



Office of Inspector General

Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

MEMORANDUM

DATE: September 4, 2024

TO: Board of Governors

FROM: Khalid Hasan 
Assistant Inspector General for Information Technology

SUBJECT: *Calendar Years 2022 and 2023 Risk Assessment of the Board's Purchase Card Program*

Executive Summary

We have conducted a risk assessment of the Board of Governors of the Federal Reserve System's purchase card program to inform the necessary frequency and scope of purchase card audits. The results of the risk assessment show that the risk of illegal, improper, or erroneous use in the Board's purchase card program is *low*.

A risk level of *low* means that illegal, improper, or erroneous use is unlikely to occur and that such an occurrence would be expected to have a minimal effect on current operations and long-term objectives. We did identify instances in which the Board paid sales tax because cardholders did not verify that taxes were excluded before making a purchase and were unable to obtain refunds. However, we concluded that the amount paid was immaterial and would have no significant impact on current operations and objectives. Nonetheless, the Board's Purchase Card section should continue to take appropriate actions to ensure proper oversight of its program.

Background

The Government Charge Card Abuse Prevention Act of 2012 requires the inspector general of each executive agency to conduct periodic assessments or audits of purchase card programs to identify and analyze the risks of illegal, improper, or erroneous purchases and payments. Additionally, the Office of Management and Budget (OMB) has issued OMB Circular A-123, "Appendix B: A Risk Management Framework for Government Charge Card Programs," which states that inspectors general will conduct periodic risk assessments of agency purchase card programs to analyze the risks of illegal, improper, or erroneous purchases.

The Board participates in the U.S. General Services Administration's SmartPay3 program for government employees. Citibank, the card issuer, provides a purchase card to each eligible Board employee to reduce

administrative costs and promote efficient business practices. The Board's *Purchase Card Procedures* outlines the requirements regarding the use of the purchase card and details the requirements of the purchase card program.¹

During calendar years 2022–2023, the Board had \$9.6 million in program spending across all open purchase cards.

The Board's Purchase Card Procedures

Under the Board's *Purchase Card Procedures*, cardholders must comply with applicable federal regulations and Board policies and guidance, including the Board's *Acquisition Policy*, which states that procurements made at or less than the micropurchase threshold (\$10,000) should be made by a purchase card. The single transaction limit is set at the micropurchase threshold and the monthly transaction limit is set to \$50,000 unless otherwise authorized by the agency/organization program coordinator (A/OPC). A cardholder's intentional use of the charge card for purposes other than official Board business is considered an attempt to commit fraud and could result in immediate cancellation of the charge card. The cardholder may also be subject to disciplinary action up to and including termination of employment.

According to the *Purchase Card Procedures*, cardholders are required to complete initial, annual, and refresher training as needed. After completing the training, cardholders review and sign the applicable Cardholder Acknowledgement Form, which outlines the cardholder's roles and responsibilities. Cardholders are responsible for, among other things, making authorized purchases for official Board business only, ensuring that funds are available, complying with spending limitations, maintaining a monthly purchase card log for all transactions, complying with internal control procedures, reconciling posted transactions, providing timely review of reconciled transactions for approving official review, and disputing unresolved or invalid transactions. The Board is not liable for unauthorized use of the purchase card by an individual other than the cardholder.

Objective, Scope, and Methodology

Our objective was to analyze the risks of illegal, improper, or erroneous purchases and payments associated with the Board's purchase card program to determine the overall risk level. Our risk assessment covered transactions from January 1, 2022, through December 31, 2023. To conduct our risk assessment, we performed controls testing, data analytics testing, and a trend analysis.

For controls testing, we selected a sample of controls outlined in the *Purchase Card Procedures* to determine if they were operating effectively:

- **Purchase limits**—Cardholders are subject to both single and monthly transaction limits unless otherwise stated by the A/OPC. Procurement function cardholders may have higher single and monthly purchase limits. Transactions made over the micropurchase threshold must (1) comply with an acquisition method as outlined in the Board's *Acquisition Policy* and (2) be made with a purchase card because of vendor payment processing requirements and limitations.

¹ The *Purchase Card Procedures* document is dated January 3, 2024.

- **Monthly A/OPC audit**—The A/OPC audits purchase card spending after the end of each billing cycle. The A/OPC assigns findings for issues that do not adhere to the *Purchase Card Procedures*. The A/OPC tracks findings and patterns that emerge from cardholders, approving officials (AOs), and transaction trends.
- **Notice of separation**—Cardholders and AOs are responsible for providing 2-weeks' notice to the A/OPC of separation from the Board or transfer within the Board that will affect duties so that accounts can be closed or authority can be revoked and reassigned.

For data analytics testing, we created algorithms to review all Citibank transactions for high-risk transactions. Specifically, we tested for transactions in the following categories:

- **Prohibited merchant category codes (MCCs)**—Identify transactions that occurred on blocked MCCs.
- **Convenience checks or cash advances**—Identify transactions involving cash advances or convenience checks to determine whether only approved cardholders were involved.
- **Non-Board employees**—Identify transactions made by individuals not currently or previously employed by the Board.
- **Sales tax**—Identify transactions where sales tax was charged.
- **Split purchases**—Identify purchases that have been intentionally split into multiple transactions to stay below the micropurchase threshold.
- **Timely closure of accounts**—Identify employees who separated from the Board during our scope period and determine if their purchase cards were closed timely. For those employees whose cards were not closed timely, identify any transactions that occurred after their departure date

For the trend analysis, we used Tableau to identify trends in purchase card transactions between 2020 and 2023. We created visualizations to analyze the following areas:

- **Total agency spending by year**—Compare total spending each year.
- **Spending by division**—Compare top divisions associated with the largest spending.
- **Spending by employee**—Compare employees associated with the largest spending.
- **Spending by MCCs**—Compare MCCs associated with the largest spending.

Results of Controls Testing and Data Analytics Testing

The results of our controls testing and data analytics testing are described in tables 1 and 2 below.

Table 1. Results of Controls Testing

Description	Results
Purchase limits	All cardholders who exceeded their monthly or single transaction limit received approval from the A/OPC. All cardholders followed the policies and procedures around the purchase limits. No exceptions were noted.
Monthly A/OPC audit	We reviewed 15 cardholders who had findings identified during the A/OPC's monthly audit and found that all findings were followed up on and corrected. No exceptions were noted.
Notice of separation	All notifications were provided before the cardholder officially left the Board. Six of the seven cardholders who left during the scope period provided at least 2-weeks' notice to the A/OPC. One cardholder provided notice within 12 days of separation, which is slightly less than the policy states. We feel that this control is operating effectively, as the A/OPC was able to close all accounts before any of the cardholders separated officially. No exceptions were noted.

Table 2. Results of Data Analytics Testing

Description	Results
Prohibited MCCs	All transactions included in our sample received approval from purchase card officials. All cardholders notified officials once the transaction was completed so that the MCC could be closed. Controls appear to be operating effectively. No exceptions were noted.
Convenience checks or cash advances	No convenience checks or cash advances are allowed for the program. No testing was performed in relation to this area.
Non-Board employees	The team noted no use of a purchase card by someone who is not a former or current Board employee. No exceptions were noted.
Sales tax	Some transactions (104) made during the scope period had sales taxes charged. Sales tax was refunded to the relevant cardholder's account for all but 8 transactions. In total, \$1,018 in sales tax has not been refunded for transactions made during the scope period. The sales tax was approved by the A/OPC because each cardholder requested a refund but the merchant was unable to provide one. These results show that controls around cardholders requesting refunds are operating as intended. However, in 1 percent of cases, cardholders did not verify whether taxes were charged before making their purchase. As a result, the Board is occasionally paying sales tax when it should not.
Split purchases	The team tested for transactions that were made by the same account, to the same merchant, on the same day and found no instances of split purchases. No exceptions were noted.
Timely closure of accounts	All purchase cardholders that separated during the scope period had their accounts closed timely. No exceptions were noted.

Results of Trend Analysis

We noted no unusual activity from the trend analysis. However, the visualizations helped us better understand the purchase card program as a whole. We were able to identify which divisions, employees, and MCCs were associated with the most purchase card spending between 2020 and 2023.² We plan to use this trend analysis as a baseline for future risk assessments.

Conclusion

The results of our risk assessment show that the risk of illegal, improper, or erroneous use in the Board's purchase card program is *low*. A risk level of *low* means that illegal, improper, or erroneous use is unlikely

² Because of the sensitive nature of the content included in trend analysis, the results are not presented here but were shared with Board stakeholders in a separate email and meeting.

to occur and that such an occurrence would be expected to have a minimal effect on current operations and long-term objectives.

This report is provided for informational purposes, and a response is not required. We appreciate the cooperation and assistance provided by your staff during this risk assessment. Please contact me if you would like to discuss this report.

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