



Office of Inspector General

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

MEMORANDUM

DATE: April 1, 2020

TO: Kathy Kraninger
Director
Bureau of Consumer Financial Protection

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

SUBJECT: *Fiscal Year 2019 Risk Assessment of the Bureau’s Purchase Card Program*

Executive Summary

We have conducted a risk assessment of the Bureau of Consumer Financial Protection’s purchase card program to determine the necessary frequency and scope of purchase card audits. The results of the risk assessment show that the risk of illegal, improper, or erroneous use in the Bureau’s purchase card program is *low*.

The results of the risk assessment should not be interpreted to mean that a lower-risk program is free of illegal, improper, or erroneous use or internal control deficiencies. An audit of the program may identify issues not previously noted in the risk assessment. For instance, the overall risk level for the purchase card program may be assessed as *low* based on the design of internal controls and the size of the program; however, an audit may find that controls are not working effectively or that illegal, improper, or erroneous activity has taken place. We completed an audit of the Bureau’s purchase card program in December 2018.¹ As a result, we will not include an audit of the program in our 2020 annual audit plan.

Background

The Government Charge Card Abuse Prevention Act of 2012 requires the inspector general of each executive agency to conduct periodic assessments or audits of purchase card programs to identify and analyze the risks of illegal, improper, or erroneous purchases and payments. In September 2013, the Office of Management and Budget (OMB) issued OMB Memorandum M-13-21, *Implementation of the Government Charge Card Abuse Prevention Act of 2012*, which states that inspectors general will conduct

¹ Office of Inspector General, *Bureau Purchase Card Program Controls Appear to Be Operating Effectively*, [OIG Report 2018-FMIC-C-022](#), December 12, 2018.

annual risk assessments of agency purchase card programs to analyze the risks of illegal, improper, or erroneous purchases. OMB directed that these risk assessments be used to determine the necessary scope, frequency, and number of audits or reviews of the purchase card program.

The Bureau participates in the U.S. General Services Administration's SmartPay 3 program through a task order with the U.S. Department of the Treasury's master contract with Citibank.² Within Treasury, the Bureau of the Fiscal Service's Administrative Resource Center provides purchase card administrative services and acts as the liaison between the Bureau and Citibank. The Bureau'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, and procedures.

The Office of Procurement also monitors the effectiveness of the purchase card program as a payment vehicle while working to ensure that the proper controls are in place. The Bureau operates its purchase card program under the policies and procedures set forth in the *Purchase Card Policy and Management Plan*, which was finalized in June 2018.

The Bureau has over 200 active purchase card accounts; from June 30, 2018, through September 30, 2019, cardholders made approximately 3,900 transactions totaling about \$2.7 million. Because low-activity accounts have a \$200 credit limit, we determined that the number of low-activity cards would not affect the overall risk rating of the program.

Objective, Scope, and Methodology

Our objective was to analyze the risks of illegal, improper, or erroneous purchases and payments associated with the Bureau's purchase card program in order to determine an overall risk level for the program. The scope of our risk assessment covered June 30, 2018, through September 30, 2019.

To conduct our risk assessment, we obtained and reviewed the Office of Procurement's objectives for the program as well as its purchase card policies and procedures. In addition, we surveyed the responsible agency program coordinator to identify (1) risks that could prevent the office from achieving its goals and (2) controls to mitigate these risks.

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

- **Financial**—the risk that an event related to the purchase card could occur that has a significant financial effect on the Bureau's or the Office of Procurement's budget process
- **Strategic**—the risk that an event related to the purchase card could impede the Bureau's or the Office of Procurement's ability to achieve its mission and strategic objectives

² The U.S. General Services Administration's SmartPay 2 contract ended on May 26, 2019. The successor program, SmartPay 3, was implemented on May 26, 2019.

- **Operational**—the risk that an event related to the purchase card could be negatively affected by inadequate, ineffective, or failed business processes, human capital, or technology and information management
- **Compliance**—the risk that an event related to the purchase card could hamper the program’s ability to comply with applicable laws, regulations, or internal policies and procedures
- **Reputational**—the risk that an internal or external event related to the purchase card could diminish the Bureau’s or the Office of Procurement’s stature, credibility, or effectiveness

The Office of Procurement identified inherent risks by relevant risk category and assessed the risks’ impact and likelihood. *Impact* is the magnitude of deficiency that could result from the risk, and *likelihood* is the level of possibility that a risk will occur. We then assessed the impact and likelihood of risks by risk category, considering the effect of internal controls and other relevant documentation. We assigned a level of risk using the criteria in table 1. We then combined the impact and likelihood of individual risk category levels to arrive at an average overall risk level.

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

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

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

In addition to the risk assessment toolkit, we developed and ran algorithms for data analysis designed to test the fiscal year 2019 universe of 3,910 Citibank transactions for potentially illegal, improper, or erroneous transactions. Specifically, we tested for transactions that occurred in the following categories:

- **Split purchases**—We sorted and grouped all 3,910 Citibank transactions to identify transactions made (1) by the same cardholder, (2) with the same vendor, and (3) with totals greater than the micropurchase threshold to determine whether cardholders appeared to split purchases into multiple transactions to circumvent the micropurchase threshold.³ We compared those transactions to the agency/organization program coordinator’s (A/OPC) quarterly reviews to determine whether the A/OPC had identified them as split transactions and followed up with those cardholders.
- **Sales tax**—We filtered the tax field for all 3,910 Citibank transactions to identify transactions with sales tax amounts greater than zero. We identified 50 transactions with a sales tax amount

³ The micropurchase threshold increased from \$3,500 to \$10,000 on September 13, 2018.

greater than zero. We then compared those transactions to the A/OPC's quarterly reviews to determine whether the A/OPC identified sales taxes paid and followed up with those cardholders.

- **Prohibited merchant category codes (MCCs)**—We compared all 3,910 Citibank transactions to the Bureau's allowable MCC list to identify transactions with MCCs that are not on the list. We compared those transactions to the A/OPC's quarterly reviews to determine whether the A/OPC identified transactions with prohibited MMCs and followed up with those cardholders.
- **Third-party transactions**—We filtered all 3,910 Citibank transactions to identify transactions with third-party vendors. Transactions made by contracting officers were excluded because the Bureau allows contracting officers to make third-party transactions. We then compared those remaining transactions to the A/OPC's quarterly reviews to determine whether the A/OPC identified third-party transactions and followed up with those cardholders.

Results of Risk Assessment

Table 2 shows each risk category's risk level for impact and likelihood for the purchase card program. The average overall risk level determines the final risk assessment for the program.

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

Risk category	Impact	Likelihood	Overall risk level
Financial	Low	Low	Low
Strategic	Low	Low	Low
Operational	Low	Low	Low
Compliance	Low	Low	Low
Reputational	Low	Low	Low
Average risk level	Low	Low	Low

Source: OIG analysis.

Results of Data Analytics Testing

Figure 1 shows the results of our data analytics testing.

Figure 1. Summary of Data Analytics Testing Results for Split Purchases, Sales Tax, Prohibited MCCs, and Third-Party Transactions



Split purchases were detected and addressed with cardholders.

The A/OPC detected potential split purchases and followed up with the appropriate cardholders. None of the purchases were confirmed as split.



Sales taxes paid were detected and addressed with cardholders.

The A/OPC detected all 50 transactions with sales tax and acted to have the taxes refunded. The Bureau does not have any current outstanding taxes paid.



Prohibited MCCs transactions were identified and addressed with cardholders.

The A/OPC detected all 238 transactions with MCCs not on the allowable list. Documentation supports that the A/OPC approved all 238 purchases.



Third-party transactions were detected and addressed with cardholders.

The A/OPC detected all 64 third-party transactions made by cardholders, including those made by contracting officers, and determined that those transactions were not subject to third-party purchase restrictions.

Source: OIG analysis.

Conclusion

The results of the inherent risk, assessed by the Office of Procurement, and the residual risk, identified by data analytics testing, lead us to determine that the risk of illegal, improper, or erroneous use in the Bureau's purchase card program is *low*. The results of the risk assessment should not be interpreted to mean that a lower-risk program is free of illegal, improper, or erroneous use or internal control deficiencies. An audit may find that controls are not working effectively or that illegal, improper, or erroneous activity has taken place.

Kathy Kraninger

April 1, 2020

This report is provided for informational purposes, and a response is not required. We appreciate the cooperation and assistance provided by your staff during this risk assessment. If you have any questions, please contact Victor Calderon, OIG manager, data analytics, or me.

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