



## **Analysis of FDIC Purchase Card and Convenience Check Transactions**

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March 2019

ITC Memorandum 19-001

### **Memorandum Information Technology Audits and Cyber**





**Date:** March 19, 2019

**Memorandum To:** Arleas Upton Kea  
Deputy to the Chairman and Chief Operating Officer

**From:** **/Signed/**  
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Assistant Inspector General for Information Technology Audits and Cyber

**Subject:** **Analysis of FDIC Purchase Card and Convenience Check Transactions** | ITC Memorandum 19-001

The Office of Inspector General (OIG) is working to develop capabilities to conduct data analysis in order to identify risk areas for audits and evaluations at the Federal Deposit Insurance Corporation (FDIC). As part of this effort, we analyzed selected FDIC Purchase Card (P-Card) and convenience check transactions to understand the associated risks and support our annual audit and evaluation planning.<sup>1</sup> Our analysis identified concerns related to the payment of unnecessary credit card processing fees by the FDIC, the reporting of sales tax charges by merchants, and other issues. We discussed these concerns with Division of Administration (DOA) staff who had responsibility for managing and reviewing the P-Card Program. The purpose of this Memorandum is to inform you of the concerns we identified and the actions DOA has either taken or plans to take to address those concerns. A written response to this Memorandum is not required.

## Background

The FDIC participates in a Government-wide P-Card program that is part of the General Services Administration's (GSA) SmartPay Program. The program provides Federal agencies and other organizations with a vehicle for obtaining goods and services directly from vendors. GSA, the Office of Management and Budget (OMB), and participating Federal agencies have different roles in implementing and overseeing an agency's P-Card program. GSA administers the SmartPay Program and maintains contracts with designated financial institutions that issue P-Cards. OMB issues Government-wide policies and guidance that govern agency P-Card programs. Federal agencies establish policies and procedures for using and managing their P-Cards, decide which employees should receive P-Cards, and handle P-Card billing and payment issues.

Under the SmartPay Program, designated financial institutions issue P-Cards to authorized Federal employees and bill the agency for cardholder purchases. Individual cardholders must ensure proper use of P-Cards issued to them, including compliance with agency policies and other acquisition laws and regulations. Agencies assign individual cardholders to an Approving Official, typically within the cardholder's organizational unit, who ensures that purchases comply with statutes, regulations, and agency policies. GSA's SmartPay Program also provides for the

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<sup>1</sup> We did not perform an audit in accordance with Government Auditing Standards.

use of paper checks, known as convenience checks, to accommodate purchases from merchants that do not accept P-Card transactions.

The FDIC’s P-Card Guide, dated August 2008, defines how the FDIC governs its P-Card Program, including roles and responsibilities for key program participants. According to the FDIC’s P-Card Guide, DOA’s Acquisition Services Branch (ASB) is responsible for the overall management and integrity of the P-Card Program. An Agency Program Coordinator within ASB has day-to-day administrative responsibility for managing the P-Card Program, providing guidance to program participants, and serving as the FDIC’s primary liaison with GSA and U.S. Bancorp (U.S. Bank)—the FDIC’s designated financial institution. Each participating FDIC Division or Office has designated a Coordinator who is responsible for ensuring that cardholders and Approving Officials receive appropriate training on P-Card use. DOA’s Management Services Branch (MSB) has responsibility for conducting periodic internal reviews of the P-Card Program.

### Analysis Performed

We reviewed a dataset of all FDIC P-Card and convenience check transactions made between August 16, 2015, and June 22, 2017 (the transaction dataset). The transaction dataset reflected information reported by merchants to U.S. Bank. Table 1 summarizes the type, amount, and number of transactions in the transaction dataset.

**Table 1: FDIC P-Card and Convenience Check Transactions**

Type of Transaction	Amount*	Number of Transactions
P-Card Transactions	\$32,238,481	29,141
Convenience Check Transactions	\$1,532,611	3,590
<b>Total Transactions</b>	<b>\$33,771,093</b>	<b>32,731</b>

Source: OIG analysis of the transaction dataset.

\* Transaction amounts are rounded to the nearest dollar. Accordingly, the total transaction amount is \$1 more than the sum of the P-Card and convenience check transactions. In addition, the transaction amounts reflect net purchases (purchases less any refunds, returns, or other reductions in amounts owed).

We analyzed the 32,731 transactions using 17 business rules designed to identify transactions that may not comply with the FDIC’s P-Card Guide or Government-wide best practices. These business rules were designed to identify such things as potential split purchases,<sup>2</sup> the potential payment of sales taxes,<sup>3</sup> and purchases from potentially unauthorized merchants.<sup>4</sup> We reviewed the output from these business rules and focused on transactions that, based on our professional judgment, appeared to have the greatest likelihood of noncompliance with the P-Card Guide or best practices.

### Unnecessary Credit Card Processing Fees

Between August 16, 2015, and June 22, 2017, the FDIC made monthly recurring payments totaling \$520,962 to the Arlington County Treasurer for water services at the L. William Seidman

<sup>2</sup> Section 2.202(a), *Single Purchase Limit*, of the P-Card Guide prohibits cardholders and merchants from splitting a single purchase into smaller amounts in order to avoid exceeding the cardholder’s single purchase threshold.

<sup>3</sup> Section 3.301, *Sales Tax Exemption*, of the P-Card Guide states that purchases for official United States Government purposes are not subject to sales tax.

<sup>4</sup> Payment brands such as VISA and MasterCard use Merchant Category Codes to classify merchants and businesses by the type of goods or services they provide. Agencies can use these Merchant Category Codes to restrict transactions with certain types of merchants in order to mitigate fraud and misuse. Section 2.202(d), *Merchant Category Code Limits*, of the P-Card Guide states that the Agency Program Coordinator maintains a list of FDIC-wide blocked codes.

Center (Seidman Center) in Arlington, Virginia. In addition, the FDIC paid \$13,024 (2.5 percent of the total water services payments) in credit card processing fees, because it used the P-Card to pay for the water services (rather than another form of electronic payment).<sup>5</sup> The P-Card Guide does not address the payment of credit card processing fees.

Arlington County discloses the credit card processing fee (called a “convenience fee”) on its public website: “[w]e offer the option of paying by credit card as a convenience to those customers who wish to do so. However, credit card transactions have a cost, sometimes a substantial one [2.5% fee] . . . while we accept credit cards as a convenience to those customers who wish to use them, those customers must bear the cost of doing so.”

The Arlington County Treasurer accepts other forms of electronic payment, such as Automated Clearing House (ACH) payments, for water services. These alternative forms of payment do not incur a processing fee. We estimated that the FDIC could avoid \$6,861<sup>6</sup> per year in credit card processing fees if it discontinued paying for the water services with a P-Card, and instead used an alternate form of payment that does not incur a fee.

We informed ASB, MSB, and Division of Finance (DOF) staff about these unnecessary credit card processing fees in July 2018. Subsequently, in September 2018, the FDIC began using ACH payments, which do not incur a processing fee, to pay for water services at the Seidman Center.

Further, MSB included an examination of credit card processing fees in its internal review of the P-Card Program completed in September 2018. The associated report, entitled *Review of the FDIC Purchase Card Program*, identified additional instances in which the FDIC incurred credit card processing fees. To mitigate this risk going forward, MSB recommended that ASB provide guidance to P-Cardholders for handling situations in which merchants charge credit card processing fees. ASB staff informed us that they plan to revise the P-Card Guide in either late Quarter 1 or early Quarter 2 of 2019, to address credit card processing fees.

## **Sales Taxes**

Section 3.301, *Sales Tax Exemption*, of the P-Card Guide states that “[p]urchases for official United States Government purposes are not subject to state or local sales tax.” Section 3.301 also permits the payment of sales taxes “only if time is of the essence in making the purchase and there are no other merchants readily available. In such cases, the circumstances for paying sales tax must be documented by the cardholder and kept with the purchase receipts.” Further, Section 3.301 of the P-Card Guide states that “in the event that a cardholder is erroneously charged sales tax, the cardholder must contact the merchant and ask that the charge be reversed and re-run without the sales tax. If the merchant refuses, the agency pays the tax.”

Our analysis of the transaction dataset identified sales tax payments reported to U.S. Bank by merchants totaling \$79,252. Further, MSB’s internal review report entitled, *Review of the FDIC Purchase Card Program*, identified sales tax payments reported to U.S. Bank by merchants totaling \$62,004 for the period June 2016 through December 2017. Table 2 provides additional information regarding these reported sales tax figures.

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<sup>5</sup> The Appendix lists the payments for water services and credit card processing fees.

<sup>6</sup> We calculated this figure by totaling the fees paid by the FDIC for water services for the Seidman Center for July 2016 to June 2017.

**Table 2: Transactions with Merchant-Reported Sales Tax Payments**

Type of Analysis	OIG Transaction Dataset (9/16/15 – 6/22/17)	MSB Internal Review Report (6/22/16 – 12/22/17)
Total Transaction Amount	\$33,771,093	\$27,353,038
Total Sales Tax	\$79,252	\$62,004
Total Number of Transactions	32,731	26,878
Number of Transactions Reporting Sales Tax	1,277 (3.9 percent)	1,134 (4.2 percent)

Source: OIG analysis of the transaction dataset and MSB internal review report, entitled *Review of the FDIC Purchase Card Program*.

In July 2018, we informed ASB and MSB staff of our concern that the FDIC may be paying sales taxes on its P-Card transactions. At that time, MSB was conducting its annual internal review of the P-Card Program. As part of that review, MSB examined invoices supporting eight judgmentally-selected P-Card transactions for which merchants reported sales tax charges to U.S. Bank. The eight transactions were processed by three merchants. MSB found that the invoices supporting these eight transactions did not contain a separate line item for sales tax. MSB concluded that the P-Cardholders may have paid these invoices without knowing that sales taxes were included in the amounts paid. MSB's internal review report issued in September 2018 recommended that ASB determine whether the FDIC could recover the sales taxes that may have been paid on the eight transactions. ASB officials stated that they did not plan to seek recovery of sales taxes for the eight transactions because the invoices indicated that sales taxes were not charged to the FDIC. In addition, ASB issued a reminder to P-Cardholders that purchases made with the P-Card are exempt from state and local sales tax.

We analyzed all of the transactions in our transaction dataset involving the three merchants referenced above. Our analysis found that these three merchants accounted for \$37,483 (47 percent) of the \$79,252 in total reported sales tax payments in the transaction dataset. In response to our analysis, MSB staff contacted two of the three merchants and confirmed that although they reported sales taxes to U.S. Bank, the merchants did not actually collect any sales taxes. MSB staff stated that the invoice submitted by the third vendor was marked as tax exempt, and contained a line item for sales taxes with an amount of \$0. Further, MSB staff contacted a representative of U.S. Bank and learned that merchants sometimes report sales tax on P-Card transactions even though the merchants do not actually collect sales tax. The U.S. Bank representative stated that this can happen for various reasons. For example, some point of sale systems used by merchants do not have the ability to capture sales tax exemptions. As a result, DOA concluded that the sales tax information merchants report to U.S. Bank is not always reliable.

The FDIC does not play a role in determining how merchants report sales tax information to U.S. Bank. However, DOA reviews the payment of sales taxes as part of its annual review of the P-Card Program.

### **Additional Areas of Concern**

Our analysis of the transaction dataset identified additional transactions that had an elevated risk for non-compliance with the P-Card Guide and/or Government-wide best practices. These transactions involved such things as potential split purchases, P-Card accounts for which there

was no transaction activity,<sup>7</sup> and transactions that may have exceeded established limits. We provided ASB and MSB staff with detailed information regarding these transactions. ASB and MSB staff stated that they determined that the majority of transactions we flagged were compliant with the P-Card Guide. We did not independently verify these determinations. In addition, MSB's internal review report, entitled *Review of the FDIC Purchase Card Program*, recommended that ASB take various steps to mitigate the types of potential exceptions we identified.

Our analysis also identified instances in which the ratio of approving officials to cardholders exceeded Government-wide benchmarks.<sup>8</sup> In response, MSB completed a review of the ratios of approving officials to cardholders in November 2018. MSB documented the results of this review in a report entitled, *Review of the Approving Official to Purchase Cardholder Ratio for the FDIC Purchase Card Program*. MSB's report recommended that ASB contact those approving officials whose oversight of cardholders exceeded Government-wide benchmarks to determine whether they have sufficient time to adequately review the volume of P-Card transactions under their oversight. MSB plans to follow-up with ASB in 2019 regarding its actions to address MSB's recommendations.

In response to a draft version of this Memorandum, DOA and DOF officials provided informal feedback, which we considered and incorporated as we deemed appropriate.

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<sup>7</sup> GSA's *Blueprint for Success: A Guide for Purchase Card Oversight*, states that agencies should regularly review account activity and close accounts that are no longer needed (2004, page 11). According to the Government Accountability Office (GAO), having fewer cards to monitor is one factor that can affect the extent of potential loss to an organization from fraudulent, improper, and abusive purchases. See GAO Report, *Audit Guide – Auditing and Investigating the Internal Control of Government Purchase Card Programs* (GAO-04-87G) (November 2003, page 22). DOA staff stated that there are circumstances in which P-Card accounts remain active (capable of making transactions) without transaction activity, such as to ensure readiness for a bank failure.

<sup>8</sup> GSA's *Blueprint for Success: A Guide for Purchase Card Oversight* states that the most common ratios range between 1 Approving Official to 4 cardholders (1:4) and 1 Approving Official to 10 cardholders (1:10). Higher ratios increase the risk that inappropriate charges could occur and remain undetected (2004, page 10).

## Water Service Payments and Associated Fees

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We identified the following payments that the FDIC made to the Arlington County Treasurer for water services and associated credit card processing fees between August 16, 2015, and June 22, 2017.<sup>9</sup>

Transaction Date	Water Service Payment	Processing Fee (2.5%)
9/8/2015	\$25,479	\$637
10/6/2015	\$14,255	\$356
10/6/2015	\$18,047	\$451
11/5/2015	\$25,487	\$637
12/7/2015	\$23,076	\$577
1/7/2016	\$20,349	\$509
2/8/2016	\$22,292	\$557
3/8/2016	\$10,704	\$268
3/8/2016	\$20,900	\$523
4/11/2016	\$24,443	\$611
5/9/2016	\$18,246	\$456
6/16/2016	\$23,246	\$581
7/8/2016	\$22,659	\$566
8/10/2016	\$13,889	\$347
8/10/2016	\$14,093	\$352
9/8/2016	\$15,261	\$382
9/8/2016	\$15,465	\$387
10/11/2016	\$14,915	\$373
10/11/2016	\$21,048	\$526
11/8/2016	\$23,897	\$597
12/9/2016	\$18,364	\$459
1/10/2017	\$16,639	\$416
2/9/2017	\$18,306	\$458
3/13/2017	\$17,551	\$439
4/11/2017	\$23,016	\$575
5/11/2017	\$18,166	\$454
6/12/2017	\$21,170	\$529
<b>Total</b>	<b>\$520,962</b>	<b>\$13,024</b>

Source: OIG analysis of the transaction dataset and information in the FDIC's New Financial Environment system.

<sup>9</sup> We rounded transaction amounts to the nearest dollar. Accordingly, the total water service payment amount is \$1 less, and the total processing fee payment amount is \$1 more, than the sum of their respective transaction amounts.