



**Office of Inspector General**

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

## MEMORANDUM

DATE: February 22, 2021

TO: Board of Governors

FROM: Peter Sheridan *Peter Sheridan*  
Associate Inspector General for Information Technology

SUBJECT: *Calendar Year 2019 Risk Assessment of the Board's Government Travel Card Program*

### Executive Summary

We have conducted a risk assessment of the Board of Governors of the Federal Reserve System's government travel card (GTC) program to determine the necessary frequency and scope of GTC audits. The results of the risk assessment show that the risk of illegal, improper, or erroneous use in the Board's GTC 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. Nonetheless, the Board's Travel section should continue to take appropriate actions to ensure proper oversight of its program. As a result of the low risk level, we will not include an audit of the Board's GTC program in our 2021 audit plan.

### Background

The Board's GTC program provides employees with resources to arrange and pay for official travel- and training-related expenses and to receive reimbursements for these authorized expenses. The Board participates in the U.S. General Services Administration's SmartPay3 program for government employees, and Citibank, the card issuer, provides an individually billed charge card to each eligible Board employee (those who travel two or more times a year).<sup>1</sup> The Board has issued the *Travel Policy* and the *Government Travel Card Procedures* document, which outline the requirements regarding the use of a GTC and detail the conditions of the travel program.

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<sup>1</sup> The U.S. General Services Administration's SmartPay 2 contract ended on February 4, 2019. The successor program, SmartPay 3, was implemented on February 5, 2019.

During calendar year 2019, there were 26,149 purchase transactions totaling approximately \$9.8 million on individually billed Board GTCs. The total spending for the Board's travel card program was \$15.6 million, as reported in the audited financial statements for the period ended December 31, 2019.<sup>2</sup> The Government Charge Card Abuse Prevention Act of 2012 requires the inspector general of each agency with more than \$10 million in travel card spending to conduct periodic assessments or audits of travel card programs to identify and analyze the risks of illegal, improper, or erroneous purchases and payments.

## ***The Board's Travel Policy and Government Travel Card Procedures Document***

Under the Board's *Travel Policy and Government Travel Card Procedures* document, the manager of the Travel section, which is part of the Board's Division of Financial Management, is responsible for administering and managing the Board's GTC program. Moreover, the *Government Travel Card Procedures* document states that the Travel section is responsible for monitoring GTC cardholders' compliance with policy requirements by performing periodic reviews to ensure that cardholders do not make unauthorized purchases or engage in inappropriate activity.

According to the *Travel Policy*, cardholders must comply with applicable federal regulations and relevant Board policies and guidance. Further, the *Travel Policy* and the *Government Travel Card Procedures* document state that cardholders (1) must use the GTC to pay for air and rail tickets and may also use the GTC to pay for lodging while on business travel, (2) may use the GTC to pay for other official travel-related expenses, and (3) must not use the GTC to pay for personal expenses. In addition to defining proper and improper use of the GTC, the *Government Travel Card Procedures* document provides guidance on submitting vouchers for reimbursement of official travel expenses and potential disciplinary actions for improper use. The *Government Travel Card Procedures* document states that cardholders are fully responsible for all charges to their GTC and for making GTC payments in full when they are due.

## **Objective, Scope, and Methodology**

Our objective was to analyze the risks of illegal, improper, or erroneous purchases and payments associated with the Board's GTC program to determine an overall risk level for the program. Our scope included individually billed travel card purchases during calendar year 2019 (January 1, 2019, through December 31, 2019). We conducted our risk assessment work from April 2020 through October 2020.

### ***Risk Assessment Survey***

To conduct our risk assessment, we obtained and reviewed relevant Board policies and procedures and the results of prior audits and reviews of the program. In addition, we surveyed applicable Board

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<sup>2</sup> The program total is higher than the GTC total because not all program expenses, including per diems, are charged to individually billed GTCs.

officials and the responsible agency program coordinator to identify (1) risks that could prevent their offices from achieving their goals and (2) controls to mitigate these risks.

We used five risk categories in our risk assessment—financial, strategic, operational, compliance, and reputational—as defined below:

- **Financial**—the risk that an event related to the travel card could occur that has a significant financial effect on the Board’s or the Division of Financial Management’s budget process
- **Strategic**—the risk that an event related to the travel card could impede the Board’s or the Division of Financial Management’s ability to achieve its mission and strategic objectives
- **Operational**—the risk that an event related to the travel card could be negatively affected by inadequate, ineffective, or failed business processes, human capital, or technology and information management
- **Compliance**—the risk that an event related to the travel card could hamper the travel program’s ability to comply with applicable laws, regulations, or internal policies and procedures
- **Reputational**—the risk that an internal or external event related to the travel card could diminish the Board’s or the Division of Financial Management’s stature, credibility, or effectiveness

The Board’s Travel section identified inherent risks by relevant risk category and assessed the risks’ impact and likelihood. *Inherent risk* is the risk that exists in the absence of controls that management may take to alter the likelihood or impact of the risk. *Impact* is the magnitude of deficiency that could result from the risk, and *likelihood* is the level of possibility that a risk will occur. We then identified the residual risks by assessing the impact and likelihood of risks by risk category, considering the effect of internal controls and other relevant documentation. *Residual risk* is the risk that remains after management has implemented controls to alter a risk’s likelihood or impact. We assigned a level of risk using the criteria in table 1. We then combined the impact and likelihood of individual risk category levels to arrive at an average overall risk residual level.

**Table 1. Definitions of Risk Impact and Risk Likelihood, by Level**

Level	Risk impact definition	Risk likelihood definition
High	Significant impact on current operations and long-term objectives	Highly likely to occur
Medium	Limited impact on current operations and long-term objectives	Likely to occur
Low	Minimal impact on current operations and long-term objectives	Unlikely to occur

Source: OIG adaptation of tables from the Federal Reserve Bank of Cleveland’s *Toolkit for Functional Risk Assessments*, November 2009.

### ***Information Systems Used by the Board’s Travel Card Program***

Cardholders and program officials use the Citibank electronic credit card management system to review transactions, and program officials use the system to run reports for program administration. We

obtained Citibank data to evaluate all charges incurred by cardholders with individually billed accounts in 2019.

The Board uses PeopleSoft, an Oracle system, to manage human resource records, such as hiring and separation information. We obtained Oracle PeopleSoft data to identify active and separated employees. We independently extracted GTC transaction data, and we observed the Board's extraction of personnel (active and separation) data from Oracle PeopleSoft. Additionally, we obtained and reviewed system-level information security control reports to determine whether the data within each system were reliable for the purpose of our review.

## **Data Analytics Testing**

In addition to the risk assessment survey, we developed and ran algorithms for data analysis designed to test the 26,149 purchase transactions made during calendar year 2019. This analysis was conducted to identify potentially illegal, improper, or erroneous transactions to support the residual risk ranking for the Board's GTC program. Specifically, we tested for transactions that occurred in the following categories:

- **Prohibited merchant category codes (MCCs)**—We compared all transactions to the Board's blocked MCC list to identify transactions with MCCs that occurred on blocked codes.<sup>3</sup>
- **Non-Board employees**—We compared transactions to a list of active and separated Board employees to identify any transactions made by a cardholder who was neither a current nor a former Board employee.
- **Separated Board employees**—We compared transactions to a list of separated Board employees to identify transactions that occurred after the employee left the Board.

Lastly, we assessed the Board Travel section's process for monitoring delinquent accounts to ensure proper follow-up was conducted. Because the *Government Travel Card Procedures* document designates the card issuer as the responsible party for monitoring and notifying cardholders of delinquencies, the Travel section only reviews presuspension GTC notices. Given that the Board's Travel section relies on the card issuer to monitor the delinquencies and does not conduct monthly monitoring internally, no further testing was conducted.

## **Results of Risk Assessment**

Table 2 shows for each risk category the impact that illegal, improper, or erroneous use would have on the Board's GTC program and the likelihood that such use will occur in the Board's GTC program. The average overall residual risk level contributes to the final risk assessment for the Board's GTC program.

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<sup>3</sup>According to the GSA SmartPay glossary, an MCC is a four-digit code used to identify the type of business (for example, a gas station, a restaurant, an airline). The merchant selects its MCC with its bank based on its primary business. Agencies can block or flag MCCs to guard against unallowable charges.

**Table 2. Impact, Likelihood, and Overall Residual Risk Level, by Risk Category**

Risk category	Impact	Likelihood	Overall risk level
Financial	Low	Low	Low
Strategic	Low	Low	Low
Operational	Low	Low	Low
Compliance	Low	Low	Low
Reputational	Low	Low	Low
<b>Average overall residual risk level</b>	<b>Low</b>	<b>Low</b>	<b>Low</b>

Source: OIG analysis.

## Results of Data Analytics Testing

Our testing of 26,149 purchase transactions for potentially illegal, improper, or erroneous transactions identified the following:

- **Transactions on prohibited MCCs**—We identified four transactions that occurred on blocked MCCs. The Board’s Travel section stated that they were aware of the transactions because they are required to call Citibank and authorize the transactions on the MCC. However, we noted that the Board’s Travel section does not maintain documentary evidence of the requests from cardholders to authorize those transactions.

In the 2019 *Forensic Evaluation of the Board’s Government Travel Card Program* report, we suggested that the Travel section consider developing a log to document all requests for a specific MCC to be unblocked as well as the reblocking of the MCC once the transaction has posted.<sup>4</sup> We reiterate this suggestion.

- **Transactions by non-Board employees**—We identified 58 individuals with incorrect employee identifications (IDs) in the Citibank system. The employee ID data in Citibank records and in the Oracle PeopleSoft human resource records for these 58 individuals did not reconcile. The Travel section explained that the field in the Citibank system was populated by system users and that no controls exist to ensure the accuracy of the information entered by the system users. The Board’s Travel section reviewed these records and provided the correct employee ID or employee statuses to us. We confirmed that all 58 individuals were active or separated Board employees.

<sup>4</sup> Office of Inspector General, *Forensic Evaluation of the Board’s Government Travel Card Program*, [OIG Report 2019-IT-B-010](#), September 11, 2019.

- **Transactions by separated Board employees**—We identified zero transactions made by a cardholder after separation from the Board.

## Conclusion

The results of the risk assessment survey and the data analytics testing led us to determine that the risk of illegal, improper, or erroneous use in the Board's GTC 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 likely have a minimal effect on the Board's current operations and long-term objectives. Nonetheless, the Board's Travel section should continue to take appropriate actions to ensure proper oversight of its program. As a result of the low risk level, we will not include an audit of the Board's GTC program in our 2021 audit plan.

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. If you have any questions, please contact Victor Calderon, OIG manager for data analytics, or me.

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