Board of Governors of the Federal Reserve System

Board Purchase Card Program Controls Are Generally Effective and Can Be Further Strengthened

OIG

Office of Inspector General

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

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Consumer Financial Protection Bureau

Executive Summary, 2023-FMIC-B-007, May 8, 2023

Board Purchase Card Program Controls Are Generally Effective and Can Be Further Strengthened

Findings

The Board of Governors of the Federal Reserve System's purchase card program controls generally (1) ensure that purchase card use is appropriate and in compliance with applicable laws, regulations, and the Board's policies and procedures and (2) prevent and detect improper or fraudulent use of purchase cards. However, approving officials (AOs) did not approve 25 percent of transaction logs related to our statistical sample within the required time frame for various reasons. When AOs do not complete their reviews timely, the agency/organization program coordinator (AOPC) must discover the oversight and correct it; therefore, consistent review and approval by AOs could reduce the program's dependence on the AOPC's review.

Recommendation

This report contains one recommendation designed to help ensure that AOs review and approve transaction logs in a timely manner. In its response to a draft of our report, the Board partially concurs with our recommendation and outlines actions to address the recommendation. We will follow up to ensure that the recommendation is fully addressed.

Purpose

The objective of this audit was to assess whether the controls for the Board's purchase card program adequately (1) ensure that purchase card use is appropriate and complies with applicable laws, regulations, and the Board's policies and procedures and (2) prevent and detect improper or fraudulent use of purchase cards. Our audit covered the time period of January 1, 2020, through December 31, 2021.

Background

The Board participates in a governmentwide purchase card program to reduce administrative costs and promote efficient business practices by streamlining the purchase of certain goods and services for the Board's divisions.

The Board's Procurement section is responsible for the purchase card program and has designated an AOPC to manage the operation of the purchase card program and ensure that the program complies with applicable laws, regulations, policies, and procedures.

Recommendations, 2023-FMIC-B-007, May 8, 2023

Board Purchase Card Program Controls Are Generally Effective and Can Be Further Strengthened

Finding 1: Purchase Card Program Controls Are Generally Effective

Number	Recommendation	Responsible office
	No recommendations.	

Finding 2: Transaction Log Approval Controls Can Be Strengthened

Number	Recommendation	Responsible office
1	Assess controls around AO approvals, identify improvements to better ensure that AOs review and approve transaction logs within the required time frame, and update the procedures, if applicable.	Division of Financial Management

Office of Inspector General
Board of Governors of the Federal Reserve System
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MEMORANDUM

DATE: May 8, 2023

TO: Ricardo A. Aguilera
                Chief Financial Officer
                Board of Governors of the Federal Reserve System

FROM: Cynthia Gray *Cynthia Gray*
                Deputy Associate Inspector General for Audits and Evaluations

SUBJECT: OIG Report 2023-FMIC-B-007: *Board Purchase Card Program Controls Are Generally Effective and Can Be Further Strengthened*

We have completed our report on the subject audit. We conducted this audit to assess whether the controls for the Board's purchase card program adequately (1) ensure that purchase card use is appropriate and in compliance with applicable laws, regulations, and the Board's policies and procedures and (2) prevent and detect improper or fraudulent use of purchase cards.

We provided you with a draft of our report for review and comment. In your response, you partially concur with our recommendation and outline actions that will be taken to address our recommendation. We have included your response as appendix B to our report.

We appreciate the cooperation that we received from your staff during our audit. Please contact me if you would like to discuss this report or any related issues.

cc: Patrick J. McClanahan
        Steve Bernard
        Monica Manning
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Contents

Introduction

Objective

The Government Charge Card Abuse Prevention Act of 2012 requires offices of inspector general to conduct periodic audits or reviews of their agencies' charge card programs.[1] In 2013, we conducted an audit of the Board of Governors of the Federal Reserve System's purchase card program.[2] The objective of our current audit was to assess whether the controls for the Board's purchase card program adequately (1) ensure that purchase card use is appropriate and complies with applicable laws, regulations, and the Board's policies and procedures and (2) prevent and detect improper or fraudulent use of purchase cards. Our audit covered the time period of January 1, 2020, through December 31, 2021. Details of our scope and methodology are in appendix A.

Background

The Board participates in the governmentwide General Services Administration SmartPay Program. Program participation reduces administrative costs and promotes efficient business practices by streamlining the purchase of certain goods and services.

The Board's Procurement section, within the Division of Financial Management (DFM), is responsible for the Board's purchase card program. Procurement has designated an agency/organization program coordinator (AOPC) to oversee the program, ensure compliance with program requirements, and aid cardholders and approving officials (AOs) in completing their responsibilities. In addition, the AOPC is responsible for providing training to cardholders and AOs.

Board employees who are cardholders can use their purchase card to procure goods and services in support of official Board business and are responsible for following purchase card program requirements. All cardholders have an assigned AO who reviews transaction activity and documentation.

During 2020 and 2021, the Board had 68 AOs and 92 cardholders, 88 of whom had transaction activity. The value of purchase card transactions during our scope period exceeded $6.5 million (table 1).

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[1] The Government Charge Card Abuse Prevention Act, Pub. L. No. 112-194, 126 Stat. 1445 (2012).

[2] Office of Inspector General, *Controls over the Board's Purchase Card Program Can Be Strengthened*, OIG Report 2013-AA-B-006, March 29, 2013.

Table 1. Board Purchase Card Program Activity, 2020–2021

Year	Number of transactions	Value of transactions
2020	3,881	$2,880,827
2021	3,814	$3,712,410
Total	7,695	$6,593,237

Source: OIG analysis of purchase card transaction data.

Purchase Card Program Controls

The Board's internal controls over the purchase card program are primarily documented in *Procurement Instruction, Number: 2101, Purchase Card Procedures*. Applicable to all purchase card cardholders and AOs, the procedures establish the following controls:

- **Training.** Cardholders and AOs must complete initial training prior to their appointment, as well as annual training, to review roles, responsibilities, procedures, and the consequences of card misuse. The procedures do not address AOPC training; the SmartPay Program requires that AOPCs attend training at least once every 3 years.[3]

- **Cardholder spending limits.** Cardholders' individual transactions cannot exceed $10,000 and monthly spending is limited to $50,000, unless otherwise authorized by the AOPC.[4]

- **Merchant category codes (MCCs).** The AOPC establishes a group of allowable MCCs that applies to all purchase cards.[5] Citibank declines attempted purchases from a merchant without an allowed MCC. If such a merchant is selling an authorized good or service, however, the cardholder may obtain AOPC preapproval and make the purchase.

- **Transaction logs.** Cardholders must record and describe transactions, including fees and refunds, during each billing cycle in a log; transactions must be evidenced by receipts and any necessary preapprovals. The cardholder's AO must approve individual transactions and the overall transaction log within 10 business days of the end of each billing cycle.

- **AOPC oversight.** The AOPC reviews purchase card activity for a sample of cardholders and their AOs at the close of each billing cycle. The AOPC reviews posted transactions, sales taxes paid, split purchases, transaction receipts, and any other required supporting documentation.

- **Purchase card account management.** The AOPC approves the issuance of purchase cards and completes purchase card applications in Citibank's online system. The AOPC also closes purchase

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[3] The SmartPay Program requires AOPCs, AOs, and cardholders to complete training once every 3 years, or more often if required by agency policy. The Board's procedures align with SmartPay Program training requirements.

[4] Prior to September 1, 2020, the single-transaction limit was $5,000 and the monthly spending limit was $25,000.

[5] An *MCC* is a code used to identify the type of business a merchant conducts.

card accounts when a cardholder no longer needs a card, has their authority revoked, or separates from the Board.

Finding 1: Purchase Card Program Controls Are Generally Effective

Purchase card program controls generally (1) ensure that purchase card use is appropriate and complies with applicable laws, regulations, and the Board's policies and procedures and (2) prevent and detect improper or fraudulent use of purchase cards. Details of our testing results are summarized in table 2.

Table 2. Testing Results for the Board's Purchase Card Program

Transactions within our statistical sample met requirements.
The 96 transactions within our statistical sample involved permitted goods and services, did not include sales tax or had sales tax refunded, and were preapproved as necessary.

The AOPC preapproved transactions with unallowable MCCs.
The AOPC preapproved all 74 transactions with unallowable MCCs.

Cardholders made purchases within limits.
Cardholders did not exceed their single or monthly purchase limits.

Cardholders did not split purchases to circumvent limits.
Cardholders did not split purchases into multiple transactions to circumvent the single-purchase threshold.

The AOPC's monthly oversight included required elements.
The AOPC reviewed transactions for sales taxes paid, split purchases, receipts, and any other required supporting documentation.

Program participants generally met training requirements.[a]

Cardholders and AOs completed 23 of 25, or 92 percent, of required initial trainings and 249 of 259, or 96 percent, of required annual trainings. The AOPC completed their required training.

> **Purchase card account management was effective.**
> All 92 cardholders were Board employees, and each cardholder had only one card except for situations involving 6 replacement cards. The AOPC properly opened and closed 9 and 18 purchase card accounts, respectively.

Source: OIG analysis of purchase card program documentation and transaction data.

[a] We tested 100 percent of required cardholder, AO, and AOPC trainings. We concluded that an 8 percent error rate for initial training compliance indicates initial training controls are generally effective. For the two AOs missing an initial training, one completed annual training the following year and the other left the program after 6 months. We also concluded that a 4 percent error rate for annual training compliance indicates annual training controls are generally effective.

Management Response

In his response to our draft report, the chief financial officer states that DFM concurs with our finding. He states that the report is positive and reflects well on the processes and controls in place within the Board's purchase card program.

Finding 2: Transaction Log Approval Controls Can Be Strengthened

AOs did not approve 24 of 96 transaction logs within 10 business days of the close of a billing cycle, as required by the procedures. AOs approved these logs late primarily because they forgot to do so, were out of the office when the approval was due, or did not receive timely submissions from cardholders. When AOs do not complete their reviews timely, the AOPC must discover those instances and notify the AOs to correct them; therefore, consistent review and approval by AOs could reduce the program's dependence on the AOPC's review.

AOs Did Not Approve Transaction Logs Timely

AOs approved 72 of the 96 transaction logs related to our statistical sample (75 percent) within 10 business days of the close of the billing cycle, as required. For the other 24 transaction logs, AOs either (1) independently approved them after 10 business days, (2) approved them after receiving notice from the AOPC, or (3) approved them after we requested documentation (table 3).

Table 3. Late Transaction Log Approvals

Number of instances	Number of AOs[a]	Description of late approval	Average number of business days late
6	5	AO reviewed and approved transaction log without AOPC involvement.	3
15	10	AO reviewed and approved transaction log after receiving notice from the AOPC.	7
3[b]	3	AO reviewed and approved transaction log after we requested supporting documentation.	465

Source: OIG analysis of purchase card transaction logs.

[a] A total of 15 AOs were involved in the 24 instances; 3 AOs were involved in two late-approval types.

[b] During the AOPC's review of cardholder samples, the AOPC identified one of these three instances and notified the AO. The AOPC's samples did not include the remaining two instances.

The procedures state that AOs are responsible for ensuring that approved transaction logs are uploaded to the appropriate shared drive folder within 10 business days after the close of a billing cycle.

AOs were late in approving transaction logs 25 percent of the time primarily because they forgot to approve them, were out of the office when the approval was due, or did not receive timely submissions from cardholders. To encourage timely AO review and approval of transaction logs, the AOPC sends monthly email reminders to AOs and cardholders before approved transaction logs are due.

AO review and approval of transaction logs within the required time frame will allow for timely verification that all purchases are proper. When AOs do not complete their reviews timely, the AOPC must discover those instances and notify the AOs to correct them; therefore, consistent review and approval by AOs could reduce the program's dependence on the AOPC's review.

Recommendation

We recommend that the chief financial officer

1. Assess controls around AO approvals, identify improvements to better ensure that AOs review and approve transaction logs within the required time frame, and update the procedures, if applicable.

Management Response

In his response to our draft report, the chief financial officer states that DFM partially concurs with our recommendation. He states that while the purchase card program is owned by Procurement, DFM believes it is incumbent on each division to stress the importance of timely reviews and approvals. Procurement will implement additional measures to remind AOs of their review and approval obligations, including (1) holding targeted discussions with AOs on the overall process and possible improvements, (2) briefing division leaders of their responsibilities regarding the roles of AOs, (3) providing additional reminders of the approval deadline each billing cycle, and (4) setting calendar invitations of time blocks to use for review and approvals. Procurement plans to implement these changes by the end of the third quarter of 2023.

OIG Comment

The actions described by the chief financial officer appear to be responsive to our recommendation. We will follow up to ensure that the recommendation is fully addressed.

Appendix A: Scope and Methodology

Our objective was to assess whether the controls for the Board's purchase card program adequately (1) ensure that purchase card use is appropriate and in compliance with applicable laws, regulations, and the Board's policies and procedures and (2) prevent and detect improper or fraudulent use of purchase cards. Our scope was January 1, 2020, through December 31, 2021.

To accomplish our objective, we performed the following tests:

- **Cardholder transactions.**[6] We reviewed supporting documentation for the statistical sample of 96 transactions to determine whether purchases complied with applicable requirements in the procedures. Specifically, we tested
    - whether transactions were supported by a receipt or invoice, had necessary preapprovals, and were recorded on a completed transaction log
    - whether the transaction included sales tax paid, and if so, whether the cardholder later obtained a refund of the sales tax
    - whether the AO approved the specific transaction and overall transaction log within 10 business days after the close of the billing cycle
    - whether the AOPC's oversight identified when AOs did not approve cardholders' transaction logs within 10 business days of billing cycle close

- **AOPC monthly oversight.** We reviewed the AOPC's 25 monthly audit summary sheets within our scope to confirm that the AOPC reviewed sales taxes paid, split purchases, transaction receipts, and any required supporting documentation, as applicable.[7]

- **New cardholders.** We compared the Board's personnel data, Citibank's account and transaction data, and the AOPC's records to identify 9 new cardholders within our scope. We reviewed confirmation emails to determine whether the AOPC submitted purchase card applications to Citibank on behalf of cardholders as required by the procedures.

- **Training.** We reviewed training records for the AOPC, cardholders, and AOs to determine compliance with applicable training requirements.

- **Unallowable MCCs.** We compared all 7,695 transactions to the Board's allowable MCC list and identified 74 transactions with MCCs that are not on the allowable list, excluding fees and refunds. We then reviewed documentation to determine whether the AOPC preauthorized the transactions.

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[6] We selected a statistical sample so that the results can be projected to the entire population. For the purposes of the sample selection, we used the attribute estimate approach with the methodology of 90 percent confidence, 5 percent precision, and 10 percent expected error rate, which provided us with a sample size of 96 transactions. We randomly selected 96 transactions from the population of 7,695 transactions.

[7] There are 25 monthly audit summary sheets within our scope because billing cycles are not equal to calendar months; billing cycles are from the 25th of one month to the 24th of the next month.

- **Split purchases.** We summarized all 7,695 transactions to identify multiple purchases made by the same cardholder from the same merchant within a 1-week period that totaled more than the single-purchase limit. We identified 60 transactions as potentially part of split purchases. We reviewed supporting transaction documentation and the AOPC's audit summary sheets to determine whether cardholders split any purchases into multiple transactions to circumvent the single-purchase threshold.

- **Spending limits.** We compared all 7,695 transactions to the applicable single-purchase limit to determine whether any transactions exceeded the cardholder's single-purchase limit. We also summarized all 7,695 transactions by cardholder and month. We then compared each cardholder's spending to the applicable monthly spending limit to determine whether any cardholders had exceeded the applicable monthly spending limit.

- **Multiple purchase cards.** We summarized the 7,695 transactions to identify cardholders who made purchases with more than one purchase card. For the 6 cardholders who used multiple purchase cards, we reviewed supporting documentation to determine whether these were replacement cards.

- **Card closure.** We compared all 7,695 transactions to a closed purchase card report and Board personnel data to identify any (1) purchase cards that were closed after a cardholder's separation from the Board, (2) transactions made after the cardholder's separation, and (3) transactions made after the date of account closure. For the four purchase card accounts identified, we determined whether the accounts (1) were closed timely after the cardholders' separation, (2) had refund transactions after the cardholders' separation, and (3) had refund transactions after account closure.[8]

- **Fictitious employees.** We compared cardholders within the transaction data to employees in the Board personnel data to determine whether any cardholders were not Board employees.

We reviewed the Board's *Procurement Instruction, Number: 2101, Purchase Card Procedures*; *Acquisition Policy*; and other relevant documentation pertaining to the Board's purchase card program and interviewed the Board's AOPC and some AOs and cardholders to obtain information on program operations and internal controls.

We obtained purchase card transaction and personnel data from the Citibank system and the Board's People, Strategy & Operations group, respectively. For any system to which we did not have direct access, we relied on the Board to extract and provide us with the requested documentation. We observed a People, Strategy & Operations employee extract the requested personnel reports and verified the completeness of those reports. In addition, we obtained training documentation from the AOPC.

We conducted our fieldwork from August 2022 to March 2023. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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[8] Merchants can process refunds after an individual purchase card account is closed because those transactions post to the Board's centrally billed account with Citibank.

Appendix B: Management Response

April 14, 2023

Ms. Cynthia Gray
Deputy Associate Inspector General for Audits and Evaluations
Office of Inspector General
Board of Governors of the Federal Reserve System
Washington, DC 20551

Dear Ms. Gray,

Thank you for the opportunity to review and comment on the Office of Inspector General's (OIG) draft report titled, *Board Purchase Card Program Controls Are Generally Effective and Can Be Further Strengthened*. We appreciate the OIG's effort in developing the report and the recommendation to help ensure that approving officials review and approve purchase card transaction logs in a timely manner.

Overall, the report is very positive and reflects well on the processes and controls in place to ensure the Board's purchase card program adequately (1) ensures that purchase card use is appropriate and in compliance with applicable laws, regulations, and the Board's policies and procedures and (2) prevents and detects improper or fraudulent use of purchase cards.

Your audit resulted in two findings and one recommendation. We agree with the findings and partially agree with the recommendation and have included a detailed response below.

We value your objective, independent viewpoints and look forward to your partnership on future audits and reviews.

Sincerely,

Ricardo A. Aguilera
Director and Chief Financial Officer

Response to Recommendation Presented in the Draft OIG Report *"Board Purchase Card Program Controls Are Generally Effective and Can Be Further Strengthened"*

Recommendation: Assess controls around AO approvals, identify improvements to better ensure that AOs review and approve transaction logs within the required time frame, and update the procedures, if applicable.

Management Response: The Division of Financial Management (DFM) partially concurs with this recommendation. While the Purchase Card program itself is owned and managed by the Procurement function within DFM, most AOs do not work in DFM. Procurement will install additional measures to remind AOs of their review and approval obligations. We strongly believe it is incumbent upon each division to stress the importance of timely reviews and approvals. Additional measures aimed directly at AOs include, yet are not limited to: (1) targeted discussions with AOs on the overall process and possible improvements, (2) briefing division leaders of their responsibilities regarding the roles of AOs, (3) additional reminders of the approval deadline each billing cycle, and (4) calendar invitations of time blocks to use for review and approvals. Additional measures will be completed and put in place no later than the end of quarter 3, September 30, 2023.

Abbreviations

AO   approving official

AOPC   agency/organization program coordinator

MCC   merchant category code

DFM   Division of Financial Management

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