,800, we determined no single transaction represented what we believe to be an egregious misuse of the card. For example, we found employees had charged meals while working, however, these employees were not entitled to meal reimbursement. We also found one employee who charged auto repairs, and another who purchased a companion airline ticket when travelling on business. For the ten non-travel related exceptions, we identified a total of \$750 in erroneous use of the cards for such purchases as software and various personal purchases including professional memberships. Although we identified 37 questionable transactions, we found no evidence that cardholders submitted claims for reimbursement for these items.

In addition, we determined that non-travel related charges represented a greater risk of misuse and therefore determined an additional test was necessary to review non-travel related MCC transactions, as discussed below.

Merchant Category Codes

Our MCC testing consisted of an initial reasonable test of approximately 15,000 MCC transactions to identify unusual merchant codes or vendor names. As a result of this initial test, we identified 903 transactions totaling approximately \$92,400 that we determined to be unusual in nature and in need of additional explanation. For each of these 903 unusual transactions, we inquired with the cardholders and requested they provide a description of the transaction(s), business purpose, a copy of the invoice, and any associated documentation related to a claim for reimbursement, which we later traced to the employees' travel reimbursement vouchers.

Table 3 (below) provides a summary of the MCC questioned charges:



Table 3

FY 2013 OIG Questioned Charges by MCC		
	Total Number of Transactions	Total Transaction Amount
Total MCCs Selected	14,963	\$586,947
Total MCC Transactions Deemed Unusual	903	\$92,381

Source: OCFO, JPMorgan Chase, Auditor Review

As a result of our review of cardholder provided documentation for the 903 unusual transactions, we ultimately identified 108 improper transactions (0.72 percent) totaling approximately \$9,700² (1.65 percent) in non-travel related transactions. We concluded these charges were improper because either the transaction was for a personal non-business related expenditure, or the employee could not provide satisfactory supporting evidence to support the transaction. Examples of these types of charges included commuter rail charges, professional memberships, and various insurance expenditures, such as travel insurance.

Table 4 (below) shows the breakdown by type for the 108 improper charges made on IBA travel cards for non-travel MCCs by the number of charge cards, transactions, and amounts:

Table 4

OIG Questioned Costs for IBA Travel Cards for Non-Travel MCCs			
Type of Improper Charge	# of Charge Cards	# of Transactions	Dollar Amount
- Personal Use	29	51	\$4,021.98
- Lack of Satisfactory Documentation	9	14	2,476.67
- Questionable** - (No Receipts Required)	7	7	166.84
- Commuter Expenses	2	26 ³	2,510.00
- Memberships	2	2	317.50
- Insurance	6	8	214.83
TOTALS		108	\$9,707.82

Source: Auditor Review

**Receipts not required for transactions under \$75

² Note: Ten of the disallowed charges identified during the MCC testing totaling \$750 are the same transactions we identified during our IBA testing effort.

³ Seven of the 26 transactions for these two charge cards incurred \$626 in commuter expenses in 2012. Pursuant to the NCUA Collective Bargaining Agreement and Non-Bargaining Unit Travel Manual, NCUA reimbursed employees via travel voucher for transit subsidy costs. Although transit subsidy costs constitute official agency expenses, NCUA’s policy was ambiguous concerning employees using individually billed travel cards to pay for these expenses prior to reimbursement through a travel voucher. Since 2013, NCUA has implemented the U.S. Department of Transportation’s TranServe reloadable debit card issued through JP Morgan Chase to pay for employee transit subsidy benefits.



Although NCUA provides periodic training to employees on the proper use of IBA travel cards and Regional and Office Directors conduct quarterly transaction reviews,⁴ we believe areas exist where NCUA management could improve its IBA travel card program. Therefore, we are making the following two suggestions.

Suggestions

We suggest NCUA Management:

1. Annually provide cardholders with more robust and transaction specific training to ensure that all cardholders are aware of what constitutes allowable charges.

Management Response

Management indicated they currently provide training to each new employee during orientation or during new examiner training. In addition, management noted they plan to deploy refresher travel card training in 2015 to all cardholders and supervisors via NCUA's Learn Center, and will continue to emphasize during employee training sessions the importance of the proper use of travel charge cards as well as expanding on examples of expressly prohibited charges.

OIG Response

We agree with management's planned actions.

2. Review current travel card procedures and consider tasking direct in-line supervisors, rather than Regional and Office Directors, to conduct quarterly reviews of cardholder activity to ensure that each employee receives at least one evaluation annually.

Management Response

Management indicated they plan to evaluate the feasibility of pushing the quarterly internal reviews of travel card transactions down to the supervisory level from the current director level reviews. Management plans to have a determination on this issue by June 30, 2015.

OIG Response

We agree with management's planned actions.

⁴ The number of cardholders reviewed quarterly is at the discretion of the Regional/Office Director.



Centrally Billed Account Purchase Cards

Negligible Misuse of Centrally Billed Account Purchase Cards

We identified negligible misuse of NCUA’s CBA purchase card program during our risk assessment. Specifically, we identified ten questionable transactions. However, only one transaction for seven dollars was due to misuse. We determined the transaction was an inadvertent use of the card

and that the cardholder promptly reported the mistake. As a result, we did not conduct a full-scope audit of NCUA’s CBA purchase card program.

We randomly selected three purchase cards to review transaction activity. In addition, we performed separate MCC transaction testing by selecting a judgmentally random sample of purchase card transactions for review. We reviewed 220 transactions totaling approximately \$233,580 and applied the same reasonableness standards as used in the IBA travel card review.

Overall, we identified ten questionable transactions totaling approximately \$2,163. We determined these transactions represented 4.5 percent of the total number of transactions and 0.93 percent of the total amount of charges reviewed. Nine of the ten questionable charges were due to lack of documentation, such as no supporting invoice or third party approval documentation. We determined the other questionable charge was due to inadvertent use of the card for a \$7.00 gasoline purchase. Table 5 (below) provides the amounts the OIG tested compared to the universe of transactions:

Table 5

FY 2013 Tested Amounts vs. Total Universe		
	Total Number of Transactions	Total Transaction Amount
Total Purchase Card Activity	4,557	\$3,120,208
Total MCCs Reviewed	220	\$233,580
Total Questionable	10	\$2,163

Source: OCFO, JPMorgan Chase, Auditor Review

Due to the results of our tests of NCUA’s CBA Purchase Card Program, we have no recommendations or suggestions for improvement in this area.



Centrally Billed Account Travel Cards

Centrally Billed Account Travel Cards Used Appropriately

We identified no exceptions during our risk assessment of CBA travel cards. As a result, we did not perform an audit of CBA travel card program.

We randomly selected one CBA travel card to review transaction activity. In addition, we performed separate MCC transaction testing by selecting a judgmentally random sample of CBA travel card transactions for review. We reviewed 21 transactions totaling approximately \$2,693 and applied the same reasonableness standards as used in the IBA travel card review. Table 6 (below) presents a summary of our testing for CBA travel cards.

Table 6

FY 2013 Centrally Billed Accounts for Travel		
	Total Number of Transactions	Total Transaction Amount
Total CBA Travel Card Activity	10,592	\$741,730
Total MCCs Reviewed	21	\$2,693
Total Questionable	0	\$0

Source: OCFO, JPMorgan Chase, Auditor Review

Due to the results of our testing of NCUA’s CBA Travel Card Program, we have no recommendations or suggestions for improvement in this area.



Appendix A: NCUA Management Response

