



OFFICE OF INSPECTOR GENERAL

Audit Report

2013-AE-C-015

Opportunities Exist for the CFPB to Strengthen Compliance with Its Purchase Card Policies and Procedures

September 30, 2013

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
CONSUMER FINANCIAL PROTECTION BUREAU

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Abbreviations

AO	approving official
APC	Agency Program Coordinator
BPD ARC	Bureau of Public Debt's Administrative Resource Center
CCRS	Citibank Custom Reporting System
CFPB	Consumer Financial Protection Bureau
Charge Card Act	Government Charge Card Abuse Prevention Act of 2012
FAR	<i>Federal Acquisition Regulation</i>
GSA	General Services Administration
MCC	merchant category code
OMB	Office of Management and Budget



Executive Summary:

Opportunities Exist for the CFPB to Strengthen Compliance with Its Purchase Card Policies and Procedures

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Purpose

Our objective was to assess whether the controls for the Consumer Financial Protection Bureau's (CFPB's) purchase card program were adequate to (1) ensure that purchase card use is appropriate and in compliance with applicable laws, regulations, and the CFPB's policies and procedures and (2) prevent and detect improper or fraudulent use of purchase cards.

Background

To streamline the acquisition process for qualifying purchases, the CFPB participates in the General Services Administration's (GSA's) SmartPay2 program through a task order with the Department of the Treasury's master contract with Citibank. Within the Department of the Treasury, the Bureau of Public Debt's Administrative Resource Center (BPD ARC) provides purchase card administrative services and acts as the liaison between the CFPB and Citibank. The CFPB is operating under the BPD's 2011 *Government Purchase Card Procedures* and the CFPB's *Purchase Card Guides for the Mobile Workforce and Flagship Cardholders* until internal purchase card policies and procedures are finalized.

Finding

The internal controls for the CFPB's purchase card program are adequate and operating effectively to ensure that the program is generally in compliance with applicable laws, regulations, and the CFPB's policies and procedures and to prevent and detect improper or fraudulent use of purchase cards. We did, however, note several instances of noncompliance with applicable policies and procedures. Specifically, we noted the following:

- Cardholders, including some who had separated from the CFPB, were missing purchase card files or missing supporting documentation in their purchase card files.
- Cardholders paid sales taxes.
- Cardholders did not document the reason for using convenience checks, and one cardholder improperly used a convenience check instead of a purchase card.
- Cardholders did not document the reason for purchases that had the appearance of a split transaction.

Recommendations

We recommend that the Assistant Director for Procurement direct the approving officials to ensure that cardholders maintain appropriate supporting documentation in their purchase card files, use convenience checks as a last resort, and document the reason for any purchases that may have an appearance of a split transaction. We also recommend that the Assistant Director for Procurement ensure that the Agency Program Coordinator expands the quarterly compliance audit to include review of receipts, invoices, and payment of taxes; assesses the effectiveness of the recently implemented exit procedures for separating cardholders and makes adjustments as necessary; and uses available reports from the Citibank Custom Reporting System as appropriate.

Access the full report: http://www.federalreserve.gov/oig/files/CFPB_Purchase_Card_Compliance_full_Sep2013.pdf
For more information, contact the OIG at 202-973-5000 or visit <http://www.consumerfinance.gov/oig>.

Summary of Recommendations, OIG Report No. 2013-AE-C-015

Rec. no.	Report page no.	Recommendation	Responsible office
1	7	Direct the approving officials to ensure that cardholders <ul style="list-style-type: none">a. maintain appropriate supporting documentation in their purchase card files.b. use convenience checks as a last resort and, if used, document the reason in their convenience check logs.c. document the reason for any purchases that may have an appearance of a split transaction.	Office of Procurement
2	7	Ensure that the Agency Program Coordinator <ul style="list-style-type: none">a. expands the quarterly compliance audit to include review of receipts, invoices, and payment of taxes.b. assesses the effectiveness of the recently implemented exit procedures for separating cardholders, including the exit checklist and related system, and makes adjustments as necessary.c. uses available reports from the Citibank Custom Reporting System as appropriate.	Office of Procurement



OFFICE OF INSPECTOR GENERAL
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
CONSUMER FINANCIAL PROTECTION BUREAU

September 30, 2013

MEMORANDUM

TO: David Gragan
Assistant Director for Procurement
Consumer Financial Protection Bureau

FROM: Melissa Heist *Melisse Heist*
Associate Inspector General for Audits and Evaluations

SUBJECT: OIG Report No. 2013-AE-C-015: *Opportunities Exist for the CFPB to Strengthen Compliance with Its Purchase Card Policies and Procedures*

Attached is the Office of Inspector General's final report on the subject audit. We conducted this audit to assess the adequacy of internal controls for the Consumer Financial Protection Bureau's purchase card program.

We provided you with a copy of our draft report for review and comment. In your response, you stated that you concurred with our recommendations and outlined actions that have been taken or will be implemented to address our recommendations. We have included your response as appendix B to our final report.

We appreciate the cooperation that we received from the Office of Procurement staff during our audit. Additionally, we appreciate the cooperation of the Department of the Treasury, Bureau of Public Debt. Please contact me if you would like to discuss this report or any related issues.

Attachment

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Introduction

Objective

Our overall objective for this audit was to assess whether the controls for the Consumer Financial Protection Bureau's (CFPB's) purchase card program were adequate to (1) ensure that purchase card use is appropriate and in compliance with applicable laws, regulations, and the CFPB's policies and procedures and (2) prevent and detect improper or fraudulent use of purchase cards.

The Government Charge Card Abuse Prevention Act of 2012 (Charge Card Act)¹ requires Offices of Inspector General to conduct periodic audits or reviews of charge card programs. In the past, the Government Accountability Office and other Offices of Inspector General have identified weaknesses and vulnerabilities in the federal purchase card program and reported that federal agencies have failed to ensure proper use of purchase cards. As the CFPB's program is fairly new and also experiencing rapid growth, a review of the internal controls related to the purchase card program is warranted.

Background

To streamline the acquisition of micropurchases and simplified acquisitions,² the CFPB participates in the General Services Administration's (GSA's) SmartPay2 program through a task order with the Department of the Treasury's master contract with Citibank.³ The Department of the Treasury's Bureau of Public Debt's Administrative Resource Center (BPD ARC), provides the CFPB with purchase card administrative services through an interagency agreement. This agreement states that BPD ARC will provide a full range of financial management accounting services for the period October 1, 2012, through September 30, 2013.⁴ Specifically, BPD ARC submits CFPB employees' purchase card applications to Citibank, processes purchase card payments, closes accounts of separated employees, and acts as the liaison between the CFPB and Citibank.

The CFPB's Office of Procurement is responsible for managing the operation of the purchase card program and ensuring that the program complies with applicable laws, regulations, policies,

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1. The Government Charge Card Abuse Prevention Act, Public Law 112-194, October 5, 2012.
 2. Micropurchases are defined as any purchase under \$3,000, and simplified acquisitions are defined as purchases not exceeding \$150,000.
 3. In June 2007, the GSA awarded a set of master contracts, known as the SmartPay2 program, to Citibank, JPMorgan Chase, and U.S. Bank to provide credit card services to government agencies. The contract covers a four-year base period (December 21, 2007, through November 29, 2011) and two option periods (November 11, 2011, through November 29, 2015, and November 30, 2015, through November 29, 2018).
 4. CFPB management officials indicated that they intend to renew the interagency agreement for the following fiscal year.

and procedures. The CFPB's Office of Procurement also monitors the purchase card program's effectiveness as a payment vehicle while working to ensure that the proper controls are in place.

As of March 31, 2013, the CFPB had 311 active cardholders classified as either flagship cardholders or examiner cardholders. Flagship cardholders are office-based employees located in the CFPB's District of Columbia and regional offices⁵ who make purchases to support the overall operations of the CFPB as well as its offices and divisions. Examiner cardholders are mobile employees who work all over the country and in some cases are based out of home offices. They purchase office supplies for their use in the field and at their home offices. From April 1, 2012, through March 31, 2013, CFPB purchase cardholders made approximately 3,000 transactions totaling about \$1.4 million.

To minimize risk within its purchase card program, the CFPB has instituted a number of controls, including setting a low dollar credit limit for each of its examiner cardholders and restricting the allowable merchant category codes (MCCs)⁶ for both flagship and examiner cardholders. In addition, ongoing monitoring activities include management and oversight of the purchase card program by the Agency Program Coordinator (APC) and approving officials (AOs). Flagship cardholders report to an AO in their office, and examiner cardholders report to an AO in their respective region.

Since its inception in May 2011, the CFPB's purchase card program has grown substantially. Due to the purchase card program's significant growth, the CFPB has implemented a number of changes to bolster internal controls and enhance oversight. For example, CFPB has refined its purchase card application and closure processes and increased the number of AOs.

Laws, Regulations, and Guidance

The CFPB's purchase card program is subject to the following laws, regulation, and guidance:

- The Charge Card Act requires that agencies with employees who use purchase cards and convenience checks establish and maintain safeguards and internal controls to ensure the proper, efficient, and effective use of purchase cards and convenience checks.⁷

5. The CFPB has four regional offices: West (San Francisco, CA); Midwest (Chicago, IL); Northeast (New York, NY); and Southeast (Washington, DC).

6. According to the GSA SmartPay2 glossary, an MCC is a four-digit code used to identify the type of business a merchant conducts (e.g., gas stations, restaurants, airlines). The merchant selects its MCC with their bank based on its primary business. Agencies can block or flag MCCs to guard against unallowable charges.

7. Convenience checks are issued by Citibank to purchase cardholders who are also warranted contracting officers within the CFPB. The use of convenience checks is limited to cases in which the vendor or merchant is not able to accept a purchase card or an electronic funds transfer.

- The CFPB's purchase card program operates under the BPD's 2011 *Government Purchase Card Procedures* until the CFPB finalizes its own purchase card policies and procedures.⁸ The BPD's *Government Purchase Card Procedures* provide guidance on the proper use of the purchase card and outline specific responsibilities for cardholders, AOs, and the APC.
- CFPB purchase cardholders are also required to follow the CFPB's Purchase Card Guides for the Mobile Workforce and Flagship Cardholders. These documents provide guidance on the proper use of purchase cards for all purchase cardholders and the record retention requirements for related documentation.

In addition, the CFPB has decided to follow the *Federal Acquisition Regulation (FAR)* in its entirety on all procurements. Specifically, FAR, Part 13 – Simplified Acquisition Procedures, designates the purchase card as the preferred method for making micropurchases. In addition, this FAR part establishes criteria for using purchase cards to place orders and make payments.

Office of Management and Budget (OMB) Circular A-123, Appendix B, prescribes policies and procedures to agencies on maintaining internal controls that reduce the risk of fraud, waste, and error in government charge card programs and establishes minimum standard requirements and suggests best practices for government charge card programs. CFPB legal guidance issued in June 2012 states that the CFPB is not obligated to follow this OMB guidance. However, this legal guidance states that if OMB guidance identifies procedures that agencies are encouraged to follow, the CFPB should assess whether it would benefit from following these procedures. It also suggests that as a matter of good administrative practice and in order to create a record for purposes of audit and oversight accountability, the CFPB consider, articulate, and document its reasons for departing from OMB guidance when it chooses to do so.

8. CFPB management officials indicated that they plan to finalize the internal policies and procedures in September 2013.

Finding: Opportunities Exist to Strengthen Compliance with Purchase Card Policies and Procedures

The internal controls for the CFPB's purchase card program are adequate and operating effectively to ensure that the program is generally in compliance with applicable laws, regulations, and the CFPB's policies and procedures and to prevent and detect improper or fraudulent use of purchase cards. We did, however, note several instances of noncompliance with applicable policies and procedures. Specifically, we noted that (1) cardholders were missing purchase card files or missing supporting documentation in their purchase card files; (2) cardholders paid sales taxes; (3) a cardholder improperly used a convenience check instead of using a purchase card, and cardholders did not always document the reason for using the convenience check; and (4) cardholders did not document the reason for purchases that had the appearance of a split transaction. These instances of noncompliance occurred because cardholders were unaware of the requirements set forth in the applicable policies and procedures, did not ensure taxes were excluded on the invoices, and inadvertently used a convenience check instead of a purchase card. Further, the APC was not using reports available from the Citibank Custom Reporting System (CCRS) as a monitoring tool. As a result, the CFPB did not have adequate assurance that cardholders were adhering to applicable policies and procedures, and it incurred unnecessary costs associated with convenience check usage and sales taxes.

Purchase Card Files Were Missing or Incomplete

We reviewed supporting documentation for 78 of the 3,324 transactions under \$3,000 during our scope to determine whether these micropurchases were in compliance with applicable policies and procedures. Our testing revealed that 5 of the 78 transactions totaling \$479.07 were missing purchase card files, and 3 of those 5 transactions totaling \$407.61 were made by employees who had separated from the CFPB after they made the purchase. Although the APC specifically instructed the separating employees to leave their purchase card files with their AOs, the cardholders did not do so.

In addition, our testing revealed that the purchase card files for 3 of the 78 transactions were missing supporting documentation, such as a purchase card checklist or receipt. Some cardholders were not aware of the supporting documentation requirement and the three-year record retention requirement.

According to the BPD's *Government Purchase Card Procedures*, all purchase cardholders must ensure proper use of the purchase card by maintaining a purchase card log and appropriate documentation. In addition to these requirements, the CFPB's Purchase Card Guides for the Mobile Workforce and Flagship Cardholders require that all purchase cardholders complete a checklist for each purchase, retain all documents for three years after final payment has been made on an order, and send their purchase card files to the AO when leaving the agency. If cardholders do not maintain the required documentation, the Office of Procurement cannot conduct oversight and ensure that cardholders have used purchase cards in accordance with applicable laws, regulations, and policies and procedures.

Commendable Actions

In March 2013, the Office of Procurement implemented new exit procedures, including an exit checklist and related system to ensure that separating employees send their purchase card files to their AOs prior to separation. In addition, based on feedback from the CFPB's fiscal year 2012 internal controls review, the Office of Procurement implemented a quarterly compliance review in April 2013 to ensure that purchases comply with applicable policies and procedures. As part of the quarterly review, the APC reviews a sample of purchase card files to ensure that cardholders are maintaining appropriate documentation (e.g., a checklist, a purchase card log, and a preapproval). Due to the recent implementation of these additional controls, we did not conduct further testing to assess the effectiveness of this new quarterly compliance review and the new exit procedures.

Sales Tax Was Paid

We reviewed supporting documentation for 21 of the 105 transactions with blocked MCCs to determine whether these transactions were proper and authorized and in compliance with applicable policies and procedures. Although the 21 sample transactions were proper and authorized, we found that 3 of these 21 transactions, made by three different cardholders, included sales tax that totaled \$16.93. Two of these three cardholders stated that they advised the vendors of the tax exemption policy; however, the vendors included sales tax on these purchases. The cardholders did not check the invoices to ensure that sales tax was excluded and, thus, did not request a refund of the sales tax amount from the vendors. The third cardholder indicated that she was not aware of the tax exemption policy and did not request a refund from the vendor.

The BPD's *Government Purchase Card Procedures* states that cardholders should notify vendors that purchases are for official CFPB purposes. Such purchases are not subject to state or local sales tax.

Although sales tax was included on the invoices, the APC and the AO were not aware that tax was paid because sales tax did not appear as a separate line item on the Citibank statements. The Office of Procurement indicated that some vendors do not have the ability to separate taxes from total transaction amounts, and in such cases, taxes paid do not appear separately on the Citibank statements. It should be noted that the APC's quarterly compliance checklist does not currently include review of receipts and invoices to ensure that tax is not paid.

Based on our inquiry, CFPB personnel requested that the three vendors involved with the three transactions in our sample refund sales tax paid. One vendor complied with this request, and as a result, the Office of Procurement recouped \$117.35 for taxes paid on 10 previous purchases. The other two requests are pending.

Convenience Check Was Inappropriately Used

We reviewed supporting documentation for 5 of the 27 convenience check transactions to determine whether they were appropriately used. Our testing revealed that for 4 of the transactions, convenience checks were used appropriately, but for 1 transaction, a convenience check was used even though there was an option to pay by credit card. Because Citibank charges

a fee (2 percent of the check amount plus \$1) each time a convenience check is used, the CFPB paid a fee of \$101.00 for using a check for this transaction. The cardholder stated that using a convenience check was an oversight.

In addition, for all five convenience check transactions, the reason for using a check was not documented in the convenience check log. The current log format does not have a column or place to note the reason for using a check.

According to the BPD's *Government Purchase Card Procedures*, convenience checks should only be used as a last resort and only when no vendor can be located who will accept the purchase card. In addition, the procedures require the cardholder to document the reason for using a convenience check in his or her purchase card log.

The CFPB incurred an unnecessary expense when the cardholder used a convenience check even though paying by credit card was an option. In addition, the current log format does not facilitate oversight of convenience check usage.

Commendable Action

Upon our inquiry, the Office of Procurement took corrective action to revise the convenience check log to include a field to note the reason for using a convenience check. Due to the recent implementation of this change to the log, we did not conduct further testing to assess the effectiveness of this new control.

Purchases That Had the Appearance of a Split Transaction Did Not Have Appropriate Justification

We reviewed supporting documentation for 36 of the 48 transactions that had the appearance of being a split transaction to determine (1) whether cardholders split purchases into two or more transactions to circumvent single purchase limitations and (2) whether the reasons for these purchases were documented. Although we did not conclude that any of these transactions were split purchases, 33 of the 36 transactions had the appearance of being split, and the cardholders did not document the reason for these purchases. Upon closer examination, the other three transactions were clearly not split and required no additional documentation.

BPD's *Government Purchase Card Procedures* states that, in general, the total of a single purchase may be composed of multiple items but cannot exceed the assigned single purchase limitation. The cardholder must document the reason for any "buy" that may have the appearance of a split transaction.

The cardholders indicated that they either were not aware they were making purchases that could be interpreted as split purchases, or they did not realize the total amount for the purchases exceeded their single purchase limit. We found evidence to indicate that the AOs reviewed and approved these cardholders' monthly statements, which included these purchases. We also noted that the APC has been identifying potential split transactions by manually sorting monthly transactions and was not aware of the automated Split Ticket Report that can be generated from

the CCRS. This report can be used to readily identify purchases that have the appearance of being split for appropriate follow-up, thereby enhancing oversight.

Conclusion

The CFPB's purchase card program controls were generally effective. However, the instances of noncompliance shown in our samples indicate that the CFPB can take advantage of opportunities to further ensure that cardholders properly use purchase cards and comply with applicable laws, regulations, and the CFPB's policies and procedures. In addition, we determined that efficiencies in monitoring could be achieved if the CFPB used reports available from the CCRS.

Recommendations

We recommend that the Assistant Director for Procurement

1. Direct the AOs to ensure that cardholders
 - a. maintain appropriate supporting documentation in their purchase card files.
 - b. use convenience checks as the last resort and, if used, document the reason in their convenience check logs.
 - c. document the reason for any purchases that may have an appearance of a split transaction.
2. Ensure that the APC
 - a. expands the quarterly compliance audit to include review of receipts, invoices, and payment of taxes.
 - b. assesses the effectiveness of the recently implemented exit procedures for separating cardholders, including the exit checklist and related system, and makes adjustments as necessary.
 - c. uses available reports from CCRS as appropriate.

Management's Response

The Assistant Director for Procurement concurred with our recommendations. Excerpts from the Assistant Director's response are below.

Regarding recommendation 1, the Assistant Director stated the following:

- a. Concur. On September 12, 2013, the Senior Procurement Executive sent a memorandum to all approving officials reinforcing the importance of periodically checking cardholder files to ensure they are maintaining required records.

- b. Concur. As noted in the report, CFPB immediately updated the convenience check logs to include a column for each cardholder to note the reason for using a convenience check, rather than a credit card.
- c. Concur. In the course of its audit of 3,324 micro-purchases, OIG identified one transaction that initially appeared to be split. The Bureau was pleased to learn that the transaction was ultimately validated as proper (i.e., it was not, in fact, split). The APC's quarterly compliance review has been updated to include a review of a CCRS report on split tickets for the period to avoid the appearance of split tickets in the future. The APC will follow up with cardholders and document the results of the report.

Regarding recommendation 2, the Assistant Director stated the following:

- a. Concur. The quarterly compliance audit template has been updated to include the review of receipts, invoices, and payment of taxes.
- b. Concur. The quarterly compliance audit template has been updated to include the review of the effectiveness of current exit procedures for cardholders separating from service at the Bureau.
- c. Concur. The quarterly review has been updated to include the use of the CCRS report for split tickets.

See appendix B for additional management comments related to these recommendations.

OIG Comment

We believe that the actions described by the Office of Procurement are responsive to our recommendations. We plan to follow up on the Office of Procurement's actions to ensure that each recommendation is fully addressed.

Management's response to recommendation 1.c. indicates that the OIG identified one transaction that initially appeared to be split and the transaction was ultimately validated as proper (i.e., it was not, in fact, split). As the report states, we identified 36 transactions that had the appearance of being split; upon closer examination we determined that 3 of these transactions were clearly not split and therefore required no additional documentation.

Appendix A

Scope and Methodology

The overall objective for this audit was to assess whether the controls for the CFPB's purchase card program were adequate to (1) ensure that purchase card use is appropriate and in compliance with applicable laws, regulations, and the CFPB's policies and procedures and (2) prevent and detect improper or fraudulent use of purchase cards.

To accomplish our objectives, we reviewed the Charge Card Act; OMB Circular A-123, Appendix B; and FAR Part 13. We also reviewed the BPD's 2011 *Government Purchase Card Procedures*, the CFPB's Purchase Card Guides for the Mobile Workforce and Flagship Cardholders, and other relevant documentation pertaining to the purchase card program. We also reviewed several reports from the CCRS, such as the Transaction Detail Report and the Account Status Report.

We interviewed staff in the CFPB's Office of Procurement, including the APC, to gain an understanding of the program and its internal controls. We also spoke with BPD staff who provide the CFPB with purchase card administrative services, to gain an understanding of their roles and responsibilities in the process.

Based on the information we gathered and our understanding of the CFPB's purchase card program, we developed detailed summaries of the program's processes and procedures and identified relevant controls to test during our fieldwork. The scope of our audit included purchase card data from April 1, 2012, to March 31, 2013.

We accomplished our objective by conducting the following tests:

- We reviewed the application packages for 39 of the 99 new cardholders to determine whether required training was completed and application was properly processed.
- We inspected training certificates for all 20 AOs to confirm completion of required training.
- We reviewed supporting documentation for 78 of the 3,324 transactions under \$3,000 to determine whether these micropurchases were in compliance with applicable policies and procedures. Documents reviewed included checklists, purchase card logs, receipts/invoices, prior authorizations, and statement reconciliations for each sample transaction.
- We reviewed supporting documentation for 3 of the 7 transactions over \$3,000 to determine whether purchases exceeding micropurchase threshold were in compliance with applicable policies and procedures. We verified that the required documents were reviewed and approved by designated officials and that each sample transaction was carried out by a warranted contracting officer.

- We reviewed supporting documentation for all 5 auto-closed statements⁹ to determine whether the AOs approved these statements in a timely manner.
- We reviewed supporting documentation for 5 of the 27 convenience check transactions to determine appropriate usage of convenience checks. Specifically, we reviewed the convenience check log, receipt or invoice, and approval documents to determine whether the convenience check was used as the last resort (i.e., the vendor did not accept purchase cards).
- We reviewed supporting documentation for all 23 closed accounts to determine whether accounts were closed in a timely manner. We also reviewed the Transaction Detail Report from the CCRS to determine whether employees used their purchase card after the account was closed.
- We reviewed supporting documentation for 36 of the 48 transactions that had the appearance of split purchases to determine whether cardholders split purchases into two or more transactions to circumvent the purchase limitations. Specifically, we reviewed the approval documents, purchase card log, checklist, and receipt or invoice for each sample transaction.
- We reviewed supporting documentation for 21 of the 105 transactions with blocked MCCs to determine whether these transactions were proper and authorized and in compliance with applicable policies and procedures. Documents we reviewed included checklists, purchase card logs, receipts and invoices, prior authorizations, and reconciliations for each sample transaction.
- We assessed the APC's oversight activities to ensure that the APC is effectively monitoring the purchase card program for unauthorized or fraudulent transactions. We reviewed APC's various reports and checklists that are associated with the APC's monthly and quarterly monitoring activities.
- We evaluated the types of MCCs that the CFPB currently allows and blocks to prevent unauthorized or fraudulent transactions. Specifically, we compared the current listing of allowable MCCs to the listing of prohibited purchases to determine the adequacy of the current listing of allowable MCCs.

We performed the audit from March 2013 to August 2013.

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.

9. Auto-closed statements are statements that are automatically closed due to a lack of timely approval of the monthly statements. The auto-close process was established to ensure the purchase card payment status remains current.

Appendix B

Management's Response



1700 G ST NW, Washington DC 20552

Ms. Cynthia Gray
Senior OIG Manager for Financial Management and Internal Controls
Inspector General
Board of Governors of the Federal Reserve System and
Consumer Financial Protection Bureau
20th and C Streets, NW
Washington, DC 20551

Dear Ms. Gray,

Thank you for the opportunity to review and comment on the Office of Inspector General's draft report entitled *Opportunities Exist for the CFPB to Strengthen Compliance with Its Purchase Card Policies and Procedures*. We have reviewed the report and appreciate the recommendations provided.

The Consumer Financial Protection Bureau's (CFPB or Bureau) Office of Procurement supports the Bureau's mission by establishing processes and executing contract actions to provide goods and services. In May 2011, the Bureau implemented a purchase card program to streamline the acquisition process for qualifying purchases. The CFPB's Office of Procurement actively manages the purchase card program and ensures that the program complies with applicable laws, regulations, policies, and procedures.

In keeping with the Bureau's overarching policy of transparency and efforts to be open and accountable for Bureau spending, we were happy to provide OIG with unrestricted access to our full database of purchase cardholder statements in the CitiDirect system from the beginning of the program through present. We also provided access to the same Citi reporting system that we use for our internal audit process, which enabled the OIG team to efficiently review cardholder activity in-depth, including 3,324 transactions under \$3,000.

We appreciate the notation throughout OIG's report of multiple "Commendable Actions" for CFPB-initiated internal control innovations, including the new exit procedures and the quarterly compliance review we proactively instituted prior to your audit. Also, your team praised our immediate corrective action to revise the convenience check log in response to the single transaction, related to an inadvertent cardholder error, identified during the audit.

We are pleased that your thorough audit concluded that our office has not only established adequate internal processes and procedures, but also is operating effectively to ensure that the program is in compliance with applicable laws, regulations, and internal procedures. This

enables the Bureau to prevent and detect potentially improper or fraudulent purchase cards transactions.

We are also pleased by your acknowledgement that CFPB has implemented a number of changes to further enhance our existing internal controls and oversight process, including refining our purchase card application and closure processes and increasing the number of approving officials, setting low dollar credit limits, and restricting the allowable merchant category codes (MCCs) for cardholders.

Further, we concur with your recommendations and have taken the following corrective actions:

Recommendation 1 - Direct the Approving Officials to ensure that

a. cardholders maintain appropriate supporting documentation in their purchase card files.

Concur. On September 12, 2013, the Senior Procurement Executive sent a memorandum (attached) to all approving officials reinforcing the importance of periodically checking cardholder files to ensure they are maintaining required records. The draft Purchase Card policy requires AOs to maintain appropriate supporting documentation: "The AO ensures that the CH file is complete and accurate and that purchases conform to Bureau policy. The AO is also responsible for obtaining the CH file upon departure and retaining those records for three years from the date of purchase."

b. use convenience checks as the last resort and, if used, document the reason in their convenience check logs.

Concur. As noted in the report, CFPB immediately updated the convenience check logs to include a column for each cardholder to note the reason for using a convenience check, rather than a credit card. CFPB expects this change to bring cardholder compliance with this policy from 99.97% to 100%.

c. document the reason for any purchases that may have an appearance of a split transaction.

Concur. In the course of its audit of 3,324 micro-purchases, OIG identified one transaction that initially appeared to be split. The Bureau was pleased to learn that the transaction was ultimately validated as proper (i.e., it was not, in fact, split). The APC's quarterly compliance review has been updated to include a review of a CCRS report on split tickets for the period to avoid the appearance of split tickets in the future. The APC will follow up with cardholders and document the results of the report.

Recommendation 2 - Ensure that the APC

a. expands the quarterly compliance audit to include review of receipts, invoices, and payment of taxes.

Concur. The quarterly compliance audit template has been updated to include the review of receipts, invoices, and payment of taxes. This expansion of our existing process will identify any taxes inadvertently charged by those vendors that lack the ability to separate taxes from total transaction amounts on Citibank statements.

b. *assesses the effectiveness of the recently implemented exit procedures for separating cardholders, including the exit checklist and related system, and makes adjustments as necessary.*

Concur. The quarterly compliance audit template has been updated to include the review of the effectiveness of current exit procedures for cardholders separating from service at the Bureau.

c. *uses available reports from CCRS as appropriate.*

Concur. The quarterly review has been updated to include the use of the CCRS report for split tickets. This enhancement of our current process, which tracks transaction trends to identify potentially noncompliant transactions and which identified all of the potentially split tickets identified by OIG during its audit, will provide additional assurance of compliance.

We are grateful to you and your staff for their professionalism and courtesy in conducting this review.

Sincerely,



David P. Gragan
Assistant Director for Procurement



OFFICE OF INSPECTOR GENERAL

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
CONSUMER FINANCIAL PROTECTION BUREAU

HOTLINE

1-800-827-3340

OIGHotline@frb.gov

Report Fraud, Waste, and Abuse

Those suspecting possible wrongdoing may contact the
OIG Hotline by mail, e-mail, fax, or telephone.

Office of Inspector General, c/o Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW, Mail Stop K-300, Washington, DC 20551
Attention: OIG Hotline

Fax: 202-973-5044

Questions about what to report?

Visit the OIG website at www.federalreserve.gov/oig
or
www.consumerfinance.gov/oig