

**Guam Housing and
Urban Renewal Authority
Credit Card Charges and
Related Travel Expenditures**

**Performance Audit
October 1, 2001 through September 30, 2005
OPA Report No. 06-12
October 2006**



OFFICE OF THE PUBLIC AUDITOR

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OFFICE OF THE PUBLIC AUDITOR

EXECUTIVE SUMMARY

Credit Card Charges and Related Travel Expenditures of the Guam Housing and Urban Renewal Authority Report No. 06-12, October 2006

The Office of the Public Auditor conducted an audit of the credit card charges and related travel expenditures of the Guam Housing and Urban Renewal Authority (GHURA). This audit was conducted as part of our ongoing review of all government of Guam credit card programs. During our review of GHURA's credit card program from fiscal years 2002 through 2005, we found no evidence credit cards were used inappropriately for charges such as personal purchases, cash advances, meals or business entertainment.

While there is an inherent risk of credit card misuse, GHURA mitigated the risk by allowing only two cardholders to make purchases, not allowing the credit cards to accompany travelers off-island, and implementing a credit card policy with restrictions on credit card purchases. This policy was approved by the Board of Commissioners (Board) and disseminated to GHURA's cardholders. We commend GHURA for their conscientious effort.

However, while we found that internal controls over credit card use were adequately designed, our findings revealed instances where such controls were not followed or properly placed in operation. Our audit disclosed that GHURA's management and Board did not provide adequate oversight over the implementation and use of credit cards. We found that GHURA did not:

- Maintain complete supporting documentation, such as receipts and/or invoices, for credit card transactions totaling \$40,124;
- Comply with procurement and travel regulations for the solicitation of airfare quotes related to credit card charges totaling \$56,930;
- Secure Board approval for *the use* of credit card purchases on 15 travel-related expenses totaling \$21,558, although *travel* was authorized by the Board;
- Have signed approval from the Controller for four payment vouchers totaling \$15,526;
- Obtain Board authorization prior to making credit card charges totaling \$6,985;
- Have the required travel expense reports for three travelers whose airfare expenses of \$4,677 were charged to the credit card;
- Review senior management and board members' per diem advances, which resulted in double compensation to travelers for per diem totaling \$4,634. The double payments for traveler's per diem expenses were subsequently reimbursed;
- Pay monthly credit card balances in a timely manner, resulting in the unnecessary finance charges totaling \$582;
- Utilize the purchase order process on credit card transactions when sufficient time existed; and

- Did not maintain complete records for credit card purchases and travel related expenses in a centralized location.

Based on our review of GHURA's credit card program, the use of credit cards is not needed. Management and oversight of GHURA's credit cards was not sufficient to ensure proper authorization, approval, and review of all credit card purchases. As a result, payments were processed without supporting travel documents and without the proper approval. Further, GHURA could not provide evidence that the use of the credit cards provided a cost-savings to the Authority; rather it appears the credit cards were used as a convenience for senior management and the Board's travel. GHURA's procurement through purchase orders are sufficient to process travel for employees, senior management and the Board; therefore, we recommend that GHURA eliminate the use of credit cards. This is consistent with the November 2002 newspaper article where governor-elect Felix Camacho stated "no government agency will be allowed to use government-paid credit cards during his administration".

Additionally, the OPA offers three other audit recommendations to improve GHURA's internal control structure:

- Adopt the Guam travel law regulations to include:
 - Recording all travel per diem allowances as receivables until all official documentation, such as boarding passes, official receipts for registration, accommodations, etc., are submitted and reviewed by the appropriate reviewing authority.
 - Utilizing the government of Guam's Travel Authorization form, to support all travel on behalf of the authority. The travel authorization will ensure that a division head approves all travel expenses and that funds are certified prior to granting authorization to travel.
- Restructure its approval process to establish specific review authority to eliminate the possibility of perfunctory approvals. The Board should provide a realistic span of control to ensure timely and thorough reviews of reports (payment vouchers, expense reports, etc).
- Comply with all government of Guam procurement procedures by obtaining three quotes for goods, services and travel expenses, and ensuring that written justification for vendor selection is maintained on file.

The GHURA Executive Director submitted an 8-page response disagreeing with the findings in the report; however, he agreed to three of four recommendations in the report. Recommendation 1 would be referred to the Board for their policy disposition. See Management Response and OPA Reply for details.



Doris Flores Brooks, CPA, CGFM
Public Auditor



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Introduction

This report represents the results of our audit of the Guam Housing and Urban Renewal Authority (GHURA) credit card program and travel for fiscal years (FY) 2002 through 2005. This audit was conducted as part of our ongoing review of all government of Guam credit card programs.

The objectives of the audit were to determine whether (1) GHURA credit cardholders complied with established credit card policies and procedures; (2) credit card charges were authorized, supported, and appropriate based on established policy; and (3) established policies and procedures were an effective internal control guide in preventing potential fraudulent, improper, and abusive purchases.

As part of our review of GHURA's credit card program, we performed a limited review of travel-related credit card purchases to determine whether travelers complied with GHURA's established travel policy. The scope and methodology are detailed in Appendix 2. Prior audit coverage is detailed in Appendix 3.

Background



Photo 1: GHURA offices located in Sinajana

In December 1962, Public Law 6-135 (codified in 12 G.C.A. Chapter 5) created GHURA, a component unit of the government of Guam, responsible for safe, decent, and sanitary low-income public housing, Section 8 housing choice vouchers, and elderly housing. The Authority provides assistance to low-income families through various community development block grants and community housing programs.

A seven-member Board of Commissioners (Board) provides overall policy direction to GHURA. The Governor with the advice and consent of the Legislature appoints the commissioners. The Board appoints the Executive Director to oversee GHURA's day-to-day operations.

GHURA is a unique agency within the government of Guam because it receives 100 percent of its funding through the United States Department of Housing and Urban Development (HUD).

In January 2002, GHURA's Board unanimously approved a policy and procedures for the use of credit cards established through Resolution No. FY02-13. The policy and procedures were intended to facilitate and standardize the use of credit cards as a safe, effective, convenient, commercially available method to pay for expenses incidental to off-island travel and locally encumbered expenses as approved by the Board.

Under the policy, two cardholders were designated for the agency: the Personnel Administrator, responsible for procuring travel and training conferences, and the Supply Administrator, responsible for procurement. The responsibility for implementing the policy and monitoring credit card use was delegated to GHURA's Controller.

In December 2004, the Board subsequently amended its credit card policy, through Resolution No. 05-004, to include the following:

- The Controller shall forward the billing statements to the authorized credit cardholders for their review and signature prior to payment.
- Under no circumstances shall GHURA-issued credit cards be used for personal purchases.
- Prohibited credit card charges include, but are not limited to, cash advances, meals, advisory and assistance services, and business entertainment.
- Authorization to charge airline tickets, off-island registration fees, lodging, and car rental accommodations must be approved by the Board prior to use.
- All original and supporting documents must accompany billing statements prior to payment.

The intent of GHURA's credit card policy is to supplement the procurement process, not circumvent it.

Results of Audit

Overall, GHURA credit cards were used for official government purposes and internal controls over credit card use were adequately designed. We found no evidence that credit cards were used inappropriately for charges such as personal purchases, cash advances, meals or business entertainment. However, we found that the management and oversight of GHURA's credit cards was not sufficient to ensure proper authorization, approval, and review of all credit card purchases. Specifically GHURA did not:

- Maintain complete supporting documentation, such as receipts and/or invoices, for credit card transactions totaling \$40,124;
- Comply with procurement and travel regulations for the solicitation of airfare quotes related to credit card charges totaling \$56,930;
- Secure Board approval for *the use* of credit card purchases on 15 travel-related expenses totaling \$21,558 although *travel* was authorized by the Board;
- Have signed approval from the Controller for four payment vouchers totaling \$15,526;
- Obtain Board authorization prior to making credit card charges totaling \$6,985;
- Have the required travel expense reports for three travelers whose airfare expenses of \$4,677 were charged to the credit card;
- Review senior management and Board members' per diem advances, which resulted in double compensation to travelers for per diem totaling \$4,634, the double payments for traveler's per diem expenses were subsequently reimbursed;
- Pay monthly credit card balances in a timely manner, resulting in the unnecessary finance charges totaling \$582;
- Utilize the purchase order process on credit card transactions when sufficient time existed; and
- Maintain complete records for credit card purchases and travel related expenses in a centralized location.

These conditions occurred because GHURA's management and Controller were lax in their monitoring and oversight responsibilities of credit card use. GHURA's credit card policy does not clearly specify the responsibility for record keeping. As a result, there was a general lack of communication between the fiscal division and the credit cardholders regarding the records management of credit card and travel-related expenses, the verification of credit card charges for lodging, and the issuance of per diem.

Although there was conscientious effort to ensure that credit cards were not used for personal purchases, GHURA can make policy improvements.

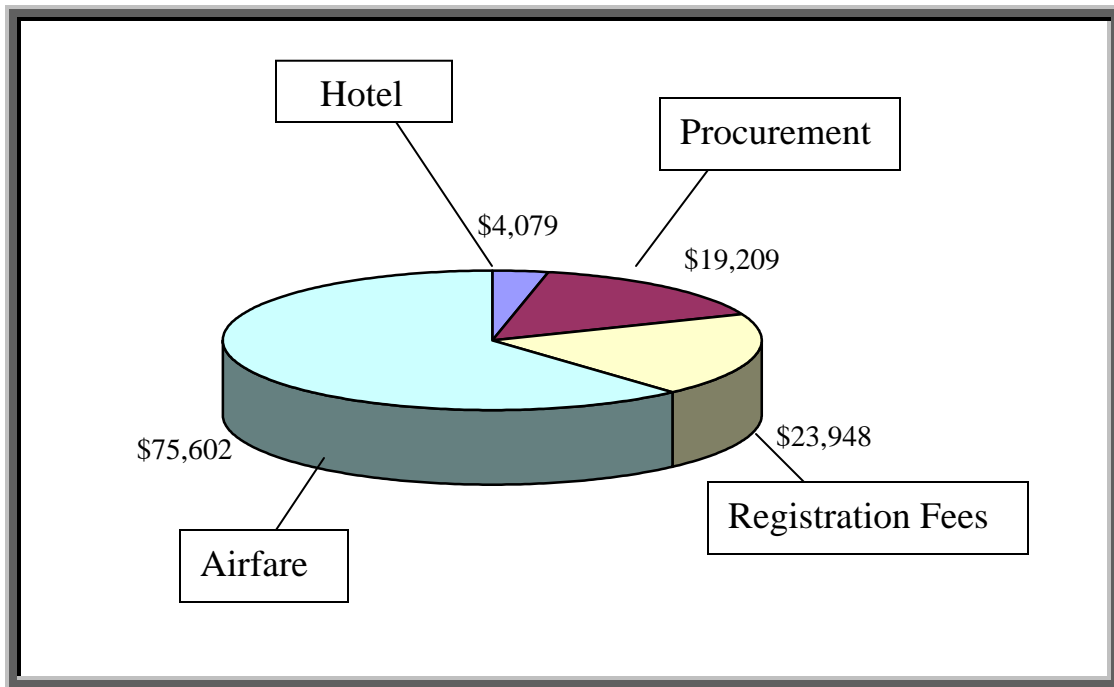
Credit Card Activities

GHURA's credit card policy offered an alternative method for paying off-island travel expenses and locally procured items that would warrant savings for the agency within expected timeframes.

From fiscal years 2002 through 2005, we determined GHURA's credit cardholders made credit card charges totaling \$122,838. We classified the nature of the charges in Chart 1 below, as follows:

- 18 charges totaling \$4,079 for hotel lodging incurred during off-island travel.
- 21 charges totaling \$19,209 for emergency procurement of equipment.
- 37 charges totaling \$23,948 for registration fees.
- 73 charges totaling \$75,602 for airfare.

Chart 1
GHURA Credit Card Charges¹
FY 2002 through FY 2005



¹ The amounts were derived from GHURA's FY 2002 through FY 2005 bank statements and rounded to the nearest dollar.

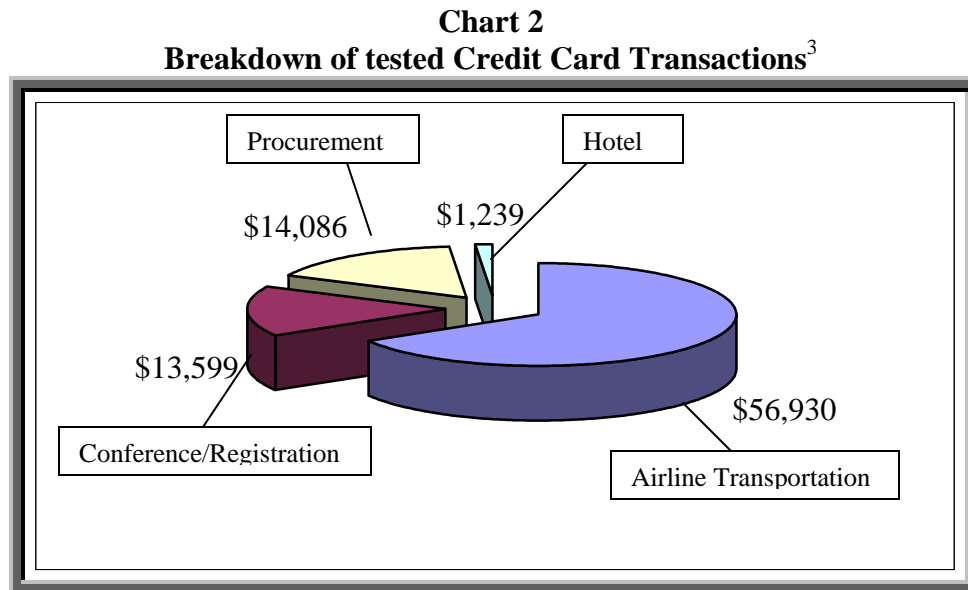
Unnecessary Late Fees Assessed

While using credit cards to expedite purchases is convenient, convenience and savings are diminished if monthly balances are not paid in a timely manner. Between fiscal years 2002 through 2005, GHURA paid \$582 in finance charges as a result of late payments. The breakdown of finance fees was \$244 in FY 2002, \$277 in FY 2003, \$31 in FY 2004, and \$30 in FY 2005. We noted that \$521, or about 90% of the finance charges, resulted because GHURA was delinquent on its monthly payments in fiscal years 2002 and 2003. While \$582 over a four-year period appears nominal, the convenience and savings of using credit cards is negated when monthly balances are not paid timely and finance fees are incurred.

Credit Card Transactions

GHURA's credit card policy² prohibits the use of credit cards for cash advances, meals, advisory and assistance services, and business entertainment. Further, the policy states that under no circumstance shall a GHURA-issued credit card be used for personal purchases.

We reviewed 60 transactions totaling \$85,854 to determine whether GHURA's credit cards were used for official government purposes, approved by the Board, properly supported with sufficient documentation, and competitively procured. A breakdown of the transactions is illustrated in Chart 2.



We determined that GHURA's credit card transactions were for official government purposes. Of the transactions tested, authorized credit cardholders did not make any

² Section III, GHURA Credit card policies and procedures (No. AP-013).

³ Figures were rounded to the nearest dollar.

charges for personal purchases, meals, business entertainment, cash advances, or advisory and assistance services, unlike the Office of the Public Auditor’s previous credit card audits of other government of Guam Authorities, which uncovered evidence of significant credit card abuse by government employees.⁴

However, we did find that GHURA did not (1) maintain complete records to support credit card charges; (2) comply with travel and procurement policies; and (3) monitor credit card charges for double compensation. Additionally, GHURA made credit card purchases prior to obtaining Board approval and utilized credit cards when there was sufficient time to process a purchase order. Further, we noted GHURA did not maintain complete credit card records in a centralized location.

Credit Card Charges Supporting Documentation

Section III A.5 of GHURA’s credit card policy and procedures, states that all original receipts and supporting documents must accompany billing statements prior to payments. In addition, Section III A.3 states that authorization to charge airline tickets, off-island registration fees, lodging, and car rental accommodations must be approved by the Board prior to use.

Of the 60 credit card transactions tested, 26 charges totaling \$40,124 were processed for payment without sufficient supporting documentation (see Table 1).

Table 1⁵
Unsupported Credit Card Charges

<u>No of Transactions</u>	<u>Type of Charge</u>	<u>Cost</u>
12	Airfare	\$ 20,795
7	Registration Fees	\$ 4,794
1	Hotel Lodging	\$ 1,239
<u>6</u>	Emergency Procurement	<u>\$ 13,296</u>
<u>26</u>		<u>\$ 40,124</u>

GHURA’s fiscal division, which is responsible for processing all credit card payments, could not locate payment vouchers or supporting documents for 15 credit card charges totaling \$28,865 that we sampled from FY 2003. The accounting technician, responsible for processing credit cards payments, informed us that documents for FY 2003 were either misfiled or destroyed; therefore, we were unable to verify whether these payments had supporting documentation and prior Controller approval.

⁴ Guam Mass Transit Authority, Guam International Airport Authority, Guam Economic Development and Commerce Authority (view reports at www.opa.org).

⁵ See Appendix 4 for a summary of these unsupported credit card charges.

Payment Vouchers Review and Approval

We randomly selected for review 10 payment vouchers for credit card purchases and travel-related expenses totaling \$29,847 to verify whether payments made by the fiscal division were reviewed and approved by the Controller. We found no evidence of the Controller's approval signature on 4 of the 10 or 40% of the payment vouchers totaling \$15,526 (see Table 2).

Table 2
Payment Vouchers With No Evidence of Approval

<u>Payment Voucher Description</u>	<u>APV⁶ No.</u>	<u>Amount</u>
Bank Payment ⁷	25107	\$ 6,260
Bank Payment ⁸	100029	\$ 7,048
Airline Payment	25204	\$ 1,678
Bank Payment	24597	\$ 540
Total		<u>\$ 15,526</u>

Furthermore, 50% or five vouchers totaling \$14,240⁹ had missing receipts and did not completely support the amount paid by the fiscal division.

GHURA's prior Controller and acting Controller were lax in their credit card oversight responsibilities. They failed to approve all credit card payment vouchers or review all credit purchases to ensure they were properly supported by invoices or receipts. We found instances in which credit card payment vouchers were approved by the Deputy Director and processed for payment by the fiscal division.

While in theory it is ideal for the GHURA Controller to review all credit card purchases and approve all payment vouchers, it may not always be practical. The U.S. General Services Administration best practices¹⁰ recommend there be one reviewing official to every seven cardholders or a ratio of 1:7. Although, GHURA has only two cardholders, it is unreasonable to expect the Controller to perform complete and thorough reviews of all credit card purchases, in addition to reviewing payment vouchers, certifying funds, and reviewing expenses for 105 GHURA employees.

We recommend the Board review the payment approval process and amend its policy to appoint specific personnel for review authority. In designating approving officials, the Board should provide for a realistic span of control in order to ensure timely and

⁶ APV is an abbreviation for Accounts Payable Voucher.

⁷ Payment includes multiple credit card charges not selected for testing.

⁸ Payment includes multiple credit card charges not selected for testing.

⁹ Amount related to APV numbers 24564 for \$1,831; 25233 for \$1,904; 25204 for \$1,678; 100029 for \$7,048; and 25160 for \$1,779.

¹⁰ Information obtained from www.gsa.gov.

thorough review, as opposed to perfunctory reviews by one individual who is inundated with the task of reviewing too many transactions and reports.

Additionally, we found that an automatic payment process was established to pay a credit cardholder's monthly balances. The nature of automatic payments exposes GHURA to increased risk of misuse, as credit card charges would be paid without any prior review. We noted seven auto payments, totaling \$24,339¹¹ were made to the bank. This situation occurred because of the lack of review and oversight of credit card activities. There were at least seven instances in which GHURA processed a check to make the same payment, indicating that the Controller did not subsequently review payments.

Fortunately, a GHURA accountant had identified the auto payments during a monthly reconciliation of accounts before the fiscal division had sent the checks for the same charges. We verified that no duplicate payment had been made for the monthly balance on the credit card statements. The fiscal division has since discontinued the credit card auto payment process. Manual checks are now processed for all credit card payments. We commend the accountant for identifying what might have been a costly error.

Compliance with Credit Card Procedures

In December 2004, the Board amended GHURA's credit card policy, requiring prior Board approval for the use of credit cards on airfare, off-island registration fees, hotel lodging, and car rental expenses. We found no evidence that the Board had authorized *the use* of credit cards for any of the tested 15 transactions in FY 2005 totaling \$21,558. The Personnel Administrator who made the credit card purchases stated that the Board approval through resolution was sufficient authorization. Although there was evidence of Board approval for *travel*, there was no evidence that the Board had authorized *the use* of the credit cards as a mode of payment.

Travel Activities

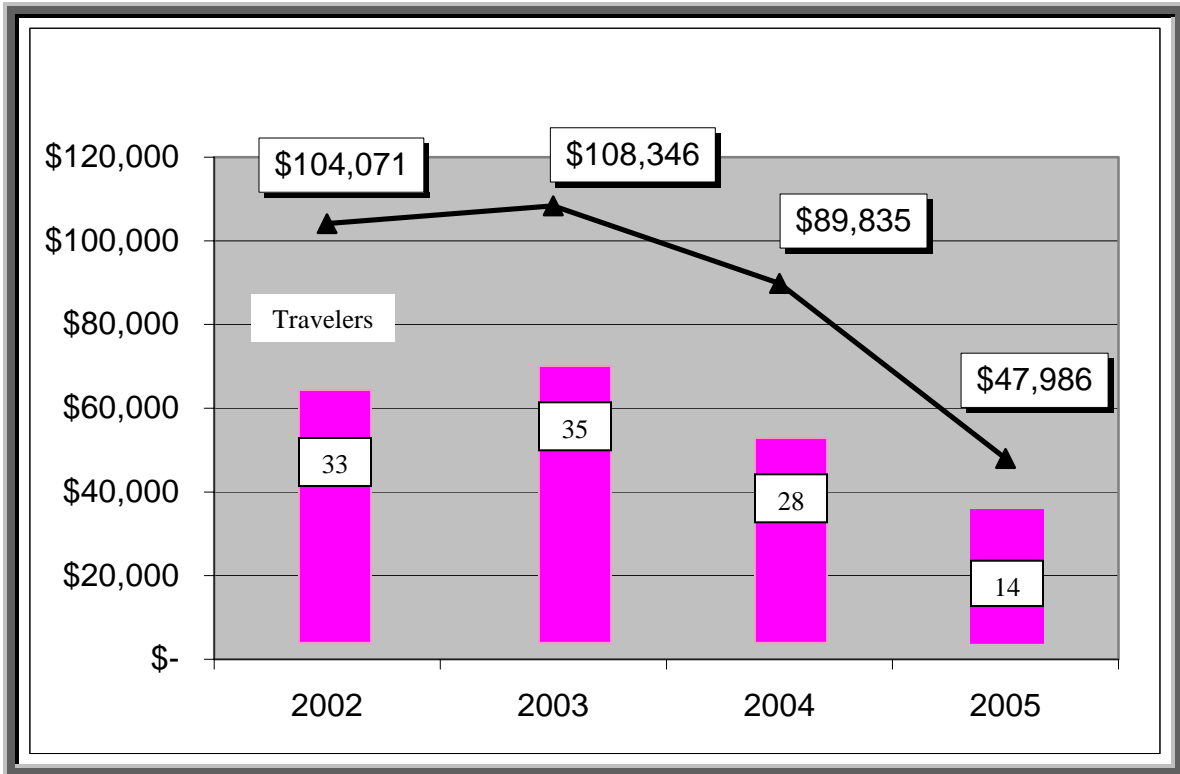
In accordance with 12 GCA, Section 5104(5), GHURA's Board established its travel policy, which was later amended by the Board in October 2003 in response to findings and concerns identified in HUD's May 2002 monitoring of HOME and Continuum of Care programs. All travel must be:

- 1) Requested by the Individual
- 2) Approved by the Division Manager
- 3) Reviewed and approved by a Training Committee
- 4) Concurred by the Executive Director
- 5) Approved by the Board

¹¹ Amount consists of three auto payments totaling \$4,393 from FY 2003 and four auto payments totaling \$19,946 from FY 2004.

Action at each level shall include justification that the expense is reasonable, ordinary and necessary and require all travelers to submit a detailed written travel report within 10 working days after completing the travel. However, it was difficult to identify the travelers and their related travel costs without having to review all Board resolutions. As such, we were only able to estimate total travel costs for the audit period based on Board resolutions. We estimated 110 people traveled on behalf of GHURA, at an estimated cost of \$350,238 (see Graph 1).

**Graph 1
GHURA Travel Costs**



We identified that GHURA’s credit cardholders made 128 travel-related credit card transactions. Of the 60 credit card transactions sampled, 34 were travel-related transactions tested to determine whether (1) the respective division manager, the selection committee, and the Board had authorized the travel; (2) established travel policy was complied with; and (3) travel expense reports were submitted timely.

Compliance with Travel and Procurement Policies

Section V.C of GHURA’s Travel Policy states that the Supply Management Administrator shall obtain flight quotations from all airlines and will be responsible to procure the acquisition of the airline ticket. This policy is inconsistent with the more stringent government of Guam Procurement Regulations, which requires no less than

three written quotations from businesses be solicited and recorded and placed in the procurement file for small purchases of supplies or services.¹²

We found all 34 credit card transactions for airfare totaling \$56,930 did not have the required three quotations. The Personnel Administrator who made the credit card purchases stated that she did not obtain any quotations and relied on the Supply Administrator to provide these costs. The Supply Administrator only had records for 13 of the 34 transactions in which GHURA only solicited airfare quotes from two Guam airlines. The Supply Administrator stated he is only required to obtain two quotes based on GHURA's travel policy. We disagree, as this practice of procurement is not in compliance with Guam procurement laws.

Further, we noted in our review of credit card statements that GHURA had purchased airfares from several vendors, in addition to the two airlines, but did not have evidence that the best value was obtained by soliciting three quotes. The use of credit cards does not preclude GHURA from adhering to its procurement policy or the government of Guam procurement laws.

GHURA's use of credit cards to procure items was intended as a cost-saving measure, but neither the fiscal division nor the cardholders have maintained any evidence that the use of credit cards resulted in cost savings to the Authority. As a result, we were unable to determine if and what savings might have been realized.

Double Compensation for Travel

Section III of GHURA's credit card policy requires division managers to ensure that no double charges occur when charges are pre-paid with the GHURA credit card. "Double compensation" includes, but is not limited to, making a credit card charge and receiving a per diem allowance for the same travel expense. Per diem allowances include all charges for meals, lodging, ground transportation, communication, internet fees, etc.

We found that GHURA's travel policy was contrary to the government of Guam's travel policy, which provides that the per diem advances given to travelers be recorded as a receivable against the travelers' account. We also found GHURA does not utilize a travel authorization form (see Appendix 5).

Of the 34 travel-related transactions tested, we determined that GHURA made three credit card charges for airfare and lodging, totaling \$4,634¹³, in addition to paying per diem allowances. Two charges, totaling \$2,551, paid for the airfare and lodging of the Executive Director and one charge, totaling \$2,083, paid for the lodging of the Executive Director and a Board member. Table 3 illustrates all travel payments related to the three charges.

¹² 2 G.A.R. §3111 (c) defines small purchases between \$500 and \$15,000.

¹³ One charge was made for two travelers' airfare.

Table 3
Summary of Double Payments on Per Diem to GHURA Travelers

	Description	Executive Director		Board Member
		Trip 1	Trip 2	Trip 1
Disbursements	Per diem	\$ 1,638.00	\$ 1,230.00	\$ 1,445.00
	Airfare	1,610.86	1,673.26 ¹⁴	1,610.86
	Lodging	1,041.44 ¹⁵	877.92 ¹⁴	1,041.44 ¹⁵
	Registration Fee	1,225.00	1,150.00	365.00
	Total Travel Payments made by GHURA	\$ 5,515.30	\$ 4,931.18	\$ 4,462.30
Actual Expenses Reported	Airfare	\$ 1,610.86	\$ 1,673.26	\$ 1,610.86
	Registration Fee	1,225.00	1,150.00	365.00
	Ground Transportation	-0-	313.4	-0-
	Lodging	1,041.48	631.64	943.42
	Miscellaneous	15.00	20	-0-
	Per Diem	470.00	134.36	423.00
	Total Travel Expenses Claimed	\$ 4,362.34	\$ 3,922.66	\$ 3,342.28
Amount Due to GHURA	\$ (1,152.96)	\$ (1,008.52)	\$ (1,120.02)	
Balance	-0-	-0-	-0-	

We noted that from FY 2002 through FY 2005, GHURA expensed all travel-related cost to GHURA travelers, a practice contrary to the government of Guam’s travel policy. The government of Guam’s travel policy states that advances to travelers are chargeable to the traveler’s account as a receivable until the account is settled in a travel voucher. This policy allows for a thorough review of all documents prior to the clearance of the receivable. The government’s policy also states:

“In the event the advance exceeds the reimbursable amount, the traveler shall refund immediately such excess.”

As a result of GHURA’s process, the Executive Director and a Board member were allowed to travel with, and benefit from, per diem advances in addition to their lodging expenses being paid by the credit card. We noted that both officials reimbursed GHURA and reconciled with the fiscal division upon their return.

In addition to evidence of advancing travelers with excess funds, we found that:

¹⁴ These amounts comprise two credit card charges totaling \$2,551.

¹⁵ These amounts comprise the \$2,083 credit card charge.

- Credit cardholders made four credit card transactions without Board approval totaling \$6,985.
- Three travelers did not submit the required travel expense report¹⁶ to the fiscal department. GHURA credit card purchases made for the three travelers' airfare totaled \$4,677. Had GHURA followed the government of Guam's travel policy, the travelers' expenses would have remained as an outstanding account receivable until the traveler submits a travel expense report.

GHURA's current travel process is cumbersome and often requires Board action. By comparison, the government of Guam utilizes a standardized travel authorization form to support all travel on behalf of the Executive Branch. This process summarizes travel expenses authorized for the traveler prior to the commencement of travel. Upon completing the travel, the traveler is required to submit a travel voucher within 10 days. The travel voucher summarizes the actual travel expenses incurred.

We recommend that the Authority adopt the government of Guam's travel authorization form. By adopting the government of Guam's travel authorization form, GHURA will improve its travel accountability. Additionally, using the travel authorization form would reduce the time spent determining the total travel-related payments to travelers. It would also help identify whether (1) a travel expense report was filed, (2) the total amount paid in travel expenses corresponds with the amount claimed, and (3) the amounts claimed were legitimate.

The travel authorization form provides information on the purpose of the trip, the travel itinerary, and the estimated amounts on such items as airfare, per diem (lodging, meals and incidental expenses) and car rental. The travel authorization form can be used as a method for tracking the number of GHURA's travelers, the travel costs, and ensuring that travel expense reports are submitted and the proper review is completed by the Division Manager and Controller.

Additionally, we found that the process of having the Board approve all travel and travel-related expenses through resolution was not an efficient use of Board time. To require the Board to approve individual travel expenses, such as airfare, per diem, registration, etc., appears to be an overlap into the hierarchy of the level of control between setting policy and overseeing operations. The Board should focus on providing policy and oversight of the Authority, as enabled by law.

The approval of staff travel expenses should occur within the respective divisions and by the Executive Director. Likewise, either the Executive or Deputy Director should approve the travel by division heads. The Board should approve travel by the Executive and Deputy Director; travel by Board members should be approved by the Board as a whole and reviewed individually by another member of the Board.

¹⁶ A travel expense report is a claim for reimbursement for expenses related to official travel defined by the U.S. Department of Interior, Office of Inspector General Administrative Manual (October 1998).

Further, it appears that GHURA’s credit cards were used primarily as a convenient method of payment for travel-related expenses for the Executive Director and Board members. Of the 34 travel-related transactions we reviewed, 15 transactions, or 44%, totaling \$23,895, were associated with travel expenses for GHURA’s Board and management (see Table 4).

Table 4
Credit Card Charges for Board and Management Travel

<u>Traveler</u>	<u>No. of Charges</u>	<u>Cost</u>
Board Member	1	\$ 1,752
Deputy Director	3	\$ 4,514
Board Member	1	\$ 1,466
Board Member	3	\$ 3,239
Executive Director	7 ¹⁷	\$ 12,924
Total	<u>15</u>	<u>\$ 23,895</u>

In our review of the expense reports submitted by the Executive Director, we noted that GHURA had no established authority to verify and approve by signature the expenses of the Executive Director. We noted that the expense reports of other GHURA employees are reviewed and approved by signature from the Division head, Controller, or the Executive Director.

We urge the Board to establish a hierarchy review system to ensure objectivity. Approving officials should not review their own reports; an individual at the next higher level should review it. The Board, not a subordinate, should review reports submitted by senior management. For example, Division heads should approve employees in their respective divisions, the Executive Director should approve division managers’ expenses, and the Board should approve the Executive and Deputy Director’s expenses.

We also recommend GHURA adopt the Guam travel law regulations and record per diem allowances as receivables until all official documentation, such as Boarding passes, official registration receipts, accommodations, etc., are submitted and reviewed by the appropriate reviewing authority. Further, GHURA should ensure that reconciling differences pertaining to all travel-related expenses are sufficiently itemized and supported by original receipts.

Securing Travel Arrangements

GHURA’s credit card policy was intended to procure items that would warrant savings for the agency within expected timeframes. Section III A.3 states that credit card charges may pay for airline tickets, off-island registration fees, lodging, and car rental

¹⁷ The Executive Director’s travel was related to the Executive Management Program offered through Rutgers University.

accommodations for appropriate situations that may not be feasible to process through normal procurement activities. However, Section III B states that the credit cards were intended to supplement, not circumvent, the purchase order process.

We determined that GHURA utilized the credit cards for procuring items even when there appeared to be reasonable time to prepare a purchase order. Our analysis indicated that credit cardholders were using credit cards as a convenience to purchase travel expenses, rather than limiting their use to instances when the normal procurement practice would not be feasible. For example, in our review of 15 charges from FY 2002, we found that two charges were for typhoon-related items purchased through emergency procurement and 13 charges were for airline transportation and registration/conference fees.

We found no exception to the two typhoon-related credit charges, of the 13 travel-related charges, our analysis showed that GHURA had an average timeframe of 29 days from date of Board approval to date of traveler’s departure to process a travel-related transaction. Thus, we concluded that GHURA had sufficient time to utilize the normal procurement process of issuing a purchase order for travel-related charges. See Table 5.

Table 5
Comparison Between Board Approval Date and Travel Date

Credit card Transaction	BOC ¹⁸ Approval Date	Date of Travel	Timeframe to procure
1	5/8/2002	6/9/2002	32
2	9/11/2002	9/16/2002	5
3	8/28/2002	9/16/2002	19
4	4/10/2002	5/21/2002	41
5	9/11/2002	9/16/2002	5
6	3/27/2002	4/23/2002	27
7	2/27/2002	3/21/2002	22
8	5/8/2002	6/17/2002	40
9	2/28/2002	3/21/2002	21
10	6/5/2002	8/5/2002	61
11	4/10/2002	5/21/2002	41
12	6/5/2002	7/29/2002	54
13	6/5/2002	6/19/2002	14

Average number of days GHURA had to procure travel related expenses **29**

The Supply Administrator disclosed that a purchase order could be processed in one day, barring any unusual circumstances. He affirmed our contention that credit cards need not be used for travel expenses if the Authority adequately planned for travel. GHURA

¹⁸ Board of Commissioners

policy requires employee travel requests to be approved by management and a training committee for funding to be certified beforehand and for the Board to approve expenses through resolution. This rigorous policy precludes the need to utilize credit cards as there is more than sufficient time to process travel-related expenses with purchase orders through normal procurement.

Records Management

Management is responsible for establishing and maintaining internal control and for complying with laws, regulations, contracts, and agreements. Internal control activities are the policies, procedures, techniques, and mechanisms that ensure proper actions are taken to address organization risks. Documents and records are the physical objects upon which transactions are entered and summarized. They include such diverse items as sales invoices, purchase orders, subsidiary records, sales journals, bank statements, and employee timecards. Inadequate maintenance of supporting documents is considered a significant internal control weakness.

Although our review of GHURA's credit card statements for FY 2002 through FY 2005 found no fraudulent or abusive credit card charges, we noted several deficiencies in GHURA's operation of its internal controls relative to the use of credit cards. The deficiencies include poor record keeping, double compensation, lack of oversight, and unauthorized credit card purchases. We found that GHURA did not maintain related supporting documents for all travel and credit card expenses. Throughout our review, we noted a communications breakdown between credit cardholders and the fiscal division. Credit cardholders kept separate receipts (including reservations made via the internet and electronic ticket receipts maintained by the Personnel Administrator), and did not always forward these to the accounting department. A similar deficiency was identified in GHURA's FY 2004 and FY 2005 financial statement audits. The independent auditor stated that the "Authority was unable to locate documents for credit cards purchases such as registration fees, which made it inaccessible to audit."

Adding to this complexity was missing bank statements, un-filed receipts and Board resolutions. Further, neither travel records nor credit card payments could be linked to a specific traveler. Subsequently, the OPA auditor spent considerable time trying to correlate the total payments made to individual travelers from the credit card records, travel resolutions, and per diem advances. Per Diem advances were also recorded as direct expenses and credit card payments; therefore, the advances could not be easily traced to specific Board resolutions for travelers.

Ultimately, it is management's responsibility to provide reasonable assurance that all assets are properly controlled and all transactions are correctly recorded. We noted during our review that GHURA's fiscal division did not maintain complete records for credit card transactions and did not have complete bank statements. Further, GHURA does not have a centralized file for credit card records. Credit card documents continue to be kept separately, either by cardholders or by the fiscal division.

Based on our review of GHURA's credit card program, the use of credit cards within the Authority is not needed. Management and oversight of GHURA's credit cards were not sufficient to ensure proper authorization, approval, and review of all credit card purchases. As a result, payments were processed without supporting travel documents and without the proper approval. GHURA could not provide proof that the use of the credit cards provided a cost-savings to the Authority, but merely was a tool of convenience for senior management and the Board to travel. Further, GHURA travel and procurement procedures are sufficient to process travel for employees, senior management and the Board. Therefore, we recommend that GHURA eliminate the use of credit cards.

Conclusion

This audit was conducted as part of our ongoing review of all government of Guam credit card programs. During our review of GHURA's credit card program from fiscal years 2002 through 2005, we found no evidence that credit cards were used inappropriately for charges such as personal purchases, cash advances, meals or business entertainment.

While there is an inherent risk of credit card misuse, GHURA mitigated this risk by allowing only two cardholders to make purchases, not allowing the credit cards to accompany traveler's off-island, and implementing a credit card policy with restrictions on credit card purchases approved by the Board of Commissioners and disseminated to GHURA's cardholders. We commend GHURA for their conscientious effort.

However, while we found that internal controls over credit card use were adequately designed, our audit findings revealed instances where such controls were not followed or properly placed in operation. Our audit disclosed that GHURA's management and Board did not provide adequate oversight over the implementation and use of credit cards. We found that GHURA did not maintain complete records or follow Guam's procurement regulations. The Authority made double payments, incurred travel-related expenses without Board approval, and used the credit cards as a convenience when there was sufficient time to process a purchase order.

Based on our audit findings, and the inherent risk of fraud, misuse, and abuse associated with government-issued credit cards and the lack of monitoring and follow-up, we recommend to GHURA's Board of Commissioners and management that the use of credit cards be discontinued.

The recommendation is consistent with a November 24, 2002 newspaper article, when then Governor-elect Felix Camacho stated "no government agency will be allowed to use government-paid credit cards during his administration."

Recommendations

Recommendations to the Executive Director and Board of Commissioners:

1. Eliminate the use of GHURA's credit cards.
2. Adopt the Guam travel law regulations to include:
 - Recording travel per diem allowances as receivables until all official documentation, such as Boarding passes, official receipts for registration, accommodations, etc., are submitted and reviewed by the appropriate reviewing authority.
 - Utilizing the government of Guam Travel Authorization form to support all travel on behalf of the Authority. The travel authorization will ensure that a division head approves all travel expenses and that funds are certified prior to granting authorization to travel.
3. Restructure the travel approval process to establish specific review authority to eliminate the possibility of perfunctory approvals. The Board should provide a realistic span of control to ensure timely and thorough review of reports (payment vouchers, expense reports, etc).
4. Comply with all government of Guam procurement procedures by obtaining three price quotes for goods, services and travel expenses, and ensuring that written justification for vendor selection is maintained on file.

The legislation creating the Office of the Public Auditor requires agencies to submit an action plan to implement audit recommendations, to document the progress in implementing the recommendations, and to endeavor to have implementation completed no later than the beginning of the next fiscal year. Accordingly, our office will be contacting you to provide the target date for implementation of the recommendations and the official responsible for implementing the recommendations.

We appreciate the cooperation shown by the staff, and management of the Guam Housing and Urban Renewal Authority.

OFFICE OF THE PUBLIC AUDITOR



Doris Flores Brooks, CPA, CGFM
Public Auditor

Management Response and OPA Reply

A preliminary draft report was transmitted to GHURA on October 11, 2006. We met with GHURA officials on October 16, 2006 to discuss the draft audit report. As a result of the meeting and the additional information provided by GHURA, appropriate revisions were made to the report.

On October 23, 2006, GHURA's Executive Director submitted an official response (Appendix 6) indicating disagreement with the OPA findings although he concurred with the three of the four recommendations. According to the Executive Director's response, "whether the Authority will adopt the recommendation by OPA to discontinue the use of credit cards is a policy matter that will be addressed accordingly by the BOC." The recommendation of eliminating the credit cards was based on our review of GHURA's credit card program, where we found that the use of credit cards within GHURA was unnecessary and the process of securing travel-related expenses through purchase orders was sufficient. The recommendation is also consistent with a November 24, 2002 newspaper article, when then Governor-elect Felix Camacho stated "no government agency will be allowed to use government-paid credit cards during his administration."

Summary of Responses to the Results of Audit and Various Findings

The response stated that there was no opinion or mention of whether there were any fraudulent, personal, improper or abuse of the Authority's credit card. OPA's determination can be found on page 4, 5, and 17 of the report, which states that GHURA's credit card transactions were for official government purposes. Further, it is noted in the executive summary.

1. **GHURA did not maintain complete supporting documentation, such as receipts and/or invoices, for credit card transactions totaling \$40,125.** The response stated that the auditor cited deficiencies that occurred prior to the revised policy being in existence. Two of the 26 unsupported charges totaling \$40,124 occurred after the revised policy was implemented showing that records management and communication improved. As of the issuance of this report, no supporting documentation has been provided by GHURA to OPA to determine the legitimacy of these charges.
2. **GHURA did not comply with procurement and travel regulations for the solicitation of airfare quotations related to credit card charges totaling \$58,718.** The response stated that as part of the procurement record, only two airlines that originate from Guam are obtained and there are times when getting three quotes is "nearly impossible and thus we are limited in competitive vendor resources." The OPA disagrees with this assertion. Although GHURA provided subsequent procurement

documentation, only two airline quotations were obtained. As a component unit of the government of Guam, GHURA shall follow the Guam Procurement regulations for obtaining three quotations.

3. **GHURA did not secure Board approval for credit card purchases on 15-travel related expenses totaling \$21,381.** The response states “the verbatim language in the revised policy is obviously in error and needs to be amended so it can be in agreement with what was intended and how it is being applied (practice).” The OPA re-emphasizes that the credit card policy states that the use of the credit cards must be approved with the advise and consent of the Board prior to use. As of the issuance of this report, no supporting documentation has been provided by GHURA to substantiate that the Board had approved the use of credit cards as a mode of payment for airline tickets, off-island registration fees, lodging, and car rental accommodations.
4. **GHURA did not obtain Board authorization prior to making credit card charges, totaling \$9,020.** The response stated that the report was misleading as some of the travel related charges received Board approval via a “telephoned poll” and ratified at the next scheduled Board meeting. Although GHURA did provide a copy of an e-mail correspondence from the Executive Director stating that three Board members had approved the travel, there was no evidence that the Board had ratified the use of the credit card for this particular transaction. Again, we re-iterate that GHURA’s credit card policy states that *the use* of the credit cards must have the approval and consent of the Board prior to use. GHURA subsequently provided documentation for two charges, totaling \$2,035, which OPA made revisions to the report.
5. **GHURA did not review senior management and Board members’ per diem advances, which resulted in double compensation to travelers, totaling \$4,635.** The report was revised to read that the \$4,634 was subsequently paid, eliminating a footnote, and eliminating the questioned costs in Appendix 1.
6. **GHURA did not pay monthly credit card balances in a timely manner, resulting in the unnecessary assessment of finance charges totaling \$582.** The response stated that the finance charges were a result of receiving the credit card billing statements after the due date. If this was the case, the Controller should have made efforts to mitigate the finance charges. However, no documentation was provided by the fiscal division to support attempts were made to offset these charges.
7. **GHURA did not utilize the purchase order process on credit card transactions when sufficient time existed.** The response disagreed with this finding stating that the credit cardholders and the Board who made

these charges are no longer associated with GHURA. However, we found that the use of credit cards was unnecessary and the process of securing travel-related expenses through purchase orders was sufficient. GHURA's credit card policy was intended to procure items to warrant savings, yet credit card charges for airline tickets, off-island registration fees, lodging, and car rental accommodations were not tracked to indicate that such savings occurred. Further, credit card charges for travel-related expenses could have been processed through normal procurement activity of issuing a purchase order as illustrated in our analysis on pages 14; therefore, allowing ample time for GHURA to issue a purchase order for travel-related expenses.

8. **GHURA did not maintain complete records for credit card purchases and travel-related expenses in a centralized location.** The response contended "most of these discrepancies with records management occurred prior to the revised policy." The OPA notes that best practices recommends that all documents be centrally located and complete. We found that these credit card and travel records were neither, centrally located or complete.

Credit Card Supporting Documentation (page 6). The response stated that the second paragraph is misleading as the language regarding the advice and consent of the BOC prior to use was not in existence until December 2004. The response also stated that the receipts are attached to the trip report. As of the issuance of this report, no supporting documentation has been provided by GHURA to document these expenses.

Payment Vouchers Review and Approval (page 7). The response noted transposition errors with one payment voucher. We noted the transposition error and the report was subsequently corrected. The response also stated that it is GHURA's policy that the Controller review the payment vouchers prior to signing off on payments and that it may have been an oversight when the Controller did not sign the actual payment voucher. We agree that this may have been an oversight by the Controller. More care should be given to ensure that payment vouchers are properly reviewed, approved and signed by the appropriate official.

Double Compensation (page 10). The response stated that the data is not consistent with the 11 travel related vouchers, totaling \$16,733 not signed or approved by the Controller and the 5 of 10 transactions, totaling \$17,306. The response also requested that a footnote be added to Table 4 regarding the Executive Director's number of travels attributed to the Public Housing Authorities Directors Association (PHADA) Executive Director Education Program. A subsequent footnote was added to reflect this comment. The reference to the 11 travel related vouchers, totaling \$16,733, was omitted since this issue is addressed in Payment Vouchers Review and Approval segment of the report.

Appendix 1: Classification of Monetary Impact (page 23). The response stated that the \$4,634 should not be included as amounts were reimbursed. The response also stated

that the total of \$112,498 was greater than the total amount, \$86,471, sampled. Adjustments of \$31,874 were made to the Appendix to offset other finding segments where duplicate costs were questioned.

Appendix 3: Prior Audit Coverage (page 25). The response stated that the report should mention the disposition or action taken by GHURA on the matter. In accordance with the revised 2003 Government Auditing Standards, issued by the U.S. Government Accountability Office, OPA included the results and the disposition of previous audits. As the issuance of this report, the findings from the previous audits remain unresolved.

Appendix 4: Detail of Unsupported Credit Card Purchases (page 26). The response stated that there is payment documentation related to several of these transactions and that to state that supporting information for 17 transactions (2002 and 2003) was unavailable is not accurate and misleading. As of the issuance of this report, no supporting documentation has been provided by GHURA to OPA to determine the legitimacy of these charges.

Appendix 1: Classification of Monetary Impact

Finding Area	Questioned Costs ¹⁹	Funds To Be Put To Better Use ²⁰
A. Unnecessary Late Fees Assessed		\$ 582
B. Credit Card Charges Supporting Documentation	\$ 40,124	
C. Payment Vouchers Review and Approval ²¹		
D. Purchases without the Three Quotations (\$56,390) ²²	\$ 36,135	
E. Payments in addition to Per Diem Advances		
F. Purchases made prior to Board Approval (\$6,985) ²³	_____	_____
Total	<u>\$ 76,259</u>	<u>\$ 582</u>

¹⁹ Category represents expenditures of funds, which the auditor determines should be questioned for one reason or another (Source from the U.S. Department of the Interior, Office of Inspector General Auditor Manual, October 1998).

²⁰ Category represents expenditures that, while not strictly improper, could have been used more effectively or efficiently (Source from the U.S. Department of the Interior, Office of Inspector General Administrative Manual, October 1998).

²¹ Although we identified four payment vouchers totaling \$15,526, we were unable to ascertain whether the batched payments were related to our sample, because supporting documents were not available.

²² Of the \$56,390, only \$36,135 is being questioned because \$20,255 was already questioned in B. Unsupported Credit Card Charges.

²³ \$6,985 of the questioned costs was already questioned in D Purchases without the Three Quotations.

Appendix 2: Scope and Methodology

The objectives of the audit were to determine whether GHURA's (1) credit cardholders complied with the credit card policies and procedures; (2) credit card charges were authorized, supported, and were appropriate, based on established policy; and (3) established policies and procedures were an effective internal control guide in preventing potential fraudulent, improper, and abusive purchases.

The scope of the audit included fiscal years 2002, 2003, 2004, and 2005 (a 48-month period from October 1, 2001 through September 30, 2005). The audit methodology included a review of GHURA's enabling legislation, applicable public laws, credit card policies, travel policies, procurement policies, bank statements, travel related records, and other relevant documents. We visited the GHURA office in Sinajana to obtain and review credit card and travel-related records and conducted interviews with staff involved in the process, purchase and payments of credit card transactions.

The audit methodology included gaining an understanding of the policies, procedures, and applicable laws and regulations pertaining to the implementation of GHURA's credit card program. Our review included sampling GHURA's Board resolutions and supporting documents to estimate the number of travelers and travel costs during FY 2002 and FY 2005.

We selected a sample of 60 transactions, totaling \$85,854, to determine whether GHURA's credit card transactions were approved by the Board, supported with proper documentation, competitively procured, and used for official government purposes. Of the 60 transactions we tested:

- 34 charges totaling \$56,930 were for airline transportation
- 17 charges totaling \$13,599 were for conference registrations fees
- 8 charges totaling \$14,086 were for the procurement of equipment
- 1 charge totaling \$1,239 was for the purchase of off-island lodging

A limited review of sampled credit card charges was performed to determine whether (1) travel was authorized by the respective division manager, the training committee and the Board and (2) GHURA complied with established travel policy, including whether travel expense reports were submitted. We also reviewed 10 payment vouchers totaling \$29,847 to determine whether the Controller in his span of control had properly reviewed, approved and signed payment vouchers.

Our performance audit was conducted in accordance with the standards for performance audits contained in *Government Auditing Standard* issued by the Comptroller General of the United States. Accordingly, we obtained an understanding and performed an evaluation of the internal controls of GHURA's credit cards. We included tests of records and other auditing procedures that were considered necessary under the circumstances.

Appendix 3: Prior Audit Coverage

This is the first audit of GHURA's credit card program conducted by the Office of the Public Auditor.

Financial Audits

FY 2004

In the audited financial statements for fiscal year 2004, the independent financial statement auditor reported two travel-related findings. In one finding four employees' off-island trip reports were past the required 10 working day submittal date. This finding was resolved. The second finding disclosed GHURA was unable to substantiate only one of 20 travel disbursements tested because of the lack of appropriate documentation. That single disbursement did not correspond with the actual airline ticket receipt provided by the employee. GHURA was unable to locate the documents for the credit card purchases, which made it inaccessible for the independent auditor to review. GHURA management concurred with this finding and agreed to adhere to the travel policy and ensure that all travel documents are submitted timely. To date this finding remains unresolved.

FY 2005


In GHURA's fiscal year 2005 report on the audited financial statements, two travel-related findings were identified. The auditors reported that GHURA did not obtain the required three price quotations for 15 approved travel authorizations and questioned \$5,673 in travel disbursements where GHURA was unable to locate supporting documentation. GHURA also was not able to locate the documents for credit card purchases, such as registration fees and related course material, making them inaccessible to audit. To date, this finding remains unresolved.

Appendix 4**Detail of Unsupported Credit Card Purchases**

<u>No. of Transaction</u>	<u>Transaction Date</u>	<u>Description</u>	<u>Location</u>	<u>Cost</u>
1	5/13/2002	Airfare	Texas	\$ 1,961.46
2	9/5/2002	Airfare	Texas	\$ 1,785.86
3	9/6/2002	Airfare	Texas	\$ 1,478.86
4	4/17/2002	Registration Fee	Washington DC	\$ 955.00
5	5/8/2002	Registration Fee	Washington DC	\$ 800.00
6	6/27/2002	Registration Fee	Washington DC	\$ 550.00
7	5/20/2002	Registration Fee	Washington DC	\$ 420.00
8	6/3/2002	Registration Fee	Fort Worth, TX	\$ 299.00
9	12/9/2002	Hardware/Supplies	Guam	\$ 3,700.00
10	1/12/2003	Hardware/Supplies	Guam	\$ 3,141.00
11	3/7/2003	Airfare	Texas	\$ 2,681.96
12	12/10/2002	Equipment/Supplies	Guam	\$ 2,315.00
13	7/7/2003	Airfare	Texas	\$ 1,987.96
14	9/5/2003	Airfare	Houston	\$ 1,791.76
15	2/6/2003	Airfare	Texas	\$ 1,787.76
16	5/13/2003	Airfare	Texas	\$ 1,786.76
17	1/14/2003	Hardware/Supplies	Guam	\$ 1,766.02
18	5/13/2003	Airfare	Texas	\$ 1,465.76
19	6/20/2003	Airfare	Texas	\$ 1,424.76
20	8/14/2003	Airfare	Texas	\$ 1,372.76
21	8/29/2003	Airfare	Houston	\$ 1,269.76
22	1/15/2003	Hardware/Supplies	Guam	\$ 1,204.20
23	12/10/2002	Hardware/Supplies	Guam	\$ 1,170.00
24	1/23/2004	Registration Fee	Washington DC	\$ 925.00
25	10/23/2003	Registration Fee	Illinois	\$ 845.00
26	7/5/2005	Hotel Lodging	Honolulu	\$ 1,238.88
Total				\$ 40,124.52

Appendix 5:

Government of Guam's Travel Authorization Form

 GOVERNMENT OF GUAM DEPARTMENT OF ADMINISTRATION TRAVEL REQUEST AND AUTHORIZATION		TA No. _____
NOTICE: See Section 1714, Chapter 17, Part 4, Volume III of the Government of Guam Manual for instructions.		
1. TO _____	2. FROM (Name of requesting organization) _____	3. DATE OF REQUEST _____
The following travel is <input type="checkbox"/> REQUESTED <input type="checkbox"/> AUTHORIZED		
4. FULL NAME OF TRAVELER _____	5. TITLE OF TRAVELER _____	6. CHARGE ACCOUNT NUMBER _____
7. PLACES OF TRAVEL (if traveler is returning, so state) FROM: _____ TO: _____		8. APPROX. LENGTH OF TRAVEL (in _____)
		9. APPROX. DATE TRAVEL COMMENCES _____
10. DESCRIBE MODES OF TRAVEL DESIRED (Air, Ship, Train, Private Automobile, etc.) _____		
11. IF DEPENDENTS ARE AUTHORIZED FOR TRAVEL, GIVE NAMES, AGES, AND RELATIONSHIPS OF EACH _____		
12. FULLY DESCRIBE PURPOSE OF TRAVEL (Use reverse if more space is necessary) _____		13. ENTER NUMBER OF TR'S ISSUED _____
14. IF TRAVEL ADVANCE IS DESIRED, GIVE AMOUNT REQUESTED _____		15. HOUSEHOLD EFFECTS _____
16. SIGNATURE (Name and title of requesting official) _____		18. SIGNATURE (Name and title of authorizing official) _____
17. ESTIMATED COST OF TRAVEL (For use of Administration Department) (A) TRANSPORTATION OF TRAVELER \$ _____ (B) TRANSPORTATION OF DEPENDENTS _____ (C) PER DIEM OF TRAVELLER - \$ _____ x _____ days = _____ 0.00 (D) PER DIEM OF DEPENDENTS _____ (E) TRANSPORTATION OF HOUSEHOLD EFFECTS _____ (F) MISCELLANEOUS ALLOWANCES _____ TOTAL COST (Estimated) \$ _____ 0.00		19. FOR CERTIFICATION OF AVAILABILITY OF FUNDS Certified Funds Available: _____ _____ CERTIFYING OFFICER DATE: _____
SIGNATURE (Cost Estimator) _____		
20. TO TRAVELER, You are hereby authorized to perform the above described travel in accordance with the provisions of Section 1714, Chapter 17, Part 4, Volume III to the Government of Guam Manual. Necessary tickets, transportation requests and other documents are hereto attached.		
_____ DIRECTOR, Dept. of Administration		_____ DATE
21. I certify that I have received the material of Item 17.		
_____ TRAVELER'S SIGNATURE		_____ DATE



GHURA

Guam Housing and Urban Renewal Authority
Aturidat Ginima' Yan Rinueban Suidat Guahan
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October 23, 2006

MEMORANDUM

FELIX P. CAMACHO
Governor of Guam

KALEO S. MOYLAN
Lt. Governor of Guam

RONALD S. De GUZMAN
Executive Director

BENNY A. PINAULA
Deputy Director

BOARD OF COMMISSIONERS

RICARDO A. CALVO
Chairman

ANNIE L. PAULINO
Vice Chairperson

EDUARDO S. BERNAL
Member

RENEE A. LUJAN
Member

FRANCESCA S. TYDINGCO
Member

LOLITA C. MENO
Resident Member

TO: Public Auditor
Office of the Public Auditor


FROM: Executive Director

SUBJECT: Response to Draft Audit Report –GHURA Use of Credit Cards
TRANSMITTAL

Hafa Adai!

As per your letter dated October 11, 2006, attached is GHURA's Response to the Draft Audit Report on GHURA's Use of Credit Cards.

Should you have any questions, please contact me at 475-1442. Si yu'os ma'ase.


RONALD S. DE GUZMAN

Attachment

cf: file



RESPONSE TO OPA FINDINGS

OVERALL COMMENT:

The draft OPA report on GHURA's Use of Credit Cards (October 1, 2001 ~ September 2005) is not entirely accurate and misrepresents some facts. Over the course of time, the Authority took notice of discrepancies, particularly in the areas of 1) records management, 2) double compensation and 3) approval of BOC travel before any credit card charges can occur. Taking a proactive stance, the Authority revised the credit card policy on December 23, 2004 to address these particular issues.

Although we recognize that the revised policy can still be improved upon, the Authority takes pride in that the use of the Credit Card program was in no way compromised. The Authority maintains that the OPA draft report is not entirely accurate and misrepresents the facts accordingly.

The following serves as our consolidated response to the OPA draft report.

I. RESULTS OF AUDIT (Page 4)

There is no opinion or mention in this "results" section of the most significant purpose and result of the audit, which was whether there were any fraudulent, personal, improper or abuse of the Authority's credit card.

- 1. *GHURA did not maintain complete supporting documentation, such as receipts and/or invoices, for credit card transactions totaling \$40,125.*

HR Response – Inaccurate and misrepresentation on page 7. Section III A.3 and A.5 are incorrectly cited. Cited 26 unsupported charges totaling \$40,124 not having receipts prior to payment. Gives an appearance that all payments were made despite the policy requiring that all original receipts and supporting documents must accompany billing prior to payment. This is a misapplication of the revised policy. The auditor cites deficiencies that occurred **prior to the revised policy being in existence**. With the revised policy, it showed evidence that the records management and communication improved, since 2 of the 26 charges noted occurred after the revised policy.

- 2. *GHURA did not comply with procurement and travel regulations for the solicitation of airfare quotations related to credit card charges totaling \$58,718.*

Procurement Response: The findings on page 11 "Compliance with Travel and Procurement Policies" depicts that the procurement processes for the travels were not followed.

The report mentioned the issue of getting three quotes as prescribed by Guam Procurement regulations. The Supply Management Administrator informed the

auditor that GHURA's current travel policy requires the Supply Administrator to "obtain flight quotations from all airlines and select the most economical route of travel".

As part of the procurement record, the quotation documents only reflect the quotations from the only two (2) airlines that originate from Guam and fly to the US mainland. Because of our geographical location, there are times when getting three quotes is nearly impossible and thus we are limited in competitive vendor resources. The list below shows an example of services that may require an agency to solicit services and not get the required three quotes.

- Health Insurance for Government Employees – Currently only two vendors provides such services to the government. They are [REDACTED] and [REDACTED]. Did DOA get the required three quotes?
- Advertisements in a General Circulation newspaper – Government entities are required to publicize procurement solicitations in a general circulation newspaper. Currently, only two such vendors exist on island for such services. They are [REDACTED] and [REDACTED].
- Concrete Ready Mixed Products – Government entities continually repair buildings using concrete ready mixed products. There are only two vendors that supply the products. They are [REDACTED] and [REDACTED].

In regards to the selection of the most economical route, the Supply Management Administrator and the division head must consider relevant travel factors when determining the travel route of the traveler. These factors are:

- Over-night layovers - additional per diem & lodging shall be paid to the traveler resulting in additional cost to the Authority
- Ease on traveler – Flights originating from Guam to the U.S. either fly to Narita, Japan or to Honolulu, Hawaii. Travelers flying to Narita, Japan often spends long hours (6 or more) waiting for connecting flight to the U.S. Whereas, flights to Honolulu, Hawaii require less airport layovers. Long hours waiting for connecting flights are not in the best interest of the employee.
- Additional cost – additional cost may be paid to the traveler/employee by the PHA if the concept of the most economic route is followed. For example, [REDACTED] consistently have specials to the US via the Marshall Islands (Kwajalein, & Majuro). This route maybe the most economical, but considerably tasking to the employee trying to conduct official business for the Authority.

The Supply Management Administrator firmly believes that the Authority diligently followed the procurement requirements set forth in the procurement regulations and the Authority's travel policy:

HR Response: - Statements made on page 11 are inaccurate as the auditor was not detailed enough in explaining the process. For instance, the auditor states that the Personnel Services Administrator (PSA) was not trained. This is incorrect as the PSA provided a certificate of completion and certification results of attending a "Procurement Management" class by [REDACTED] to the auditors on October 16, 2006. The auditor also failed to mention that the Personnel Services Administrator does not solicit quotations because that process commences at the beginning of the travel request and is completed by the Supply Management Administrator. The HR credit card charge comes in at the tail end of the process and used only when procurement is unable to generate a purchase order in time.

This is also a misrepresentation because it gives the appearance that the credit card holders circumvent the procurement process by just charging things. This is not the case as procurement procedures were adhered to in accordance with BOC Resolution FY04-001 (effective September 2003). The use of the HR credit card was merely the "method" by which payment was made.

- 3. *GHURA did not secure Board approval for credit card purchases on 15- travel related expenses totaling \$21,381.* The statements made on page 9 are misleading since the 15 related charges were for fiscal year 2005 (post revised policy). The OPA cites the Agency for not "Literally" following policy which stipulates "*Authorization to charge any airline ticket, off-island registration fees, lodging and car rental accommodations must be approved with the advise and consent of the BOC prior to use*".

The auditor fails to mention that the Personnel Services Administrator explained that the "verbatim language" in the revised policy is obviously in error and needs to be amended so it can be in agreement with what was intended and how it is being applied (practice). What the policy intended was for no charges to occur until the BOC approves travel and individual expenses through resolution.

For the BOC to literally approve every charge is not what was intended, and is clearly an error. It is impractical, does not make sound management and "overlaps the hierarchy of the level of control between setting policy and overseeing operations"¹. It is not even ideal in theory or in practice. The auditor themselves are inconsistent with their analysis. On one hand they recommend on page 13 and 14 that the process of having the Board approve all travel and related expenses through resolution was an inefficient use of board time and it overlaps into the hierarchy of the level of control between setting policy and overseeing operations, but makes no reference to that same analysis that for the BOC to literally approve every charge is equally an inefficient use of their time as well as an overlap into the hierarchy of the level of control of setting policy and overseeing operations.

Moreover, the fact that the auditor found that none of the 15- (FY05) transactions (post policy) had any BOC authorizations prior to use supports our contention that is not how the policy was intended.

¹ OPA Draft Report – Page 13 and 14.

This is a very important part of the OPA report that needs to be represented accurately, because it infers that the credit card holders abused the cards by making unauthorized, unilateral charges without prior BOC approval. This implied abuse is connoted throughout the report, specifically on pages 3, 4, 6, 7, 9, 17, 18, and 22. This was not the case. In fact, more internal controls were explained with supporting evidence to the Auditor that in addition to BOC resolution, HR obtains the contracting officer's approval prior to every charge.

- 4. *GHURA did not obtain Board authorization prior to making credit card charges totaling \$9,020.00.*

HR Response: This is also misleading as some of these travel related charges received BOC approval via a "telephonic poll" and ratified on the next scheduled BOC meeting.

The draft report implies that unauthorized charges (abuse) are made by the card holders. This was not the case as the practice based under the old policy was permissible.

- 5. *GHURA did not review senior management and board members' per diem advances, which resulted in double compensation to traveler's totaling \$4,635.*

HR Response: This finding on page 11 is misleading. The Authority was proactive and took notice of the "double compensation" and made the corrective action with the revised policy (BOC Resolution #FY05-004). In the draft report, the auditor gives the appearance that double compensation still occurred despite the policy. The auditor cites GHURA for a provision that was not in existence at the time the "double compensation" occurred. This was not the case and it is inaccurate.

- 6. *GHURA did not pay monthly credit card balances in a timely manner, resulting in the unnecessary assessment of finance charges totaling \$582.*

Fiscal Response: As mentioned to [REDACTED] several times, when the credit card account was established with the Agency's bank, the credit card billing operations were handled through another bank (the statements were coming from off-island) and we always received them **after** the due date, which resulted in the finance charges.

- 7. *GHURA did not utilize the purchase order process on credit card transaction when sufficient time existed.*

HR Response: We disagree with this finding on page 15, as this area needs to be in perspective. The credit card holders and BOC who made those transactions are no longer associated with GHURA, making this management unable to account and respond for those transactions. We believe the report should annotate that accordingly.

- 8. *GHURA did not* maintain complete records for credit card purchases and travel related expenses in a centralized location.

HR Response: The findings on page 16 are also inaccurate and misrepresent the facts. The missing FY2003 fiscal records are unacceptable. However, the records management was certainly an issue that management knew needed to be addressed. As a result management took proactive steps to clarify responsibilities (communications) between the credit holder and Fiscal by revising the credit card policy in December 2004 with FY05-004.

The auditor failed to notate that most of these discrepancies with records management occurred prior to the revised policy. Since the adoption of FY05-004, GHURA's records management improved significantly and should be annotated accordingly for the record in the report.

Fiscal Response: Where does it state in GHURA's policy that complete records for credit card purchases and travel expenses are to be maintained in a centralized location?

2nd Paragraph (Pg. 4) – Statement about record keeping and communication are not accurate. Communication improved with revised policy since December 2004 (FY05).

3rd and Final Paragraph (Pg. 4) – Statement about “*authorized cardholders assumed they could use the credit cards for travel-rated expenses on Board approved travel without first determining whether such expenses could be processed through a purchase order*” is not accurate. It was explained and substantiated to the auditor on several occasions that HR makes every effort to ensure that a purchase order could not be processed before making any charges by:

1. First obtaining determination from the Supply Management Administrator to proceed with using the HR card to advise the contracting officer that it is too late to process a purchase order; and
2. Request approval from Authority's Contracting Officer to use the credit card.

CREDIT CARD SUPPORTING DOCUMENTATION (Pg. 7)

Second paragraph, “approved by the Board” gives the appearance that all 60 transactions totaling \$86,471 needed approval by the Board. This is misleading as the language regarding the advise and consent of the BOC prior to use was not in existence until December 2004.

Page 8 – Credit Card Charges Supporting Documentation, continued

First sentence – “Additionally 11 transactions totaling \$11,259 were not completely supported by receipts prior to payment.”

The fact that the receipts may not be attached to the APV does not mean that the transactions are not supported (implied). The receipts are attached to the trip expenses report. The fact the

supporting documents are not attached together does not signify that a transaction is not "supported" or is "not complete."

Also, consideration needs to be given to the fact that under existing policy, travelers are given 10 working days after return from travel to submit their trip expense report, which includes supporting documentation. If the charge on the credit card monthly statement becomes due, and either the traveler has not returned, which does occur, or has not submitted their trip expense report, which contains the supporting documentation, do we not pay the balance due on the card? If we do not the credit card balance by the due date, we become delinquent and run the risk of being unable to use the card, not to mention finance charges.

Could the record keeping be better? Absolutely, but to state that transactions are unsupported because all the information may not be filed in together, is misleading.

PAYMENT VOUCHERS REVIEW AND APPROVAL (Pg. 8)

Table 2 – Payment Vouchers with No Evidence of Approval

There is no record of Check Number (APV#) 25202 in our payables module and there is no record of this check clearing our bank account. There is however, a record of check number 25204, which is for the same amount. Is this a typo? If so, the payment amount listed is listed twice in your table.

"bank statements" – Should the reference should be credit card statement?

Page 9 – Payment Vouchers Review and Approval - Continued

We checked our payables module and our bank statement, and there is no record of any such check (APV) number 25202. clearing our bank account. There is a check number 25204, which may be for the same transaction. If this is so, this may be a duplication in your table.

Although you mention that no evidence was found that the former Controller had approved five of the ten vouchers listed in Table 2, that person's signature appears as one of the two co-signers on all the checks or ACH payment authorization listed. Our policy is that the Controller review the payment vouchers prior to signing off on payments. The fact that the Controller may have not signed the actual payment voucher may have been an oversight. If you were signing checks wouldn't you want to review the payment vouchers before you endorsed any payment?

DOUBLE COMPENSATION – (Pg. 8)

Fiscal Response: First bullet point – data is not consistent with page 8, second paragraph. (11 travel related vouchers, \$16,733 not signed or approved by controller p.13 versus "5 of 10", \$17,306, p. 8 first paragraph).

Table 4 – Board and Management Travel - page 14.

We would like to accurately depict as a footnote on Table 4 -- Executive Director- that the number of travels is attributed to the Public Housing Authorities Directors Association

(PHADA) Executive Director Education Program. This program is in conjunction with Rutgers University and consists of a series of 10 courses designed to reinforce the technical, managerial and strategic competencies required of a successful executive director.

APPENDIX 1: CLASSIFICATION OF MONETARY IMPACT (Pg. 21)

Item D, Payments in addition to Per Diem Advances of \$4,635 should not be included as amounts were reimbursed.

Total of \$112, 498.00 is greater than total amount of sample (\$86,471; see page 22, fourth paragraph).

APPENDIX 3:- PRIOR AUDIT COVERAGE (Pg. 23)

If OPA is to include as part of report, they should mention what disposition or action they took on the matter (did not test, presented for additional information purposes, etc.)

Furthermore for the record, as for the fiscal year 2005 questioned cost of \$5,673 by GHURA's Independent Auditor (IA), GHURA intends to work with HUD to clear this finding for several reasons:

1. [REDACTED] the auditor with the Independent Auditor's office signed-off and cleared this item with GHURA staff in May 2006 after substantiating what was originally submitted to the Fiscal Division.
2. The IA makes this as a last minute audit finding on 6/30/06 and did not conduct thorough research as the "original receipts" and supporting documentation was on file with the Fiscal Division. Instead, on the last day to avoid a late presumptive failure (LPF) by HUD, the IA informs the agency to prepare an "auditee response" to either agree or disagree with the finding.
3. With insufficient time to prepare a fair, accurate and adequate response, GHURA submits that it "disagrees" with the finding.
4. On 7/12/06, upon the return of the GHURA staffer from leave submits an "addendum" to the auditee's response and the IA refuses to accept GHURA's documents.
5. August 29, 2006 GHURA staff meets with HUD Field Office Financial Analyst about the independent auditor and provides them with the supporting documentation. GHURA staff awaits the outcome of HUD's review.

APPENDIX 4: DETAIL OF UNSUPPORTED CREDIT CARD PURCHASES (Pg. 24)

Contrary to what is stated earlier and the summary on this page, there is payment documentation related to several of these transactions. To state that supporting information for 17 transactions

(2002 and 2003) was unavailable is not accurate, and is misleading to the readers of the report that the transactions were not supported.

II. CONCLUSION

GHURA management and BOC acknowledge that there were problems in the past with record keeping, but disagree with the auditor's conclusion that GHURA's management and Board did not provide adequate oversight over the implementation and use of the credit cards. On the contrary, GHURA management and BOC were proactive in addressing the deficiencies by revising its credit card policy in December 2004.

Although we recognize that the revised policy can still be improved upon, the Authority takes pride in that the use of the Credit Card program was in no way compromised with any fraudulent, personal, or improper use of the credit card. The Authority maintains that the OPA's draft report is not entirely accurate and misrepresents the facts accordingly.

Therefore, whether the Authority will adopt the recommendations by the OPA to discontinue the use of credit cards is a policy matter that will be addressed accordingly by the BOC. With respect to the other recommendations, the Authority:

1. Since the beginning of fiscal year 2006 adopted recording travel per diem as a receivable;
2. Has adopted a similar Travel Authorization form;
3. Will restructure the travel process to establish a specific review of Authority of payment vouchers and expense reports; and
4. Will comply with government of Guam travel and procurement procedures by obtaining three price quotes for goods, services and travel expenses and ensuring that written justification for vendor selection is maintained on file.

Do you suspect fraud, waste, or abuse in a government agency or department? Contact the Office of the Public Auditor:



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