



OFFICE OF INSPECTOR GENERAL

Audit Report

2013-AA-B-006

# Controls over the Board's Purchase Card Program Can Be Strengthened

March 29, 2013

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

## Report Contributors

Kyle Brown, OIG Manager  
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## Abbreviations

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Board	Board of Governors of the Federal Reserve System
GSA	General Services Administration
JPMC	JPMorgan Chase
MCC	Merchant Category Code

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# **Executive Summary:**

## **Controls over the Board's Purchase Card Program Can Be Strengthened**

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### **Purpose**

Our overall objective for this audit was to evaluate the effectiveness of controls over the purchase card program of the Board of Governors of the Federal Reserve System (Board). Specifically, we assessed the effectiveness of controls for issuing cards and ensuring proper use, including (1) determining if controls were adequate to ensure cardholder compliance with Board policies and procedures, and (2) assessing whether controls were adequate to prevent and detect improper use and fraudulent use of purchase cards.

### **Background**

The Board participates in the government-wide purchase card program known as the General Services Administration SmartPay2 program. Through this program, the Board contracts for purchase card services with JPMorgan Chase (JPMC), and it authorizes JPMC to issue purchase cards to designated employees. JPMC invoices the Board for cardholders' purchases, which are required to comply with the Board's *Acquisition* policy and *Purchase Card Procedures*. The Board is liable for transactions made by these authorized cardholders.

### **Findings**

Overall, we found that controls over the Board's purchase card program can be strengthened. Controls for issuing cards, training new cardholders, and recording and reconciliation by cardholders of purchases were working as intended. However, we found that controls to ensure that cardholders properly use purchase cards and comply with Board policies and procedures were not working as described in the Board's *Purchase Card Procedures*. We also found that controls designed to prevent and detect unauthorized purchases can be strengthened.

Our testing did not identify any fraudulent purchases. However, we found that more than 60 percent of the purchases in our sample lacked evidence of approval due to the absence of postcertification reviews.

### **Recommendations**

Our report contains three recommendations designed to help strengthen controls for ensuring compliance with purchase card policies and procedures and for detecting potentially unauthorized transactions.

### **Management's Response**

Management stated that it concurred with the process improvements included in our recommendations and have begun implementing parts of the recommendations. Management also provided additional perspective on the recommendations and planned or completed actions to further enhance its processes and related controls.

Access the full report: [http://www.federalreserve.gov/oig/files/FRB\\_Purchase\\_Card\\_Program\\_full\\_Mar2013.pdf](http://www.federalreserve.gov/oig/files/FRB_Purchase_Card_Program_full_Mar2013.pdf)

For more information, contact the OIG at 202-973-5000 or visit [www.federalreserve.gov/oig](http://www.federalreserve.gov/oig).

## Summary of Recommendations, Report No. 2013-AA-B-006

Rec. no.	Report page no.	Recommendation	Responsible office
1	12	<p>Update the <i>Purchase Card Procedures</i> to</p> <ul style="list-style-type: none"> <li>a. require initial and periodic training for approving officials</li> <li>b. require periodic training for cardholders</li> <li>c. ensure that approving officials' responsibilities for reviewing documentation during monthly reviews of cardholders' transactions are aligned with cardholders' responsibilities for retaining documentation on purchases</li> <li>d. refer to reports and tools for reconciling transactions provided by the current card issuer</li> </ul>	Division of Financial Management
2	13	<p>Ensure that the program coordinator</p> <ul style="list-style-type: none"> <li>a. provides training at regular intervals to approving officials and cardholders to ensure that they are aware of their duties and responsibilities</li> <li>b. reviews employee separation reports to maintain an accurate listing of approving officials</li> <li>c. conducts sufficient and timely cardholder and division reviews of the Board's purchase card program to ensure compliance with policy and procedures and reduce the risk that unauthorized and fraudulent purchases may go undetected</li> </ul>	Division of Financial Management
3	18	<p>Ensure that the program coordinator strengthens the controls to prevent and detect unauthorized purchase card transactions by</p> <ul style="list-style-type: none"> <li>a. reviewing and updating the list of allowable, flagged, and blocked merchant category codes</li> <li>b. conducting regular reviews of card issuer reports of suspicious and failed transactions and providing notice to cardholders' managers as appropriate</li> </ul>	Division of Financial Management



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

March 29, 2013

**MEMORANDUM**

**TO:** Bill Mitchell  
Director, Division of Financial Management

**FROM:** Cynthia Gray *Cynthia Gray*  
Senior OIG Manager for Financial Management and Internal Controls  
Audits and Evaluations

**SUBJECT:** OIG Report No. 2013-AA-B-006: *Controls over the Board's Purchase Card Program Can Be Strengthened*

Attached is a copy of an audit report that the Office of Inspector General (OIG) recently completed regarding the purchase card program of the Board of Governors of the Federal Reserve System (Board). The OIG conducted this audit to identify opportunities to strengthen the internal controls of the Board'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 you outlined actions that you have taken or that you plan to take to address our recommendations. We have included your response as appendix B to our report.

We appreciate the cooperation that we received from Board staff during our audit. This report will be added to our public website and will be summarized in our next semiannual report to Congress. Please contact me if you would like to discuss this report or any related issues.

Attachment

cc: Donald Hammond  
Christine Fields  
Michael Kelly



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# Introduction

## Objective

Our overall objective for this audit was to evaluate the effectiveness of controls over the purchase card program of the Board of Governors of the Federal Reserve System (Board). Specifically, we assessed the effectiveness of controls for issuing cards and ensuring proper use, including (1) determining if controls were adequate to ensure cardholder compliance with Board policies and procedures, and (2) assessing whether controls were adequate to prevent and detect improper use and fraudulent use of purchase cards.

## Background

The Board participates in the government-wide purchase card program known as the General Services Administration (GSA) SmartPay2 program to streamline payment procedures and reduce administrative costs of acquiring low-cost, standard items.<sup>1</sup> Through this program, the Board contracts for purchase card services with JPMorgan Chase (JPMC), and it authorizes JPMC to issue purchase cards to designated employees.<sup>2</sup> JPMC invoices the Board for cardholders' purchases, and the Board is liable for transactions made by these authorized cardholders.<sup>3</sup> Cardholders' purchases are required to comply with the Board's *Acquisition* policy and *Purchase Card Procedures*. The Board has independent procurement authority and, therefore, is not required to follow the Federal Acquisition Regulation. The Board generally follows the spirit of the Federal Acquisition Regulation.

The Government Accountability Office and other Offices of Inspector General have reported that federal agencies have failed to ensure proper use of purchase cards. In light of these prior reports as well as the purchase card program's susceptibility to waste, fraud, and abuse, we conducted this audit. In the future, we plan to conduct periodic reviews of the purchase card program.

### ***Acquisition Policy***

The Board's 2010 *Acquisition* policy governs its acquisition of supplies, services, construction, and real property. Under the policy, the Board considers cardholders as contracting officers and permits cardholders to use the purchase card to acquire and pay for

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1. In June 2007, the GSA awarded a set of master contracts to Citibank, JPMorgan Chase, and U.S. Bank to provide credit card services to government agencies. The JPMorgan Chase 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).
  2. JPMC became the Board's card issuer in 2008.
  3. Cardholders who make unauthorized purchases or whose cards are used by an unauthorized individual may be liable to the Board for the total dollar amount of the unauthorized purchase(s).

supplies and services that cost \$5,000 or less, subject to the cardholder's purchasing limit.<sup>4</sup> Cardholders should not use purchase cards for renting or leasing land or buildings; obtaining cash advances; or paying for telecommunications services, capital assets, entertainment, food, beverages, or travel-related expenses. Cardholders are also prohibited from using the purchase card for personal charges. The policy allows cardholders to use the purchase card for transactions that exceed \$5,000 if the transaction is within the cardholder's purchasing limit, and the cardholder follows other appropriate acquisition procedures, such as simplified purchase procedures<sup>5</sup> and procedures for purchases from the GSA *Federal Supply Schedule*.<sup>6</sup>

## **Purchase Card Procedures**

The Board's 2007 *Purchase Card Procedures* gives the manager of the Procurement section, which is part of the Board's Division of Financial Management, overall responsibility for administering the Board's purchase card program. A supervisory purchasing agent within the Procurement section serves as the Board's program coordinator. The program coordinator is responsible for serving as the liaison between the Board and JPMC and between the Board and the GSA contracting officer, opening new card accounts, establishing guidelines for proper use of the cards, establishing purchase limits, monitoring the approval of cardholders' purchases, monitoring cardholders' purchases for improper use, and canceling accounts. The program coordinator also conducts administrative training related to the program.

The Board's *Purchase Card Procedures* and individual cardholders' Purchase Card Acknowledgment Forms outline specific responsibilities for cardholders and approving officials. Cardholders are responsible for, among other things, using the purchase card only for official Board business and authorized purchases, certifying the quantity and quality of items or services purchased, complying with purchase limits, documenting purchases in a log, maintaining evidence for each purchase made for three years, reconciling logged purchases to a monthly statement of account, obtaining approval from an approving official during each billing cycle, and reconciling transactions and assigning accounting codes to purchases prior to the end of the billing cycle. Approving officials are responsible for conducting postcertification reviews, which are reviews and approvals of cardholders' logs and supporting documentation after purchases have been made to verify that purchases are appropriate and properly accounted for.

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4. Some cardholders may have higher limits that have been authorized by the program coordinator in consultation with their division director.
  5. For purchases exceeding \$5,000, under simplified purchase procedures, the contracting officer is required to review written quotes from at least three vendors and select the one that most cost effectively meets the Board's needs for purchases.
  6. The contracting officer may purchase supplies and services listed on the GSA *Federal Supply Schedule* without further competition.

# Summary of Findings

Overall, we found that controls over the Board's purchase card program can be strengthened. Controls for issuing cards, training new cardholders, and reconciliation of purchases and assignment of accounting codes by cardholders were working as intended. However, we found that controls implemented to ensure that cardholders properly use purchase cards and comply with Board policies and procedures were not working as described in the Board's *Purchase Card Procedures*. We also found that controls designed to prevent and detect unauthorized purchases can be strengthened. Specifically, we found the following:

- Approving officials did not conduct postcertification reviews to review and approve cardholders' purchases and did not detect instances of cardholders' noncompliance with existing policies and procedures.
- Procedures used to provide guidance to cardholders and approving officials are incomplete and outdated.
- The program coordinator did not conduct monthly reviews of a sample of cardholders' and divisions' purchases as required.
- The program coordinator has not blocked or flagged certain merchant category codes (MCCs) that could potentially allow cardholders to use their purchase cards for unauthorized transactions.<sup>7</sup>
- The program coordinator did not review available JPMC reports of unusual activity or declined card use.

Our testing did not identify any fraudulent purchases. However, we found that more than 60 percent of the purchases in our sample lacked evidence of approval due to the absence of postcertification reviews. Our report contains three recommendations designed to help strengthen controls for ensuring compliance with purchase card procedures and for detecting potentially unauthorized transactions.

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7. According to the GSA's SmartPay2 glossary, an MCC is a four-digit code that identifies the type of business a merchant conducts (e.g., courier services, uniforms, utilities). There are 1,004 MCCs. Merchants select an MCC with their bank based on their primary business. However, merchants may offer products that are unrelated to their primary business. Federal agencies may block certain codes to prevent unallowable purchases and flag others that may pose a risk of improper use.

# Finding 1: Controls Can Be Strengthened to Ensure Compliance with Purchase Card Policy and Procedures

We found that internal controls to ensure that cardholders properly use their purchase cards and comply with the *Acquisition* policy, the *Purchase Card Procedures*, and the responsibilities outlined in the Purchase Card Acknowledgment Form were not working as described in the procedures. Specifically, we found that (1) approving officials did not conduct postcertification reviews to approve cardholders' purchases and ensure compliance with policies and procedures, (2) cardholders did not comply with policy and procedures, (3) procedures are incomplete and outdated, and (4) the program coordinator did not conduct monthly reviews of a sample of cardholders' and divisions' purchases. Approving officials were not trained to perform postcertification reviews, and according to the program coordinator, insufficient staff resources along with other procurement-related priorities limited the coordinator's ability to maintain proper oversight and monitor the purchase card program. As a result, management lacks assurance that purchases were authorized and received at the best value. The Board also incurred unnecessary costs due to cardholders' failure to notify vendors of the Board's tax-exempt status.

## Approving Officials Did Not Conduct Postcertification Reviews

During our audit, we judgmentally selected a sample of 362 of the 7,325 purchases (approximately 5 percent) totaling \$312,023.93, charged during the period of our review, December 31, 2010, to January 1, 2012, made by 25 of the 92 cardholders at the Board, to determine whether approving officials conducted postcertification reviews to approve cardholders' purchases and to ensure that cardholders' purchases complied with the Board's *Acquisition* policy, *Purchase Card Procedures*, and the responsibilities outlined on the Purchase Card Acknowledgment Form (see appendix A for details on our scope and methodology). We found that for 13 of the 25 cardholders, approving officials did not perform postcertification reviews as required and did not detect cardholders' noncompliance with the policy and procedures. These reviews were not performed because approving officials were unaware of their responsibilities – training is not provided to approving officials unless they request it. In addition, we found that the program coordinator did not maintain an up-to-date list of approving officials and some cardholders did not know who their approving official was.

Postcertification reviews are a control for detecting unauthorized transactions. Approving officials should conduct these reviews regularly to help ensure cardholder and purchase card program integrity. Each month, approving officials are required to review cardholders' transaction logs of monthly purchases along with supporting documentation to ensure that cardholders made purchases in accordance with the Board's *Acquisition* policy and *Purchase Card Procedures*. Approving officials are also required to initial cardholders' transaction logs as evidence of their review and approval of purchases. In addition to verifying that cardholders recorded all of their purchases in a log, approving officials conduct

postcertification reviews to determine whether the cardholder

- made purchases that appear to be outside of the cardholder's area of responsibility
- repeatedly conducts business with the same vendors (minimal rotation)
- has multiple purchases with the same vendor within a short time frame that total more than \$5,000
- has multiple declined authorizations
- has multiple purchases of even dollar amounts
- consistently reaches established monthly spending limits
- maintains backup documentation from individuals requesting items
- has disputed purchases on a frequent basis
- has proof of purchases (receipts)
- reconciles the card issuer's report of transactions to his or her transaction log

During our transaction testing, we noted that postcertification reviews were not obtained from, or conducted by, approving officials for 13 of the 25 cardholders we interviewed. These cardholders were responsible for 228 of the 362 sampled transactions (approximately 63 percent), totaling \$178,951.48. We determined that these cardholders did not obtain the required approval because the cardholders (1) did not know who their approving official was or (2) provided their purchase logs for review, but the approving official did not sign the log. We found that approving officials did not conduct postcertification reviews because they were not aware of their responsibilities. As a result, management lacks assurance that these transactions were authorized.

Because of the absence of approving official reviews and the instances of noncompliance with policy and procedures identified below, we inspected the program coordinator's list of approving officials and surveyed a judgmental sample of 24 listed approving officials to determine whether they had received training on their responsibilities. We found that of the 18 listed approving officials who responded to our survey, 6 indicated that they did not receive any training, 5 indicated that they are no longer approving officials for purchase card transactions, 4 said that they were not assigned approving official responsibilities, and 3 indicated that they could not recall the dates training was provided to them.

We also found that the program coordinator neither periodically updated the approving officials listing with new division designees nor reviewed the Board's separations list to identify approving officials who were separating from the Board to identify replacements. We reviewed the list of approving officials that the program coordinator provided to us and found that it included three employees who had separated from the Board. We provided to the program coordinator for follow up a list of cardholders who could not identify their appropriate approving official. In response to the list that we provided to the program coordinator, he stated that all cardholders should have an approving official, and he assigned approving officials to those cardholders without one. The program coordinator noted that he had not regularly reviewed separation reports to identify separating or separated approving officials because of other procurement-related priorities and the lack of sufficient staff. The program coordinator added that he now has sufficient staff to perform the reviews.

## **Cardholders Did Not Comply with Policy and Procedures**

Our testing revealed that 65 of the 362 purchases (approximately 18 percent), made by 20 cardholders, did not comply with one or more policy requirements. Specifically, we found that cardholders (1) did not keep invoices or other purchase confirmation documentation, (2) split purchases into two or more transactions and cumulatively exceeded their single-purchase limits, (3) did not properly inform vendors of the Board's tax exempt policy, (4) did not follow appropriate acquisition procedures for purchases exceeding \$5,000, and (5) made three purchases that were not clearly linked to official Board business. Our discussions with these cardholders revealed that some were not aware of their responsibilities while others knew but still did not comply with the policy and procedures. For example, we found that one cardholder did not follow simplified purchasing procedures in order to expedite her transaction.

### ***Supporting Documentation Was Not Retained***

Cardholders are required to enter a complete description of each purchase and assign the correct accounting code to the transaction during the monthly reconciliation process. Vendors' invoices and other confirmations of purchase are the primary source for this information and should be reconciled with the purchase log, JPMC monthly Statement of Account, and allocation reports to ensure that all transactions are recorded and properly accounted for. In addition, cardholders are required to maintain for three years evidence of all purchases made. During the audit, we found that supporting documentation, such as the invoice or order confirmation, was not maintained for 35 of the 362 purchases (approximately 10 percent), which totaled \$32,903.24 (table 1). In general, the eight cardholders responsible for these purchases told us that they received invoices for the purchases they made, but had lost or misplaced some of them. We did not find documentation, in general, that would indicate that an approving official reviewed and signed these cardholders' transaction logs.

**Table 1: Purchases without Supporting Documentation Identified during Transaction Testing**

Cardholder	# of transactions tested	Item(s) purchased	Value of transaction(s)	Purchase log reviewed by approving official
1	1	Software maintenance	\$2,611.06	No
2	1	Tool box	299.01	No
3	1	Books	1,115.68	No
4	2	Uniforms and alterations of uniforms for staff	6,230	No
5	1	Laptop	1,852.88	Yes
6	9	Safety shoes for staff	2,165.30	No
7	1	S&P fact book	113.37	No
8 <sup>a</sup>	19	Pre-employment screening service, medical supplies, drug testing service, etc.	18,515.34	No
<b>Total</b>	<b>35</b>		<b>\$32,903.24</b>	

<sup>a</sup> Cardholder said that he transferred from one division to another division in September 2011 and left all of his invoices with another employee in the former division. Personnel from the former division informed the audit team that the division had discarded all of the cardholder's invoices.

### ***Purchases Were Split***

In general, purchase card use is limited to purchases of goods and services costing \$5,000 or less. The procedures state that “aggregated purchasing requirements that exceed cardholders’ purchasing limits . . . shall not be broken down into several purchases that are less than the limit in order to permit use of the government purchase card.” To help the Board acquire the highest-quality supplies at the best possible price, purchases that exceed \$5,000 should be made in accordance with other appropriate acquisition procedures outlined in the *Acquisition* policy.

During our testing, we found four purchases totaling \$21,591.50 (which represents approximately 7 percent of the total value of purchases sampled) that were split into eight transactions by two cardholders who exceeded their single-purchase limit (table 2). These cardholders indicated that they were aware of the policy prohibiting split purchases and told auditors that they were instructed by a supervisor to split transactions. We provided the details of these transactions to the program coordinator for follow-up action. We did not find evidence to indicate that an approving official reviewed and signed the transaction logs of the cardholders who split their purchases to avoid exceeding their single-purchase limit.

**Table 2: Split Purchases Identified during Transaction Testing**

Cardholder	Transaction date	No. of transactions, same vendor/ same day	Transaction amounts	Description of purchase	Purchase log reviewed by approving official
1	02/15/2011	2	\$2,550.00 each	Software	No
	04/13/2011	2	2,720.00 each	Laptops for two new employees	
2	02/08/2011	2	4,000.00 and 1,019.90	Toner	No
	07/20/2011	2	4,888.80 and 1,142.80	Uniforms	
<b>Total</b>		<b>8</b>	<b>\$21,591.50</b>		

We discussed these transactions with the program coordinator, who acknowledged that these transactions should not have occurred. The program coordinator commented that the Procurement section is now fully staffed and will increase the number of monthly audits (cardholder and division reviews) that it performs as part of the section’s oversight responsibility to ensure compliance with policies and procedures. As a result of our audit, the program coordinator stated that going forward, when he identifies split purchases, he will ask the appropriate approving official to note the action in the cardholder’s log and take steps to ensure that the cardholder does not split future purchases.

### ***State and Local Taxes Were Paid and Not Refunded***

The procedures state that cardholders should notify vendors that purchases are for official Board purposes and therefore are not subject to state and local tax. In the case of face-to-face transactions, vendors can verify the Board’s tax-exempt status by inspecting the purchase card—the card is stamped “US Govt Tax Exempt” for additional clarification. Vendors can also request a tax-exemption certificate. Nonetheless, we found that 17 of the 362 purchases (approximately 5 percent) made by 14 cardholders included sales tax that totaled \$563.31. Three of the 14 cardholders, each accounting for a single purchase, stated that they requested from the vendor a refund of sales taxes paid; however, we did not find any evidence of actual refunds.

Our discussions with cardholders suggest that some were unfamiliar with their responsibilities regarding taxes. For example, two cardholders told auditors that they did not realize that the vendor had added taxes to their purchases; one of the two also said that he was unaware of the Board’s tax-exempt status. Another cardholder thought that the vendor would automatically refund the taxes paid.

### ***Purchases Exceeding \$5,000 Did Not Follow Appropriate Acquisition Procedures***

The policy allows cardholders to use the purchase card for transactions that exceed \$5,000 if the transaction is within the cardholder’s purchasing limit and the cardholder follows other

appropriate acquisition procedures, such as simplified purchase procedures. We used JPMC's Transaction Detail Report to identify single-purchase transactions greater than \$5,000 and to determine whether cardholders complied with the *Acquisition* policy and *Purchase Card Procedures*. We identified six transactions made by four cardholders that exceeded \$5,000. Of these six transactions, we found that two cardholders did not follow simplified purchase procedures or other appropriate acquisition procedures as required.

To determine what the two cardholders purchased, we inspected JPMC's Transaction Detail Report. One of the two cardholders had a single purchase limit of \$7,500 and purchased china for a Board dining room costing \$5,544.34. In this instance, the cardholder believed that purchases over \$5,000 are allowable as long as the purchase did not exceed the cardholder's single purchase limit, so the cardholder did not perform additional required procedures for single purchases over \$5,000. The second cardholder had a single purchase limit of \$5,000, but made a single purchase of \$11,947.50 for 10 user licenses. The cardholder told us that she did not follow simplified purchase procedures because there was insufficient time to complete the transaction before year-end. Although this transaction exceeded this cardholder's purchase limit, we determined that it was processed by JPMC because a single purchase limit was not recorded in JPMC's PaymentNet system when the account was created. According to Board officials, to establish a purchase card account and purchase limit, the program coordinator completes a JPMC paper application for the employee and forwards an electronic version to JPMC for processing. The cardholder's paper application identified \$5,000 as her single purchasing limit, but JPMC inadvertently left that field blank.

### ***Three Purchases Were Not Clearly Linked to Official Board Business***

The purchase cardholder acknowledgement form states that the cardholder agrees to use the purchase card only for official Board business and authorized purchases. During our testing, we found that management in three divisions requested three purchases that were not clearly linked to official Board business.<sup>8</sup> According to the program coordinator, cardholders can use their purchase card for certain transactions at the discretion of division management. We found that two of the three purchases were reviewed and approved by approving officials during postcertification reviews, while the third was not reviewed.

## **Procedures Are Incomplete and Outdated**

During our review, we found that the Board's 2007 *Purchase Card Procedures* is incomplete and outdated. It does not require training for approving officials, does not align cardholder and approving official responsibilities, and does not require refresher training for cardholders. The procedures refer to Bank of America reports, tools, and software available to cardholders and approving officials (Bank of America previously held the purchase card contract) instead of JPMC PaymentNet reports that are currently available to cardholders. We believe that the program coordinator should revise the procedures to address these issues. During our discussions, the program coordinator commented that the procedures had not been revisited because their primary intent had not changed significantly and because other procurement

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8. The three cardholders purchased transportation for Board employees to attend funerals—one for a current Board employee, one for a former Board employee, and one for the son of a current Board employee—at a total cost to the Board of \$2,150.40.

matters were of higher priority. The program coordinator stated that he is currently revising the procedures to address issues identified in this report.

### ***Approving Officials' Training Is Not Required***

The procedures include key responsibilities for approving officials that the program coordinator communicates to them during training; however, this training is informal and is only given if requested by the approving official. To determine whether approving officials received training specific to the duties described in the procedures, we (1) inspected the program coordinator's list of approving officials and (2) evaluated the 18 survey responses that we received from approving officials.

According to the survey results, some approving officials did not conduct monthly reviews because they were not aware of their responsibilities. Based on the number of instances we discovered of cardholders' noncompliance with existing procedures, we believe the procedures should require training for approving officials, e.g., the program coordinator should be required to provide approving officials with mandatory training specific to their responsibilities. The program coordinator agreed that providing approving official training would be beneficial and said that plans are underway to start the first class.

### ***Procedures Do Not Align Cardholder and Approving Official Responsibilities***

In addition, we noted that approving officials' responsibilities, as noted in the procedures, require them to determine whether cardholders maintain backup documentation from the individual requesting a purchase; however, the procedures lack a corresponding requirement for cardholders to request the documentation. Based on these observations, we believe that the procedures should be revised to clarify program requirements. The program coordinator said that he was aware of the inconsistent language in the procedures but did not believe a problem existed because not all Board divisions have the same process for requesting purchases or require requests to be written. The coordinator did agree that the procedures could be clarified to reflect differences in methods for requesting a purchase.

### ***Cardholders' Refresher Training Is Not Required***

The program coordinator told us he generally provides cardholders refresher training every three years to reinforce required duties and responsibilities and appropriate use of the card. However, we found that not all cardholders received refresher training every three years.

During the audit, we surveyed 49 of the 92 cardholders to determine whether they received refresher training.<sup>9</sup> Based on our review of the program coordinator's training log, which identified when cardholders received training during the period 2008 through 2011, and responses from 37 of the 49 cardholders surveyed, we determined that 5 cardholders did not

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9. The 49 cardholders surveyed include all 29 cardholders that signed acknowledgment forms in 2011 and 20 cardholders judgmentally selected from the 25 cardholders that we interviewed.

receive refresher training every three years. GSA best practices suggest that program coordinators should establish refresher training for cardholders to prevent cardholder misuse. We believe that the Board's *Purchase Card Procedures* should include a requirement for periodic refresher training for cardholders and approving officials.

## **Program Coordinator Did Not Perform Required Reviews**

The Procurement section is responsible for implementing key controls that provide oversight over the Board's purchase card program. To ensure that cardholders' purchases are for Board use and are authorized, the program coordinator is required, on a monthly basis, to review a sample of divisions' and cardholders' purchases and report the results to the appropriate official within each division. During our audit, we found that the program coordinator did not perform division and cardholder reviews as required.

According to the procedures, the program coordinator is required to conduct monthly division reviews to determine whether (1) purchase limits are followed, (2) charges are appropriate and do not include personal charges or unauthorized purchases, (3) vendors are rotated sufficiently, and (4) disputed transactions are identified. In addition to division reviews, the program coordinator should review transactions and supporting documentation for one cardholder each month to determine compliance with procedures for purchase card usage and report the results to the cardholder's approving official and senior division officials. During cardholder reviews, the program coordinator is required to inspect purchase logs and purchases receipts and verify supervisory signature approval of the purchase log. If the program coordinator identifies any issues, he should notify the cardholder, division administrator, and the approving official and request a response within 10 days.

The program coordinator did not perform any division reviews during 2011. According to the program coordinator, he did not perform division reviews because of staff shortages within the Procurement section. While we found that the program coordinator performed some cardholder reviews and prepared written summaries, these reviews did not occur at monthly intervals as required. We requested and inspected the results of 2011 cardholder reviews conducted by the program coordinator or members of his staff and discovered that only five cardholder reviews were conducted during the year: two each during March and December, and one during May. The scope of the reviews included an inspection of cardholders' purchase logs, purchase receipts, any correspondence related to transactions on JPMC's Statement of Account Report, and verification of the approving official's signature on the purchase log.

Based on our review of the above-mentioned written summaries, we determined that during the cardholder reviews, the program coordinator discovered that approving officials were not signing purchase logs to show that they had reviewed and approved the purchases listed on the log. In addition, written summaries of the cardholder reviews were not provided to the approving official or other appropriate senior division officials so that corrective action could be taken. The program coordinator did provide written summaries of his staffs' reviews to the Procurement Manager and to the Associate Director for Corporate Services in the Division of Financial Management, but did not provide the summaries to the appropriate approving official, Assistant Director, and Senior Associate Director as required. We discussed the matter with the program coordinator, who acknowledged that his office did not prepare some of the written summaries as required by the procedures. The program coordinator said that he

did not have sufficient staff in 2011 to address every requirement in the procedures; however, a new hire has been added to current staff to help manage the purchase card program.

We spoke with the Procurement Manager to determine the expectations for cardholder reviews, and he acknowledged that the program coordinator and staff did not conduct reviews each month. The Procurement Manager attributed the lack of frequency in performing the reviews to other procurement-related priorities, such as technical evaluations of bid proposals for contracts, and to insufficient staff resources.

The lack of division reviews and cardholder reviews, coupled with a reliance on approving officials who were unaware of their responsibilities for reviewing and approving purchase card transactions, increases the risk of not detecting and timely addressing unauthorized and fraudulent transactions. Although we did not find fraudulent transactions in the sample of transactions we tested, we did find instances of noncompliance with existing procedures that were not detected and addressed.

## Conclusion

Controls over the Board's purchase card program can be strengthened. Controls for issuing cards and training new cardholders were working as intended, and cardholders reconciled purchases and assigned accounting codes to purchases as required. However, we found that controls implemented to ensure that cardholders properly use purchase cards and comply with policy and procedures were not working as intended. We found that approving officials did not conduct postcertification reviews; several cardholders did not comply with proper use, documentation, and recordkeeping requirements; procedures were incomplete and outdated; and the program coordinator did not perform required cardholder and division reviews.

Our testing did not identify any fraudulent purchases. However, we found that more than 60 percent of the purchases in our sample lacked evidence of approval due to the absence of postcertification reviews. The Financial Management Division should strengthen existing controls to help prevent cardholders from making unauthorized purchases, detect possible card misuse, and ensure that purchase card transactions are recorded and approved in compliance with requirements.

## Recommendations

We recommend that the Director of the Division of Financial Management

1. Update the *Purchase Card Procedures* to
  - a. require initial and periodic training for approving officials
  - b. require periodic training for cardholders
  - c. ensure that approving officials' responsibilities for reviewing documentation during monthly reviews of cardholders' transactions are aligned with cardholders' responsibilities for retaining documentation on purchases
  - d. refer to reports and tools for reconciling transactions provided by the current card issuer

2. Ensure that the program coordinator
  - a. provides training at regular intervals to approving officials and cardholders to ensure that they are aware of their duties and responsibilities
  - b. reviews employee separation reports to maintain an accurate listing of approving officials
  - c. conducts sufficient and timely cardholder and division reviews of the Board's purchase card program to ensure compliance with policy and procedures and reduce the risk that unauthorized and fraudulent purchases may go undetected

## Management's Response

Regarding recommendation 1, the Division Director stated the following:

Concur. Procurement staff have begun reviewing the *Purchase Card Procedures* to address the observations discussed in the draft audit report regarding training for, and the responsibilities of, approving officials and cardholders. As part of the updated procedures, the Purchase Card Coordinator will maintain a database of approving officials and cardholders and will notify them of the need for refresher training.

Approving officials and cardholders will be required to sign an acknowledgement form indicating that they received training on their responsibilities, which include requirements for document retention. In addition, approving officials will be required to run and sign the Transaction Detail Report or similar report to validate the purchase card log of the cardholder. As part of the monthly purchase card reviews, the Purchase Card Coordinator will review the Transaction Report to verify that the approving officials are carrying out their duties and responsibilities.

Regarding recommendation 2, the Division Director stated the following:

Concur. As noted above, Procurement staff will provide initial and periodic refresher training to approving officials and cardholders to ensure that they are aware of and are carrying out their duties and responsibilities consistent with applicable policies and procedures.

The Purchase Card Coordinator will review the employee transfer and separation report on a regular basis to ensure that an accurate listing of approving officials and cardholders is maintained, and that purchase cards of transferring or separating employees are deactivated in a timely fashion.

To strengthen program oversight, the Purchase Card Coordinator will conduct monthly reviews of two divisions; depending upon the number of cardholders in a division, the review may include all division cardholders or a single cardholder within the division.

See appendix B for additional management comments related to this recommendation.

## **OIG Comment**

In our opinion, the actions described by the Division Director are responsive to our recommendation, and we plan to follow up on the Division's actions to ensure that the recommendation is fully addressed.

# Finding 2: Controls Can Be Strengthened to Prevent and Detect Unauthorized Transactions

We found that controls designed to prevent and detect unauthorized purchases can be strengthened. Specifically, we found that (1) the program coordinator had not blocked or flagged certain MCCs that could potentially allow cardholders to use their purchase cards for unauthorized transactions and (2) the program coordinator did not review available JPMC reports, which could aid in the detection of possible misuse of the purchase cards. The program coordinator has not updated the MCC listing, which includes allowable and blocked codes, since the Board's transition to JPMC as the card issuer and has not blocked or flagged some risky codes. In addition, the program coordinator told us that he does not utilize available JPMC reports because he has not found any past wrongdoing by cardholders. Without these controls, there is a risk that unauthorized or fraudulent purchases will be made and will go undetected.

## MCC Blocks and Flags Are Not Effectively Used

An MCC is a four-digit code that identifies the type of business a merchant conducts (e.g., office supplies, uniforms, books, subscriptions). Merchants select an MCC with their bank based on their primary business. However, merchants may offer products that are unrelated to their primary business. Federal agencies may block certain codes to prevent unallowable purchases and flag others that may pose a risk of improper use. We found that the program coordinator has neither flagged nor blocked several MCCs that have a higher likelihood of misuse. According to GSA procedures contained in *GSA SmartPay, The Basics of Travel, Purchase, Fleet and Integrated Charge Cards*, one way that agencies can mitigate fraud, waste, and abuse is to restrict charges by using MCC blocks.

As the administrator of the Board's purchase card program, the program coordinator has the discretion to turn codes on (allow) and off (block) for purchase card usage at the point of sale and to flag other codes for monitoring. The Board utilizes MCCs as both preventive and detective controls to ensure that cardholders do not make unauthorized purchases. To prevent unauthorized transactions, the Board has blocked the use of cards with vendors within specific MCCs. The Board also flagged transactions with vendors within other MCCs in order to detect transactions that could be unauthorized. JPMC makes available periodic reports on blocked and flagged activity that the program coordinator can use to detect possible misuse.

The *Purchase Card Procedures* groups unauthorized purchases into five broad categories: (1) travel, cash advances, entertainment, meals, food, or beverages; (2) telecommunications services; (3) capital assets; (4) rental or lease of land or building; and (5) personal charges. During our audit, we reviewed the PaymentNet list of the Board's MCCs and found 1,004 MCCs—639 are allowable, and 365 are blocked.

However, we noted that the Board's listing of allowable MCCs includes codes that we believe elevate the potential for cardholder misuse or fraud given their description. Although we did not find any transactions within these codes, we believe that 10 of the 639 allowable MCCs

should be blocked to protect against the risk of unauthorized or fraudulent transactions (table 3).

**Table 3: MCCs Identified by the OIG as Posing High Risk of Improper Transaction**

MCC number	Description
4829	Wire Transfers
6050	Electronic Cash Withdrawal
6051	Non-financial Institutions—Foreign Currency, Cheques
6211	Security Brokers/Dealers
6513	Real Estate Agents and Managers—Rentals
6760	Saving Bonds
7277	Counseling Services—Debt, Marriage, Personal
7278	Buying/Shopping Services, Clubs
7992	Golf Courses—Public
9223	Bail and Bond Payments

In addition, we identified allowable MCCs with activity descriptions that are similar or closely related to those of blocked MCCs. For example, MCC 5691—Men’s & Women’s Clothing Store is blocked, while MCCs 5611—Men’s & Boy’s Clothing and Accessories Store and 5631—Women’s Accessory & Specialty Shops are both allowable. Inconsistencies such as these could result in a cardholder making an improper transaction when doing business with a vendor with the 5611 or 5631 codes. Although we did not find any transactions processed within these blocked MCCs, we believe that the program coordinator should review and update the current list of blocked and allowable codes and group MCCs with similar descriptions as either blocked or allowable.

We evaluated the Board’s use of MCCs to detect and prevent unauthorized or fraudulent transactions by testing 221 transactions within 17 MCCs. These transactions were part of our judgmentally selected sample of 362 transactions. Our tests included inspection of the JPMC Transaction Detail Report describing the purchase and the cardholder’s invoice, and to the extent possible, we physically inspected the items purchased.

The program coordinator informed us that he has not updated the MCC listing, which includes blocked and allowable codes, since the Board’s transition to JPMC as the card issuer—a period of about three years—and that the listing includes certain MCCs that cardholders need to use. We believe that the listing includes some apparently risky codes that are allowable, but should be blocked or flagged as appropriate. According to the program coordinator, if the codes were blocked, the cardholder would have to call him and ask that the block be removed to allow the cardholder to make a purchase. We believe that the program coordinator should consider the level of risk as well as the frequency and need for use of MCCs when deciding whether to allow MCCs.

After we brought this matter to management’s attention, the program coordinator informed us that he blocked several MCCs. We have not tested these blocked MCCs.

## System Reports Are Not Effectively Used

We found that the program coordinator and his staff are not utilizing all available reports to detect possible misuse of purchase cards. GSA procedures explain that reports generated from the card issuer's Electronic Access System, in this case JPMC's PaymentNet System, could assist the program coordinator in managing the purchase card program. The program coordinator could monitor the program more effectively and efficiently by using reports that track purchase card activity. During our interviews, we learned that the program coordinator does not utilize the JPMC Declines Report and Unusual Activity Analysis Report to monitor purchase card activity.

The program coordinator told us that JPMC notifies him of potential fraud, lost or stolen purchase cards, or suspicious transactions; reviews actions taken by JPMC in PaymentNet; and contacts cardholders if necessary. Because the program coordinator does not retain these notifications, we were unable to verify how the information is used.

The Unusual Activity Analysis Report can be used to monitor unusual transaction activity and to determine whether such activity is Board related. According to JPMC, the Board has flagged four allowable codes to be reported on the Unusual Activity Analysis Report: 7230—Beauty Shops and Barber Shops, 7273—Dating & Escort Services, 7299—Miscellaneous Personal Services (Not Elsewhere Classified), and 7631—Watch, Clock & Jewelry Repair. For calendar year 2011, only one of the four flagged codes, MCC 7299, appeared on the report because it was the only code to generate activity. The report indicated that 11 cardholders made 20 purchases totaling \$12,065.68. We did not find evidence that these transactions were for other than appropriate Board purposes.

JPMC shows attempted but declined transactions, including transactions for blocked MCCs, on the Declines Report, which lists the date and time of attempted transactions and explains why a transaction has been declined. The Declines Report also lists transactions that were declined for reasons such as “exceeds single transaction limit for account.” During calendar year 2011, the Declines Report listed 344 declined transactions for various reasons, such as closed account, card expired, or invalid expiration date. We believe that the Declines Report could be useful in determining the types of purchases cardholders attempt to make, including those that are fraudulent.

The program coordinator does not monitor the Unusual Activity Analysis Report or the Declines Report because he stated that he has not found any past wrongdoing by cardholders. He explained to us that he essentially reviews declined transactions as they occur because cardholders call and inform him of their declined transactions. We believe that regular inspections of the Declines and the Unusual Activity Analysis Reports would strengthen the controls designed to prevent and detect misuse and fraudulent use of purchase cards.

## Conclusion

The Board can make better use of the available tools to prevent unauthorized or fraudulent purchase card transactions and detect suspicious use. Although we did not find evidence of any fraudulent transactions during our audit, opportunities exist for unauthorized or fraudulent purchases to occur because cardholders currently have access to merchants that provide goods and services that may be unrelated to official Board business. In addition, the program

coordinator is not monitoring appropriate JPMC-generated reports on a regular basis to detect possible fraudulent, unusual, or suspicious purchase card activity.

## **Recommendation**

We recommend that the Director of the Division of Financial Management

3. Ensure that the program coordinator strengthens the controls to prevent and detect unauthorized purchase card transactions by
  - a. reviewing and updating the list of allowable, flagged, and blocked MCCs
  - b. conducting regular reviews of card issuer reports of suspicious and failed transactions and providing notice to cardholders' managers as appropriate

## **Management's Response**

Regarding recommendation 3, the Division Director stated the following:

Concur. We agree that a periodic review of MCCs is prudent to (1) identify codes that should be blocked to prevent unallowable purchases and (2) flag other codes that may pose a risk of improper use. The Purchase Card Coordinator will review the MCC listing report semiannually.

The Purchase Card Coordinator will also begin conducting regular reviews of the Unusual Activity Analysis Report, and the Declines Report. Should there be evidence of questionable transactions, the Purchase Card Coordinator will contact the approving official to determine whether the transactions represent appropriate business-related activities.

## **OIG Comment**

In our opinion, the actions described by the Division Director are responsive to our recommendation, and we plan to follow up on the Division's actions to ensure that the recommendation is fully addressed.

# Appendix A

## Scope and Methodology

To accomplish our objectives, we reviewed the Board's *Acquisition* policy, *Purchase Card Procedures*, and relevant administrative documentation to gain detailed knowledge of program operations. We interviewed the program coordinator and his staff responsible for managing the Board's purchase card program to obtain information on program operations and controls. We also spoke with JPMC personnel to get an understanding of administrative reports available through PaymentNet, JPMC's Electronic Access System. We did not review individual division processes or procedures that may exist for obtaining approval prior to making purchase card transactions. Based on the information we gathered and our understanding of the Board'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 review included transactions made from December 31, 2010, to January 1, 2012. We assessed the effectiveness of controls for issuing cards, ensuring proper use, and detecting and preventing unauthorized transactions, as well as controls for cardholder compliance, by conducting the following tests:

- We reviewed e-mail requests and training records for all nine new accounts opened during 2011 to verify the process for issuing cards.
- We compared the Board's personnel records to the account status in PaymentNet to verify the process for canceling cards.
- We reviewed invoices and transaction logs for a judgmentally selected sample of 362 of the 7,325 purchases (approximately 5 percent) made by 25 cardholders to ascertain whether cardholders complied with procedures for recording, reconciling, and allocating purchases and whether they properly used the cards.
- We used JPMC's Transaction Detail report to identify single purchases greater than \$5,000 and reviewed all available supporting documentation for all six transactions identified to determine whether cardholders followed proper procedures.
- We conducted a survey of a judgmentally selected sample of 49 of the 92 cardholders, and we evaluated the 37 survey responses received to determine how often cardholders received refresher training.
- We conducted a survey of a judgmentally selected sample of 24 of the 46 approving officials, and we evaluated the 18 survey responses received to determine whether approving officials received training on their responsibilities.
- We evaluated the types of MCCs that the Board allows, flags, and blocks to detect and prevent unauthorized or fraudulent transactions.
- We inspected JPMC's PaymentNet report listing to identify reports available for detecting possible unauthorized and fraudulent transactions.
- We inspected all five of the program coordinator's cardholder reviews to assess compliance with oversight responsibilities.

We began fieldwork in November 2011 and concluded in November 2012. We performed our work 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 during the audit provides a reasonable basis for our findings and conclusions based on our objectives.

# Appendix B Management's Response



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON, DC 20551

DIVISION OF  
FINANCIAL MANAGEMENT

DATE: March 28, 2013  
TO: Cynthia Gray  
FROM: Bill Mitchell  
SUBJECT: Response to the OIG's Audit on the Board's Purchase Card Program

We appreciate the opportunity to comment on the draft report of the OIG's audit of the Board's purchase card program. We are pleased that the audit did not identify any fraudulent purchases and that you did not find any weaknesses with the design and operating effectiveness of controls for issuing cards, training new cardholders, and recording and reconciling purchases by cardholders. We concur with the process improvements included in your recommendations and have begun implementing parts of the recommendations. The following comments provide additional perspective on the recommendations and management's planned or completed actions to further enhance our processes and related controls.

**Recommendation 1: We recommend that the Director of the Financial Management Division update the *Purchase Card Procedures* to**

- a. require initial and periodic training for approving officials,
- b. require periodic training for cardholders,
- c. ensure that approving officials' responsibilities for reviewing documentation during monthly reviews of cardholders' transactions are aligned with cardholders' responsibilities for retaining documentation on purchases, and
- d. refer to reports and tools for reconciling transactions provided by the current card issuer.

**DFM Response:**

Concur. Procurement staff have begun reviewing the *Purchase Card Procedures* to address the observations discussed in the draft audit report regarding training for, and the responsibilities of, approving officials and cardholders. As part of the updated procedures, the Purchase Card Coordinator will maintain a database of approving officials and cardholders and will notify them of the need for refresher training.

Approving officials and cardholders will be required to sign an acknowledgement form indicating that they received training on their responsibilities, which include requirements for document retention. In addition, approving officials will be required to run and sign the Transaction Detail Report or similar report to validate the purchase card log of the cardholder. As part of the monthly purchase card reviews, the Purchase Card Coordinator will review the Transaction Report to verify that the approving officials are carrying out their duties and responsibilities.

**Recommendation 2: We recommend that the Director of the Financial Management Division ensure that the program coordinator**

- a. provides training at regular intervals to approving officials and cardholders to ensure that they are aware of their duties and responsibilities,
- b. reviews employee separation reports to maintain an accurate listing of approving officials, and
- c. conducts sufficient and timely cardholder and division reviews of the Board's purchase card program to ensure compliance with policy and procedures and reduce the risk that unauthorized and fraudulent purchases may go undetected.

**DFM Response:**

Concur. As noted above, Procurement staff will provide initial and periodic refresher training to approving officials and cardholders to ensure that they are aware of and are carrying out their duties and responsibilities consistent with applicable policies and procedures.

The Purchase Card Coordinator will review the employee transfer and separation report on a regular basis to ensure that an accurate listing of approving officials and cardholders is maintained, and that purchase cards of transferring or separating employees are deactivated in a timely fashion.

To strengthen program oversight, the Purchase Card Coordinator will conduct monthly reviews of two divisions; depending upon the number of cardholders in a division, the review may include all division cardholders or a single cardholder within the division. We began the monthly review process last month, and the purchase card procedures are currently being revised to clarify the review schedule and requirements. Going forward, when the Purchase Card Coordinator identifies split purchases, the Coordinator will contact the appropriate approving official to note the action in the cardholder's log, monitor the cardholders posted transactions over the next three months, and conduct a random purchase card review within six months to ensure that the cardholder is adhering to the policies and procedures.

**Recommendation 3: We recommend that the Director of the Financial Management Division ensure that the program coordinator strengthens the controls to prevent and detect unauthorized purchase card transactions by**

- a. reviewing and updating the list of allowable, flagged, and blocked merchant category codes (MCCs), and
- b. conducting regular reviews of card issuer reports of suspicious and failed transactions and providing notice to cardholders' managers as appropriate.

**DFM Response:**

Concur. We agree that a periodic review of MCCs is prudent to (1) identify codes that should be blocked to prevent unallowable purchases and (2) flag other codes that may pose a risk of improper use. The Purchase Card Coordinator will review the MCC listing report semiannually.

The Purchase Card Coordinator will also begin conducting regular reviews of the Unusual Activity Analysis Report, and the Declines Report. Should there be evidence of questionable transactions, the Purchase Card Coordinator will contact the approving official to determine whether the transactions represent appropriate business-related activities.





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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
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